White Paper

Consumer finances today

A fresh perspective on the UK's changing behaviours, attitudes and preferences

Contents

Consumer finances today

What do today's consumers look like? What are their attitudes to money, and how do they choose to manage their own? What financial services do they want? And how do they want to be communicated with?

Today, data can give us more insightful answers to these questions than ever before. Experian's Financial Strategy Segments (FSS) tool gives a rare and fascinating overview of today's consumers, at macro and micro level. It shows a nation recovering from the worst recession we've seen since the war, and now facing a period of uncertainty as Britain prepares to exit the EU.

It shows what happens when the first rung of the property ladder feels far out of reach, and how some families are coming together to help the generation getting left behind. And it also highlights the profound impact technology is having on the financial journeys we take – from the rise of price-comparison websites to the use of banking and bill-paying apps.

In some cases, the trends confirm what we already knew, but add a previously unseen level of clarity and understanding. Elsewhere, we gain valuable new insights into our customers' needs and drivers.

In an increasingly customer-centric world, this new depth of knowledge enables organisations to better meet customers' demands and expectations, now and in the future. By offering the most appropriate products, messages and channels, you can deliver a better customer experience and improve ROI, as well as ensuring you meet legislation and safeguard your company's reputation.

In an increasingly customer-centric world, this new depth of knowledge enables organisations to better meet customers' demands and expectations, now and in the future

Changes to the financial landscape

What changes have affected the way people spend, save and borrow?

- People are living longer and the average population age is increasing. Pensions need to be paid for longer, the costs of care are growing, and funeral plans and retirement living are an expanding market.
- In the last 10 years, more than one million people who would have bought houses have rented instead. We've seen a decline in the number of young first-time buyers, and re-mortgages now account for a larger share of the market.
- In terms of wealth, we've seen a significant polarisation of the population, with the top percentage pulling away from the rest of the country. There is a marked gap between the old and the young, between owners and renters and between the ultra-affluent and the rest of the population. This is reflected in the growth of financial services catering to high net-worth individuals.
- Technological changes, from smartphone technology to faster and better broadband and wifi, have also had a profound impact on financial behaviour. The rise of ecommerce has shifted the purchase of goods and services away from physical outlets, while the advent of contactless payments has compounded a move away from cash.
- In the wake of the 2008/9 global financial crisis, PPI mis-selling and other revelations, there has been a substantial loss of trust in financial services suppliers. This has led to stricter regulations, a reduction in sub-prime lending and a greater need for credit scoring to help organisations make careful and responsible lending decisions.

Snapshot of a nation

In this white paper we identify four key financial trends seen in the UK today. We explore how they've come about, how they're likely to shift in the future and what they could mean for the way we market financial products and services.

Life escalator
The degree to which people's levels of affluence are likely to change at different stages of their lives, and our ability to improve our financial future.

Tax on inertia
Those who stick to old financial behaviours are likely to fare worse than those who actively seek change.

Savvy switchers and digital devotees
Those who embrace new digital possibilities are more likely to switch and save.

Jilted generation and helping hands
An entire generation is less well off than the last – but help may be found close to home.

At the same time, we see the emergence of new types of financial consumers:

High net-worth individuals
The rise and rise of the ultra-affluent.

Golden age
The growth of the very affluent retired.

Young and struggling
Where making progress is harder than it was for previous generations.

Deal seekers and switchers
The people in the middle making the most of their financial circumstances.

Multi-generational families
Several generations increasingly coming together to act as one financial unit.

High-equity elders
A generation that has reaped the rewards of house-price inflation and final-salary pensions.

Life escalator: age versus affluence

Experian analysis shows that, for several groups of the population, there's a very strong link between life stage and affluence level. Typically, a series of events see an individual passing through life and rising in affluence and assets over time.

We can think of it as riding on life's escalator. Not everyone starts on the same floor in terms of their levels of affluence, education or opportunities and, just like a game of snakes and ladders, people can go down as well as up over time and at varying speeds. But by knowing where people are in terms of their life stage and affluence level, as well as where they are most likely to end up, we gain a sound framework on which to base business and policy decisions.

Experian has analysed UK population patterns to predict the likely financial path for each segment in five, ten and even 20 years. We can see that most will remain at similar levels of affluence throughout their life. Those starting out with the lowest incomes will most probably retire on the lowest levels, while more affluent young people will be most likely to retire with the largest assets.

Perhaps most interesting is the group in the middle, who have the greatest chance of changing their financial trajectory.

Financial Strategy Segments by life stage and affluence

Shading shows household income, with purple being the highest and blue the lowest.

Affluence	V Young	Young	Middle	Old	V Old
V High			F		
High		B	G		M
Middle	C		H	K	N
Low	A	D	I		O
V Low	E	J	L		

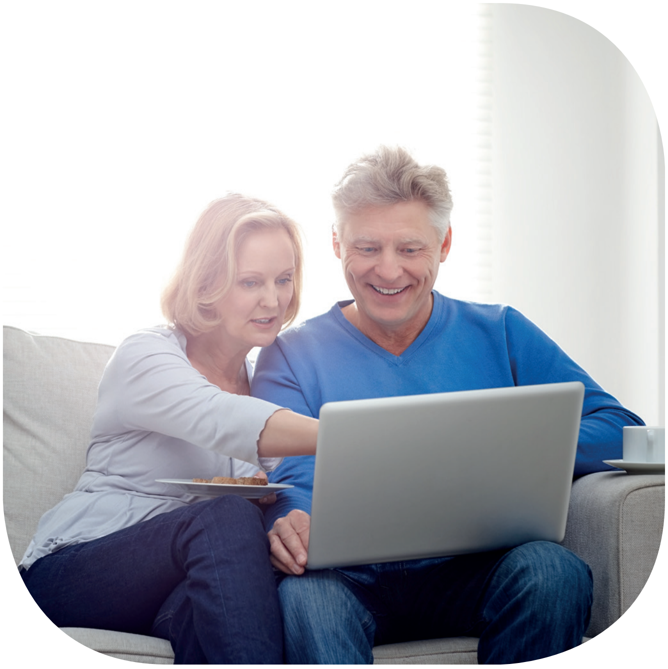
Age

A Earning Potential
B Money Makers
C Growth Phase
D Deal Seekers
E Family Pressures
F Established Investors
G Career Experience
H Small-scale Savers
I Mutual Resources
J Single Earners
K Respectable Reserves
L Cash Economy
M Golden Age
N Home-equity Elders
O Declining Years

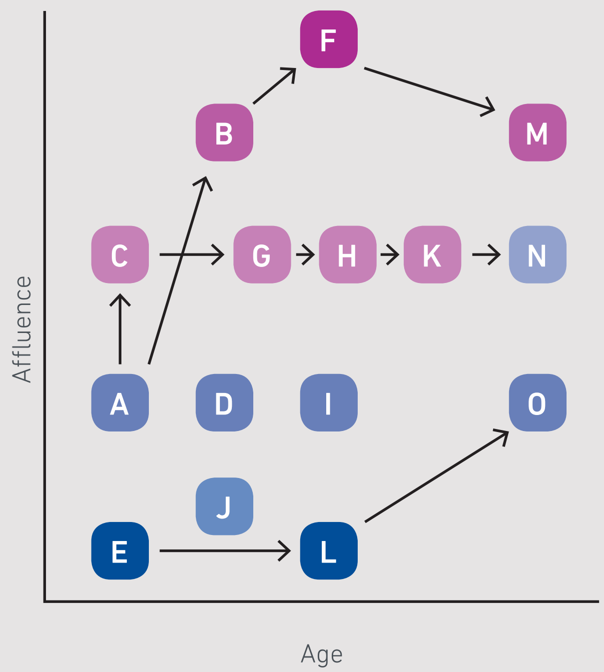
Looking at these probable life paths, the 1.9 million households in FSS group A, Earning Potential, are most likely to become the 2.2 million Money Makers in group B. Some of them will go on to join the 1.3 million households in group F, Established Investors, and the 1.3 million households in group M, Golden Age.

At the lower end of the spectrum, the 1.6 million households in group E, Family Pressures, are most likely to join the 2 million households in group L, Cash Economy, and retire as one of the 1.8 million households in group O, Declining Years.

Of course, while this shows the most probable paths, there will always be those who fare much better – or worse – than expected. Whatever an individual's financial position, they can influence their trajectory with good career progression and by making prompt and informed choices on pensions, savings and service providers.



Probable five-year life paths



Tax on inertia: paying the invisible penalty

Many people are paying more than they should for inappropriate financial products, and haven't made the best choices when it comes to planning for the future. In many cases this is simply because it's easier to carry on as you are than take action.

Many people don't put enough aside for their pension, soon enough. They might not save as much as they could, or pay too much for insurance they don't necessarily need. The effect of this is of an invisible tax on inertia, which has a cumulative impact over the course of people's lives.

People lead busy lives, and it's easy to understand why they may take the most convenient path. This is no doubt compounded by a lack of trust in the financial services industry, as well as the complexity of product offerings and the difficulty in understanding their benefits and costs.

About 40% of households say they manage their finances well. Of the 60% remaining, the majority are younger and less well off, with less experience and fewer accumulated assets. When a household's finances are not well managed, there's a higher risk of financial stress, missed payments and accumulated debts.

Types of borrowing are a particular concern, especially among younger and less affluent groups. Whether through lack of information or because they're offered fewer alternatives, most choose the most expensive ways to borrow money, such as payday loans, unauthorised overdrafts and home collected credit loans.

Clearly, there's an opportunity here for financial services providers to help consumers make the most of their financial situation by guiding them to the most appropriate products, and making it simpler to switch.

A range of service propositions to suit differing financial needs is only really useful if customers are able to identify the option that best suits them.

People lead busy lives, and it's easy to understand why they may take the most convenient path

Savvy switchers and digital devotees: everything to gain

Sticking with the same financial products and suppliers can mean paying more than you need to for the same thing. Some consumers will have more to gain or lose, just as some people are more or less likely to switch.

So who's most likely to shop around for a better deal? It tends to be those in the more affluent groups, including FSS groups F, Established Investors, and B, Money Makers, as well as the groups on their way up, such as group G, Career Experience, and C, Growth Phase. For these groups, affluence goes hand in hand with being well informed and making good financial decisions.

Where we see a slight deviation from this pattern is in groups H, Small-scale Savers, and D, Deal Seekers. Although not so well off, these groups are well versed in making the most of their financial options – likely a result of the rise in consumer-focused money blogs, price-comparison websites and voucher codes.

Those least likely to switch fall into two distinct groups. First the retired population, who are more likely to carry on doing what they have always done, and secondly the least affluent groups such as groups E, Family Pressures, and L, Cash Economy. It is these groups who stand to gain the most, as a proportion of their income, from switching to better deals.

The group most likely to switch consists of 12.8 million people in 5.5 million households, who are likely to be younger. However, many of the same people are least likely to have made any pension provision.

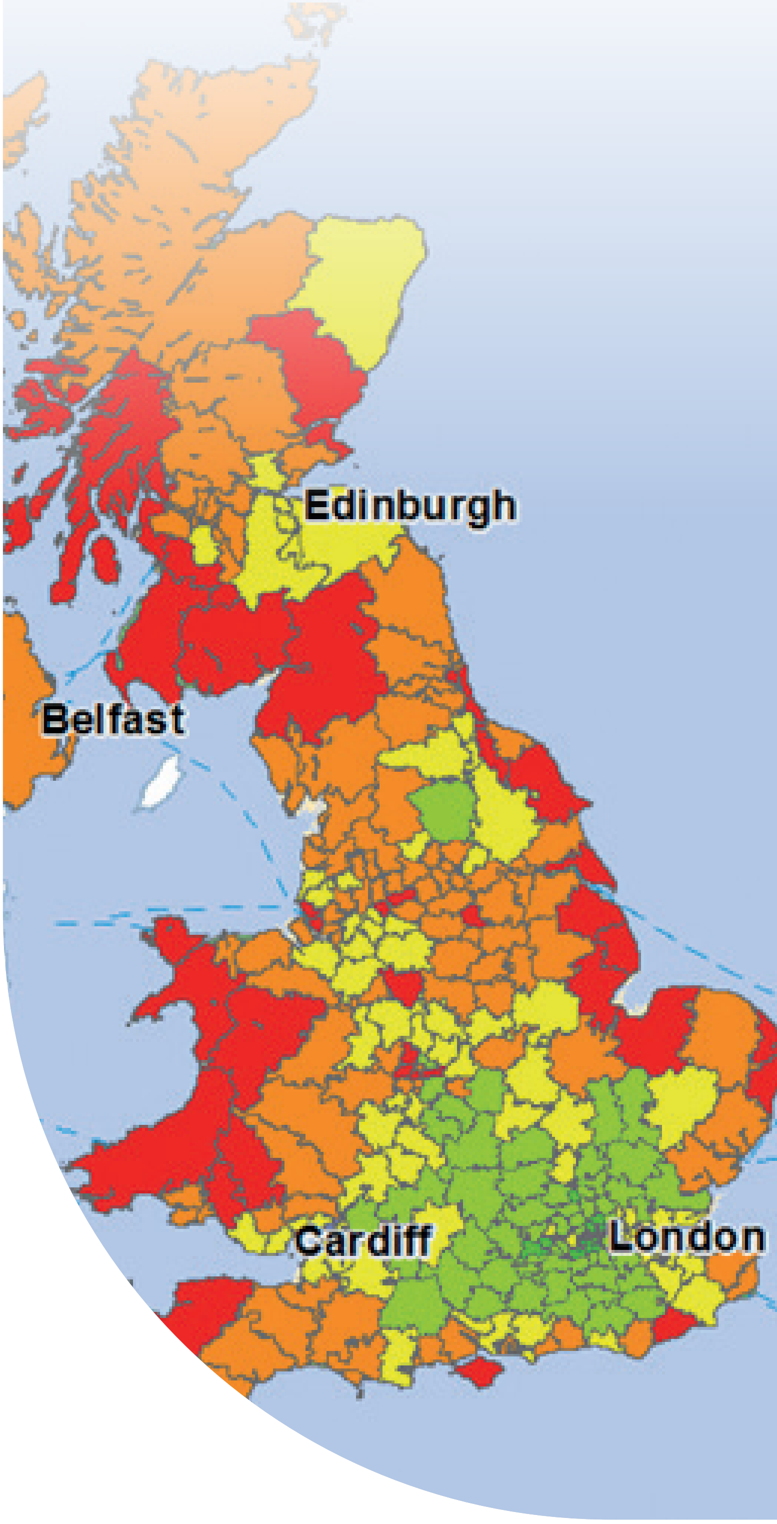
There is also a clear relationship between those most likely to switch and their digital skills. Those who are most familiar with digital platforms will find it far easier to shop around and switch than those who are less digitally engaged, or who feel uneasy about making financial transactions online. This means that older consumers, as well as those in rural areas or with poor internet connectivity, are at a disadvantage in terms of the ease of switching.

Where are people most likely to switch?

Region	% Switch
East Anglia	36.32
East Midlands	35.97
Greater London	57.21
North	30.04
North West	33.64
Northern Island	36.21
Scotland	33.44
South East	46.87
South West	38.96
Wales	32.92
West Midlands	34.22
Yorkshire and the Humber	32.53

Top 20 areas

Kensington
Chelsea - Kings Road
Wandsworth - Clapham Junction
Hammersmith - King Street
Richmond (London)
Chiswick
Queensway
Wimbledon
London, West End
St Albans
Tooting
Victoria Street
Liverpool Street & Bishopsgate
Wood Green
Bracknell
Windsor
Kingston upon Thames
Lewisham
Watford - Central



Jilted generation: bearing the brunt of the downturn

Many have talked of the growing gap between generations. We've coined several terms – Baby Boomers, Generation X, Millennials – to articulate our differences, and pointed at the huge contrast in the opportunities available to young people now compared to those just a couple of decades ago.

Final salary pensions, high house-price inflation and periods of economic growth have all worked in the favour of an older group, leaving them with substantial assets and property. People in this group are retired or soon-to-be retired, have paid off their mortgages and built up their savings and are now enjoying large private pensions. They account for an increasing proportion of consumer spend, especially in the travel and leisure industries. With time and money to spend as they wish, they are a gifted generation.

By contrast, those currently in their 20s and early 30s are faced with high house prices, low wage growth, the repayment of student loans and the continuing cost of renting. This is the jilted generation, and the challenges it faces are of such an extreme that a government enquiry into generational differences in opportunity is underway.

When the current younger population gets older they will not represent the same market for goods and services, in financial services or elsewhere. Today, a couple in their 60s may enjoy a financially secure retirement having had average salaries, largely because they were able to trade up in the housing market and accumulate large amounts of equity, then take early retirement on final-salary index-linked pensions, boosted by outright home ownership. It is very unlikely that their equivalents will be in the same position in 15 or 20 years' time.

Helping hands: the rise of multi-generational spending

'The Bank of Mum and Dad' has become a cliché for a reason: parents have always, to a certain extent, been on hand to help finance the lifestyles of their adult offspring. But given the generational differences we've explored, it comes as no surprise that these inter-generational handouts are becoming more commonplace. And it's likely the trend will continue.

Parents and grandparents, aunts and uncles are increasingly:

- contributing to mortgage deposits
- buying or helping to buy cars
- paying for major household items
- paying for holidays
- paying for meals out
- buying the more expensive presents for their grandchildren
- having their children move back home and live rent free, or at a highly subsidised rate.

In some cases the push of high property costs and lower incomes and the pull of a familiar home and ease of living have combined, leading to several generations living under the same roof. This can be seen in these FSS segments:

B06 Spring Board Parents
C11 Home to Roost
I32 Sharing Economy
D15 Full Nesters
I30 Family Networks
E18 Collective Bargains

Another way that the older, more affluent population is helping support the younger generation is through loans within friends and family. The groups most benefiting from these loans are:

A Earning Potential
C Growth Phase
D Deal Seekers
J Single Earners

As the gap between generations grows wider, it brings implications for both public policy and for financial services providers. The changing consumer landscape will mean fewer mortgages are needed, fewer retired people will release housing equity, and those nearing retirement will have less to spend on holidays and leisure. By being aware of these trends, you can plan for change and market products to the people most likely to need them.

What is Financial Strategy Segments?

Financial Strategy Segments collates detailed financial behaviour data about every consumer in the UK: their demographics, personal equity, investments, borrowings, debt, attitudes, aspirations, and even preferred communications channels.

The segmentation is tightly linked to each person's age and affluence. It groups people together based on similar financial behaviours, by household and then by individual. This level of segmentation gives organisations a much deeper understanding of consumers' financial behaviour and allows them to communicate more effectively than ever before.

Deliver great experiences based on the financial needs and preferences of your customers

A new generation of data

Financial Strategy Segments is not new, but its latest iteration provides a far deeper understanding on which to base marketing and communications strategies.

More breadth of data
Financial Strategy Segments is built using ConsumerView data, which details the demographic, lifestyle, social-economic, behavioural, product consumption, and service and channel preferences for over 49 million UK adults, with over 500 variables. We've added a 220,000-strong YouGov panel, which gives answers to over 100,000 questions covering finance, lifestyle and attitudes. New data insights include:

- Income: gross, disposable, personal and household
- Attitudes: risk, finance, outlook and motivation
- Credit use: cards, loans and mortgages
- Debt sources: type and attitudes
- Investments: type, value and level of confidence
- Issues: wealth, tax, benefits and wealth distribution
- Pensions: value, type, company and level of confidence
- Savings: products, company, value and returns
- Switching: result of usage, method, and website

Dynamic visualisation
Users benefit from market-leading visualisation, helping you understand your customer base through a combination of visual, animated, descriptive and statistical information.

New future insights
We listen to what our clients want, look for additional data sets and adapt insights to keep pace with consumer, economic and regulatory trends. Sophisticated analysis predicts the future of each UK postcode each year for the next 25 years, helping you make better decisions based on customers' future potential.

Sophisticated analysis predicts the future of each UK postcode each year for the next 25 years, helping you make better decisions based on customers' future potential

What does this mean for your organisation?

FSS provides a deep understanding of customers' financial needs and drivers, now and in the future. It helps organisations by:

- filling the gaps in internal company data, giving a more complete view of customers on which to base effective strategies
- giving a rounded understanding of each customer, helping you improve product and campaign targeting, propositions, communications, channel and media selection, and pricing and loyalty strategies
- showing you who your best customers are, and helping you find others like them
- allowing you to benchmark against the market and identify gaps and opportunities
- providing a common language to understand different parts of the customer base
- removing the costs and risks offering inappropriate products or sending irrelevant communications, helping you safeguard your company's reputation and deliver a better customer experience.

Financial Strategy Segments provides a deep understanding of customers' financial needs and drivers, now and in the future

---

We help organisations around the world to interact intelligently with today's dynamic, empowered and hyper-connected customers.

About Experian Marketing Services

Experian Marketing Services is a global provider of integrated consumer insight and targeting, data quality and cross-channel marketing. We help organisations around the world to interact intelligently with today's dynamic, empowered and hyper-connected customers. By coordinating seamless interactions across all marketing channels, marketers are able to plan and execute superior brand experiences that maximise returns, deepen customer loyalty and strengthen brand advocacy.

experian™

Experian
6th Floor Cardinal Place
80 Victoria Street
London
SW1E 5JL

Experian
The Sir John Peace
Building
Experian Way
NG2 Business Park
Nottingham
NG80 1ZZ

Experian
160 Dundee St
Fountainbridge
Edinburgh
EH11 1DQ