

Personal Debt Snapshot: Wave 12

*How sustainable is economic
recovery given that more and more
people struggle to payday?*

December 2013

Introduction

The twelfth wave of R3's Personal Debt Snapshot finds Britain in a very cautious mood about its personal finances. While negative stories about the prospects for British business are currently few and far between, optimism about the wider economy still isn't entirely filtering through to how British adults think about their own bank balances.

The rising cost of living, credit card debts, and rent costs are all preying on the minds of British consumers, many of whom are finding that their financial breathing room is becoming smaller and smaller. Meanwhile, individual insolvencies have begun to rise again, as has consumer borrowing for the first time in three years.

The question is: if the health of the nation's personal finances stays on such shaky ground, how sustainable is the economy's current growth spurt?

There is, however, some good news in this Personal Debt Snapshot. Amongst other things, demand for payday loans continues to fall – especially amongst young adults – while the share of British adults concerned about their debt levels has fallen back slightly. It will be interesting to see whether the run-up to Christmas and its associated impact on finances does anything to increase concern come the New Year.

Liz Bingham,
R3 President



Executive summary

1. Thinking about their personal finances, **British adults are more likely to disagree with the chancellor of the exchequer's statement that the economy has moved from 'rescue to recovery' than agree.**
 - **43% of British adults disagree with the chancellor**, while only **37% of British adults agree** with him;
 - **Pensioners are most likely to agree** with the chancellor (by a margin of **55%** agreeing to **34%** disagreeing), while at least **50%** of those in the **35-64** age groups **disagree**;
 - **29% of women agree** with the chancellor compared to **45% of men**.
2. **The proportion of British adults that think their personal finances will improve in the next six months has increased from 18% in June to 23% now; but 56% of people do not select either option, implying that they think their financial situation won't change.**
 - **27% of British adults do not have any savings** for the second quarter in a row. This is above the **23%** that didn't have any savings in February;
 - **9% of British adults are only paying the interest** on their **credit card debts**, but not **reducing the debt itself**, while **6% are only paying the interest** on their **overdrafts**.
3. **The proportion of British adults concerned about their level of debt has fallen slightly, but remains high.**
 - **47% of British adults are worried about their debts**, down from **50%** in June, but **well above the low of 39% in January 2012**;
 - **Credit card debt is the biggest debt concern**, with **42%** of British adults with debt concerns saying this type of debt worries them;
 - **Women are more worried about their level of debt than men**, with **51%** of women worried about debt compared to **44%** of men.
4. **The number of British adults that struggle to payday has risen again, with the cost of living, credit cards, and rent to blame.**
 - **44% of British adults say they struggle to payday**, up from **42%** in June, and up from **38%** in February;
 - **71% of British adults blame the rising cost of living** for their struggle to payday, up from **67%** in June.
 - **18-24 year olds have the biggest problems with rent payments**, with **28%** blaming rent for their difficulty in getting through to payday, compared to **21% of all adults**.
5. **The future demand for payday loans has fallen again, but the numbers actually taking out loans remain consistent.**
 - **6% of British adults say they are likely to take out a payday loan** in the next six months (as opposed to **11%** in October 2012, and **7%** in June 2013);
 - **13% of 18-34 year olds say they are likely to take out a payday loan** in the next six months, down from **17%** in June 2013, and down from **24%** in September 2012.
 - **5% of British adults say they have taken out a payday loan** in the last six months. This is the same as in June 2013, but higher than the **3%** in October last year.

1. Personal debt and the economy – what recovery?

R3's President Liz Bingham comments:

“Britain's economy seems to be back on the right track: 2013 has seen the economy grow steadily for the first time since 2010, while multiple surveys and indicators – including R3's Business Distress Index – show business confidence is booming. However, the outlook for Britain's personal finances is far less encouraging.”

Unfortunately, a few quarters of economic growth won't make up for the impact that a two-decade long consumer credit binge has had on British household finances, which included frighteningly high personal debt levels and a boom in personal insolvencies. Meanwhile, if wages can't keep up with the rising cost of living, more and more British adults will likely feel like they're being 'left behind'.

Savings are low – over a quarter of British adults don't have any – and there is a persistent proportion of borrowers, the so-called 'zombie debtors', who say they are only able to pay back the interest on their debts, and not the debts themselves.

To borrow a phrase, something of a 'squeezed middle-age' is appearing: the British adults least likely to have savings are those aged 35-54. Traditionally, it's these ages where you would expect savings to be highest: major purchases

like houses or cars should have been bought by this point in someone's life, while thoughts would normally start to turn towards saving for retirement. The rising cost of living and slow wage growth could create a ticking time-bomb of people reaching retirement without any savings to fall back on.

Bearing this in mind, it is not surprising that British working adults are more likely than not to feel that economic recovery has yet to have an impact on their personal finances. Caution over future personal financial health is still the dominant mindset.

Recovery?

- When asked to consider George Osborne's claim in March that the economy was moving from 'rescue to recovery' in light of their personal finances, **43%** of British adults disagreed with the chancellor, while only **37%** of British adults agreed with him.
 - Women – who are usually more pessimistic about their personal finances (see section 2) – are more likely to disagree with the chancellor than men: **45%** of women do not believe the economy is moving from 'rescue to recovery', an opinion shared by **40%** of men.
 - Just **29%** of women agree with the chancellor compared to **45%** of men.
 - Pensioners are most likely to agree with the chancellor (by a margin of **55%** agreeing to **34%** disagreeing), while **50%** of those aged 35-64 disagree.
 - Britain's wealthiest are also inclined to agree with the chancellor, with **48%** in the AB social grade agreeing with his statement and **38%** disagreeing. By contrast, **50%** of those in DE social grade disagree with the chancellor, and only **28%** – the lowest of any social grade – agree¹.
- Agreement with the chancellor outweighs disagreement in only two of Britain's 11 regions: the South West (**39%** agree; **38%** disagree) and London (**40%** agree; **36%** disagree). Opposition to the chancellor is strongest in the North East, where only **23%** agree that the economy is moving from 'rescue to recovery' while **53%** disagree. Opinion is evenly split in the East of England (**38%** agree and disagree).



¹ NRS (National Readership Survey) social grades are a system of demographic classification developed to classify social 'classes' in the UK according to individuals' occupations. Grade 'A' includes those in higher managerial, administrative, or professional roles; 'B' roles are intermediate versions of 'A' roles; 'C' roles are supervisory or junior versions of 'A' and 'B' roles, as well as skilled manual workers; 'D' and 'E' cover semi- or unskilled manual workers and the casual or non-working groups (including pensioners and students)

The personal debt picture

- Looking specifically at optimism over personal finances, the over-riding impression is one of caution: ever since April 2011, most British adults have expected their personal financial situation to remain the same over the next six months. Meanwhile, between October 2010 and the end of 2012, consistently more adults thought their personal finances would deteriorate than improve.
- The September 2013 survey, however, hints at possible improvements: the proportion of adults who think their finances will stay the same over the next six months has fallen for the first time since January 2012; there has been the biggest jump in the share of adults expecting an improvement in their finances (up to **23%** from **18%** in June) since January 2012; there are more adults optimistic about their finances than pessimistic for the second time in three surveys, following two years in which adults were consistently more pessimistic.

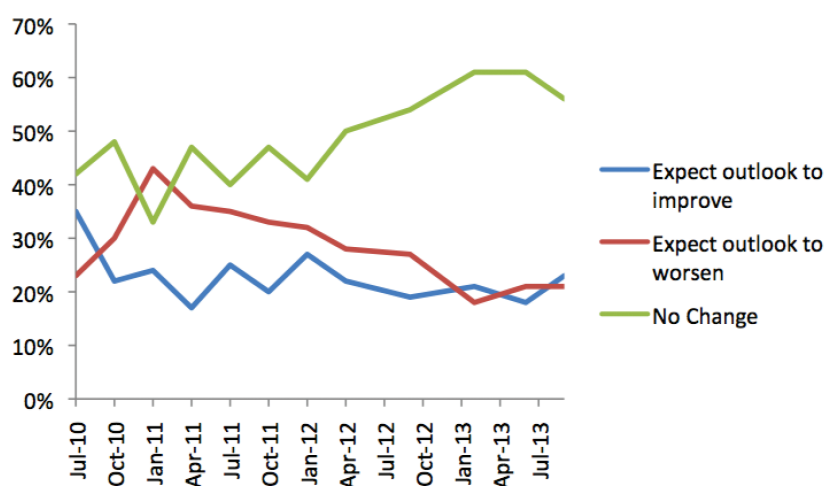


Figure 1 - British adults' personal financial outlook over the next six months

- Despite this, while the proportion of British adults currently pessimistic about their finances (**21%**) has fallen fairly consistently from its highest level in January 2011 (when it hit **43%**), the proportion of adults optimistic about their finances (**23%**) is below the **27%** it hit in January 2012, and the record **35%** in July 2010.
- The share of British adults without any savings to fall back on is still at **27%** for the second quarter in a row. This is above the **23%** in February, and just short of the record **30%** in April 2011.
- The age group least likely to have savings are the 35-44 year olds – almost two-in-five (**38%**) don't have savings – followed by the 45-54 year olds (**35%**).
- Pensioners are the most likely to have savings, with only **8%** saying they don't have any.
- **5%** of British adults are currently in a Debt Management Plan, down from **7%** in June.
- 25-34 year olds (**7%**) are most likely to be in a Debt Management Plan, while those aged 65- and over (**3%**) are least likely.
- **7%** of those in the 'DE' social grade are in a Debt Management Plan (the highest of any social grade), compared to **4%** of 'ABs' and 'C2s'.
- 'Zombie debtors' – those only paying the interest on their credit cards debts or overdrafts – are at the same level as the last survey.
- **9%** of British adults are only paying the interest on their credit card debts, while **6%** are only paying the interest on their overdrafts. These are down from the respective peaks of **11%** and **9%** in October 2011, but at the same level as recent figures of **10%** and **7%** in **June 2013**.

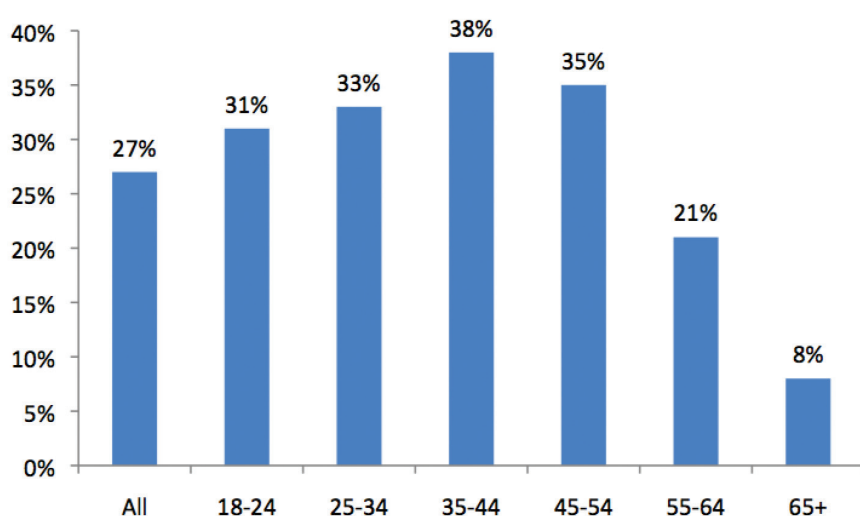


Figure 2 - Proportion of British adults that agree with statement 'I don't have any savings at the moment' (by age)

2. Debt worries and type of debt

Liz Bingham continues:

“Debt concerns are worryingly common in 21st century Britain: typically at least 2-in-5 Britons are worried about their level of debts, while an average of just under 1-in-5 adults have been ‘very’ or ‘extremely’ worried about their debts since 2010.”

The fact that debt concerns have not dwindled, despite consumer debt levels falling from their 2008 peak, suggests British households have a much smaller financial comfort zone than they did even a decade ago. The persistently high numbers of adults without savings and the scale of concerns about the cost of living (detailed elsewhere in this report) appear to show this.

Britain's debt concerns have been remarkably stable over the past few years, with credit cards consistently looming largest amongst British adults' money worries, followed by mortgages, overdrafts, and bank loans.

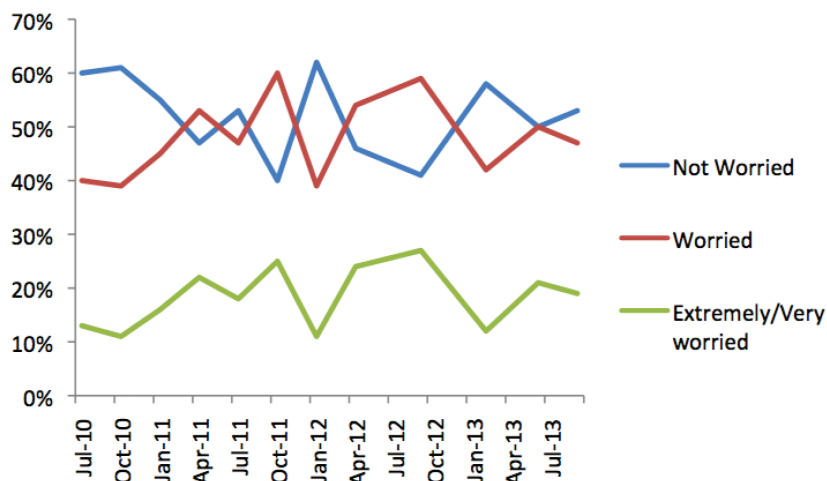


Figure 3 - Proportion of British adults that worry about their current level of debt

Level of debt concerns

- The proportion of British adults not worried about their debts has moved up to **53%** from **50%** in June, while the proportion of those worried about their debts fell from **50%** to **47%**. This is the fourth time in four surveys that the majority opinion has fluctuated from one survey to the next.
- The share of British adults currently not worried about their debts remains below the peak of **62%** achieved in January 2012.

- Younger age groups are much more likely to be concerned about their debts than those in or approaching retirement: **52%** of 18-24 year olds are worried about debt, as are **66%** of 25-34 year olds, **61%** of 35-44 year olds, and **51%** of 45-54 year olds. By contrast, only **44%** of 55-64 year olds and **19%** of those aged 65+ are worried about debt. **81%** of those aged 65-and-over say they are 'not at all worried' about their current level of debt.

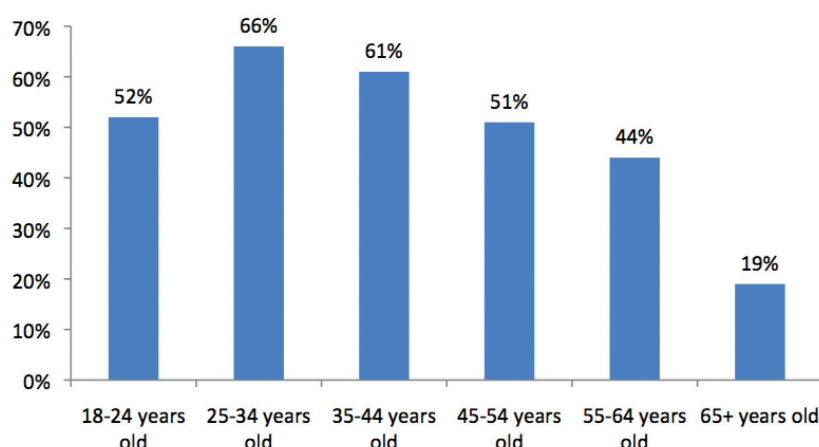


Figure 4- Proportion of British adults that worry about their current level of debt (by age)

- As in almost all previous surveys, women are more worried about their level of debt than men, with **51%** of women worried about debt compared to **44%** of men. Men have only been more worried than women about debt twice since July 2010, both times shortly after Christmas: in January 2012 and February 2013, by **one** percentage point each time.

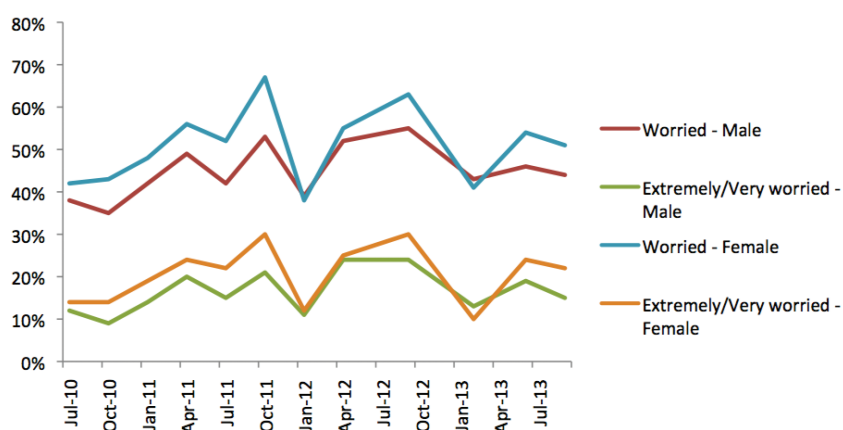


Figure 5 - Proportion of British adults that worry about their current level of debt (by gender)

Types of debt concern

- Britain's biggest debt concerns have been remarkably consistent since the beginning of the Personal Debt Snapshot in 2010. Credit card debts, overdrafts, mortgage repayments, and bank loans are always a feature in the 'top-4' British debt worries.
- Britain's most pressing debt concern continues to be credit card debt; **42%** of British adults with debt concerns say this type of debt worries them. This is **20** percentage points higher than the next biggest debt concern (a tie between overdrafts and mortgage repayments at **22%**).
- The share of British adults concerned about credit card debt had been on the slide since hitting a peak of **56%** in January 2011, but has now held steady at **42%** for the past three surveys, recovering from a low of **39%** in September 2012.
- **9%** of British adults worried about debts are worried about their rent arrears, while **3%** - equivalent to 1.4 million people - are worried about debts arising as a result of gambling.

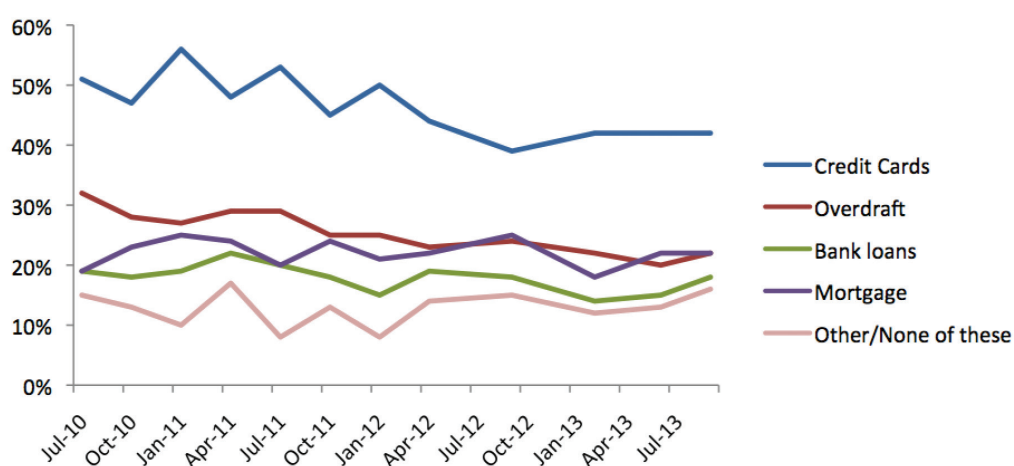


Figure 6 - Types of debt that people are worrying about, among those that worry about debt (Top-5 only)

- Several types of debt worry have a noticeable 'age profile': credit cards are typically bigger worries for middle-aged or older people, while loans from friends or family, payday loans, and student loans are bigger concerns for the youngest age groups.
- Credit card debts are the biggest debt concern for all age groups except 18-24 year olds (**15%** of those with debt worries concerned by credit card debt), for whom student loans (**35%**), overdrafts (**21%**), and loans from family and friends (**17%**) are all bigger debt concerns.
- The 65+ age group is the most concerned about credit cards, with **58%** of pensioners concerned about debt worried about credit card debts. Incidentally, the 65+ age group is the age group least worried about debt levels in general.

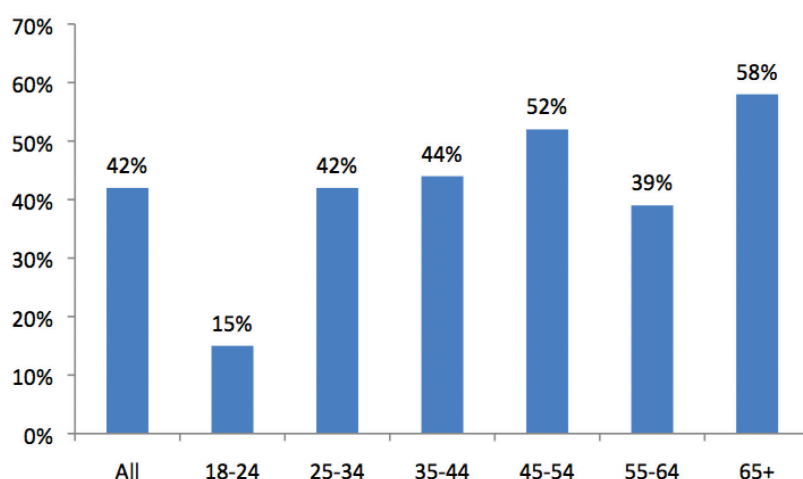


Figure 7 - Proportion of British adults worrying about debt that are concerned by credit card debts (by age)

3. Struggle to payday

Liz Bingham continues:

As depressingly familiar as the significant number of British adults concerned about their debt levels, is the number of British adults struggling to make it to their next payday. At least one third of British adults have been in this position since 2010, while numbers have been rising over the past six months.

The rising cost of living is the biggest culprit for payday struggles, with almost three-quarters of those that struggle to payday blaming this for their financial problems. Credit card debts are next in line, followed by rent payments.

With home ownership an unaffordable option for a large chunk of the population – particularly young adults – it's important that alternative means of putting roofs over heads, such as renting, are affordable. Unfortunately, the Personal Debt Snapshot indicates this isn't the case for a significant proportion of Britain's renters.

- The proportion of British adults that say they struggle to payday has risen to **44%** from **42%** in June, and up from **38%** in February. This follows a fall from **51%** of British adults saying they often or sometimes struggled to payday in May 2012; this was the peak level.

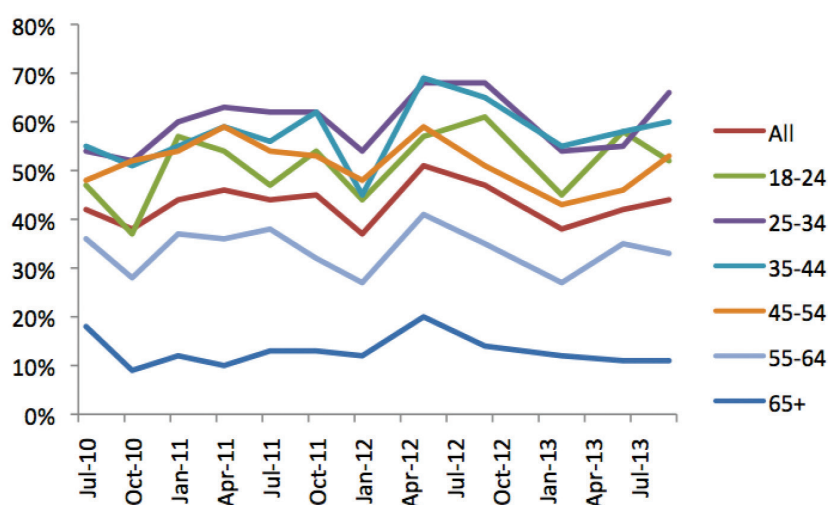


Figure 8 - Proportion of British adults that say they often or sometimes struggle to make it to payday (by age)

- The rising cost of living is still the main reason for financial struggles in the run-up to payday, with **71%** of those that struggle identifying it as a problem, up from **67%** in June. **26%** of adults that struggle to payday blame credit card payments, while **21%** blame rent payments.
- The rising cost of living is the biggest problem for those in the survey on fixed incomes. While only **11%** of over-65s say they often or sometimes struggle to payday, 42 out of the 52 over-65s surveyed that are in this position blamed the rising cost of living for their struggle.²
- 18-24 year olds face the biggest struggle with rent payments, with **28%** blaming rent for their difficulty in getting through to payday.
- Ironically, payday loans are the reason for the financial difficulties of **6%** of those that struggle to payday. 18-24 year olds are most likely to say their struggle to payday is caused by payday loans, with **11%** identifying their payday loan repayments as a problem.
- Debt Management Plans – which are not recorded by the government – are the third biggest problem for over-65s that struggle to payday. **14%** of over-65s say they struggle to payday because of a Debt Management Plan, a figure far higher than any other age group.

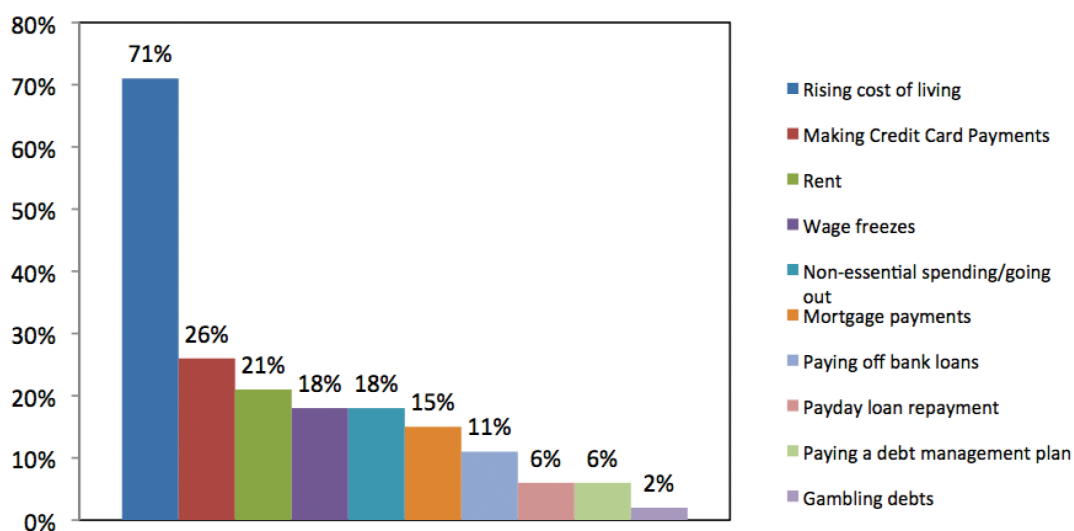


Figure 9 - Proportion of British adults that struggle to payday that say they struggle financially as a result of...

² Low sample size means this figure is not necessarily representative of all British over-65s

4. Payday loans

Liz Bingham comments:

It's encouraging to see that demand for payday loans has continued to fall from its peak last year, and it's interesting to see that demand for these loans amongst the youngest adult age groups – where demand is highest – is falling fastest.

While there is a place for payday loans in the credit landscape, such loans can make it too easy for people to get trapped in a vicious cycle of debt. Aspects of the market, such as loan rollovers and Continuous Payment Authority agreements – which allow a lender to take repayments directly from a debtor's bank account, often before they've had a chance to pay essential bills – mean a borrower's first payday loan very often isn't their last – whether they want it to be or not.

It may well be that the negative publicity that the industry has attracted recently is having an effect on demand; borrowers might be getting wise to the pitfalls of payday loans. It will be interesting to see what impact the Financial Conduct Authority's proposed regulations for the market – including the plans to cap payday loan interest rates and charges – have once they come into force next year.

- The demand for payday loans has continued to fall from its peak in October 2012, with **6%** of British adults now saying they are likely to take out a payday loan in the next six months (as opposed to **11%** in October 2012, and **7%** in June 2013).
- **5%** of British adults say they have taken out a payday loan in the last six months. This is the same as in June, but higher than the **3%** in October last year.

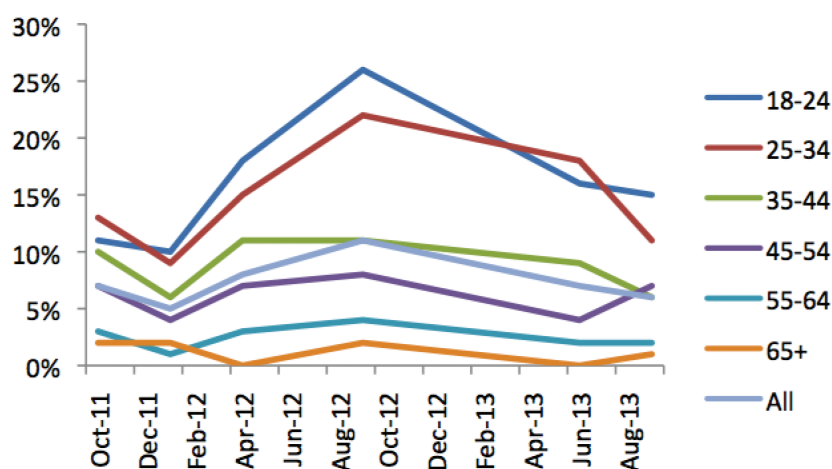


Figure 10 - Proportion of British adults who say they are likely to take out a payday loan in the next six months (by age)

- The decline in demand for payday loans is most pronounced amongst the 18-24 years old and 25-34 years old age groups, although these are still the age groups most likely to seek such loans.
- **13%** of 18-34 year olds are likely to take out a payday loan in the next six months, down from **17%** in June 2013, and down from **24%** in September 2012.
- **4%** of over-35s are likely to take out a payday loan in the next six months, up from **3%** in June, but down from **6%** in September 2012.
- Under-35s are the group most likely to have taken out a payday loan in the past six months, with **8%** of that age group having done so. This is down from **9%** in June 2013.
- Only **4%** of British adults aged over 35 have taken out a payday loan in the last six months.

Conclusion

Liz Bingham concludes:

“Britain’s consumers are caught in a bind. The same low interest rates and slow-rising wages that have been helping business weather the storm are pitching consumers into a battle with the rising cost of living.”

Unless the return to economic growth has a positive impact on the nation’s personal finances soon, consumers may increasingly be forced to turn back to consumer credit to take them from one payday to the next. It won’t do the economy any good for one unsustainable consumer credit boom to be replaced with another.

It is particularly concerning that the basic costs of living are causing so many people such a struggle from month to month, especially with Christmas just around the corner. With over a quarter of British adults without any savings to fall back on, it wouldn’t be entirely surprising to see debt concerns rise again in the New Year.



Notes

Dates on graphs provide a relative timescale only and do not necessarily correspond to dates when surveys were carried out.

Personal Debt Snapshot surveys have been carried out during:

Wave 12 – September 2013

Wave 11 – May-June 2013 (June in report)

Wave 10 – February 2013

Wave 9 – September 2012

Wave 8 – April-May 2012

Wave 7 – January 2012

Wave 6 – October 2011

Wave 5 – July 2011

Wave 4 – April 2011

Wave 3 – January 2011

Wave 2 – October 2010

Wave 1 – July 2010

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Methodology

ComRes interviewed 2,006 GB adults online between 27th and 29th September 2013.

Data were weighted to be demographically representative of all British adults aged 18+.

ComRes is a member of the British Polling

Council and abides by its rules

(www.britishpollingcouncil.org). This commits us to the highest standards of transparency.

Data tables are available on the ComRes website, www.comres.co.uk

About R3:

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