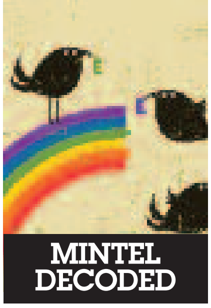
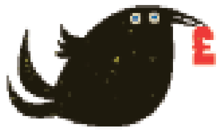
home truths

about profligacy & prudence

In tough times, intelligence is currency. Understanding consumer attitudes to debt is vital if financial services are to play the most positive role in an economic recovery. DAVID O'CARROLL analyses Mintel's major research findings.



EVEN PEOPLE WHO ARE STILL RELATIVELY COMFORTABLE FINANCIALLY ARE CONCENTRATING MORE ON SAVING AND REDUCING DEBT RATHER THAN SPENDING. THERE'S A SHAPER FOCUS ON SENSIBLE BUDGETING.



Some of our most cherished beliefs about the rampant accumulation of debt in this country turn out to be surprisingly wide of the mark, says a major new research analysis. All the same, it concludes, there are important new opportunities for financial services as people rush back from profligacy to prudence.

These are the main conclusions of *Consumers' Attitudes Towards Debt*, the latest analysis of the independent market research organisation, Mintel International Group.

It addresses the key issues in the debt marketplace – how we got here, what people are thinking, who's most likely to cut personal spending, how the sector is likely to evolve and where future opportunities may lie. All of which makes it essential reading for financial marketers.

Media perceptions of a careless, credit-obsessed society with people spending money they don't have is held up to be a gross exaggeration. And pointing the finger of blame for the UK's debt mountain at young people also misses the point. Perhaps unsurprisingly, the truth is more complex.

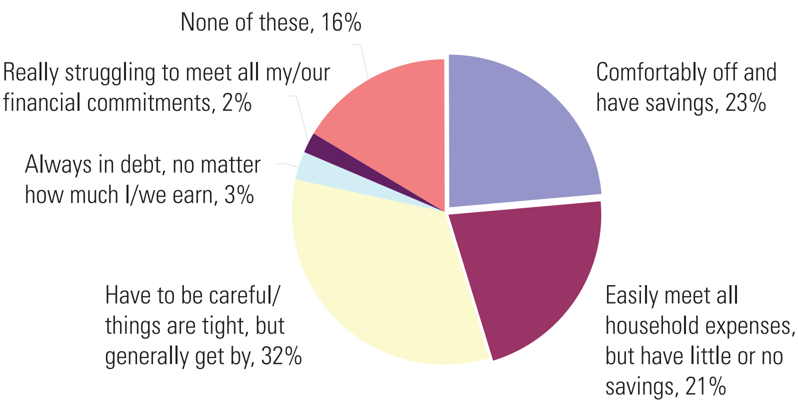
The Mintel report is drawn from a range of sources including consumer research of 2,000 adults, trade interviews and the Mintel Information Consultancy and market size and economic database. Most people, it finds, are still making ends meet. While the majority of those surveyed have some form of credit (credit cards and mortgages are the most popular), only around 25% have outstanding balances on more than one type of credit and a third owe less than £1,000. In fact, the top 1% of borrowers account for 10% of total reported outstanding consumer credit debt. [Figure 1]

There appears to be a marked 'return to prudence'. Even people who are still relatively comfortable financially are concentrating more on saving and reducing debt rather than spending. And there's a shaper focus on sensible budgeting – almost a third say they believe there has been too much irresponsible borrowing.

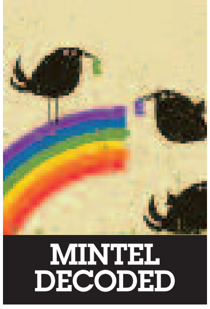
This shift in attitudes requires marketers to re-examine the way they promote products, Mintel suggests. Showcasing money-saving features is likely to appeal to the public sensibility and, conversely, advertising which appears to promote carefree spending may suffer. Businesses which rely on discretionary consumer spending will feel the pinch.

Data from John Gilbert Financial Research, which measures customer intentions, confirms this with debt repayment moving to the front of people's minds. While debt markets are relatively subdued, some people do say they expect to borrow over the coming months, possibly to take advantage of low interest rates to remortgage or refinance existing debts.

FIGURE 1: CURRENT FINANCIAL POSITION, APRIL 2009
Base: 1,855 adults aged 18+



SOURCE: IPSOS MORI/MINTEL



CONCERN ABOUT UNEMPLOYMENT ALSO OFFERS OPPORTUNITIES FOR THE PAYMENT PROTECTION INDUSTRY: PEOPLE IN DEBT ARE THREE TIMES AS LIKELY TO ADMIT THAT THEY'D BE IN BIG FINANCIAL TROUBLE IF THEY LOST THEIR JOB.

The general experience of the economic slowdown fails to tally with some of the apocalyptic visions portrayed in the national media. Less than one in five of those questioned by Mintel had experienced a big impact on their finances while more than a quarter said they hadn't been affected at all. [Figure 2, overleaf]

But, of course, markets are made at the margins. So it's those who are struggling at present who are making the biggest changes to their behaviour. A large number are cutting expenditure, which is sure to feed through to the wider economy.

Some interesting patterns appear among those with high levels of outstanding credit. Many appear ready to take responsibility now. People who owe £5,000 or more are most likely to do whatever they can to redress their situation – and there's an obvious opportunity here for companies prepared to help those trying to help themselves.

Low-key debt advice with an emphasis on controlling current outstanding balances would be appreciated. It's worth noting that many in this group are relatively affluent and are therefore keen to avoid any adverse impact to their credit record and rating.

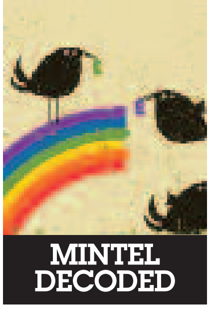
IMPACT OF THE SLOWDOWN, BY MONEY OWED ON UNSECURED DEBTS, APRIL 2009

	All	Less than £100	£100 -1,000	£1,001 -5,000	£5,001 or above	Don't know /refused
Base: adults aged 18+ who have unsecured debts	743	107	144	185	159	148
	%	%	%	%	%	%
People have been too irresponsible with their spending over the last few years	34	33	30	37	45	21
I'm cutting back spending so that I can repay my debts	28	13	25	30	44	24
I'm cutting back spending so that I can build up my savings	27	39	29	24	23	23
I'd be in real financial trouble if I lost my job	23	23	17	24	31	17
I think that loan companies are largely to blame for the downturn	20	23	17	25	22	12
My mortgage rate has come down sharply in the last few months	17	11	18	25	17	10
If someone is in trouble with debt, they only have themselves to blame	14	11	14	16	19	9
I've recently experienced trouble getting credit	6	3	5	5	8	5
None of these	8	9	7	8	5	11
Don't know	2	1	1	1	1	6

Concern about unemployment also offers opportunities for the payment protection insurance industry. Although it has not risen as dramatically as some of the gloomiest predications, unemployment is a lagging indicator and may well continue to increase after the recession is officially pronounced to be over. It's a large fear: people in debt are three times as likely as those with little or no debt to admit that they'd be in big financial trouble if they lost their job.

Mintel breaks its respondents into three distinct groups:

- The Middle-of-the-Road (comprising 50% of the sample). They're neither especially likely to let finances spiral out of control nor to keep constantly monitoring their position.
- The Virtuous (some 36%). They're good at all aspects of controlling their finances.
- The Impulsive (about 13%). They live in the here and now and generally don't budget or save.

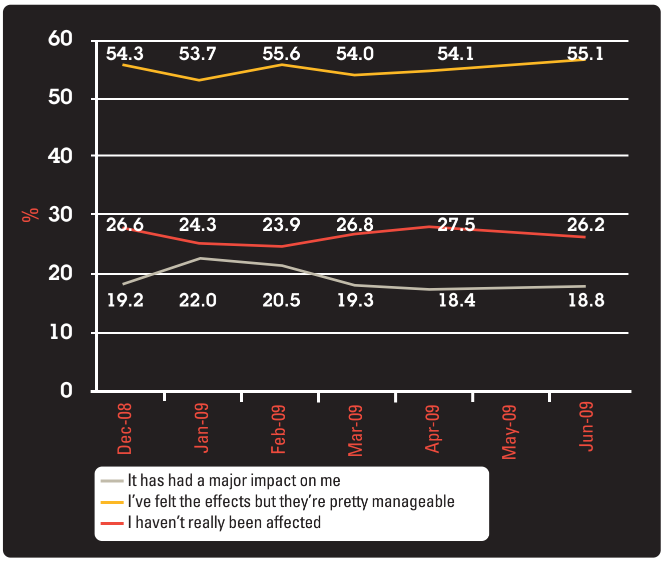


Unsurprisingly, the Impulsive are far more likely to be in financial difficulties. They are feeling the pinch more than most with over 12% experiencing recent trouble in obtaining a loan. Youth has a part to play in this. Three in ten of those under 25 who were sampled admitted to poor money management. The corresponding reply from over-55s was less than one in ten. However, many under-25s have less access to credit and few are in a position to take on a mortgage. Therefore, for this age group, overall credit ownership is lower than for any other save the over-55s.

Affluence does not appear to prevent people falling into the Impulsive category. Many with large incomes have poor organisation, suggesting that what's lacking is proper financial education which some banks now acknowledge is increasingly necessary. Offering simple lessons in financial management is likely to be socially popular. And, since it could reduce levels of bad debt to write off, it could also provide its own institutional reward.

Opinions on who is to blame for the slowdown also vary from the accepted media line. Many feel that lenders played a role, but almost the same number believe people in debt should take responsibility for their personal situation. Older respondents in particular demonstrate a wish to see a return to more traditional banking values.

FIGURE 2: TRENDS IN THE IMPACT OF THE ECONOMIC DOWNTURN ON CONSUMERS, DECEMBER 2008-JUNE 2009
Base: internet users aged 16+



MANY APPEAR READY TO TAKE RESPONSIBILITY NOW. THERE'S AN OBVIOUS OPPORTUNITY HERE FOR COMPANIES PREPARED TO HELP THOSE TRYING TO HELP THEMSELVES.

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