UK Adult Financial Wellbeing Survey 2021 Credit Counts Report

December 2022

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1. Introduction

The Adult Financial Wellbeing Survey is a nationally representative survey of adults aged 18+ living in the UK. The survey was previously run in 2018 and 2015, when it was known as the Financial Capability Survey. This latest wave was conducted through online access panels and with posted invitations in order to represent both heavier and lighter users of the internet.

The questionnaire covers the building blocks of financial wellbeing:

- current and longer-term financial wellbeing
- day-to-day behaviours like managing credit, active saving and keeping track of spending
- planning behaviours like pension saving and building resilience against expected and unexpected life events
- enablers and inhibitors like confidence, sense of control, financial numeracy, and engagement with money information, advice and guidance.

The survey provides robust measures of UK Financial Wellbeing which help MaPS and other organisations working in Financial Wellbeing to design and target interventions more effectively.

For further details on the method, sampling and weighting processes, please see the accompanying technical report[1].

Reporting

The approach taken towards reporting for 2021, is to create a series of short reports, each focused on a specific topic or audience group of importance. The reports will cover the Agendas for Change and the cross-cutting themes of the UK Strategy for Financial Wellbeing and other topics of interest to MaPS.

This report summarises the primary findings for **use of credit**, in particular for those measures which contribute to the national goals, which are the primary measures of financial wellbeing in the UK.

Context

The evidence shows that people on low incomes are twice as likely as those on higher incomes to use credit, particularly credit cards, to pay for food and other essentials. Furthermore, having low and unpredictable earnings can create distinct but related problems, meaning that expenditure demands do not always coincide with periods when sufficient income is available to meet them. Lower-income groups are also more likely to have low levels of savings, which then creates a need to use credit when a financial shock occurs, such as an unexpected bill or replacement of white goods.

People on low incomes also often pay too much for the credit they use and have poor credit records or 'thin' credit files, which makes them unattractive to mainstream lenders and can steer them to use more expensive options such as high-cost, short-term credit that is often marketed in a way that understates the actual cost of repayments. The evidence suggests that many people do not manage credit sustainably, which again leads to repeat use of credit for essentials.

This report is based on data from 2021, before the most recent cost of living pressures.

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[1] https://www.maps.org.uk/2022/03/28/financial-wellbeing-survey-2021/

2. Borrowing for the Everyday

The National Goal Group

To align with the Credit Counts national goal, this section looks at adults who often use a credit card, overdraft or borrow money to buy food or pay bills because they've run short of money.

"How often do you use a credit card, overdraft or borrow money to buy food or pay bills because you've run short of money?"

One in six UK adults (17%) are often borrowing for the everyday. This includes using credit cards, overdrafts or borrowing money.

17%

Proportion of UK adults who often use a credit card, overdraft or borrow money to buy food or pay bills because they've run short of money[2]

Why is borrowing for the everyday a concern?

People who borrow for the everyday tend to have lower levels of financial wellbeing in other respects:

- People who have a very low/low financial wellbeing score are significantly more likely to borrow (28%), than those with a fairly high/high score (7%).
- Among those who are not confident managing money, 23% borrow for the everyday, this is almost half for those who are confident (12%).
- Among people who are not satisfied with their overall financial circumstances, 19% borrow for the everyday, compared to 14% of those who are satisfied.

[2] *Source*: NORB1 (Use a credit card, overdraft or borrow money to buy food or pay bills because you've run short of money) – How often do you/ your household…? *Base*: All Adults (% who do this very/fairly often)

Who is most likely to borrow for the everyday?

Borrowing for the everyday happens across all sections of the population.

But it is especially common among some groups, as the table shows:

- Young adults aged 18-24
- Parents
    - Single parents in particular are three times as likely to borrow for the everyday as childless working age people.
    - A similar picture exists for couple parents
- People who have experienced a mental health problem in the last 3 years
    - Three times more likely to borrow for the everyday than people without recent problems
- Ethnic minorities
    - Twice as likely as the white population to often borrow for the everyday

Around 3 in 10 or more of each of these groups say they often borrow for essentials.

Not surprisingly, borrowing for the everyday is linked to income:

- lower income households are twice as likely as medium/higher income households to say they often borrow for the everyday
- but it is not entirely about income: 12% of middle income and 14% of higher income households say they borrow for the everyday
- the differences by household income

It is also more common among renters and people with a long term disability or health condition.

Chart 1. Borrowing for the everyday by socio-demographic group

% who borrow very/fairly often for the everyday[3]		
Gender	Male	19%
	Female	15%
Age	18-24	30%
	18-65	21%
	66+	4%
Parents	Single parent	33%
	Couple parents	28%
Mental health	Problem last 3 years	32%
	Not in last 3 years	11%
Disability/long-term condition	Yes	22%
	No	14%
Ethnicity	White	16%
	Ethnic minority	30%
Income	Lowest income	25%
	Middle income	12%
	Highest income	14%
Housing tenure	Private/social rented	21%
MaPS Segment	Struggling	22%
	Squeezed	17%
	Cushioned	13%

[3] *Source:* NORB1 (Use a credit card, overdraft or borrow money to buy food or pay bills because you've run short of money) – How often do you/ your household…? Base: All Adults (% who do this very/fairly often)

The rest of this section looks at two other aspects of borrowing for the everyday:

- Borrowing to pay off debt
- Borrowing from friends and family

These are not included in the nation goal measure of borrowing for the everyday.

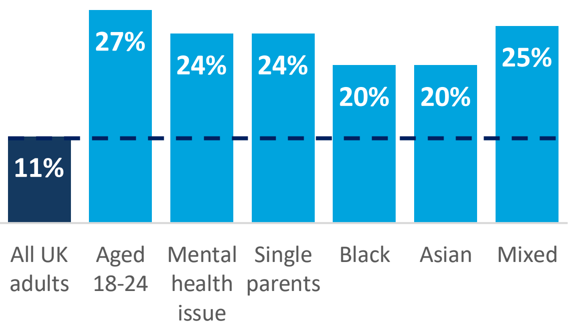
Borrowing to pay off debt

One in 10 UK adults (11%) borrow money to pay off other debts.

This cycle of credit can be damaging to financial wellbeing as the cost of borrowing can quickly escalate.

This approach to managing finances is more prevalent amongst young people, those experiencing a mental health issue in the last 12 months, single parents, and those from minority ethnic groups.

Chart 2: Borrowing to pay off other debts[4]



Borrowing from friends and family

A slightly higher proportion of UK adults (13%) borrow money from friends and family because they have run out of money.

One in three (35%) of those aged 18-24 borrow from friends and family either very or fairly often because they have run out of money

35% (13% of all UK adults)

Proportion of those aged 18-24 who regularly borrow from friends and family because they have run out of money.[5]

[4] *Source*: NORB11. How often do you/your household borrow money to pay off debts?
Base: All Adults (% saying very/fairly often)

[5] *Source*: C7. How often borrow from other family/friends because run out of money?
Base: All Adults (% saying very/fairly often)

3. Keeping up with bills and commitments

This section looks at keeping up with bills and payments and focusses in particular on people who say this is a struggle.

This is a much larger group than the 17% of the population who often borrow for the everyday. But looking at this group can highlight who may be on the edge of greater financial difficulty.

Keeping up with bills and commitments is a struggle for half of UK adults. This increased slightly since 2018, from 48%. The survey took place in summer 2021, so the subsequent cost of living pressures are likely to have increased the proportion struggling.

50%

Proportion of UK adults who struggle to keep up, are falling behind or have fallen behind with their commitments.[6]

Why does keeping up matter?

Similar to borrowing for the everyday, keeping up with bills and commitments links to key measures of financial wellbeing, although differences here are more apparent.

Of those who are not satisfied with their overall financial circumstances, nearly two thirds (64%) are struggling to keep up with bills and commitments, compared to 22% of those who are satisfied.

Around seven in ten (71%) of those who are not confident managing their money, are struggling to keep up with bills and commitments, this figure is halved for those who are confident (33%).

Amongst those with low financial wellbeing outcomes, over nine in ten (91%) are struggling, compared to only one in ten (11%) of those who have high scores. This shows that keeping up with bills and commitments has a strong link to financial wellbeing.

Who is most likely to struggle with bills?

Some groups in the population are especially likely to struggle with keeping up with bills and payments. These tend to be many of the same groups who are most likely to borrow for the everyday.

The table highlights that struggling to keep up is especially common among:

- Younger adults
- Working age people (as opposed to people aged 66+)
- People from an ethnic minority background
- Parents, and in particular single parents
- People who have experienced recent mental health problems
- People with a disability or long term health condition
- Low income households
- Renters
- For most of these groups, two thirds or more say they are struggling to keep up.

[6] *Source*: J1. How well are you/you and your partner/spouse keeping up with bills and credit commitments at the moment? *Base*: All Adults (% Keeping up is a struggle from time to time/ constant struggle/ falling behind/ fallen behind)

Chart 3. Keeping up with bills and commitments

% who are struggling to keep up with bills and commitments[7]		
Gender	Male	49%
	Female	51%
Age	18-24	69%
	18-65	58%
	66+	23%
Parents	Single parent	80%
	Couple parents	63%
Mental health	Problem last 3 years	74%
	Not in last 3 years	39%
Disability/long-term condition	Yes	60%
	No	44%
Ethnicity	White	48%
	Ethnic minority	67%
Income	Lowest income	71%
	Middle income	45%
	Highest income	33%
Housing tenure	Private/social rented	70%
MaPS Segment	Struggling	64%
	Squeezed	50%
	Cushioned	40%

[7] *Source*: J1. How well are you/you and your partner/spouse keeping up with bills and credit commitments at the moment? *Base*: All Adults (% Keeping up is a struggle from time to time/ constant struggle/ falling behind/ fallen behind)

4. Credit usage

This section looks at patterns of credit usage and how these differ across the population.

Having access to and using credit does not necessarily link to poor financial wellbeing: two thirds of UK adults (71%) have credit/store cards and 82% of those with fairly high/high financial wellbeing scores have credit cards.

However, 19% of UK adults who have credit/store cards always or usually pay the minimum on their credit or store card bill. Making minimum payments on credit cards is linked to lower financial wellbeing more generally. Of those who are not satisfied with their overall financial circumstances, 22% generally pay the minimum, compared to 14% of those who are satisfied. In Addition, those with a very low/low financial wellbeing score are significantly more likely to generally pay the minimum (35%), compared to those with a fairly high/high score (9%).

Priority bills

One in five (21%) UK adults are behind on priority bills or credit commitments. The figures for adults on low incomes (37%), from ethnic minorities (39%) and for those who have had a mental health problem in the last 3 years (44%) are significantly higher than the UK average. Furthermore, there are differences when looking at life stage, 27% of working adults (18-65) are behind on priority bills and credit commitments, compared to only 3% of 66+ adults.

Paying an unexpected £300 bill

Looking at paying bills, nearly one in four UK adults (24%) would have to borrow to pay a bill of £300, a proportion which increases for those from lower income households.

Loans

When looking at loans, over a quarter (26%) of UK adults report either themselves or their partner currently having a loan. With the most common type of loan being a personal loan (16%).

Loans are more common amongst men (29%), adults from an ethnic minority background (44%) and those of a working age (31%).

One in five (20%) of UK adults of a working age have a student loan, young adults (36%) and adults from ethnic minorities (26%) are more likely to have student loans.

Unsecured borrowing

People with low credit ratings may be offered credit products at higher rates which may further disadvantage them. Furthermore, missed repayments could lead to additional charges which can negatively affect credit scores and affect the consumers' ability to access mainstream (and often more competitive) credit products in the future.

Unsecured loans can be more costly as they typically incur higher interest rates than secured loans.

Over half (54%) of UK adults report that they or their partner have any outstanding unsecured borrowing such as overdrafts, credit cards, store cards, personal loans, hire purchase, and car finance arrangements.

54%

Proportion of UK adults that have any unsecured borrowing (including credit cards).[8]

This figure is higher for:

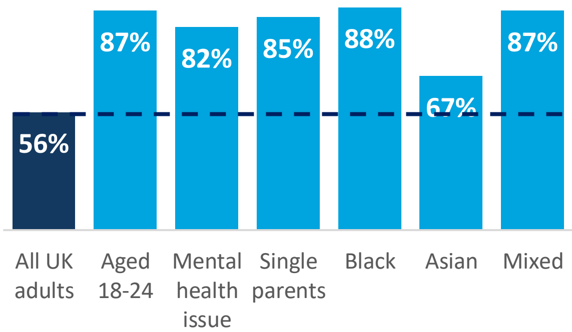
- adults from ethnic minorities (67%)
- two parent families (70%)
- people who have had a mental health problem in the last 3 years (72%).

Using credit cards

Three quarters (72%) of UK adults have a store card or a credit card. Approaching half (44%) of those with a credit or store card always pay off the balance in full each month. This leaves 56% of those with credit or store cards who incur interest on an outstanding balance – and 'revolve' this balance each month, treating it as a line of credit. Furthermore one in five (19%) of those with a credit or store card always or usually *only pay the minimum* each month, making this an expensive form of borrowing for them.

As the chart shows, not paying off the full balance is more common among young adults, single parents, people who have had recent mental health problems, and ethnic minorities.

Chart 4: Credit / store cards – proportion not paying off full balance[9]



Other types of borrowing

High cost short term credit such as payday loans and pawnbroker loans was used by 15% of UK adults in the last year. This increases to 39% of those aged 18-24.

Rent-to-own, hire purchase (HP), and other types of conditional sale are used by 8% of UK adults, and are more prevalent amongst those under 35 (16%), working age families (16%) and those who had an income shock as a result of covid (16%).

[8] *Source*: E7. If you added up all of your and your partner/spouse's balances on overdrafts, credit cards, store cards, personal loans, hire purchase, car finance arrangements, approximately how much do you owe in total? *Base*: All Adults (>£0)

[9] *Source*: E10 - How do you generally handle paying your bill each month for your credit card(s) or store card(s)? *Base*: All UK adults who have credit/store cards (% not paying off the balance in full each month)

Excluding motor finance, personal loans such as those from a bank, building society, credit union or a peer-to-peer arrangement are used by one in four (26%) of UK adults. Motor finance, that is, hire purchase (HP) or personal contract purchase (PCP), is used by one in six (17%) of UK adults.

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