Personal Debt Snapshot: Wave 14

Turning the corner – but not onto 'Easy Street'

August 2014

Foreword

While its sister publication, the Business Distress Index, has recently shown significant and sustained improvements in the health of the UK's business finances, the same cannot be said of the Personal Debt Snapshot and what it has revealed about the state of the country's personal finances. However, this edition of the Personal Debt Snapshot shows signs of prospects turning a corner.

The struggle to payday is lessening, increasingly fewer people are worried about their debts, while over half of the country says it is debt-free. Demand for payday loans has dipped again – particularly so amongst young people – while pessimism about personal finances has fallen to a record low. Even an interest rate rise isn't an entirely daunting prospect: two thirds of British adults say they would either benefit or wouldn't notice a difference.

The improvements shown from previous surveys may be marginal at best, but at least things aren't getting worse.

There are still some causes for concern. A significant minority of British adults believe they would be hurt by an interest rate rise; while personal finance pessimism has fallen, so has optimism. And, it's all very well that concerns about debts have fallen, but this is only a relative improvement. Just under half of British adults remain concerned about their level of debt, which is not exactly good news for the country's long-term economic prospects.

Indeed, the latest statistics from the Insolvency Service show individual insolvencies are once more on the rise, having fallen steadily from their peak in 2010. It remains to be seen how much longer this growth continues and the extent to which an interest rate rise might have an impact, but, if individual insolvencies do continue to rise, it's important that our personal insolvency regime is ready to help people get back on their feet.

R3 has argued for some time now that improvements need to be made to the personal insolvency regime – it is often unnecessarily difficult for indebted people to enter an insolvency procedure that is right for them – and the potential for a 'spike' in individual insolvencies should provide added incentive for the government to introduce reforms.

The recently launched 'call for evidence' on Debt Relief Orders and the bankruptcy petition limit is therefore welcome, but it could go much further than it does. It is to be hoped that there will soon be a comprehensive review of personal insolvency.

Giles Frampton
R3 president

Executive summary

- 31% of British adults say an interest rate rise of one percentage point or more in the next 18 months would make them at least a little financially better off.
- 25% of British adults say an interest rate rise of one percentage point or more in the next 18 months would make them at least a little financially worse off.
- 34% of British adults say an interest rate rise would make no difference to them financially.
- 53% of British adults say they have no debts; 15% say they have over five. The most common types of debt are a credit card bill where the previous month's balance has not been paid off (20%), mortgages (18%) and bank account overdrafts (14%).
- British adults are evenly split between optimism (18%) and pessimism (17%) regarding their personal finance prospects over the next six months, although both optimism and pessimism have decreased notably since last Wave (24% and 25% respectively).
- Younger British adults (aged 18-34) are the most likely to be optimistic about their finances.
- 6% of British adults say they are likely to take out a payday loan in the next six months – down from 8% in February 2014.
- 44% of British adults are at least 'fairly worried' about their level of debt. This is the second lowest this figure has been since January 2012.
- 61% of 35-44 year olds are worried about their level of debt, compared to 17% of those aged 65 and over.
- Credit cards remain by far and away the most likely cause of debt concerns (42% of British adults concerned about their debts are concerned by credit card debt; 24%, the next highest, are concerned by overdrafts, 21% by mortgages).
- 39% of British adults say they often or sometimes struggle to payday – this is the lowest in the last 18 months.
- 54% of those working full-time and 54% of those working part-time say they often or sometimes struggle to payday.
- The rising cost of living remains the most likely cause of a struggle to payday. The top three reasons given for struggles to payday are: the rising cost of food (55%); the rising cost of household energy (39%); and the rising cost of transport (33%).

1. Interest Rate Rises

There's been a lot of speculation about the impact of an interest rate rise: would it hurt or help Britain's personal finances? The latest Wave of the Personal Debt Snapshot suggests both.

It's encouraging that for the vast majority of British adults, an interest rate rise isn't the 'bogeyman' that some have feared. About two thirds of British adults say a rate rise would either make no difference to them or would actually help them financially.

Unsurprisingly, thoughts on an interest rate rise vary with age. The most likely to embrace a rate rise are those aged 65 and over and those approaching retirement, aged 55-64. We know more widely that these people are the most likely to have paid off their mortgages and are the most reliant on decent returns on their savings. Pensioners have been disproportionately hit by record low interest rates – they're the only age group to see a rising insolvency rate in the last five years – and will be relieved more than anything once rates do go up.

For everyone whose mortgages, credit card bills, and overdrafts outweigh their savings though, an interest rate rise is unlikely to help. The rising cost of borrowing will add just that little bit extra to the cost of living. A quarter of British adults say an interest rate rise would hurt their finances – this rises to over a third in some of the 'working age' age groups. Almost one-in-ten British adults say that an interest rate rise would leave them 'a lot' worse off financially.

While an interest rate rise will put some downward pressure on insolvency numbers amongst those aged 65 and over, it will put upward pressure on insolvencies amongst almost everyone else. Given the clock is ticking on an interest rate rise – and individual insolvencies are already rising again – it's more important than

ever that the government addresses the kinks that exist in the personal insolvency regime. If insolvencies are set to 'spike' again, the system needs to be ready.

Assuming insolvent individuals can enter a formal insolvency procedure – artificial barriers exist that can make entry difficult – it's important they're in a procedure suitable to their needs. If they're not, they might only end up making their problems – and creditors' problems – worse. Unfortunately, accessing the right insolvency procedure can be a struggle.

R3 has called on the government to address issues with the personal insolvency regime for some time, so the recently announced review of Debt Relief Orders and parts of bankruptcy is welcome. It's vital that the government doesn't miss the opportunity to make meaningful, positive reforms to these procedures, and make reforms to all other personal insolvency procedures to ensure that the UK's insolvency regime is fit for 21st century debt.

Key Findings

- On the whole, British adults are either unconcerned by or think they would be left financially better-off by an interest rate rise.
- 31% of British adults say they would be at least a little better off if interest rates were to rise by one percentage point or more in the next 18 months; 34% said their finances would be unchanged.
- 25% of British adults say they would be at least a little worse off if interest rates were to rise by one percentage point or more in the next 18 months.
- However, there are very stark differences between different age groups' thoughts on an interest rate rise.
- Whereas 58% of those aged 65 and over (and 68% of retirees with private pensions) said they would be better off, only 17% of 35-44 year olds said the same (the highest and lowest of any age group, respectively).
- Conversely, 35% of 35-44 year olds said an interest rate rise would make them worse off, while only 13% of those aged 65 and over were in the same position (again, the highest and lowest of any age group, respectively).
- 8% of all British adults said an interest rate rise would make them 'a lot' worse off; 5% said it would make them 'a lot' better off.

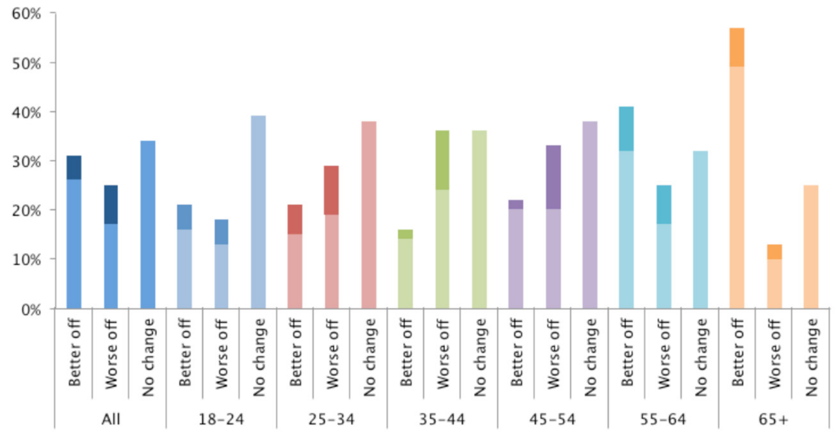

Figure 1 - Proportion of British adults that say they would be better off/worse off/unaffected by an interest rate rise of 1 percentage point or more in the next 18 months, by age (dark colours indicate 'a lot'). Base sizes – see appendix 1.

2. How Many Debts Do British Adults Have?

UK households owe a collective £1.5tn in outstanding debts. What's worrying is that this debt burden is so unevenly spread.

The personal debt picture in the UK is one of extremes. It's encouraging that there are so many people out there that say they are debt free, but there are still plenty of people with potentially little room for financial manoeuvre. These are the people for whom an interest rate rise would pose the biggest challenge – it wouldn't take much to turn what might currently be a manageable situation into an unmanageable one.

At the sharp end, where you have people with over five debts, the danger is that you have people caught in a debt trap: existing debts are only paid for by new ones.

Formal insolvency routes will offer a way out for some – and will help creditors see some of their money back too – but reform of our personal insolvency landscape is needed. Without this, we will see people stuck in debt and stuck outside the best ways of dealing with their debts.

Key Findings

- On average, British adults have 1.32 debts each (excluding outliers, those who said that they had more than 10 of any given type of debt). Those aged 25-34 have the highest average number of debts (1.98 per person); those aged 65 and over have the lowest (0.62).
- 75% of those aged 65 and over say they are debt free; only 42% of 25-34 year olds say the same.
- Credit card bills (where outstanding amounts from previous months are due) are the most common debt (the average British adult has 0.42 such credit card debts), followed by mortgages (0.21), and bank account overdrafts (0.17).
- 20% of British adults are not paying the full amount of their credit card bill at the end of every month.
- 53% of British adults say they have no debts; 15% of British adults say they have five or more.
- Those aged 25-44 are most likely to have five debts or more. 24% of this age group are in this position. In the 25-44 age group:
    - o 3.4% – equivalent to 582,759 people – are behind on five or more credit card bills;
    - o 2.6% – 445,640 people – have five or more mail order or catalogue debts;
    - o 2.4% – 411,360 people – have five or more bank overdrafts;
    - o Another 2.3% in this age group have five or more debts to family or friends.
- 1% of British adults have over five payday loans.

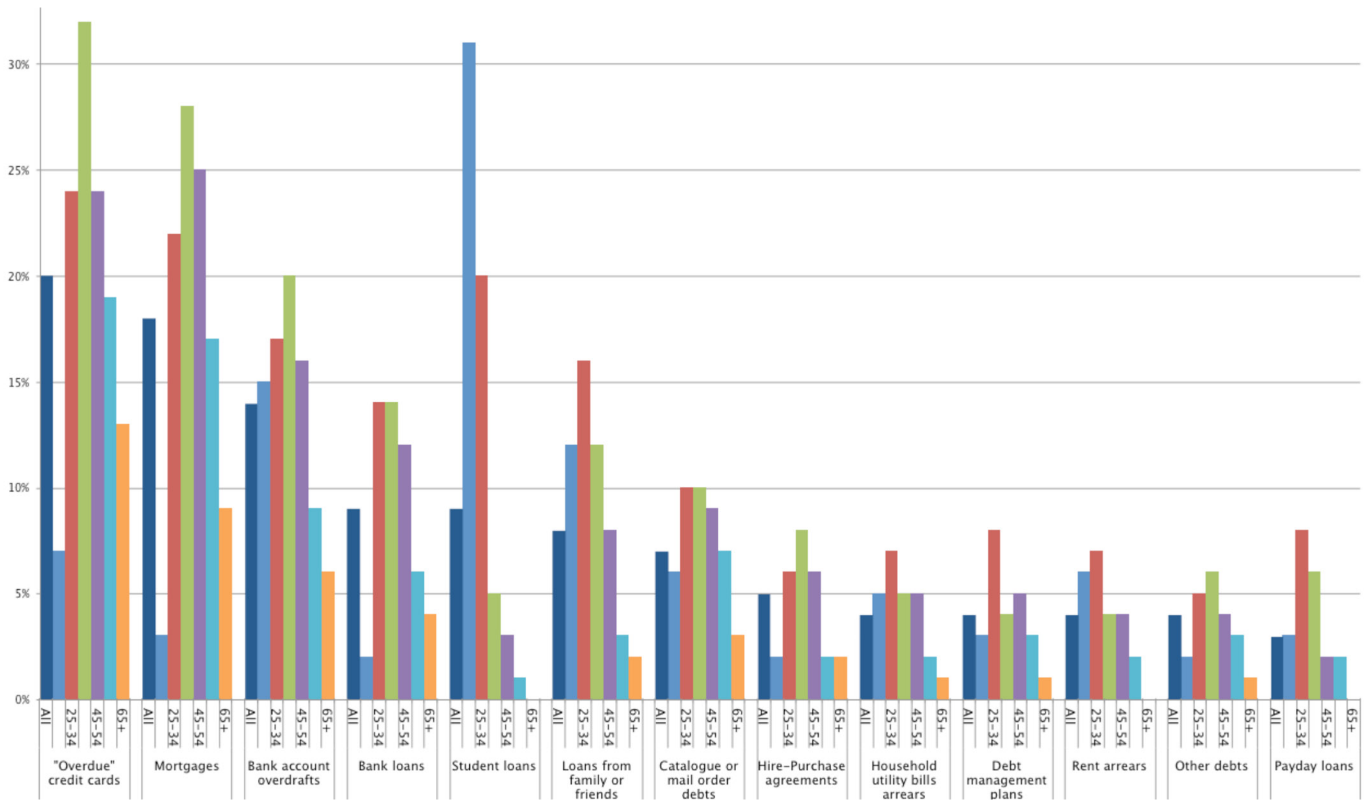

Figure 2 - Proportion of British adults that say they have at least one of a type of debt, by age. Base sizes – see appendix 1.

3. The Personal Finance Picture

While some of the findings from this Wave of the Personal Debt Snapshot aren't exactly 'positive', at least we can say that things aren't 'negative' either. Although personal finance optimism is yet to really match the economy's return to sustained growth, personal finance pessimism has fallen to its lowest ever level.

It's also interesting to see how different age groups' pessimism and optimism is changing. Is the increasingly rife speculation about an interest rate rise responsible for a more optimistic outlook amongst pensioners and a more pessimistic outlook amongst 35-44 year olds?

One aspect of this Wave of the Personal Debt Snapshot that is certainly positive is the collapse in demand for payday loans amongst 18-24 year olds. At one point, one-in-four of this age group said they were 'likely' to use a payday loan in the next six months, but now that's fallen back to under one-in-ten.

Payday loans have their uses, but they aren't suitable for everyone and every situation. It's very unlikely that payday loans were really appropriate for a quarter of young adults, and it's revealing that the numbers of people actually using payday loans – never higher than 9% of 18-24 year olds or 5% of all British adults – has never come close to the numbers saying they were 'likely' to use one.

Key Findings

- Pessimism and optimism about personal finances remain in lock-step, with 18% of British adults saying their personal finances will improve in the next six months, compared to 17% who believe they will worsen.
- Both optimism and pessimism have fallen sharply from the last Wave (24% were optimistic in February 2014, 25% pessimistic). Pessimism is now at its lowest level since the Personal Debt Snapshot started, while optimism is only just higher than the (record low) 17% recorded in April 2011.
- As usual, the youngest age groups (18-34) are more likely to be optimistic than pessimistic. Possibly as a result of continued speculation about the chances of an interest rate rise sooner rather than later, the those aged 65 and over have joined the 'optimistic' group since February's Wave, while the 35-44 year olds have moved from 'optimists' to 'pessimists'.
- 78% of British adults say they have some savings at the moment – one of the highest levels recorded by the Personal Debt Snapshot so far. The proportion of British adults with savings has jumped sharply from the last Wave (72% had savings), reversing a trend of falling savings that started in February 2013.
- As usual, the 25-34 and 35-44 year olds are least likely to have savings: 70% and 69% of these age groups have savings respectively, compared to 92% of those aged 65 and over.
- 6% of British adults say they are likely to take out a payday loan in the next six months. This is down from 8% in February 2014 and the same as the 6% in September 2013.

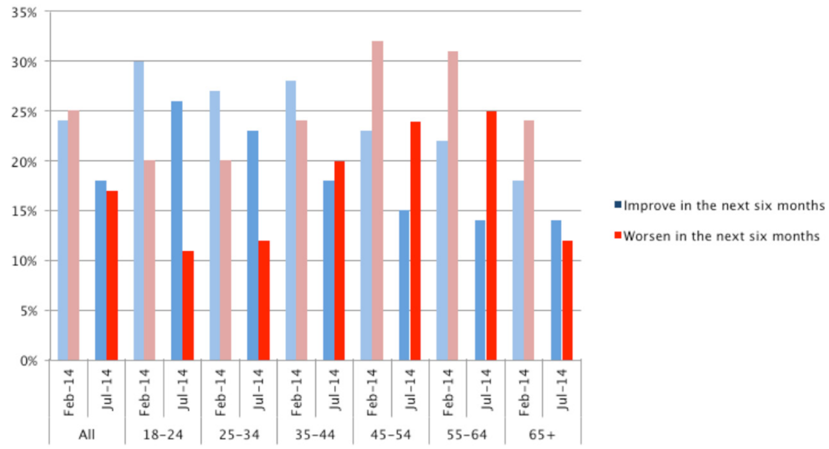

Figure 3 - Proportion of British adults that feel optimistic or pessimistic about their personal finance outlook, by age. Base sizes – see appendix 1.

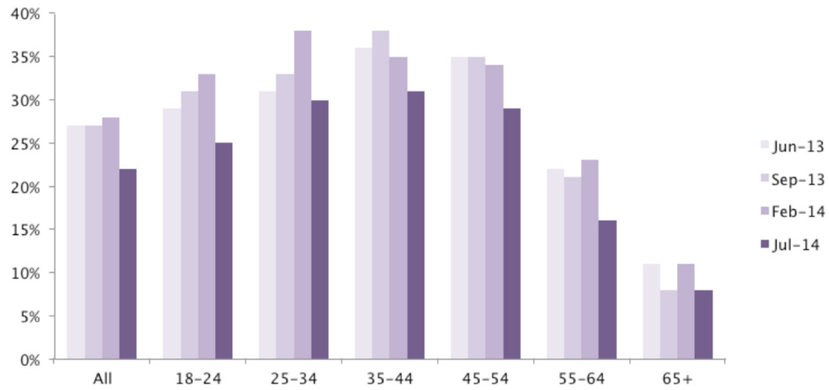

Figure 4 - British adults with no savings, by age. Base sizes – see appendix 1.

- The share of British 18-24 year olds likely to take out a payday loan in the next six months has plummeted to 7%. In half the Waves of the Personal Debt Snapshot since it started tracking payday loans, the 18-24 age group has been the most likely to say they are likely to use a payday loan in the next six months – in this Wave, they are only the third most likely.
- In September 2012, 26% of 18-24 year olds said they were likely to take out a payday loan in the next six months – the highest figure recorded for any age group in any Wave of the Personal Debt Snapshot.
- 4% of British adults have taken out a payday loan in the last six months (peak: 5% in June and September 2013); 1% have borrowed money from a credit union in the last six months.
- Those aged 25-44 are the most likely to have used a payday loan in the last six months: 7% say they have done so.
- 4% of British adults – equivalent to 2,020,063 people – are in a Debt Management Plan (5% in February 2014). This is the lowest percentage since January 2012 (also 4%).

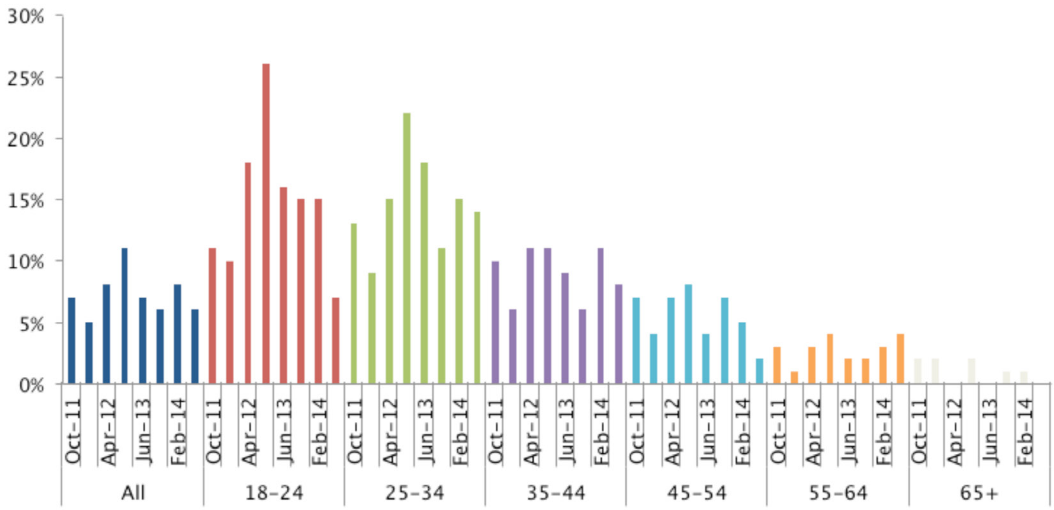

Figure 5 - Proportion of British adults 'likely' to take out a payday loan in the next six months, by age. Base sizes – see appendix 1.

4. Debt Worries And Type Of Debt

The share of British adults worried about their level of debt remains stubbornly close to the 50% mark; indeed, it's only been lower than 40% twice in the fourteen Personal Debt Snapshots so far.

However, the proportion of British adults not worried about their debt has been slowly inching up from its nadir at the end of 2011. It's not been a rapid or consistent growth by any means, but it is a reversal of the slide in this figure that took place from 2010-11 as the after-effects of recession began to bite.

Despite this improvement though, the question remains: is it healthy that almost half the country is worried about its level of debt?

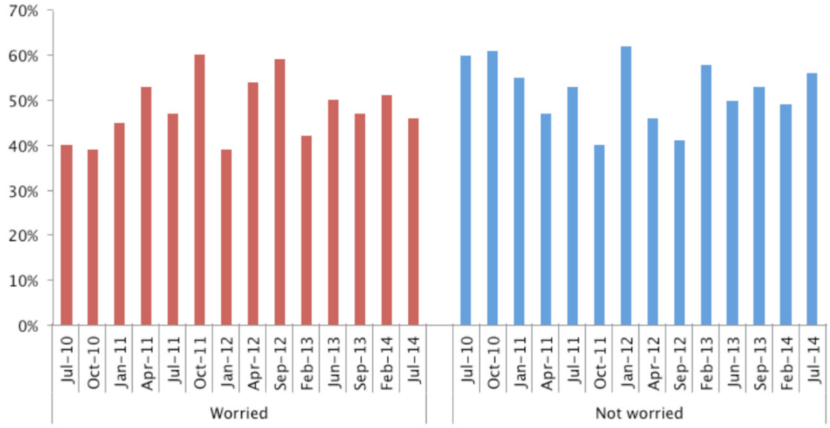

Figure 6 - Proportion of British adults who are worried/not worried about their debts.
Base sizes – see appendix 1.

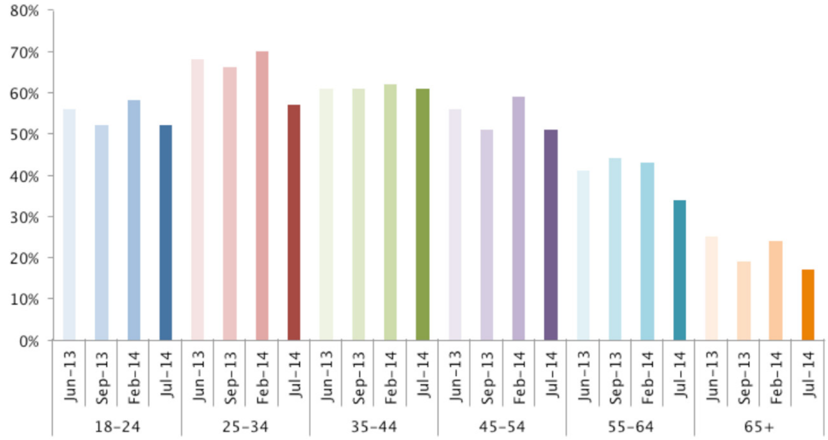

Figure 7 - Proportion of British adults worried about their level of debt, by age.
Base sizes – see appendix 1.

Key Findings

- 44% of British adults are at least 'fairly worried' about their level of debt.
- The 25-34 and 35-44 age groups are the most likely to be worried about their level of debt, with debt worries dropping sharply with age after that (those aged 65 and over are least likely to be worried about debt).
- 61% of 35-44 year olds are worried about their level of debt, compared to just 17% of those aged 65 and over.
- Credit card debts still cause the most concern for those with debts (42% of adults concerned about their debts are concerned by credit card debts). The share of people concerned about credit card debts has fallen from a high of 56% in January 2011 and has hovered between a high of 44% and a low of 39% since April 2012.
- Given they are England & Wales' two insolvency 'hotspots', it is perhaps surprising that the South West and the North East are the two regions least concerned about debt: 40% in the North East are concerned about their level of debt, as are 39% in the South West (40% of those in the North West and South East are concerned about debts).

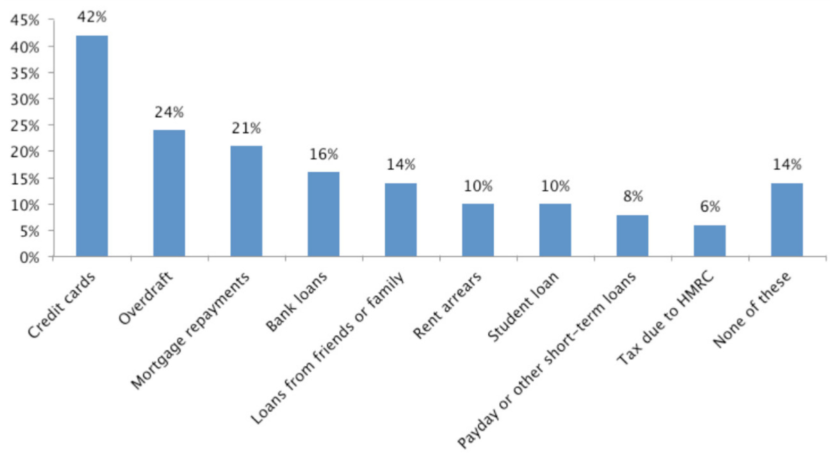

Figure 8 - Proportion of British adults worried about their debt, by type of debt (July 2014) . Base, all British adults, n=2,035

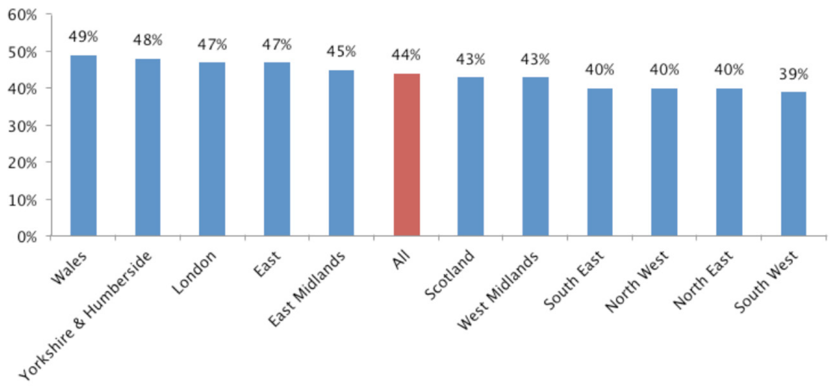

Figure 9 - Proportion of British adults worried about their debt, by region (July 2014) Base: All British adults (n=2,035). All British adults in Wales (n=105), Yorkshire and Humberside (n=163), London (n=227), East (n=188), East Midlands (n=144), Scotland (n=165), West Midlands (n=208), South East (n=325), North West (n=239), North East (n=80) and South West (n=191).

5. The Struggle To Payday

The struggle to payday is another area of gradual improvement: the share of British adults struggling to payday has fallen again and is now well down from where it peaked in May 2012; although over half of Britain's working adults still say they struggle.

A couple of areas of concern stand out: rent, again, is having a disproportionate impact on young people's finances – as is the cost of going out – and, while most causes of payday struggles are receding, the impact of credit card bills on the those aged 65 and over waiting for their next pay packet or pension payment is getting worse.

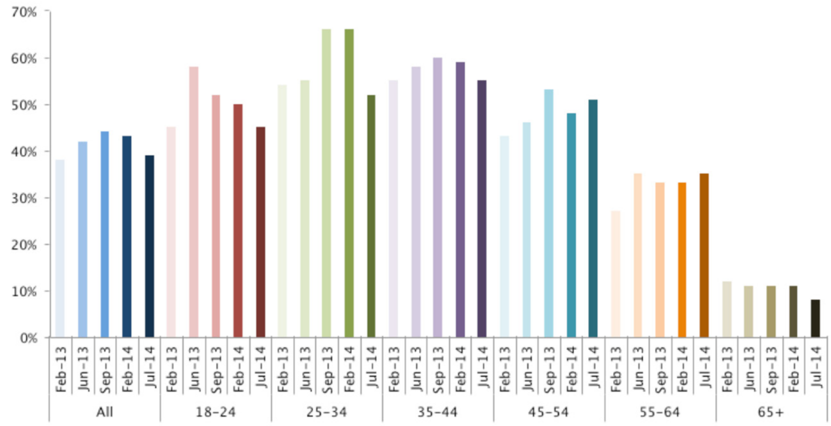

Figure 10 - Proportion of British adults who say they often or sometimes struggle to payday, by age. Base sizes – see appendix 1

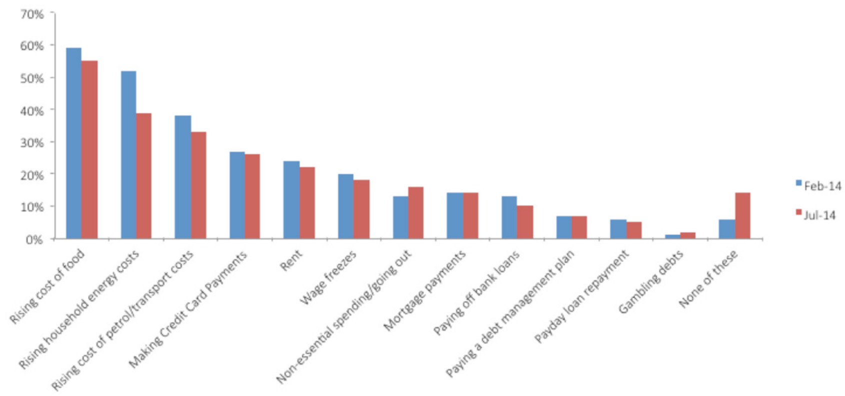

Figure 11 - Proportion of British adults who struggle to payday, by reason for struggle. Base sizes – see appendix 2.

Key Findings

- 39% of British adults say they often or sometimes struggle to payday – this is the lowest this figure has been since it was 38% in February 2013.
- Those aged 35-44 are most likely to say they struggle to payday (taking over from the 25-34 year olds, amongst whom there has been a big drop in the struggle to payday since the last wave, 66% to 52%), with 55% in this position.
- 54% of those working full time say they struggle to payday, as do 54% of those working part-time.
- The cost of living remains the most likely cause of a struggle to payday: the rising cost of food (55%), household energy (39%), and transport (33%) are again the most commonly cited problem. Unsurprisingly for a summer survey, the share of people of people concerned about the rising cost of household energy has fallen substantially since February (39% compared to 52%).
- Aside from the rising cost of living, there are three causes of struggles to payday that have a disproportionately large impact on one age group compared to others: rent among 18-24 year olds; non-essential spending among 18-24 year olds; and credit card payments among those aged 65 and over.

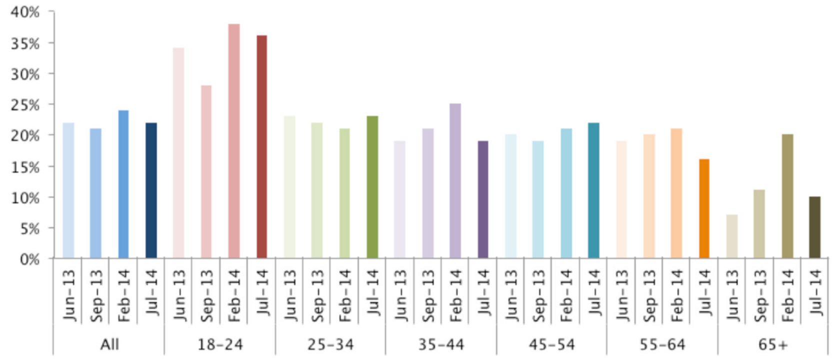

Figure 12 - Proportion of British adults that struggle to payday that blame rent, by age. Base sizes – see appendix 2.

- Over a third of 18-24 year olds (36%) blame rent payments for their struggle to payday (next highest: 23% of 25-34 year olds).
- 34% of 18-24 year olds blame the cost of going out for their struggle to payday (next highest: 17% of 35-44 year olds).
- 40% of those aged 65 and over blame credit card repayments for their struggle to payday (next highest: 30% of 35-54 year olds).
- Back in September 2012, 41% of those aged 65 and over blamed credit cards for their struggle to payday although this fell back to 16% in February 2013 – the share of those aged 65 and over blaming credit card payments has increased in every Wave since.

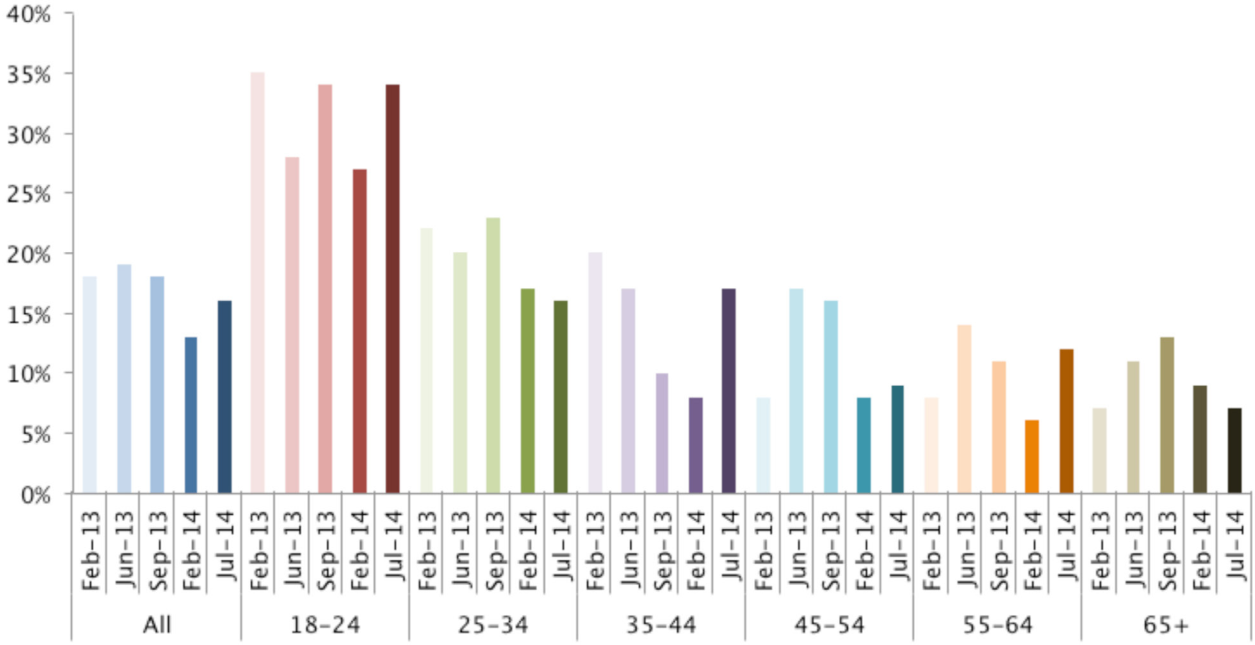

Figure 13 - Proportion of British adults that struggle to payday that blame non-essential spending, by age. Base sizes – see appendix 2.

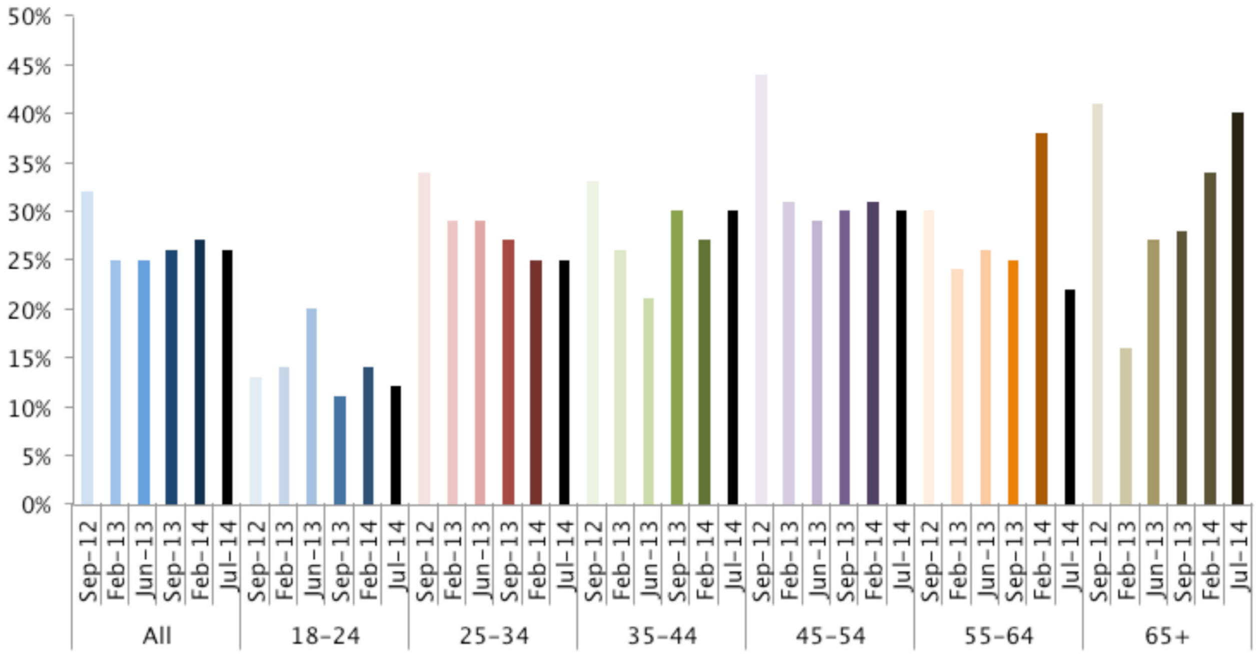

Figure 14 - Proportion of British adults that struggle to payday that blame credit card debt, by age. Base sizes – see appendix 2.

Notes

Dates on graph axes 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 the following waves, as shown in the appendices below.

Appendix 1: Total base sizes and base sizes by age group (referenced in figures 1, 2, 3, 4, 5, 6, 7 and 10)

Wave	Total base, n=	Base 18-24, n=	Base 25-34, n=	Base 35-44, n=	Base 45-54, n=	Base 55-64, n=	Base 65+, n=
Wave 14 – July 2014	2,035	205	314	356	388	323	449
Wave 13 – February 2014	2,013	162	298	305	369	346	533
Wave 12 – September 2013	2,006	219	354	334	342	304	453
Wave 11 – May-June 2013	2,060	222	334	356	390	314	444
Wave 10 – February 2013	2,007	191	339	414	360	321	382
Wave 9 – September 2012	2,051	178	357	444	377	332	363
Wave 8 – April-May 2012	2,044	213	335	406	340	307	443
Wave 7 – January 2012	2,016	206	319	427	363	318	383
Wave 6 – October 2011	2,005	-	-	-	-	-	-
Wave 5 – July 2011	2,047	-	-	-	-	-	-
Wave 4 – April 2011	2,052	-	-	-	-	-	-
Wave 3 – January 2011	2,031	-	-	-	-	-	-
Wave 2 – October 2010	2,035	-	-	-	-	-	-
Wave 1 – July 2010	2,008	-	-	-	-	-	-

Appendix 2: Total base sizes for British adults who struggle to make it to payday and base sizes by age group (referenced in figures 11, 12, 13 and 14)

Wave	Total base, n=	Base 18-24, n=	Base 25-34, n=	Base 35-44, n=	Base 45-54, n=	Base 55-64, n=	Base 65+, n=
Wave 14 – July 2014	790	93	173	192	191	102	39
Wave 13 – February 2014	795	79	189	180	186	104	57
Wave 12 – September 2013	882	112	233	207	179	99	52
Wave 11 – May-June 2013	869	129	191	204	191	106	48
Wave 10 – February 2013	793	94	182	224	160	90	43
Wave 9 – September 2012	982	107	230	286	192	120	47

Methodology

ComRes interviewed 2,035 GB adults online between 18th and 20th July 2014. 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**

R3, the insolvency trade body, represents the UK's insolvency practitioners. R3 comments on a wide variety of personal and corporate insolvency issues. R3 promotes best practice for professionals working with financially troubled individuals and businesses; all R3 members are regulated by recognised professional bodies. R3 stands for 'Rescue, Recovery, and Renewal' and is also known as the Association of Business Recovery Professionals.

For more information, please contact R3 Communications Manager Nick Cosgrove on **0207 566 4215** or **Nick.Cosgrove@r3.org.uk**