# Helping those who use credit to make ends meet

## A Rapid Literature and Evidence Review

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# 1. Executive Summary

**In February 2022, the Money and Pensions Service (MaPS) commissioned the Centre for Business in Society (CBiS) at Coventry University to undertake a 'Rapid Literature and Evidence Review' of the latest evidence on the financially vulnerable, with a specific focus on those using credit to make ends meet. Through this review, this report aims to provide insights into how those who are over-reliant on credit might be best supported, given the outlook regarding the cost of living.**

## 1.1. Impact of COVID-19 on the financially vulnerable and those using credit for essentials

- Before COVID-19, evidence from 2018, 2019 and early 2020 suggests between 6% and 17% of the UK adult population had used credit for essentials (figures vary depending on the source, how the survey question is asked, and the timeline involved).
- There is a general consensus across the latest evidence that COVID-19 has resulted in an acceleration of pre-COVID-19 trends in the UK, increasing numbers of the financially vulnerable and those using credit for essentials.
- A continued trend of inequality in over-reliance on credit from before COVID-19 has been exacerbated and expanded due to the impact of COVID-19; the numbers of financially vulnerable people and groups are rising, and those who are already vulnerable facing increasing pressures.
- More people have become financially vulnerable or are experiencing a worsening of their financial position due to the impact of COVID-19. These include: 2 million new Universal Credit recipients; 3.7 million additional people with one or more FCA characteristics of financial vulnerability; 45% of households on the lowest 20% of incomes, who in February 2020 were 'just getting by' but were not in arrears, now being in arrears. Income shocks were found to be a key trigger for credit repayment problems.
- During COVID-19 (across 2020 and 2021), evidence suggests that between 9% and 21% of GB adults had to use credit to pay for essentials (figures vary depending on the source, how the survey question is asked, and the timeline involved). Groups most likely to be using credit for essentials included: single parents; households with a sick/disabled person; families on lower incomes and/or renting; and younger people. Low-income households were also more likely to use 'high-cost' credit products than others.
- Before COVID-19, 200,000 people borrowed from unlicenced money lenders or loan sharks (unchanged since 2017), but a different study using a different methodology in late 2021 put the figure at 1.08m. 82% of those using loan sharks before COVID-19 also used an overdraft and/or high-cost credit, yet only 13% had used debt advice in the 12 months prior to COVID-19.

## 1.2. Using credit for essentials – who, what, how and why

- Groups using credit for essentials are more likely to be 'those with physical or mental health problems/disabilities'; single parents; people from ethnic minority communities; young renters (of any tenure); younger families with dependent children; and 25–54-year-olds; women. Women generally are more likely to use credit for essentials than men, and there are important differences between ethnic minority communities.
- Those using credit for essentials are more likely to be on very low or low incomes, to have those costs (housing, children) taking up a proportionately greater part of those incomes, and/or to have experienced a negative life event (e.g. COVID-related income shocks, bereavement, disability) and/or mental ill-health. Mental health problems are both a trigger for, and an outcome of, indebtedness.

- Credit cards remain the most common form of credit used to buy essentials, with forms of credit such as buy-now-pay-later (BNPL), payday loans, and unregulated lenders having increased significantly in the last 12 months.
- An array of individual/household and wider environment, cultural and/or market-based factors explain why people use credit for essentials, including volatility of income, changes in the benefits system and problem debt. Credit for essentials is most commonly spent on groceries, but also on rising living costs (e.g. energy/water bills, food, housing, transport) and to cover income/financial shocks.

## 1.3. Being declined credit

- Since 2017, but especially since the start of COVID-19, there has been an increase in numbers and rates of people being declined for credit. Renters, the young, and those of 'other' ethnic minority community classifications were the most likely groups to be declined credit, with some being put off applying for fear of being declined.
- The reasons for being declined credit include people's credit history, existing debts, income levels, or employment status; though a significant minority also believed they were declined because of non-financial reasons (age, health, ethnicity), with evidence of gender and age differences in decline rates from different credit forms.
- Some research suggests that a majority of people wished they had been referred to debt advice far earlier. Other research shows that, after being declined, half of individuals reported that the credit provider took no action, with less than 7% saying they were provided with a referral to a debt advice agency. Many declined applicants wanted a better explanation of the reasons for decline and more understanding to be shown of their financial situation. Over half of these applicants were not able to subsequently access credit from a legitimate lender, with around a quarter resorting to borrowing money from friends or family.
- The consequences of being declined included feelings of being let down by the financial system and feeling out of control of their situation. A large majority either went into arrears or took a payment holiday with some essential bills. Around a third said they took action to manage their money better in the future. A dramatic increase in people turning to illegal money lenders has also been seen.

## 1.4. Money conversations and financial well-being

- Secrecy and reluctance to discuss financial matters remains common in the UK, e.g. 40% of people have concealed a financial product from a loved one. The barriers to discussing money include shame or embarrassment, but there are also age, gender and other differences regarding reluctance to discuss money. Those experiencing mental health problems also report negative experiences of disclosing their financial problems. Overall, money conversations are not having the positive effect on financial well-being that is hoped for.
- Evidence suggests that nearly two thirds of people had not sought financial advice, guidance or talked to someone about their finances, with those on the lowest incomes being much less likely to discuss financial matters than those on higher incomes. Of those in financially vulnerable groups who had sought financial advice, between 25% and 40% stated they had not received all the support they needed.
- Among the barriers to discussing financial difficulties with a financial services provider were anxiety, low trust in credit providers, worries about credit reporting, and concerns about stigma. Even those who were struggling to maintain credit repayments were unlikely to have contacted their bank or credit firm about their problems, and similarly only a third of people who had missed housing or utility bill payments had contact with the provider.
- Of those using credit for essentials, the most common reasons for being reluctant to have

discussions with credit suppliers were that it would not help, could make things worse, or might negatively affect their credit record. The use of online platforms as the most common form of communication may also be symbolic of a reluctance to discuss financial matters.

## 1.5. Helping people who are over-reliant on credit: recommendations for policy and practice

- Low awareness and low up-take of free independent debt advice is a problem, often leading to those declined for credit accessing debt advice far too late or once they are in crisis, suggesting that 'moments that matter' are being missed.
- There are several reasons why people do not seek help when in financial difficulty: feelings of stigma, embarrassment and shame; the prevalent individualist societal culture of self-sufficiency and personal responsibility; not feeling they can discuss financial matters with those who are close to them; uncertainty about which advice organisations are genuinely independent and can be trusted; mistrust of credit suppliers and the financial services industry in general; stigma and/or embarrassment about discussion personal finances in their workplace, even though Employee Financial First Aiders may be available; worries that if they seek help it might affect their credit situation.
- Young people are some of the most at-risk for becoming over-reliant on credit and are at greater risk than older generations to indebtedness. They would benefit from advice and interventions to coincide with 'moments that matter' in their financial lives, using age-appropriate means to deliver it. Schools and education providers have a role to play in educating them to be more financially resilient.
- Successful financial literacy initiatives are those that develop the soft skills needed to encourage people to plan or save and build their financial confidence. These initiatives need to be appropriate for the situations, locations and preferred channels of those being supported. They must reflect the socio-economic context in which financial decisions are made, the complex emotional factors driving them, and the challenging circumstances of those who are over-reliant on credit. Timing is important, with short, sharp, 'on-demand' learning available to fit specific financial decisions being made.
- There is a very low referral rate of applicants/consumers to free independent debt advice by credit providers and advice is provided far too late. Credit providers could to more to support referral, although reticence on the part of applicants is also a problem.
- Credit cards are the most common credit form of credit for those who are over-reliant on credit, but BNPL and payday loans are fast becoming a significant form of credit for those at risk of becoming over-reliant on credit.
- Those renting social housing and those renting privately are at higher risk of becoming over-reliant on credit. Housing providers may be able to identify and signpost those in financial distress to support.
- Poor mental health can both trigger and result from indebtedness or financial problems and those with mental health problems my benefit from a period of respite from their debts. There is a role for health organisations and professionals to signpost people sources of support.
- Policy needs to reflect the fact that individuals in financial difficulties are making decisions in a low choice, highly emotional situation, where they may struggle to make informed and objective decisions. Credit applicants will tend to seek the quickest/most convenient route to market, prioritising speed of access over cost.

## 1.6. Further research needed

- Further research is needed to develop the evidence base for those who are reliant on credit for essentials and for those who have been declined for credit. A specific focus is needed on vulnerable individuals and in geographic areas where vulnerability is known to be highest.

- More insights are needed into how people make credit decisions and into the lived experience of those who are reliant on credit for essentials, including what happens when they are declined for credit.
- Greater understanding is needed of why the referral rate of applicants/consumers to free independent debt advice by credit providers remains low and what can be done to encourage individuals to have conversations about their money and seek help earlier.
- More research is needed to understand the dramatic increase in use of forms of credit such as buy-now-pay-later (BNPL), payday loans, and unregulated lenders, and of the impact of this trend.
- There is more robust evidence of the effectiveness of reward-based schemes on saving behaviour. However, the amounts saved in reward-based schemes are generally modest, in the order of a few hundreds of pounds, and it occurs only after several months or a few years of saving. There is more extensive evidence of the effectiveness of prize-linked schemes, particularly in relation to saving for short-term goals and emergencies.

# 2. Purpose, methodology and structure of the report

## 2.1. Purpose

In February 2022, the Money and Pensions Service (MaPS) commissioned the Centre for Business in Society (CBiS) at Coventry University to undertake a 'Rapid Literature and Evidence Review' of the latest evidence on the financially vulnerable, with a specific focus on those using credit to make ends meet. The goal of this report is to identify how people in this position might be best supported. With a global cost of living crisis ramping up at the time of writing (late March 2022), this report is timely.

- The specific objectives of this report aim to address the following 'research questions':
  - What is COVID-19's impact on the financially vulnerable and use of credit for essentials?
  - The use of credit for essentials
    - Who is using credit for essentials?
    - What credit types are used?
    - How is credit being used (for what essential purchases)?
    - Why is credit being used for essentials (underlying drivers)?
    - What are the impacts of being declined credit?
    - How do money conversations influence financial well-being?
    - How can people who are over-reliant on credit be supported?
- The report aims to address these research questions by reviewing the most recent evidence to develop a better understanding of these challenges. In doing so, the report suggests solutions for policy and practice to support those who are over-reliant on credit.

## 2.2. Methodology of the research

For the purposes of this report, the following definitions or limitations are used:

- The Financial Conduct Authority (FCA) defines a vulnerable customer as "someone who, due to their personal circumstances, is especially susceptible to harm, particularly when a firm is not acting with appropriate levels of care".
- The FCA identifies four key drivers of financial vulnerability: **health** – conditions that impact the ability to carry out day-to-day tasks, such as physical or mental conditions or disabilities, additions and severe illness or prolonged illness; **life events** – including job loss, bereavement, caring responsibilities, relationship difficulties, retirement or income shocks; **resilience** – including inadequate or erratic financial means (outgoings greater than income), being over-indebted, have low savings, or low emotional resilience; **financial capability** – including low levels of financial knowledge or financial confidence, low levels of literacy or digital skills, learning difficulties, poor English language skills, or insufficient access to help or support.
- The 'official' start of the COVID-19 Pandemic in the UK (referred to as 'COVID-19' or 'the COVID-19 Pandemic' in this report) began on 23 March 2020, when the first lockdown was imposed by the UK Government. At the time of writing this report (late March 2022), almost all COVID-19 restrictions had been revoked in England, with some restrictions remaining in Scotland, Wales and Northern Ireland.
- The timescale for the evidence for the review is late 2018 to the end of 2021. Whilst this period is dominated by the COVID-19 Pandemic, it was primarily selected because the most recent MaPS review in this area was conducted in late 2018 (including other studies published up to that point). Thus, the selected timescale of this review aims to build on that previous MaPS review, to understand the evidence and literature that has emerged since. The evidence outlined in this report is the result of the following:

- A rapid literature and evidence review from recent existing 'secondary data' sources from 2018/19 onwards (including COVID-19) until March 2022.
- The results of a UK-representative survey of 3,300 individuals to examine Financial Wellbeing during Covid:
  - The survey was commissioned by Coventry University in June 2020 and was conducted via Ipsos-Mori's online panel.
  - The findings gave insights into the public's financial wellbeing, their financial confidence, financial literacy, and how in control they felt of their personal finances.
  - Information was gained about the public's preferences for financial support and guidance; and their credit-seeking behaviours.
- The results of a UK-telephone survey of 256 individuals with low and moderate-income, who had all recently been declined for credit:
  - This survey was commissioned by Coventry University in April 2021 and was conducted via Ipsos Mori's Telephone Omnibus (CATI - Computer Assisted Telephone Interviewing).
  - The findings provided information into the experiences of being declined for credit.
  - Insights were gained into how different credit providers handled the declines process, what could have been done better, the emotional and practical impacts on those declined, and what these individuals did next.

## 2.3. Structure of the report

Guided by the research questions, the key themes of the report are represented by its chapters:

- Executive summary
- Introduction (purpose, methodology, structure)
- Impact of pandemic on the financially vulnerable, and on those using credit for essentials
- Using credit for essentials – who is doing it, how are they doing it, what types of credit are being used, why are they doing it, and credit journeys
- The impact of being declined credit
- The influence of money conversations on financial well-being
- How those who are over-reliant on credit can be supported by policy and practice.

## 3. Impact of COVID-19 on the financially vulnerable and those who use credit for essentials

This section examines the impact of the COVID-19 Pandemic on the financially vulnerable, also providing evidence from immediately before COVID-19, for context. The section then focuses specifically on the impact of COVID-19 on those using credit for essentials, again providing evidence about those using credit for essentials immediately before COVID-19.

### 3.1. Key messages

- Financial vulnerability involves a range of circumstances and/or characteristics including: having insufficient income to cover outgoings; income that fluctuates; unaffordable debt; low or no savings; lack of wealth assets; low financial resilience to financial shocks, such as those caused by life events; low levels of financial and other kinds of literacy.

- Before COVID-19, evidence suggests that a significant minority of the UK population was already potentially or actually financially vulnerable (evidence ranges from 16% to 50%). For example, In February 2020, 39% of adults (20.3m) said they could only continue to cover their living expenses for *less than three months*, if they lost their main source of household income.

- Groups with significantly higher levels of financial vulnerability before COVID-19 included: lone parents; mentally and/or physically sick/disabled; unemployed; social renters; families with youngest child 5-9 years; families with 3+ children; and those receiving Universal Credit (whether working or not working). Women and people from ethnic minority communities were also more likely to be financially vulnerable.

- Those who were financially vulnerable before COVID-19 were the most likely to remain so during COVID-19 in 2020/2021. Moreover, COVID-19's impact has resulted in significant numbers of *additional* people becoming financially vulnerable or experiencing a worsening of their position:

  - Additional 2 million Universal Credit recipients registered by August 2020.

  - Additional 3.7 million people had one or more FCA financially vulnerable characteristic by October 2020 (from 24m to 27.7m) - especially 18-34 years, self-employed, people from ethnic minority communities.

  - 45% of households in the lowest 20% of incomes, who were previously 'just getting by' and who were not in arrears before COVID-19, were now in arrears.

- *Before* COVID-19, evidence from 2018, 2019 and early 2020 suggests between 6% and 17% of the UK adult population had used credit for essentials (figures vary depending on the source, how the survey question is asked, and the timeline involved).

- *During* COVID-19 (across 2020 and 2021), evidence suggests that between 9% and 21% of GB adults had to use credit to pay for essentials (figures vary depending on the source, how the survey question is asked, and the timeline involved). According to one source, around 655,000 people also had to use credit to pay for essentials for their child and 37% of those using credit to pay for essentials had had to use 'high-cost' credit products to do so.

- Groups most likely using credit for essentials: single parents; households with a sick/disabled person; families on lower incomes and/or renting; and younger people. Low-income households were also more likely to use 'high-cost' credit products than others.

- Of those who experienced an 'income shock' since March 2020, 45% were borrowing to make ends meet; of those in arrears with household bills, 70% were borrowing to make ends meet. Income shocks were found to be a key trigger for credit repayment problems.

- Before COVID-19, 200,000 people borrowed from unlicenced money lenders or loan sharks (unchanged since 2017), but this had risen to 1.08m by late 2021. 82% of those using loan sharks before COVID-19 also used an overdraft and/or high-cost credit, yet only 13% had used *debt advice* in the 12 months prior to COVID-19.

## 3.2. The financially vulnerable *before* COVID-19

- The FCA Financial Lives Survey of 2017[1] identified that *half of the UK population* showed characteristics of *potential* financial vulnerability. Moreover, in 2018, Finney[2] reported that 21% of the UK population (or over 10m people) 'rarely or never save' and around the same number of people have £100 or less in savings.
- The 2016/18 ONS Wealth and Assets Survey found that one in six people lived in a household where savings were less than £250. In the poorest fifth of households this figure is one in three and in the second poorest fifth of households it is one in four. Those households in the top fifth of income, report savings of less than £250 in only 3% of cases. For those in debt, around half of people in the poorest fifth of households describe their debt as a burden. This compared with just under 1 in 3 overall from the nationwide average[3].
- Specific groups of households were more likely than others to have less than £250 in savings (2016/18 ONS Survey):
  - Lone parent (66%)
  - Sick/disabled HRP (64%)
  - Unemployed HRP (60%)
  - Social renting (58%)
  - Youngest child 5-9 years (53%).
- For those saying debt is a 'heavy burden' or 'somewhat of a burden' in a household (2016/18 ONS Survey), again specific (and similar) groups were more likely to state this:
  - Sick/disabled HRP (74%)
  - Youngest child 5-9 years (72%)
  - 3+ children (71%)
  - Lone parent (71%)
  - Social renting (70%)
  - Unemployed HRP (66%).
- Recent research by Collard et al. (December 2021)[4] identified three key groups as disproportionately living on low incomes in February 2020 compared to others:
  - Householders with disabilities or people experiencing mental ill-health heavily limiting day-to-day activities
  - Single parents
  - Households receiving Universal Credit (regardless of whether someone in the household is working or nobody in the household is working).
- In February 2020, 39% of adults (20.3m) said they could only continue to cover their living expenses for *less than three months*, if they lost their main source of household income[5].
- Spatially, financially vulnerability varies across the UK, with conurbations and other areas historically involving greater economic activity within industrial and manufacturing sectors, along with some coastal towns, showing consistently greater financial vulnerability than other parts of the UK from 2017 to 2020. Some inner parts of London also saw a rapid increase in financial vulnerability during the start of COVID-19, possibly reflecting high shares of service jobs[6] (though it is also acknowledged pockets exist within wealthier areas).

The report now examines the most recent evidence on the financially vulnerable during COVID-19, for the years 2020 and 2021.

## 3.3. The financially vulnerable *during* COVID-19 (2020/21)

- Between March and October 2020, the total number of adults with one or more of FCA's 'characteristics of vulnerability' (poor health, a negative life event, low financial resilience or low capability) increased by 3.7 million (or 15%) from 24m to 27.7m, compared to February 2020. Those with the greatest increases in one of more of FCA's vulnerable characteristics included: 18–34-year-olds; those in employment (but especially self-employment) in February 2020; those with a mortgage and those who rent; and adults from ethnic minority communities[7].

- Work Foundation research undertaken between 2017/19 and 2020[8], suggests that individuals and groups who were 'just getting by' before COVID-19 are *seven times more likely* to be struggling financially during COVID-19, compared to the better-off. COVID-19 has had the greatest impact on earnings of the poorest households - by April 2020, around 3.1m households were in serious financial difficulty, whilst a further 4.6m were struggling financially[9]. People with disabilities, families with children, those with mortgages and (especially) renters were considered at high risk of being financially impacted in the early stages of COVID-19[10].
- Since the start of COVID-19, 2 million *new* Universal Credit claimants were created by August 2020; the OECD estimates that UK individuals moving from work to benefits access less than a fifth of their in-work income[11]. Recent MaPS/University of Bristol research[12] also found that 70% of families receiving Universal Credit or Child Tax Credit had to cut back on food and other essentials during the early part of COVID-19.
- A survey commissioned by the Centre for Business in Society (CBiS)[13], Coventry University, involving a UK representative sample of 3,300 respondents, asked them how they were managing during COVID-19 in Summer 2020. Analysis found that:
  - When asked how they were currently managing their household bills and credit commitments, 14.5% said that it was a constant struggle, for 40.6% it was a struggle from time to time, while 44.8% said they were managing without any difficulty.
  - Women were more likely than men to say that it was a constant struggle or that they were struggling from time to time.
  - Those with children in the household were more likely to be struggling (16.3% with children said it was a constant struggle compared with 13.8% without children). People aged 25-34 and those over 55 were the least likely to be struggling.
  - Those who were out of work, or those who were full-time parents or homemakers, were much more likely to be struggling than those employed full-time or part-time.
  - Educational level and income are both strong predictors of whether people were struggling.
  - Overall, people were concerned that things were likely to get worse for them in the next three months after the survey took place.
- The sectors and jobs most negatively affected by COVID-19 are low-paid, disproportionately affecting young people and those in part-time employment, self-employment and the gig economy[14]. Significant reductions in financial wellbeing were more likely for workers in those low-paid sectors most impacted by COVID-19, such as hospitality and 'other services' (e.g. in-person services). Workers in construction also reported finding it difficult to get by, with an increase of 12 percentage points to nearly one in three workers[15].
- According to data from National Debtline callers[16] during January 2021:
  - 25% of calls were about debt under £10k
  - 44% were about debt between £10-20k
  - 22% were for debt between £20-30k
  - A small share of callers (8%) having debts over £30k
  - Some even had debts over £70k.

- StepChange research undertaken in January 2021[17] found that:
  - 10.1m GB adults were showing signs of 'financial difficulty'.
  - 25% of those accessing a credit payment holiday had subsequently missed repayments.
  - 4.3m people were behind on household bills.
  - 24% of people with unsecured debts reported a decreased ability to repay.
  - Falls in income were caused by: furlough with reduction in salary (37% of respondents); self-isolation, including shielding (25%); unemployment (25%); drop in self-employed work (19%); other falls in income (18%); and fall in hours worked, excluding furlough (15%).
  - 11.3m of those people financially affected by COVID-19 said their income had not recovered by January 2021.
- A survey of 2,023 British adults by the Money Advice Trust during March 2021 (after weighting) found that due to COVID-19: a third of British adults (31%) report being financially worse off, with 17% losing sleep over financial worries. Of those who were unemployed, 58% said they were worse off, with 43% losing sleep over financial worries. Moreover, nearly 5.5m people (11% of population) are behind with one or more household bill or personal credit commitment[18].
- StepChange research about the impact of COVID-19 by late 2021 found that: 25% of adults surveyed had 'cut back on household expenditure to make ends meet'. Also, a fifth reported they had 'used savings or assets to make ends meet'. 10% said they had used financial support from family or friends, whilst 10% said they had sold personal or household items[19].
- Survey research undertaken for Joseph Rowntree Foundation in September and October 2021[20] found that 45% of households in the bottom 20% of incomes, who are *now in arrears*, say that they were always able to pay their bills in-full and on-time *pre-pandemic*. The same survey found that over half of all households in the bottom 20% of incomes said they were unable to access £250 in savings within a week or had no savings at all.
- Substantive shares of single parent households (20%), those with a disabled householder (28%), households with working adults receiving Universal Credit (38%) and no-earner households receiving Universal Credit (47%) entered the COVID-19 Pandemic with no savings and still had no savings in October 2021[21].
- According to research by Auden, between Spring 2021 and Autumn 2021 (from 1,150 short-term credit users), demand for credit increased by 8%, yet at the same time the share of declined credit also increased by 8%[22].
- In terms of the future, research by the Money Advice Trust found that 20% of adults in Britain (10.2m) were worried their finances will not recover from the impact of COVID-19[23].

The report now focuses specifically on the use of credit for essentials before COVID-19, followed by the use of credit for essentials during the years of 2020 and 2021, under COVID-19.

### 3.4. Use of credit for essentials *before* COVID-19

- In 2018, 17% of households (4.7m) reported using credit for essentials 'fairly or very often'[24]. In June 2019, around nine million adults (13%) in the UK often used credit for food and bills[25].
- A rapid evidence review published in 2019[26] identified four high-quality studies that found low-income households used borrowing to pay for essentials. The review also reported that 12 high-quality studies found that low-income households were more likely to borrow from high-cost credit lenders. The same research found 10 high-quality studies

reporting that 'income shocks' were a key trigger for credit repayment problems. Younger generations were more likely to borrow but also more likely to make poor borrowing decisions, although the research found little evidence to explain why this was the case.

- Immediately before COVID-19 (February 2020) the use of credit *by the UK public* was considered to be high: 85% of adults had one or more credit or loan product; 26% had been overdrawn at some point in the previous year; and 11% were using 'high-cost credit'[27].

- In February 2020, 3.4m adults (6% of the adult population) were borrowing in some way to cover their living expenses. Those who stated that their bank accounts were 'constantly or usually overdrawn' represented around 10% of UK adults (or 5.1m people), many of whom were using overdrafts to pay for essentials (e.g. rent or mortgage payments). However, this figure had remained stable since 2017. In February 2020 the share of UK adults with 'persistent credit card debt' was around 5% (or 2.8m people)[28].

- Around 11% (or 5.6m people) held one or more 'high-cost loans' (stable since 2017) and many used such loans for essentials. In the 12 months before February 2020, approximately 200,000 people (0.5% of UK adult population) said they had borrowed from an unlicenced moneylender (or 'loan shark'), (unchanged since 2017). A different study using a different methodology in late 2021 put the figures at 1.08m (see Section 5.5, sub-section 'Illegal Lenders and Loan Sharks')[29]. Approximately 82% of those using an unlicensed moneylender in the previous 12 months to February 2020 had also used an overdraft and/or high-cost credit. However, just 13% of these adults had used debt advice in the previous 12 months[30].

- Those with 'outstanding mortgage debt at least four times their household income' represented 20% of mortgage holders (or 3.5m households), which was an increase of six percentage points (from 14%) in 2017[31].

- For those people who took out a high-cost credit product in the previous year to February 2020 to cover day-to-day expenses such as food, transport, bills, or socialising:
  - 48% who said they did this had taken out a pawnbroking loan
  - 38% had a home-collected loan
  - 33% had a payday loan or short-term instalment loan[32].

- According to the FCA Survey, in February 2020, more women (13%) used high-cost credit than men (8%). Women (especially aged 25-54) were three times as likely to hold a catalogue credit or shopping account (18%) as men (7%). Women (9%) are also over twice as likely to revolve balances then men (4%). Other high-cost credit products had no gender differences[33].

- Other commonly cited reasons for taking out a high-cost credit product (before COVID-19) included: covering an unexpected cost (e.g. broken boiler/car); paying a large one-off expense (e.g. holiday, car or wedding); paying off debt; or covering rent or mortgage payments[34].

## 3.5. Use of credit for essentials *during* COVID-19 (2020/21)

- It should be noted that COVID-19 Pandemic-related support from mortgage and consumer credit lenders – e.g. payment deferrals and a temporary halt on home repossessions – kept mortgage arrears and possessions at very low levels for the first 15 months of COVID-19[35].

- Nevertheless, recent research suggests that those on lower-incomes were more likely than those on higher incomes to have increased their use of credit during the initial part of the COVID-19 Pandemic (mainly credit cards or higher-cost credit)[36].

- Between March and October 2020, around 15% of UK adults said their unsecured debt *(involving a revolving balance)* had increased[37]. Those seeing this increase the most included: 25–44-year-olds; those employed or self-employed in February 2020, and those who rented or had a mortgage[38].

- In October 2020, on average, 38% of UK adults (19.6m) expected to struggle financially in some way in the next six months, but this rose to 61% for adults aged 18-24, with the rate decreasing with older age ranges. Moreover, a higher share of younger people had arrears on loans. Thus, younger people appear to have been hit harder during the COVID-19 Pandemic and this appeared to decrease with increases in age general[39].
- During 2020, nearly 9m adults had to borrow more money than usual – the share of those borrowing more than £1,000 since June 2020 rose from 34.7% to 45.1%[40].
- During the first 12 months of COVID-19, 12% of adults (6.2m) in Britain had to use credit to pay for essentials; 655,000 people had to use credit to pay for essentials for their child; and 37% of those using credit to pay for essentials had had to use 'high-cost' credit products to do so[41].
- Families with children were more than twice as likely to be behind with bills and rent/mortgage payments, and to be using credit to make ends meet. Especially affected were single parents, families on lower incomes, families in rented homes, and families with a parent whose daily activities were limited by ill health or disability[42].
- StepChange research undertaken in January 2021[43] found that:
  - 21% of the GB population (10.6m) had been 'borrowing to make ends meet' since the start of COVID-19.
  - Of those who had experienced an 'income shock' since March 2020, 45% were borrowing to make ends meet.
  - 2.8m GB adults were using high-cost credit to make ends meet
  - 2.4m were experiencing 'problem debt'.
  - 1.7m have exhausted their savings to pay for essentials (an additional 1.4m have used half of their savings to pay for essentials).
  - Around 1.6m have used the option of a credit repayment holiday (which had now ended) – of those who have done this, 50% said they resumed payments with difficulty and 23% have subsequently missed payments.
  - 1.6m have sought out money or debt advice.
  - Of those in arrears with household bills, 70% were borrowing to make ends meet.
- Approximately 9% of adults (4.4m people) had used credit as a safety net in the 12 months since the start of 2021[44].
- Very recent research (December 2021)[45] suggests that short-term credit is often used to pay for essentials but also to cover other debts or repayments to avoid late or missed repayment charges. It also found that 48% of people who can access credit have borrowed money from family or friends in the six months prior to the research being undertaken ('hidden' to official statistics). 13% turned to unregulated lenders suggesting a lack of alternatives; most of these people were working full-time and struggling with increased costs of living. The research also found that 77% expected to experience a negative impact from a rise in the cost of living.

# 4. Using credit for essentials – who, what, how and why

This section examines: common characteristics of those groups most likely to use credit for essentials; what types of credit are being used; how the credit is being spent; why credit is being used for essentials; and, identifying the signs of those at risk.

## 4.1. Key messages

- **Who is using credit for essentials**: Groups using credit for essentials are more likely to be: people with disabilities and/or physical or mental health problems; single parents; people from ethnic minority communities; young renters (of any tenure); younger families with dependent children; and 25–54-year-olds. Women generally are more likely to use credit for essentials than men, and there are important differences between groups from particular ethnicities.
  - In terms of circumstances, those using credit for essentials are more likely to be: those on very low or low incomes with demands on such incomes (housing, children) and/or those who have suffered a life event (e.g. COVID-related income shocks, bereavement, disability) and/or mental ill-health.
  - Mental health problems appear to be both a trigger for, and an outcome of, indebtedness.
- **What credit is used:** Credit cards remain the most common form of credit used to buy essentials (65%), followed by overdrafts (48%), personal loans (34%) and family or friends (28%). However, it should also be noted that specific forms of credit appear to have dramatically increased in use in the last 12 months, including buy-now-pay-later (BNPL), payday loans, and unregulated lenders (as mentioned previously), although more research is needed to explain such increases.
- **How credit for essentials is spent:** There is far less evidence on how credit for essentials is specifically spent. What evidence that exists suggests that the most common purchase is groceries. But more broadly, credit for essentials is being spent on: rising living costs (energy/water bills, food, housing, transport) whilst incomes are not keeping pace; covering income/financial shocks; covering volatile income patterns; covering protracted indebtedness, paying utility bills to avoid negative consequences of not doing so; and combinations of these issues.
- **Why people used credit for essential purchases (factors):** Recent research provides an array of individual/household and wider environment, cultural and/or market-based factors that attempt to explain why people use credit for essentials. Worthy of note amongst these are:
  - Safety net borrowing is primarily due to a combination of low income (and limited savings) and 'life events' or 'income shocks' (e.g. illness or disability, unemployment, relationship breakdown, etc), which results in a reduction in income or an increase in expenses, or both.
  - Volatility of incomes (with short notice) result in such earners becoming significantly more likely to rely on high-cost credit for essentials, compared to other earners with stable incomes.
  - Only 25% of those who take negative coping actions to keep up with credit repayments (e.g. missing bills) have been in touch with, or received support from, a bank or credit firm.
  - Borrowing behaviour is strongly influenced by: income (and options constrained by limited financial means); socio-demographic factors; psychological factors; economic conditions (affecting access to credit); and low financial literacy.
  - There was also evidence that the implementation of the social security system and Universal Credit payments was resulting in people having to take out credit before first payments were made or

because loans or deductions were considered unaffordable.

- Signs or signals that could be used to identify those at risk of becoming extremely financially vulnerable through use of credit for essentials, include:
  - Those already identified as financially vulnerable before COVID-19, as these were most likely to remain financially vulnerable, or even more so (at the time of writing this report), along with those financially vulnerable who have experienced income shocks during COVID-19.
  - Acknowledging that debt, poverty and poor mental health are strongly associated with financial vulnerability. Decisions on finances are complex and replete with emotion that is heightened in challenging financial circumstances, rather than always economically rational.
  - Those using repayment holidays - particular ethnic groups - are significantly more likely to take up offers of repayment holidays than others, and (as mentioned previously) when these holidays end, there are still challenges in repayment.
  - Identifying those at risk may be possible via the 'consequences' of problem debt; e.g. via arrears and/or missed repayments, the need to use foodbanks, those using unregulated credit lenders, etc.

## 4.2. Who? Common characteristics of those who are using credit for essentials

- Women, adults from ethnic minority communities, those with health problems, single parents (and some couple parents), people who rent a property (of any tenure) and people aged 25-54 are more likely to use credit for essentials.[46]
- In January 2021, StepChange research[47] found that groups with high shares of people borrowing to make ends meet included:
  - 40% of single parents
  - 31% of adults from ethnic minority communities
  - 31% of parents with children under 5
  - 29% of young renters
  - 27% of working age single adults
  - 27% of 25–54-year-olds
  - 31% of social renters and 31% of private renters (compared to 21% with mortgages).

(Respondents may belong to more than one group).

- In a study by Finney (September 2020)[48], the characteristics of people most likely to use credit for essentials were as followed:
  - One in three had a disability
  - One in three were experiencing mental ill-health
  - Young renters were more likely to experience financial shocks, resulting in the need for borrowing
  - Typically, younger households with dependent children
  - In full-time work (including from lowest income groups and highest income groups)
  - Preferences were to spend and borrow rather than to save, but many had little savings to call on.
- Finney's (2020) analysis also identified three main sub-groups of those using credit for essentials:
  - Around 40%, incomes were low and relatively fixed whilst borrowing was cautious
  - Another 40% had very low incomes with high demands on such incomes (costs of children and housing) resulting in borrowing being a burden
  - Around 20% had less limited resources but were impacted by recent life events

and/or mental ill-health, such that many were consulting advice organisations due to multiple and unmanageable debts[49].

- Certain COVID-19 related factors appear to correlate with people using credit for essentials. For example, 23% of people who self-isolated or had to shield were in financial difficulty compared with 8% of people in financial difficulty who did not have to isolate of shield. Furthermore, 20% of people who were placed on furlough (with a reduced salary) were in financial difficulty, compared with 9% of people in financial difficulty who were not placed on furlough[50].

- According to research by StepChange, high-cost credit to pay for essentials was more likely to be used by women (27%) than men (10%), and more likely to be used by parents (25%) than those without children (17%)[51].

- A survey by Collard et al (University of Bristol) undertaken in October 2021[52] found that households receiving Universal Credit were over twice as likely to have used credit for food and bills in the past four weeks (35%) compared to those not receiving Universal Credit (16%). Around half of the (four) identified key household types most likely to be on a low income (those with a disability or mental health issue; single parents; those working or not working and receiving Universal Credit) had borrowed for food or bills at some point.

- The incidence of mental health problems may also be associated with indebtedness. For example, people with mental health problems:

  - Are more indebted than people without mental health problems, as they have lower incomes and savings than others

  - Are more likely to borrow for essentials (with 35% of this group doing so for food or heating)

  - Are over twice as likely to say they often need to use credit or borrow money to pay for essentials, than people without mental health problems (26% compared to 11%)

  - Are far more likely to be behind on payments of bills compared to those without mental health problems (e.g. council tax – 16% compared to 6%)

  - Around 46% of people with mental health problems who said they often need to use credit for essentials had had suicidal thoughts or attempted to take their own life in the past 12 months[53].

#### 4.2.1. Impact of the COVID-19 pandemic on white and ethnic minority consumers

According to the FCA Financial Lives 2020 Survey[54] (February 2020) and the FCA's COVID-19 Panel Survey[55] (October 2020), there were some significant differences between white and other ethnic minority respondents regarding the financial impact of COVID-19[56]. In reviewing the following it should be noted that the age profile of the UK's ethnic minority population is younger than the white population – under 35s represent 46% of the ethnic minority population compared to 27% of the white population.

- Before COVID-19, in February 2020, a higher share of ethnic minority consumers was over-indebted (22%) compared with white consumers (13%). Consumers from ethnic minorities were also more likely to state that domestic bills or credit commitments were a 'heavy burden' (17%) compared to white consumers (9%). By October 2020, the share of all consumers being over-indebted had increased; however, 26% of ethnic minority consumers reported being over-indebted compared to 15% of white consumers, meaning the pre-COVID-19 gap had widened further during the first seven months of COVID-19. The research notes however that the most influential factor in over-indebtedness is age.

- Before COVID-19, there were significant differences in financial product ownership between the UK's white consumers and ethnic minority consumers, for example:

  - Any private pension – ethnic minorities 57%; white 77%

- Any savings – ethnic minorities 67%; white 79%
- Any FCA regulated credit/loan – ethnic minorities 74%; white 82%
- Credit card – ethnic minorities 59%; white 69%
- No bank account ('unbanked) – ethnic minorities 4%; white 2%
- Loans from family/friends – ethnic minorities 13%; white 9%

- Since COVID-19 began, ethnic minority consumers have used more of their savings to cover loan repayments (11%) than white consumers (5%). 26% of ethnic minority consumers have used savings for day-to-day expenses compared to 17% of white consumers. 10% of ethnic minority consumers have used savings to cover housing costs compared to 5% of white consumers.
- By October 2020, earnings of ethnic minority workers were, on average, 14% lower compared to February 2020, whilst white workers experienced a 5% decrease in earnings, on average.
- Across all UK adults around 63% are 'debt free' (excluding mortgages and student loans). Around 62% of white consumers are debt free whilst 68% of ethnic minority consumers are debt-free. More specifically, 73% of 'Asian' consumers are debt free whilst 60% of 'Black and Black British' consumers are debt free. On average ethnic minority consumers have lower debt than white consumers, except for ethnic minority consumers aged 55-64 who have higher debt than white consumers in the same age range.
- Regarding credit deferrals between February and October 2020, 43% of ethnic minority credit holders utilised credit deferrals compared to 16% of white credit holders using credit deferrals. 23% of ethnic minority mortgage-holders used mortgage payment deferrals compared to 17% of white mortgage holders.
- In October 2020, consumers were asked if they had fallen behind or missed credit repayments in the last six months. 32% of ethnic minority consumers stated that this was the case compared to 15% of white consumers. Consumers were also asked if their financial situation had changed since the start of COVID-19, and 42% of ethnic minority consumers stated it had worsened compared to 36% of white consumers; 35% of ethnic minority consumers stated it had not changed compared to 47% of white consumers.
- It should be noted that the FCA research states that, controlling for other factors, there were no significant differences based on ethnicity alone regarding how people report worsening of their financial situation. The research suggested that changes in employment were important in driving such reporting.

### 4.2.2. Impact of the pandemic on ethnic minority communities

Bangham's research for the Resolution Foundation (December 2020)[57] on wealth inequalities between different ethnic groups identified the following evidence on financial resilience:

- An analysis of different ethnic groups' vulnerability to financial hardship in the event of an unplanned drop in income, found that families headed by people of Bangladeshi and Pakistani ethnicity were the least likely to be able to make ends meet if their main income source ran out for a month.
- At least half of people of Black African, Bangladeshi and Black Caribbean ethnicity had less than £1,000 in family savings to act as a buffer in case of a fall in their income. More specifically, 60% of adults of Black African ethnicity had less than £1,000 in savings in 2016-18, with Bangladeshi adults the next most likely to have low savings. Around 28% of White British adults had savings of less than £1,000.
- Household wealth is strongly correlated with ethnicity, and ethnic minority communities and other groups with lower-than-average

wealth are especially lacking in property wealth, pension wealth and savings.

- "Ethnic minorities [sic] were disproportionately likely to have fallen behind on bills, to have borrowed, and to have deferred credit payments."[58]
- Research by Abdelshahid and Habane (December 2021)[59], on the lived experiences of the COVID-19 Pandemic on Black and minority ethnic women in the UK, involved a survey of 116 women including financial challenges. The survey found that 26% of survey respondents reported a significant reduction in household income, whilst 14% stated that they were unable to pay their bills or mortgage. Around 22% of all respondents had either been furloughed or had lost their job, and 24% were living with someone who had been furloughed or lost their job. 44% of respondents were worried about finances and employment 'a great deal' (rising to 56% for those under 35 years) – the most common worry (57%) was that of mental health.

### 4.2.3. Impact of the pandemic on Muslim communities

Muslim Census undertook a survey on the impact of COVID-19 on Muslim communities in 2020 (primarily in London but elsewhere, too). The survey involved 1000 respondents and found[60]:

- Muslims are falling into poverty at a rate 10-times higher than the UK-wide average estimate.
- 15% of the sample have lost their jobs as a result of COVID-19, compared to a UK-wide average of 2.3% (35% of working Muslims in the sample are employed in key worker roles).
- 26% of the sample had been placed on furlough.
- 27% of Muslim women in the sample have had to take on additional caring responsibilities due to COVID-19 that have impacted their ability to work.
- 57% of those who have lost their jobs have also had additional caring responsibilities that have impacted their ability to work.
- 70% of the sample have experienced an increase in their household expenses or seen household expenses stay the same during COVID-19.
- 42% of the sample have used their savings to cover expenses due to COVID-19 (compared to 30% of the UK-wide population average).
- 28% of the sample have had to borrow money either through family and friends or through formal means to cover their expenses.
- Muslims have been using payment holiday schemes at twice the rate of the nationwide average.
- 12% of respondents borrowed from family or friends; 12% used an overdraft; 9% used a credit card; 3% applied for a loan, all as a direct result of COVID-19.
- 7% of Muslims feel they have become eligible to receive 'zakat' (charitable payments to the poor from the Muslim community) due to COVID-19.

## 4.3. What? What types of credit are used for essentials?

- According to a StepChange survey undertaken in late 2021[61], the most common forms of credit used for essentials include:
  - Credit card (65% of respondents)
  - Overdraft (48%)
  - Personal loan (34%)
  - Family or friends (28%)
  - Retail revolving credit (store cards and catalogue credit) (20%)
  - Buy-now-pay-later *(or 'BNPL')* (19%) – this has seen a rapid growth in recent years
  - High-cost credit (12%)
  - DWP loan (5%)
  - Unregulated credit - e.g. loan shark (2.5%)

- According to StepChange research, 'revolving credit' is the most common form of credit for essentials (82% of all respondents), including overdrafts, credit cards and retail revolving credit (although it is not clear if this is actual revolving credit balances or the ability for this credit to be revolved). Those using credit for essentials were *twice* as likely to have three or more credit products being utilised at the same time, compared to those not using credit for essentials. Those using credit for essentials hold an average of 6.1 credit products compared to 2.5 among those not using credit for essentials (but who hold a credit product)[62].
- Money Advice Trust research found that, of those using credit to pay for essentials, 37% have used at least one type of 'high-cost credit' in order to pay (i.e., payday loan, store card, catalogue credit, home-collected credit, rent-to-own, BNPL, unlicensed lender such as 'loan shark', guarantor loan or logbook loan)[63].
- According to a very recent survey of 1,150 short-term credit users by Auden (December 2021)[64], between Spring 2021 and Autumn 2021, the two types of credit seeing the greatest increased in use are:
  - 'Buy now pay later' loans (BNPL) were being utilised by 27% of respondents in Spring 2021; by Autumn 2021, this had risen to 50% of respondents (a significant increase of 23%).
  - Payday loans have increased by 13% between Spring and Autumn 2021 (though it is not clear from the Auden report from what point in Spring to what point in Autumn 2021).

## 4.4. How? How is credit for essentials being spent?

There is relatively little detail on exactly what credit for essentials is being spent on, within the existing research. The evidence identified below attempts to provide an overview.

- Money Advice Trust research identified that the most common purchase for using credit to pay for essentials was 'groceries' (6% or 3.2m people)[65].
- According to MaPS research[66] in 2020, credit for essentials is being spent in a number of ways:
  - For rising living costs (energy, food, housing, transport). Rising living costs coupled with incomes not keeping pace, have increased the need for borrowing for such costs, especially for those on low incomes who pay a higher share of incomes on essentials.
  - Covering financial shocks, such as life events or emergencies (e.g. moving home, starting a family, redundancy, bereavement, illness). What is expected to be a short-term event can become protracted such that the ability to pay off credit becomes more difficult.
  - To cover volatile incomes to tide them over until the next payday or income source.
  - To cover protracted indebtedness, debt-dependency or debt spirals.
  - To pay for utility or other bills to avoid the implications of defaulting on these.
  - To cover combinations of the circumstances above.
- Survey research by StepChange in January 2021[67], found that:
  - 50% of respondents made minimum repayments for 3 or more months
  - 42% used credit to make it to pay day
  - 25% used credit to pay household bills
  - 25% missed a debt repayment
  - 20% used credit to make another debt repayment.

## 4.5. Why? Why is credit being used for essentials (individual or wider factors)?

Arguably there are two sets of factors that drive frequent and/or regular use of credit for essentials. The first set of factors is centred on individual (or household) circumstances and decisions, and the second set is centred on the impact of the market and wider environment.

### 4.5.1. Individual circumstances and decisions

- Safety net borrowing is largely due to a combination of low disposable income (and limited savings) and 'life events' (e.g. illness or disability, unemployment or relationship breakdown, etc.) that results in a reduction in income or an increase in expenses, or both.
- On average, those on low incomes are over twice as likely to use a credit card for essentials. Low-income households use credit less than better-off households but their credit costs more to use, and often to purchase essentials. Not surprisingly, low income is a key factor - a recent study found 75% of households with high indebtedness had annual incomes of less than £38,000. People on volatile incomes are twice as likely to use overdrafts and five times as likely to use high-cost credit compared to those on stable incomes.
- Lower levels of financial literacy are associated with being over indebted and with making poor borrowing decisions, particularly amongst the young.
- A review of evidence published in 2019 found that lower financial confidence and lower engagement with money predict the use of credit to cover essentials.
- Only 25% of those who take negative coping actions to keep up with credit repayments (e.g. missing bills) have been in touch with, or received support from, a bank or credit firm.
- Research published in July 2019, while acknowledging that socio-economic characteristics are more important than psychological factors in protecting against negative borrowing behaviours, also suggests the following psychological factors are important:
  - Conscientiousness
  - General self-control (or low impulsivity)
  - Self-identity (especially self-worth and self-esteem)
  - (But it is noted that socio-economic characteristics are more important than psychological factors).

### 4.5.2. The market and/or wider environment

- A rapid evidence review published in 2019[68] found that:
  - Income strongly influences borrowing behaviour
  - Socio-demographic factors shape borrowing behaviour more than psychological factors (though these are also important)
  - Economic conditions play a key role in shaping people's financial circumstances, access to credit and the cost of credit
  - Lower financial literacy is linked to negative borrowing behaviours and over-indebtedness
  - There is a lack of evidence on the impact of savings on borrowing.
- 'Income shocks' from reduced hours or lost jobs: National Debtline saw a six-percentage point increase in calls relating to income shocks from reduced hours or lost jobs between May and December 2020[69].
- There was an eight percentage points increase in calls to the National Debtline from unemployed people between March and December 2020[70], suggesting increasing difficulties with the cost of living.
- Research in September 2020 by Finney (University of Bristol)[71] on using credit for essentials found that:

- Credit card interest rates remain high, even with a relatively low Bank of England base rate.
- Credit card marketing encourages borrowing – e.g. rewards and credit limit rises increase the use of credit cards further.
- Credit card terms and conditions are complex.
- Poor credit ratings, low incomes, poor access to mainstream credit, small sums needed to be borrowed over short periods, and flexibility and control over payments attract borrowers to higher-cost credit and pawnbroking.
- How product information is 'framed' can result in more borrowing, lack of emphasis on repayment schedules and lower repayments being based on the minimum allowed.
- Social norms, peer pressure, habitual spending behaviours, short-term thinking and an emphasis on self-reliance in the wider social environment are considered to be fuelling behaviours of reliance on debt as 'normal', particularly for younger generations.

- As mentioned above, StepChange (March 2022)[72] found that only 25% of those who take negative coping actions to keep up with credit repayments (e.g. missing bills) have been in touch with, or received support from, a bank or credit firm. They also suggested that people can be mis-sold credit products or sold credit products incorrectly, or poor product design resulting in a systemic debt cycle.
- According to research by Dibb et al[73], many of the participants in their in-depth study lacked the knowledge to make informed financial decisions, the inability to access reasonably priced credit; or because their options were constrained by limited financial means.

### 4.5.3. Social security and universal credit

- In 2020, "[t]he most significant problem linked to Universal Credit is the effect of the waiting period for the first payment and advance loans taken out to help meet expenses"[74]. Around 33% of survey respondents stated that the wait for the first Universal Credit payment led to using credit to pay for essentials: 56% fell behind on debt repayments; 47% fell behind on rent or mortgage repayments; and 7% took a loan from an unlicensed lender or loan shark[75].
- In 2019/2020, 43% of those receiving social security support had used credit to pay for essentials in the last 12 months, and 10% of those surveyed said they had used an illegal loan shark due to a problem linked to social security. Delays or errors in the social security system are one factor exacerbating the above issues – 62% of those affected by delays or errors said they had fallen behind on credit repayments.
- Of those who had taken out a budgeting loan or advance, 49% said they had experienced repayment difficulty – among the third who had contacted the DWP to negotiate repayment, over half (55%) did not agree the repayment agreed was affordable. 42% of those taking out a budgeting loan or advance did not know they could discuss repayment with the DWP.
- Of those who had experienced 'deductions' from their social security payments to repay arrears on household bills, 29% said they had to use credit to pay for essentials (52% fell behind on debt repayments; 31% fell behind on mortgage repayments; and 9% took a loan from an unlicensed lender or loan shark)[76]. Very recent research by the Joseph Rowntree Foundation (January 2022)[77] reports that unaffordable debt deductions from benefits are resulting in the benefits system actually increasing poverty for some.

## 4.6. Identifying the signs of those at risk – how financial vulnerability is manifested in those using credit for essentials

Financial vulnerability, more broadly, is manifested through a range of outcomes and impacts on particular groups. According to research by Florisson from the Work Foundation (November 2020)[78], using the 'Understanding Society' survey data (using a sample of 6,500 working individuals):

- Individuals and groups that were already financially vulnerable pre-pandemic are the most likely to have been significantly impacted by COVID-19: *"Our analysis indicates that workers who were already 'finding it very difficult to get by' before the crisis have experienced a greater negative impact on their mental wellbeing"* (Florisson, 2020, p1).
- 48% of *women* experienced an increase in mental distress of 2 GHQ scale points compared to 28% of men. Within the group of men and women experiencing increased mental distress, women were more affected (a mean increase of 6.5 on the GHQ-12 scale compared to 5.9 for men), with greater increases for younger women.
- Male workers from ethnic minority communities had nearly three times the increased intensity of mental distress (1.6) than male white workers (0.6), though female workers from ethnic minority communities had a lower increased intensity of mental distress (1.3) compared to white female workers (1.7).
- *Those with children under four years of age* were associated with a significant increase in mental distress over Spring/Summer 2020, especially amongst women and for women working at home; women also undertook a larger share of household tasks and caring roles during this period.
- The Money and Mental Health Institute[79] stated that in June 2020 people with *pre-existing mental health conditions* had, on average, lower incomes and were more likely to cut back on essentials and struggle to pay bills. People with mental health problems were three times more likely to have fallen into problem debt than the nationwide population average (15% compared to 4%) and were more than twice as likely to have relied on credit or borrowing for daily essentials (26% compared to 11%).

Specifically in relation to those using credit for essentials, financial vulnerability may be manifested in a number of outcomes and impact, for example:

- 72% of those using credit for essentials demonstrate at least one additional 'sign of financial difficulty' (e.g. falling behind on bills); 51% meet one definition of 'severe' financial difficulty (i.e., three or more signs of financial difficulty)[80].
- Those who need debt advice are more than four times likely to be using informal sources of credit, such as family or friend. 25% are relying on BNPL, which have more limited credit checks than other types of credit[81].
- 65% of those using credit for essentials have kept up with credit repayments by: missing housing or utility bills; using more credit; or cutting back to the point of hardship (only 12% of others using credit products for non-essentials have these problems)[82].
- 71% of those using credit for essentials report negative impacts on health, relationships or ability to work (only 15% of people using credit products for non-essentials experience such problems)[83].

The key 'signs' that can be identified regarding those at risk, given the above, involve:

- Those already identified as financially vulnerable before COVID-19 are the most likely to *remain* financially vulnerable or are *even more* financially vulnerable[84] at the time of writing this report.
- Recognition of the proven links between *debt, poverty and poor mental health*, including links between increasing debts and further

deterioration in mental health, as well as stress about debts (regardless of amount) being a predictor of depression[85].

- Those financially vulnerable who have experienced income shocks during COVID-19[86].
- Emotional factors more broadly can significantly affect how people manage their money[87]; for example, Dibb et al's[88] in-depth interviews with 78 participants who were financially struggling found that people's decisions on their finances were complex, messy and full of emotion, in sharp contrast to the 'economic rationality' of other perspectives on financial decisions.
- Those using repayment holidays – for example, according to recent research for Muslim communities[89], Muslims took up offers of repayment holidays at twice the rate of the national average, and half of the 7% who had applied for repayment holidays worked full-time.

Identifying those at high risk through the signals of the '*consequences*' of problem debt might also be insightful for support. For example, very recent survey research (December 2021)[90] found that:

- 13% more people were now falling into arrears in Autumn 2021 compared to Spring 2021.Women were more likely to fall into arrears, missing repayments at a higher rate (28%) compared to men (19%).
- 24% of those in arrears after missing at least one repayment had also used a foodbank in the last 6 months prior to the Autumn 2021 research.
- Those who had missed more than one repayment and had no personal savings were borrowing from family and friends and/or using unregulated credit.

# 5. Being declined credit

This section examines the issue of being declined credit. It reviews who is more likely to be declined, along with experiences and journeys of those being declined credit. Finally, this section covers some of the consequences of being declined credit. There is far less recent evidence on being declined for credit and only a few sources can be utilised. This section also draws upon recent research undertaken by the Centre for Business in Society at Coventry University on this specific issue.

## 5.1. Key messages

- More research is needed into developing the evidence base for declined credit.
- Since 2017, but especially since the start of COVID-19, there has been an increase in numbers of people being declined for credit. One study suggested that 7% of UK adults had an application for credit or a loan declined between March and October 2020. Another study found that the share of UK adult population being declined credit rose from 6% in February 2020 to 10% by October 2020. A different study suggests that nearly half of all UK adults who made an application for credit between February and October 2020 were declined.
- *Who is more likely to be declined credit:* Renters, the young, and those of 'other' ethnic minority community classifications were the most likely groups to be declined credit compared to others. The highest share of 'unbanked' people is 18–24-year-olds (23% of all unbanked people). One study found that 11% were 'put off' applying because they believed their application would be declined (most commonly those under 44, the unemployed and renters).
- *Reasons why people were declined credit include:* their credit history; their existing debts; their income levels; their employment status. It should be noted that a significant minority also believed they were declined because of non-financial reasons (age, health, ethnicity).
- *What organisations declined credit:* Research by Centre for Business in Society Coventry University, found that:
  - 6% were declined by a high-cost lender or payday lender (inc. doorstep lender)
  - 43% were declined credit by a bank or building society
  - 24% were declined by a credit card company
  - 37% were declined by other sources of credit (inc. car finance, personal loan companies, etc.)
  - There are also gender and age differences in decline rates from different credit forms.
- According to research by CBiS, Coventry University, which surveyed individuals who had recently been declined for credit, following a decline, the most common actions undertaken by the credit provider was no action taken (49%); advice given on actions the applicant could take to improve their credit rating (19%); advice given on actions the applicant could take to improve their financial situation to re-apply in future (18%). For reference, those who had been declined said that less than 7% of credit providers offered to provide a referral to a debt agency.
- Research by CBiS, Coventry University, asked respondents (those who had been declined) what the credit provider *could* have done following a decline of credit. The most common responses were more explanation as to why declined (41%); more understanding of their financial situation (34%); advice on how they could improve their financial situation (29%); a more sympathetic response (28%). For information, those suggesting a referral to a debt agency represented 14% of respondents.
- *Consequences:* As a result of being declined credit, recent research suggests that before COVID-19: around 57% went without the credit product from any legitimate lender; 20% had the product from an alternative

provider; 14% attained a similar product but on different T&Cs; 9% had the product but had to pay extra for it.

- *Consequences:* Between March and October 2020, following a decline of credit, recent research suggests: 26% borrowed money from friends or family; 16% obtained a loan from a different regulated lender; and 12% had a loan from an unlicensed moneylender or informal lender.
- *Consequences:* CBiS research on 256 people who had been declined credit asked how they felt after this situation. Nearly 88% said they felt that others were likely to be in the same situation. Around 64% said they felt those that cared about them would be sympathetic. 52% said they felt they had been let down by the financial system; and 52% said they felt out of control of their situation.
- *Consequences*: Research by CBiS, Coventry University also asked what action declined applicants took after their declined situation. Over 12% said they went into arrears or took a repayment holiday with some essential bills (e.g. rent, mortgage, utilities, loans). Nearly 38% said they took action to manage their money better. Over 30% said they borrowed money from family, friends or others.
- As mentioned previously, there has been a dramatic increase in people turning to illegal money lenders or loan sharks. Some of the worst financial and social consequences of doing this are reported to be: exorbitant cost of repayment; threats and violence; 'payment in kind' (delivering drugs or providing sexual favours); family/relationship breakdown; being driven to despair and tragic loss of life through suicide. It should be noted that such situations can continue for years, social media has exacerbated these problems further, and women are even more at risk than men.

## 5.2. Who is more likely to be declined credit and why?

- Immediately before COVID-19 in the UK (February 2020), 3.1m adults (or 6% of the population) had been declined for one or more financial products in the previous two years (primarily credit cards, personal loans, and overdrafts). However, between March and October 2020 of the COVID-19 Pandemic, rates of declined credit appeared to have increased with 10% of UK adults having been declined for a credit product[91].
- The 'unbanked' – those having no current or e-money account – face major challenges in accessing credit. In February 2020, 1.2m adults (2.3% of the population) were 'unbanked'; 18–24-year-olds made up the highest share (23%) of the unbanked; and the numbers and profile of unbanked people have remained relatively stable since at least 2017[92].
- In Spring 2021 and Autumn 2021, Auden[93] undertook a survey of 1,150 short-term credit users. According to this research, whilst demand for credit by respondents had increased by 8%, the share of those respondents being declined for credit had also increased 8%, from 37% (Spring 2021) to 45% (Autumn 2021).
- The Auden research[94] identified 23% more adults had also applied for BNPL (as mentioned), but those applying for BNPL were also declined at a higher rate than other credit products (31% in Autumn 2021, compared to only 18% in Spring 2021).
- According to the 2020 FCA Financial Lives Survey[95], decline rates by product (immediately before COVID-19) include: 3% for a credit card; 2.2% for a personal loan and 1% for an arranged overdraft, amongst others less than 1%. Of those who had been declined a financial product or service (e.g. a bank account, insurance or credit) in the previous 2 years from 2018 to 2020, around 80% have been declined some form of credit, whilst 12% had been declined a bank account and 8% were declined insurance.

- The FCA research[96] also found that the following groups are more likely to be declined credit[1]:
  - Renters are more than twice as likely to be declined (14%) compared to those with a mortgage (5%).
  - In terms of age, 25 to 44 years old are most likely to be declined (10%) whilst the lowest rate of decline by age is those 55+ (2%).
  - Women (6%) are marginally more likely to be declined than men (5%).
  - Those with ethnicity described as 'Other' have a 16% decline rate (compared to, e.g. 6% White, 5% Asian, and 9% Black and Black British).
- Asked why people believed they were declined credit, the FCA Survey found that[97]:
  - 58% said it was due to their credit history
  - 45% said it was because of their existing debts
  - 30% said it was due to their income levels
  - 15% said it was due to their employment status.
- Around 19%, however, said they believed they were declined credit because of non-financial factors such as their age, health or ethnicity[98].
- A survey commissioned by CBiS at Coventry University[99], which took place during Spring to early Summer 2021, identified 256 respondents who said they had personally been declined credit in the last 5 years. Survey findings found that:
  - 38.6% of those who had been declined had children living in their household
  - 11.5% of ethnic minority people sampled said they had been declined credit (in the last 5 years) compared with 6% of white people
  - 13.6% of those living in rented accommodation said they had been declined credit (in the last 5 years) compared with 4.2% of those who owned their own home (mortgaged or outright).

## 5.3. Experiences and journeys of being declined credit

- The CBiS, Coventry University, survey[100] asked those that had been declined credit who or what organisations they had been declined by. The survey found that:
  - 6.33% were declined by a high-cost lender or payday lender (including doorstep lender)
  - 42.99% were declined credit by a bank or building society
  - 23.98% were declined by a credit card company
  - 36.7% were declined by other sources of credit (including car finance, personal loan companies, etc).
- There were differences by gender – women were more likely than men to be declined by 'other' forms of finance, while men were more likely than women to have been declined by a 'high-cost lender or payday lender', or by their 'bank or building society'. There was little difference between genders for those declined by a credit card company.
- There were also differences by age – declines by 'high-cost lenders or payday lenders' were only reported by those aged between 25 and 54 (suggesting lower usage of this type of loan among older age groups). 60% of those declined credit in the 45–54-year-old aged group had been declined by their 'bank or building society', compared with 19.4% of 18–24-year-olds.

[1] It should be noted that variations in the numbers of people applying in different groups affect the decline rates.

- In relation to the journeys and experiences of those declined credit, the CBiS survey[101] delved further into the actions taken by the credit provider, as reported by the individual who had been declined. The survey found the following, Table 1:

## Table 1: What action did the credit provider take when declining?

| Thinking about the way the credit provider dealt with you on the last occasion (you were declined credit), which, if any, of the following action did they take? | Yes (%) | No (%) |
|---|---|---|
| A. The credit provider did not take any of these actions outlined below | 48.83 | 51.17 |
| B. The credit provider explained what you could do to improve your credit rating | 19.14 | 80.86 |
| C. The credit provider explained how you could improve your financial situation so that you could reapply in the future | 18.36 | 81.64 |
| D. The credit provider referred you to another organisation who they thought might be able to offer you credit | 8.98 | 91.02 |
| E. The credit provider referred you to a debt advice agency | 6.64 | 93.36 |
| F. The credit provider recommended a budgeting tool or [digital] application | 5.47 | 94.53 |
| G. The credit provider recommended a free course to teach you how to better manage your finances | 2.73 | 97.27 |

- Table 1 shows that the most likely interventions from credit providers that declined those surveyed were: (a) no intervention at all (48%); (b) explaining to declined applicants how they could improve their credit rating (19.14%); and/or (c) explaining how applicants could improve their financial situation to reapply in the future (18.36%).
- Delving deeper into the above data, the CBiS survey[102] found that:
  - Younger people reported being even less likely to be 'referred to a debt agency' than older people; those with children reported being even less likely to be 'referred to a debt agency' than those without.
  - White people were even less likely to be 'referred to a free course to teach them how to manage their finances' than ethnic minority people. Those who owned their own homes were even less likely to be referred to a free course than those in rented accommodation.
  - Those who owned their own homes were even less likely to have a 'budgeting tool or [digital] application' recommended than those in rented accommodation.

– Those who were in rented accommodation were more likely than those in their own homes to have been told how they could ‘improve their credit rating’; 22.6% answered yes compared with 9.1% of those who owned their own homes.

– Those who were in rented accommodation were more likely than those in their own homes to have been told how they could ‘improve their credit rating’; 22.6% answered yes compared with 9.1% of those who owned their own homes.

- The CBiS survey also asked declined respondents how they thought credit providers could improve the action they took during the process of declining (using a set of possible options). Table 2 presents the findings:

## Table 2: How could the credit provider improve their response?

| Thinking about the way the credit provider dealt with you on the last occasion (you were declined credit), which, if any, of the following ways COULD the credit provider improve their response? | Yes (%) | No (%) |
|---|---|---|
| A. More explanation about why you were declined credit | 41.02 | 58.98 |
| B. More understanding of your financial situation | 33.59 | 66.41 |
| C. Advice on how you could improve your financial situation (e.g. improve your credit rating, money management tools, etc) | 28.52 | 71.48 |
| D. A more sympathetic response | 28.13 | 71.87 |
| E. Referral to another provider who could offer you credit | 26.56 | 73.44 |
| F. A more non-judgemental response | 19.92 | 80.08 |
| G. Referral to a debt advice agency | 14.45 | 85.55 |
| H. There is nothing they could do to improve their response | 14.45 | 85.55 |

- According to Table 2, the most wanted elements (based on how people felt the provider could have handled the situation better last time they were declined) were: ‘more explanation of why they were declined’ (41.02%) and ‘more understanding of their financial situation’ (33.59%).
- The CBiS survey also found that younger people were more likely than older people to want to be referred to another provider who could offer them credit.

## 5.4. What are the consequences for those who are declined credit?

- According to the FCA Financial Lives Survey 2017, 50% of those declined financial products say they either subsequently go without it completely, end up paying more, or are subject to different terms and conditions. Of all adults who were declined a financial product between 2018 and 2020, 57% were *unable* to obtain the product/service they needed *at all* from a provider. 20% were able to obtain the product/service from an alternative supplier, 14% obtained a similar product/service but with different terms or conditions, whilst 9% obtained the product/service but had to pay extra for it[103].

- Between 2018 and 2020, 7% of all UK adults (3.4m) stated they were not actually declined a financial product or service but were offered one at an unreasonable price (or with unreasonable terms and conditions) – primarily credit cards, personal loans and motor insurance[104].

- In terms of the early period of the COVID-19 Pandemic, the FCA Financial Lives Survey 2020 found that, of those declined credit between March and October 2020, the consequences involved: 26% borrowing money from friends or family; 16% obtaining a loan from a different regulated lender; and 12% obtained a loan from an unlicensed money lender or informal lender[105].

- The FCA 2020 survey[106] also found that around 7% of UK adults (or 3m people) had an application for credit or a loan declined. At the same time, 11% were 'put off' applying because they believed their application would be declined (most commonly those under 44, the unemployed and renters). When asking about declined credit in October 2020, 10% of UK adults had been declined since the end of February 2020. The most common responses were from those under 44 years, the unemployed or renters. Around 21% of UK adults applied for credit between end of February and October 2020, meaning nearly half of all UK adults applying for credit were declined. Of those declined credit since the end of February 2020: 39% 'went without'; 30% 'cut back spending'; 27% 'used savings'; 26% 'borrowed from family and friends' instead; 16% 'got a loan from regulated lender'; and 12% 'got a loan from an unlicenced lender or informal lender' (multiple survey response options were allowed).

- The FCA 2020[107] survey also found that, in terms of consequences of being rejected or put off from applying for credit/loan in the 12 months *before* February 2020, 63% of those experiencing this said they 'went without' the product. 28% said they 'cut back on spending' whilst 20% 'saved up the money' they needed and 13% 'sold something' to obtain the money. Moreover, 14% 'borrowed money from friends or family', 11% 'applied to a different provider', 11% 'used savings', 5% 'defaulted on another loan, bill or payment' and 3% 'asked for more time to pay the money they owed'.

- The FCA 2020 survey[108] also found that 11% of all UK adults had been put off applying for any kind of credit in the last 12 months to February 2020, because they believed their application would be rejected. Of those who had been put off applying, 58% did not apply because they were: worried about damaging their credit rating; concerned about their potential to get credit elsewhere; or worried about their chances of applying to the same provider in future.

- Published in April 2021 of the COVID-19 Pandemic, Appleyard et al's research[109] gained in-depth insights into the consequences of being declined payday lender credit from a small group of adults in England and Scotland. Of a total of 48 people declined credit the following consequences were reported:
  - 15 people (or 31%) engaged in 'cutbacks and budgeting'
  - 11 people (23%) 'went without'
  - 10 people (21%) undertook a 'debt management plan'
  - 5 people (10%) sought 'debt management advice'
  - 4 people (8%) went into 'arrears'
  - 2 people (4%) 'increased working hours' and 1 person (2%) drew on savings.

- Appleyard et al's research[110] also found that, of 45 people who were declined credit from a payday lender but still had access to *some* form of credit (whether formal or informal), 23 people (or 51%) received credit from their 'family or friends', whilst another 11 (24%) were successful at a different payday lender. The research found that, more broadly, borrowing from family and friends was a common form of credit and this was often part of a 'mixed economy of credit' of formal and informal credit sources utilised by those participating in the research. However, it was acknowledged by some research participants that borrowing from family and friends causes stress, guilt and anxiety for some.
- Appleyard et al's research[111] found that, even after being declined credit, individuals were still seeking credit as a solution to their financial problems. One way of perceiving this was that people were actively taking responsibility for their financial situation and attempting to seek a solution. Further debt was also viewed as a way to manage financially precarious situations and attempt to maintain responsible borrowing in order to pay bills on time. High-cost credit was also often the lender of last resort as they had little other option – for example, some individuals reported that a payday loan would be cheaper than using a mainstream bank overdraft.
- The survey commissioned by CBiS, Coventry University[112] (Spring to early Summer 2021) asked the 256 respondents who had been declined credit, what the impact this had on their 'money management' and their 'financial confidence'. The survey found that:
  - Of those declined credit, somewhat surprisingly 48.44% said that managing their money was 'completely within their personal control', while 37.5% said it was 'somewhat within their personal control'. Only 3.91% felt that managing their money was 'completely beyond their personal control'.
  - There was little difference in reported financial confidence for men and women among those declined for credit.
  - Age appeared to somewhat predict financial confidence – younger people had lower financial confidence. For example, only 23.6% of 18–34-year-olds had high financial confidence, compared with 31.6% of 35–54-year-olds, 28.3% of 45–54-year-olds, and 58.8% of 55–64-year-olds.
  - Of those declined credit in the last 5 years, 20.1% had been declined in the last 3 months, with 47.8% being declined between 4 and 12 months ago.
  - Of the 256 who had been declined credit in the last five years, ethnic minority people were more likely to have been declined in the last 12 months compared to white people (68.2% versus 44.5%).
  - Of those declined credit in the last five years, those in rented accommodation were more likely to have been declined in the last 12 months than those who owned their own home (58.7% versus 39.5%).
- The CBiS, Coventry University survey[113] also asked declined respondents how they *felt* as a consequence of being declined credit (via a range of options). Table 3 below provides the key findings:

## Table 3: How being declined for credit or being refused a loan made people feel

| To what extent do you agree or disagree, with each of the following statements relating to how being declined for credit or being refused a loan made you feel? | Agree (%) | Neither agree nor disagree (%) | Disagree (%) |
|---|---|---|---|
| A. You felt others are likely to be in the same situation | 87.65 | 6.58 | 5.76 |
| B. You felt that those you care about would be sympathetic | 64.41 | 18.64 | 16.95 |
| C. You felt like you had been let down by the financial system | 52.23 | 11.74 | 36.03 |
| D. You felt out of control of your situation | 52.05 | 8.61 | 39.34 |
| E. You felt worried about your future | 48.58 | 10.93 | 40.49 |
| F. You felt less confident about your ability to manage your finances | 40.32 | 12.30 | 47.30 |
| G. You felt like you had let down others | 31.28 | 6.58 | 62.14 |
| H. You felt isolated from the rest of the world | 23.98 | 8.94 | 67.07 |

- The CBiS, Coventry University survey also found that ethnic minority respondents were more likely to agree that being declined made them feel 'isolated from the rest of the world' than those who were white (35.6% agree versus 21.4% agree). Those working part-time, unemployed or not in paid work for other reasons, were more likely to agree that being declined made them feel 'isolated from the rest of the world' than those working full time or who were self-employed.
- The CBiS, Coventry University survey then asked declined respondents what action they took as a consequence of their application for credit being declined. Table 4 below provides the findings:

## Table 4: What action did people take when their application was declined

| Thinking about the last time you were declined credit or refused a loan, which, if any, of the following actions did you take after your application was declined? | Yes (%) | No (%) |
|---|---|---|
| A. You took action to manage your money better (e.g. made cutbacks to household expenses, tried to budget, save, repay debt; or to build your credit score, etc.) | 37.89 | 62.11 |
| B. You borrowed money from family, friends or other people | 30.80 | 69.92 |
| C. You used your savings | 24.61 | 75.39 |
| D. You sought non-financial help from your family or friends (e.g. such as accepting food or providing childcare) | 17.19 | 82.81 |
| E. You increased your working hours (overtime) or got an additional job | 15.23 | 84.77 |
| F. You sought credit from a bank or building society or credit card | 12.89 | 87.11 |
| G. You went into arrears or took a ‘holiday’ in some essential bills (e.g. rent, mortgage, household utilities, loans) | 12.11 | 87.89 |
| H. You sought help or guidance from a debt charity or advice agency (e.g. Citizen Advice – CAB, StepChange, Payplan) | 8.80 | 91.20 |
| I. You sought a debt management plan, Debt Relief Order (DRO) or Individual Voluntary Arrangement (IVA) | 8.59 | 91.41 |
| J. You sought help or guidance from your banking provider | 7.42 | 92.58 |
| K. You sought non-financial help from a charity or community group, including food banks | 4.69 | 95.41 |
| L. You sought high-cost credit from a payday lender (including doorstep lender) | 3.91 | 96.09 |
| M. Y You sought help or guidance from your employer | 2.73 | 97.27 |

- In relation to specific characteristics about responses, the CBiS, Coventry University survey[114] also found that:
  - Those in the Northwest region were more likely to seek help or guidance from a debt charity or advice agency than those in other regions (30.0% versus average of 9.0% for the rest).
  - Those living in rented accommodation were more likely than those who owned their homes to seek non-financial help from a charity or community group, including food banks (9.7% versus 0%).
  - Those working full-time, the retired or self-employed were less likely than those working part-time, full-time students, those who were unemployed or those not in work for other reasons, to have sought non-financial help from a charity or community group.
  - Those who were living in rented accommodation were more likely than those who owned their own homes to seek non-financial help from family or friends (23.7% versus 11.4%).
  - Younger people were more likely than older people to borrow money from family or friends if declined for credit.
  - Those working part-time, full-time students or those who were unemployed or not in paid work for other reasons, were more likely than others to borrow money from family or friends if declined for credit.
  - Men were more likely than women to increase their working hours or get an additional job if declined for credit (19.9% versus 8.7%).
  - The self-employed were the most likely group to increase their working hours or get an additional job if being declined for credit (27.6% versus overall average of 15.3%).

## 5.5. Illegal lenders and loan sharks

- Some people who are declined credit turn to illegal money lenders, or 'loan sharks'. According to very recent research by the Centre for Social Justice[115], in England around 1.08m adults may be borrowing from illegal money lenders – over 700,000 more than the most recent official estimate[2] calculated by the Department for Business, Innovation and Skills (BIS) in 2010[116].
- The same research by the Centre for Social Justice[117] found that people who borrow from loan sharks do it as a last resort: 80% of victims who first attempted to borrow from legal sources were refused; 44% had attempted to borrow from a bank, and 27% had tried a high-cost-short-term credit provider. Of those owing money to an illegal lender: 62% have incomes below £20,000; 66% owe money to a legal creditor also; 48% live in social housing; and 65% have a long-term health condition.
- Specific consequences of borrowing from an illegal lender could involve[118]:
  - The exorbitant cost of repayment
  - Threats and violence
  - 'Payment in kind' (delivering drugs or providing sexual favours)
  - Threats to take victims to court (despite their illegality)
  - Family/relationship breakdown
  - Being driven to despair and tragic loss of life through suicide.
- Illegal lenders are also increasingly operating online according to this research[119], using social media platforms to entice and then exploit new victims, and enabling them to

[2] It is noted that these figures cannot be directly comparable because different methodologies were used.

intimidate their victims 24 hours a day, as well as humiliate them to the wider community. All of these online and offline practices can last for many years – over 20% of victims have to repay an illegal lender for over five years, whilst 7% have been repaying for over 10 years.

- As a response to the issues outlined above, the Centre for Social Justice (March 2022)[120] recommended variation actions, including:
  - Scaling-up the Illegal Money Lending Team England and their awareness raising activity
  - Harsher sentencing for loan sharks
  - Clamping down on use of social media by loan sharks
  - Equipping debt advisors with the tools to broach the issue via MaPS training and guidance
  - Increasing the touch points with hidden debt via services that victims are already engaged with (Jobcentre Plus, local council services, housing associations etc).

# 6. ‘Money conversations’ and financial wellbeing

This section examines how conversations about money might influence financial wellbeing. The first section reviews experiences of money conversations around credit and debt. The next section examines how money conversations are undertaken and who with. The following section then examines the reasons for preferences for money conversations, and the final section briefly reviews the outcomes of money conversations.

It should be noted that there is relatively little up-to-date evidence or literature on money conversations and their impact on financial wellbeing. Evidence on money conversations that does exist suggests that many people in the UK are very reluctant to talk about their money or financial matters with family and friends, other people, organisations or financial service providers. Below is a review of the most recent evidence.

## 6.1. Key messages

- There is a lot of secrecy and reluctance to discuss financial matters in the UK. Recent evidence suggests 40% of people concealed a financial product from a loved one, whilst 18% stated that shame or embarrassment were the main reasons they avoided talking about financial matters. There are also age, gender and other differences regarding reluctance to discuss money, for example financial confidence usually increases with age.
- According to a CBiS, Coventry University survey of 3,300 people in Summer 2020, nearly two thirds of people had not sought financial advice, guidance or talked to someone about their finances. However, those with the lowest incomes were *much less likely* to discuss financial matters with others compared to those on higher incomes (but were less likely to keep it a ‘secret’ from very close loved ones).
- One study found that 53% of adults were reluctant to seek help about financial difficulties from a bank or credit firm because of:
  - Low trust in firms to not negatively impact their situation (e.g. withdraw credit).
  - Worries about credit reporting
  - Anxiety, embarrassment and stigma talking about financial difficulty.
- Recent research on money conversations between credit providers and applicants/consumers suggests that most conversations were undertaken on online platforms, followed by the spoken word (primarily phone calls).
- When financially vulnerable groups were asked if they felt they had received all the support they needed when seeking financial advice, between 25% and 40% of people (varying depending on their circumstances) stated they had not received all the support they needed.
- Only 22% of people taking a ‘negative coping strategy’ to maintain repayments had contacted a *bank/credit firm* about their problems or had been contacted by a bank/firm. And only 34% of people had contacted a provider or had contact from a provider if they had missed housing or utility bills, to maintain repayments[121].
- There is relatively little evidence on preferences regarding discussing financial matters. The most common ‘preference’ was that of reluctance. Reasons for *reluctance* of those using credit for essentials on discussions with credit suppliers: 53% did not think they would help; 43% said the supplier would make it worse; 36% worried about the effect on their credit record; 34% worried they would lose their credit; 33% were embarrassed or felt stigma; 29% were anxious about speaking to someone about the issue. The use of online platforms as the most

common form of communication may also be symbolic of a reluctance to discuss financial matters.

- There is relatively little evidence on the 'outcomes' of money conversations. There are mixed responses to support provision from credit suppliers by applicants/consumers. Some research also highlights that credit building tools are often inappropriate or unworkable. Recent research suggests a majority of respondents wished they had been referred to debt advice *far earlier*. Research with those experiencing mental health problems reveal some negative experiences of disclosing their financial problems. All of this suggests that money conversations are not having the positive effect on financial wellbeing that is hoped for.

## 6.2. Experiences of money conversations regarding credit and debt

- Many people do not talk to others about their financial circumstances – even those in their own households or with loved ones more broadly. In a recent survey by MaPS, two in five adults said that they were concealing a financial product from a loved one, such as a credit card or loan[122].
- A MaPS survey[123] also found that 18% of UK adults reported that 'shame' or 'embarrassment' were the reasons they avoided talking about their money situation. For those who were in debt, debt management company Lowell[124] found that 69% of people did not talk about money for the same reasons. Lowell's research also identified a number of other reasons people avoided discussing their financial situation, including: 'not wanting to burden others'; 'talking about debt is not how they were raised'; and 'discussion of debt causing stress and anxiety'.
- A survey commissioned by CBiS, Coventry University in Summer 2020[125], involving a UK representative sample of 3,300 respondents, asked people about seeking financial guidance or talking to someone about personal finances. The survey found:
  - 34.8% had sought financial advice, guidance or talked to someone about their finances, meaning nearly two thirds of people had not.
  - Men were more likely than women to have done so (37.7% versus 32.3%).
  - Those under the age of 34 were more likely to have sought guidance or spoken to someone than those over this age. Those aged 45-54 were the least likely to have done so (28.1%) compared with 41.8% of 16–24-year-olds and 42.9% of 25–34-year-olds.
  - People living with children in their households were more likely to have sought guidance or talked to someone about their finances than those without children (41% versus 32.6%).
  - Those with higher educational status were more likely to have sought financial advice/guidance or talked to someone about their money than those with lower educational status.
  - The unemployed and full-time parents/homemakers were the least likely to have sought financial advice based on employment status. Just 25.3% for the unemployed and 22.5% of full-time parents/homemakers, compared with 39.5% of those in full-time work and 36.5% of those employed part-time.
  - Those with *lower* household incomes were *much less likely* to have sought financial guidance/advice or talked to someone about their money, compared to those with higher household incomes:
    - 47.0% of those earning £100,000 or more
    - 43.9% of those earning £55K to £100,000
    - 44.1% of those earning £45K to £54,999
    - 36.2% of those earning £35K to £44,999

  - 34.4% of those earning £25K to £34,999
  - 38.7% of those earning £20K to £24,999
  - 27.9% of those earning £15K to £19,999
  - 28.8% of those earning £10K to £14,999
  - 26.7% of those earning £5K to £9,999
  - 22.5% of those earning under £5,000.

- Research by the Centre for Social Justice (March 2022)[126] suggests that many people in the UK have 'money secrets'. The report collated a range of other research evidence, for example:
  - Money is a daily concern for around 9m people.
  - Nearly half of all adults worried about money at least once a week in the past month.
  - Around two in five adults report some kind of money problem that they have kept secret from loved ones (primarily debt problems).
  - 20% of 2000 people surveyed stated that talking about money was not appropriate in a social setting and 50% said it was not appropriate in a work setting.
  - 40% of adults admit to keeping money secrets from their own family and/or friends (hidden credit cards, personal loans and savings accounts being the most common, followed by overdrafts and payday loans).
  - Of a survey of 5,200, around one in three people were hiding a credit card, whilst 23% were hiding a personal loan, 18% hiding an overdraft and over 10% hiding a payday loan.
  - Younger people aged 25-34 were most likely to hide their debts, with 59% saying they were hiding a financial product from others (UK average was 40%). Those in London were far more likely to hide a financial product (55% compared to 40% UK average), and those from the East Midlands also had a higher-than-average rate.
  - However, it is interesting to note that the lowest income group (income of less than £20,000 per year) were the least likely to keep financial products secret from others (37% compared to the highest of 50% for those earning £60,000 - £80,000).
  - Around 10% of people are struggling with debt but have told nobody at all about it.

- 53% of GB adults were reluctant to seek help about financial difficulties from a bank or credit firm, mainly due to: low trust in firms to not negatively impact their situation (e.g. withdraw access to credit); worries about credit reporting; and anxiety, embarrassment and stigma talking about financial difficulty. Another 16% were unsure about seeking help, whilst a minority of 30% would be willing to seek help. Those recognised as showing signs of 'financial difficulty' were even more reluctant to seek help (60%), with 9% unsure and 30% willing to seek help, whilst 67% of those that had taken negative coping actions to maintain repayments said they would be reluctant to seek help[127].

- 55% of StepChange advice clients who were surveyed had been in financial difficulty *over 12 months* before accessing advice, arguably receiving support too late. Around 22% had been in difficulty between six months and a year, whilst 19% had been in difficulty for less than 6 months. StepChange clients who had been in financial difficulty for over six months said they had not sought advice for one or more of the following reasons:
  - Anxiety or mental health problems (55%)
  - Stigma about debt problems (50%)
  - Being unsure that advice would help (41%)
  - Worries about the impact on their credit record (38%)
  - Not being aware that free debt advice was available (37%)[128].

- 41% of people who have been suicidal and behind on a payment in the last 12 months had never disclosed their condition to a service provider, however the vast majority that did disclose this to health and social care personnel *did* receive additional support[129].

## 6.3. The nature of money conversations – who with and how undertaken

Regarding 'who' money conversations take place with, most available evidence covers conversations between credit users and credit suppliers:

- According to research by Collard et al., published December 2021[130], the main conversations were undertaken on online platforms followed by the spoken word (primarily phone calls). The most financially vulnerable households had the following types of conversations:
  - Single parent (18% online; 19% spoken word)
  - With a disability (19% online; 14% spoken word)
  - Earner households receiving Universal Credit (24% online; 18% spoken word)
  - No-earner households receiving Universal Credit (30% online; 26% spoken word)
  - (All non-retired households – 9% online; 6% spoken word).
- Collard et al's research[131] also found that those UK households who had a disability, were single parents, or were receiving Universal Credit and had sought financial advice were *more likely to state that they had not received all the help they needed*, compared to all non-retired UK households (the research did not ask *why* this was the case). Specifically:
  - Single parent (26% said they had not received all the help they needed)
  - With a disability (26%)
  - Earner households receiving Universal Credit (39%)
  - No-earner households receiving Universal Credit (28%)
  - (All non-retired households – 40%).
- 22% of people who had taken a 'negative coping strategy' to maintain credit repayments had contacted a *bank or credit firm* about their financial problems or had been contacted by a bank or firm (in the last 12 months); whilst 34% of people had contacted a provider or had contact from a provider if they had missed housing or utility bills, to maintain repayments[132].
- One in three people with *mental health conditions* were not offered additional support by a *financial service provider* following disclosure of their condition, and only 13% were told what would happen to the information that they disclosed. Only 22% of respondents with mental health problems had disclosed financial difficulties as a part of that problem to health and social care personnel. Concurrently, health and social care services are not always referring individuals to appropriate support when financial difficulties are disclosed[133].
- In 2020, MaPS[134] suggested that professionals in the workplace could be trained to become Money First Aiders to discuss financial matters with employees in organisations and signpost them to further support. As a result, MaPS developed the 'Financial First Aider' service, as further research by the FCA also suggested that 57% of employees wanted financial advice in the workplace, and 33% were prepared to pay for an in-house financial advisor offered by their employer[135]. The Chartered Institute of Personnel and Development (CIPD)[136] also suggests a role for employers/leaders to be open about financial conversations.
- Financial literacy initiatives are also lauded as one way to improve individuals' or households' financial resilience. According to recent research, the most successful financial literacy interventions are those where the content, quality and delivery aim to develop *soft skills* (as opposed to technical knowledge)

which encourage people to plan or save and build their confidence around understanding and assessing risk[137]. Furthermore, 'just-in-time' or 'on-demand' learning linked to particular financial decisions is more effective than longer-term learning – financial education is claimed to be forgotten quite rapidly over time[138]. Research undertaken by Barrafrem et al (2020)[139] suggests making factual information clearer and more understandable so people can review it simply.

## 6.4. Reasons for the preferences around money conversations

- The main reasons for *reluctance* of those using credit to pay for essentials to have conversations with credit suppliers include the following, according to a recent StepChange client survey[140]:
  - They did not think the credit supplier would help (53%)
  - Concerns their credit supplier would make things worse (43%)
  - Worry it would affect their credit record (36%)
  - Concerned they would lose access to credit (34%)
  - Embarrassment or stigma (33%)
  - Anxiety about speaking to someone about financial difficulty (29%).
- There may also be broader reasons for preferences around money conversations, including reluctance by some to not have such conversations. 'Financial knowledgeability', 'financial confidence' and 'feelings of personal control over financial situations' may be contributing factors. In Summer 2020, CBiS, Coventry University[141] undertook a survey that asked 3,300 people (a UK representative sample) about these matters. In relation to financial knowledgeability, the survey found that:
  - On a scale of 1-10 (low to high), people were asked to rate their financial knowledgeability. Quartile analysis was used to rate this to low, medium and high. The survey found that 40.63% of people rated their financial knowledgeability as low, with 44.68% as medium and 14.69% as high.
  - More men than women rated their financial knowledgeability as high (15.2% versus 13.6%) and more women than men rated their financial knowledgeability as low (46.2% versus 35.4%).
  - Younger people tended to rate their knowledgeability lower than older people more broadly. However, 25–34-year-olds and 55–75-year-olds were most likely to rate their financial knowledgeability as high.
  - Retired people, those who were full-time parents or homemakers, and those in full time employment, rated their financial knowledgeability the highest. Students rated their financial knowledgeability the lowest.
  - Educational status was related to how people answered, with low reported financial knowledgeability linked to those with lower-level qualifications.
- In relation to financial confidence, the CBiS, Coventry University 2020 Survey[142] also asked 3,300 respondents to rate their financial confidence on a scale of 1 to 10 (low to high). Quartile analysis was then used again to rate this into low, medium or high. The survey found that:
  - 50.6% of respondents classified their financial confidence as low; 20.9% as medium; and 28.5% as high.
  - Financial confidence was related to people's age, with younger people reporting lower levels of financial confidence. Looking at those who said their financial confidence was high, the differences were as follows:
    - 15.0% of those aged 16-24 had high financial confidence

- 26.6% of those aged 25-34 had high financial confidence
- 26.2% of those aged 35-44 had high financial confidence
- 27.8% of those aged 45-54 had high financial confidence
- 37.5% of those aged 55-75 had high financial confidence.

- 25.1% of those living with children in their households reported having high financial confidence, compared with 29.9% of those living in households with no children.
- Financial confidence also varied significantly by employment status, with retired people reporting the highest financial confidence (45.6%) and students the lowest (14.4%).
- Household size was also related to financial confidence, with more of those in households of 4+ reporting low financial confidence (55.7%) than those in households of 1 or 2 (38.2% and 46.3% respectively).

- Regarding feelings of personal control over their current financial situation (in Summer 2020), the CBiS, Coventry University, survey[143] asked the 3,300 respondents various questions about their feelings of personal control over their situation. The following findings were identified:
  - 47.5% felt that managing their money was 'completely within their personal control', 39.56% said it was 'somewhat within their personal control', 8.01% said it was 'somewhat beyond their personal control' and 2.54% said it was 'completely beyond their person control'. The remainder either did not know or did not answer.
  - Those on lower incomes were less likely than those on higher incomes to feel that managing their money was within their personal control.
  - Those aged 16-24 were much more likely to feel that managing their finances was 'completely' or 'somewhat beyond their personal control' than older people.
  - Those with children under 18 in their households were also less likely to feel in personal control of finances. For those without children in their households, just 2.4% felt that managing their money was completely beyond their personal control (4.2% for those with children), with 7.4% believing it was somewhat beyond their personal control (10.5% for those with children).
  - Unemployed people and those not working for other reasons were most likely to report they felt managing their money was completely beyond their personal control. Full-time working parents or homemakers were among the least likely to report feeling completely or somewhat out of control of their personal finances.
  - Retired people were the group most likely to say they felt their personal finances were completely within their personal control, with 69.5% answering this way (compared to the average for the whole sample of 47.8%).
  - Those in larger households were also slightly less likely to feel completely in personal control of their finances than those in smaller households. 53.2% of those in a household by themselves felt their finances were completely within their personal control, compared with 41.9% of those in a household of 4+.

- In relation to whether saving money was within their personal control, (in Summer 2020) the CBiS, Coventry University survey[144] found the following:
  - 39.4% of people felt that saving money was 'completely within their personal control', with 34.5% saying it was 'somewhat within their personal control'. Women were less likely than men to believe that saving was 'completely within their personal control'.

- Those with children in their household were less likely to believe saving was completely within their personal control (34.2% of those with children in their household compared with 43.4% of those without). 9.4% of people with children in their household felt that saving was 'completely beyond their personal control', compared with 7.6% of those without children.
- Those with the lowest incomes were the most likely to see saving money as completely beyond their personal control. Also, the unemployed were the least likely to feel they had control over their ability to save, whereas the retired were the most likely.

- Regarding whether repaying debts was with their personal control, (in Summer 2020) the CBiS, Coventry University survey[145] found that:
  - 37.3% said it was completely within their personal control.
  - 30.9% said it was somewhat within their personal control.
  - 8.5% said it was somewhat beyond their personal control.
  - 3.3% said it was completely beyond their personal control.
  - The remainder answered this either as not applicable (no debts?) or they didn't know.
  - Of those to whom this question applied (removing 'Not Applicable' and 'Don't Know'), younger people were much more likely to say that repaying debts was either completely (9.0%) or somewhat (17.2%) beyond their personal control than all other age groups.
  - Of those to whom this question applied, those with children in their household were less likely to believe that repaying debt was completely within their personal control (5.9% of those with children compared with 4.3% of those without).
  - The unemployed were the least likely to feel they had control over their ability to repay debts. Self-employed people were less likely (1.3%) than those employed full-time (4.7%) or part-time (5.3%) to say that repaying debts was completely beyond their personal control. 52% of self-employed people said that repaying debts was completely within their personal control, compared with 48.4% of those employed full-time and 35.6% of those employed part-time.
  - Income levels are related to people's feelings of being in personal control of repaying their debts. Those on low incomes were much less likely than those on high incomes to feel in personal control. Nevertheless, 11% of those even on incomes of £100,000 or more did not feel in personal control of repaying debts.

## 6.5. Outcomes of having money conversations – impacts on financial well-being

There appears to be little evidence on the *outcomes* of money conversation initiatives, actions or activities. Such evidence is necessary if money conversation interventions are to be evaluated for their effectiveness and value for money. The following is some of the evidence available.

- Even when people do disclose their money concerns with *product/service providers*, there is no guarantee of a positive outcome, and this is particularly an issue for vulnerable groups. For example, only a minority of people with *mental health problems* disclose their condition to essential service providers (11% - 14% depending on the type of service), and often people are unaware that services have support in place for those who are struggling. People did not think they would be believed or that their condition was not eligible for support, whilst others felt embarrassed to disclose[146].
- According to a recent StepChange Survey[147], there have been mixed reports from StepChange clients about helpful firms, but

also firms that refused to offer support and worsened their problems. For example, following 'money conversations' with a bank or credit firm:

  - 26% said they were offered further credit even though they were in financial difficulty
  - 35% had a payment taken that they could not afford
  - 51% had interest added to an outstanding debt
  - 61% received excessive contact via letters, emails, texts, or phone calls.

- The same StepChange survey asked respondents who had been in financial difficulty for more than six months, whether they thought they could have been referred to debt advice *earlier*. Around 68% said they could have been, 17% were unsure or did not say, and 15% said no[148].

- One option that people may be offered during money conversations with *product/service providers* is that of 'Credit Builder' products that aim to enhance customer credit ratings. However, recent research by StepChange suggests that such products are being used by 1.5m UK adults, but these products are not necessarily well-received by those utilising them. For example, 48% found it difficult to maintain household bill and credit repayments, whilst 27% of people using Credit Builder products were classed as being in 'severe financial difficulty'[149].

- One in three people with mental health problems were not offered additional support by a financial service provider following disclosure of their condition. Moreover, only 13% were told what would happen to the information that they disclosed. Only 22% of respondents with mental health problems had disclosed financial difficulties as a part of that problem to health and social care personnel. Concurrently, health and social care services are not always referring individuals to appropriate support when financial difficulties are disclosed[150].

# 7. Helping people who are over-reliant on credit – learnings for policy and practice

According to some studies, around 6 million people are estimated to be using credit for essentials. The latest research from the Centre for Social Justice[151] suggests that around a third of UK adults (17m) say they are very worried about the looming cost-of-living crisis, rising to 42% for those on the lowest incomes. A research report by Joseph Rowntree Foundation[152] highlights major concerns with the cost-of-living crisis, noting that employment support schemes and the £20 uplift in Universal Credit and Working Tax Credits were withdrawn in October 2021, whilst there has been a 12% increase (on average) in the energy price cap for households. Inflation rose to 7% in March 2022, with electricity and gas prices rising further in April 2022 when the energy price cap review took place. It is in this context that the evidence in this report now needs to be considered, to support policymakers and practitioners in helping those who are over-reliant on credit.

## 7.1. Over-reliance on credit – learning from across the key messages

Given the Key Messages across each section of report, a range of salient learning points have been identified for particular organisations or groups, which may assist in informing policy and practice recommendations to support those over-reliant on credit:

### 7.1.1. Learnings for MaPS

This report has found evidence that there is:

- A continued trend of inequality in over-reliance on credit from before COVID-19 that has been exacerbated and expanded due to the impact of COVID-19. Financially vulnerable people/groups remain so, are increasing, and are facing further increasing pressures.
- Low awareness and low up-take of the free independent debt advice available by credit consumers and declined applicants is an important issue. Uncertainty amongst consumers about which organisations can be trusted appears to exacerbate this issue; they sometimes have difficulty distinguishing between ‘genuine’ independent advice organisations and those whose motivation is to sell products and services.
- A general ‘reluctance’, often based on feelings of stigma, embarrassment and shame, by people to discuss money matters with others, including close family and friends.
- Problems with people accessing debt advice far too late, once they are in crisis, suggesting that ‘moments that matter’ to provide people with support are being missed.
- An individualist societal culture of self-sufficiency and personal responsibility appears to be a factor in preventing people from seeking help.
- A significant issue with trust of credit suppliers around ‘money conversations’ by applicants/consumers. Only a minority of people appear to trust credit suppliers to provide a positive outcome from such conversations. A general mistrust of the financial services industry by vulnerable consumers is part of the problem, which may put people off applying for credit. A specific concern is that revealing too much about their financial situation may make their position worse (e.g. resulting in a reduction in their credit limit or negative impact on their credit score).
- Employee Financial First Aiders are now being implemented through employers. However, there is high reluctance, associated stigma and/or embarrassment around discussing personal finances, including in the workplace. This may mean that there are barriers to take-up; particularly in smaller organisations where confidentiality, anonymity and/or privacy are hard to maintain.

### 7.1.2. Learnings for schools and others working with young people:

There is strong evidence throughout this review that:

- Young people are some of the most at-risk people for becoming over-reliant on credit and are more at risk than older generations to indebtedness.
- Young people especially would benefit from more appropriately tailored advice and support to make better borrowing decisions (including decisions not to borrow).
- Timing financial literacy interventions to coincide with 'moments that matter' in young people's financial lives is important.
  - Schools and education providers are well-placed to communicate to young people the risks of indebtedness and to educate them to be more financially resilient.
  - Using age-appropriate means for delivering this advice is helpful; e.g. through engagement of social media influencers (see also MaPS Youth Checkpoints[153]).

### 7.1.3. Learnings around equality, diversity and inclusion for all organisations:

There is evidence to suggest that:

- Single parents are at higher risk of becoming over-reliant on credit.
- Disabled people and people with physical health problems are more at risk.
- People with mental health problems are more at risk of becoming over-reliant on credit.
- People from ethnic minorities appear to be more at-risk than white people.
- People from certain ethnic minority communities are more at risk.
- Women generally are more at risk of becoming over-reliant on credit than others.

### 7.1.4. Learnings for designing financial literacy programmes:

The review has implications for the design of programmes that will better meet people's needs:

- Successful financial literacy initiatives are those that develop soft skills (rather than technical knowledge), which encourage people to plan or save, and build their confidence around understanding and assessing risk.
- Financial literacy initiatives need to be 'contextualised' into the particular situations and locations and preferred channels of those being supported. They need to be appropriately tailored to the (often very challenging) circumstances of those facing over-reliance on credit.
- Short, sharp, 'on-demand' learning that fits specific financial decisions should be available at times when those decisions are being made.
- Educational programmes that better reflect the socio-economic context in which financial decisions are made, along with the complex emotional factors driving them, are more likely to be effective.

### 7.1.5. Learnings for credit providers:

Evidence from the review suggests that:

- There is a very low referral rate of applicants/consumers to free independent debt advice by credit providers and advice is provided far too late. Although some evidence suggests that credit providers are not doing enough to provide this referral, a reticence on the part of applicants to be referred may also be partly to blame.
- Credit cards are the most common form of credit for those who are over-reliant on credit.
- BNPL and payday loans are fast becoming a significant form of credit for those at risk of becoming over-reliant on credit – these developments need monitoring and

assessing, particularly given the current absence of regulation for emerging forms of BNPL credit.

#### 7.1.6. Learnings for housing providers:

Evidence from the review suggests that:

- Those renting social housing and those renting privately are at higher risk of becoming over-reliant on credit.
- Housing providers are another touchpoint that may be able to identify and support those in financial distress, so that they can be signposted to help and support.

#### 7.1.7. Learnings for physical and mental health organisations:

This report has identified evidence which appears to suggest that:

- Poor mental health is both a trigger for, and an outcome of, indebtedness or financial problems.
- There is a role for physical and mental health organisations and professionals to signpost people facing financial problems to appropriate sources of support.
- Individuals may be entitled to a period of respite from their debts if they are receiving mental health crisis treatment. This means that creditors cannot contact such people during that time or take action against them to pay the debt. See: https://www.mentalhealthandmoneyadvice.org/en/managing-money/what-are-my-options-for-dealing-with-debt/what-is-a-mental-health-breathing-space/.

#### 7.1.8. Learnings for policy:

The evidence found by this review suggests:

- Individuals in financial difficulties are making decisions in a low choice, highly emotional situation, where they may struggle to make informed and objective decisions.
- Credit use is often driven by immediate need, meaning that credit applicants will tend to seek the quickest/most convenient route to market, prioritising speed of access over cost.
- Guidance on budgeting and savings should be balanced by a recognition that at a time of declining household budgets and increasing living costs, levels of borrowing will continue to increase.
- Guidance on income maximisation and safer and cheaper credit use should therefore be given appropriate priority.
- The waiting time for receipt of payment from Universal Credit can create a need to bridge a gap in income.
- There are geographical differences too, with Midlands and Northern cities and towns, as well as inner London boroughs, being more negatively impacted than southern regions and rural areas (with the proviso that ‘pockets’ exist across these areas).

### 7.2. Further research

- More research is needed to develop the evidence base for those who are reliant on credit for essentials and for those who have been declined for credit, including generating insights about how people make credit decisions.
- Greater insight is needed into the lived experience of those who are reliant on credit for essentials, including what credit for essentials is being spent on and what happens when these individuals are declined for credit.
- Greater understanding is needed of the reasons why the referral rate of applicants/consumers to free independent debt advice by credit providers is so low and of the ways to increase this rate.
- More evidence is needed about the outcomes of initiatives to promote money conversations, to understand the effectiveness, value for money and potential for scaling of such interventions.
- More research is needed to explain the reasons for the dramatic increase in use of forms of credit such as buy-now-pay-later

(BNPL), payday loans, and unregulated lenders, and of the impact of this trend.

- Further evaluation of the existing support available for people who are over-reliant on credit is needed and to understand the most effective and value for money interventions, which could be scaled-up.
- Greater understanding is needed of how best to target intervention resources; e.g. to identify and intervene in geographical hotspots, or with specific vulnerable groups.

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