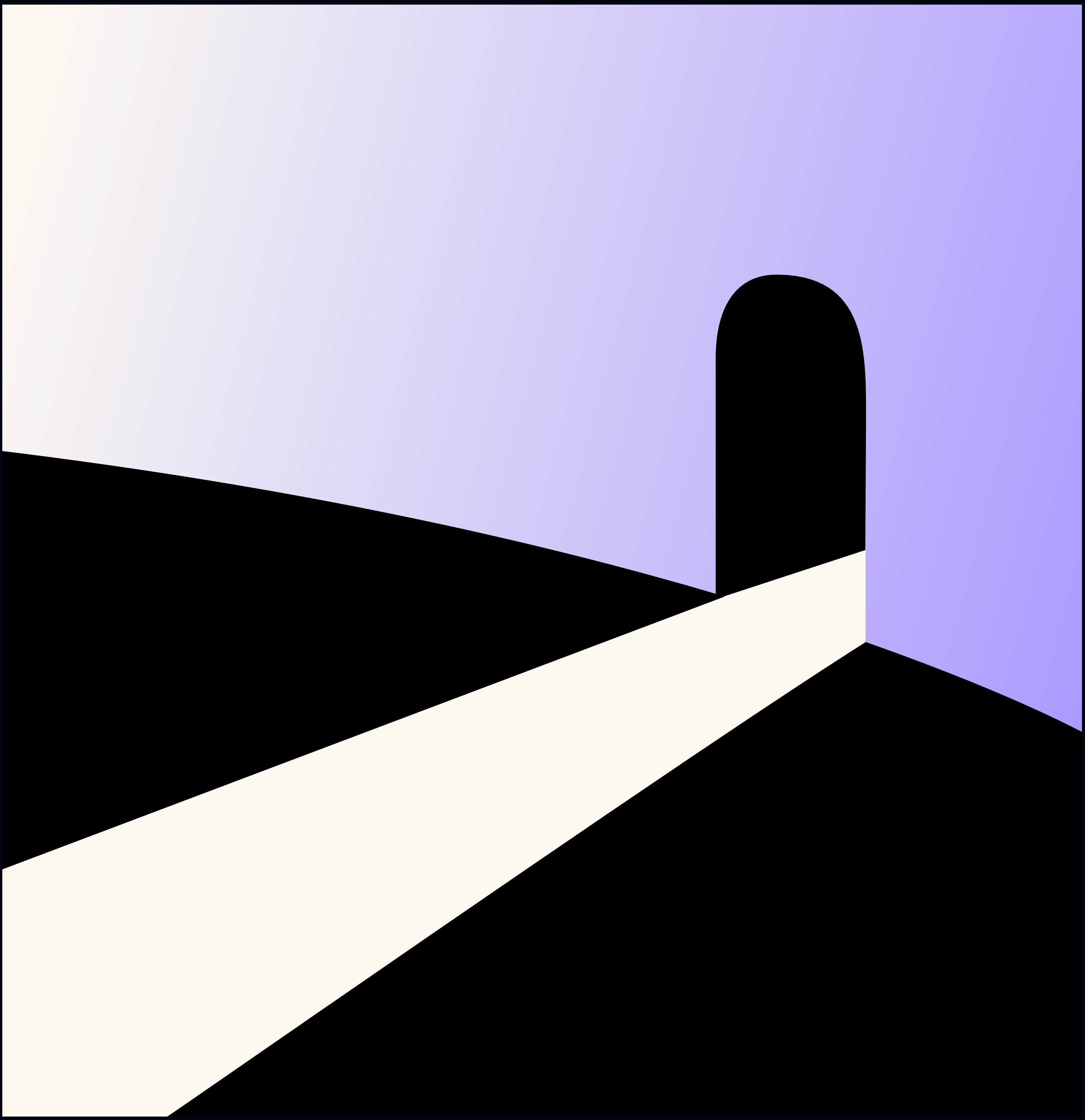
Financial Stability Tracker 2024

The annual report from Creditspring exploring the financial wellbeing of people in the UK



Research on 2,000 UK adults, by Opinium, weighted to be nationally representative.

Research undertaken between 16th and 20th February 2024.

Creditspring

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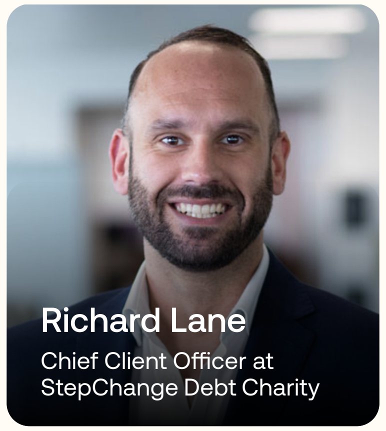
Foreword



> "We see an increasingly intractable problem of people simply not having enough money to make ends meet."

In a world where StepChange's goal of a society free from problem debt can often feel dauntingly ambitious, we welcome debate about how to reduce the harm debt can cause. We're delighted to be invited by Creditspring to offer some thoughts alongside this new report, which has some sobering findings on the extent to which problem debt seems hardwired into many people's life experience.

Many of our own findings are similar. Among our clients, we see an increasingly intractable problem of people simply not having enough money to make ends meet. Human nature means people seek workarounds or temporary fixes to their financial difficulties, and all too often those create spirals from which it can be hard to recover. The example of Buy Now, Pay Later is a case in point; research shows that there is a correlation between BNPL use and financial stress, yet consumer understanding of the product can be patchy, and regulation isn't keeping up with the market. We'd like to see it catch up, and quickly – we have been saying this for too long.

Creditspring rightly identifies transparency and consumer understanding as fundamental needs. We agree. Separate research that we've done on how firms (including debt advice organisations) communicate it highlights the differences in behaviour that can be achieved by shifting the dial on tone, intelligibility, and empathy. Like all FCA-regulated firms, we're working hard to embed these lessons to help us ensure that Consumer Duty is something that we live and breathe, including how we communicate, so that our clients get the best outcomes possible. It's incumbent too on lenders, especially, to do this.

Unfortunately, transparency and consumer understanding aren't necessarily enough to prevent problem debt – life shocks are the cause of most people's debt experience. So, we're also focused on the need for policy change to ensure that adequate safety nets are in place to catch people when they stumble. At the moment, these have gaping holes.

The consequence is that, however hard and innovatively lenders work to try to make sure they lend responsibly, sometimes they won't be able to prevent problems, and sometimes they won't be able to solve them. The key then is how they respond. Signposting people to holistic debt advice – such as that which StepChange offers – that can consider all their income and expenditure in the round and establish a fair and structured way of dealing with multiple debts is essential.

We value our partnerships with creditors who understand this, and we're grateful for reports such as this one that help to shine further light on debt and the importance of dealing with the negative unintended consequences that it can cause in people's lives.

Introduction

"We've weathered the storm, but at what cost?"

The UK is creaking under the strain of a fierce cost of living crisis. Set against this volatile economic backdrop, Creditspring's fourth Financial Stability Tracker takes a deep and holistic look at the financial health of Brits and seeks to make better sense of the situation, as well as laying out actionable steps to improve the situation.

Our first Tracker explored in detail the financial pain points facing UK consumers, identifying areas where financial service providers and the government could do more to provide support. In subsequent reports we have delved deeper into themes touched on in the first iteration, with focus areas including mental health, the impact of the cost of living on disabled people, and the BNPL boom.

In February 2024, we once again commissioned our partners at Opinium to survey 2,000 adults across the country to gauge the pressures they continue to face as they struggle with the rising cost of living.

Over the past few years, household finances have taken hit after hit, and now, as we emerge from a winter of exorbitant utility bills, ongoing inflation, ever-rising cost of essentials, and real wage stagnation, many people have reached a breaking point.

Without an adequate savings cushion, millions have little option but to rely on short-term credit to pay their bills or meet unexpected costs. Many are facing more expensive credit options, or even being pushed towards illegal lenders, because their thin files or poor credit scores lock them out of mainstream borrowing. They need help – and the industry must do more to provide better solutions.

There are some encouraging signs; last year the Financial Conduct Authority (FCA) introduced its new Consumer Duty rules with the aim of setting higher and clearer standards of consumer protection across financial services. And the regulator has started to put pressure on lenders who aren't acting quickly.

Lenders now need to build on these new rules and do more to support customers, lend responsibly, and ensure that consumers are equipped with the necessary skills and information to make more informed financial decisions.

One of the most significant hurdles this group faces is that credit is still far too complicated. The majority of borrowers don't read the small print and terms and conditions in detail, and even if they do, they must wade through reams of technical jargon that is incredibly difficult to understand.

A simpler and fairer approach is desperately needed. One that lays out the true cost of borrowing clearly, without jargon, and supports people to better manage their financial lives during these challenging times.

A quarter of those surveyed told us their mental health won't improve whilst they remain in debt. The increased financial stability they would get from safer, more predictable models – such as subscription finance – would help ease the UK's mental health burden. The credit sector needs to adopt a new mindset before the damage highlighted in this report becomes irreversible.

01

A nation terrified for its financial future

Although inflation is down on its peak of 11.1% in October 2022, and food price inflation is slowly falling, for many people the damage has already been done. And they are now being hit by price rises in other areas, such as the increase of rail fares[1] by up to 4.9% from March 2024.

As the impact of the cost of living crisis rumbles on, half (48%) of those surveyed say that rising costs are making them feel financially unstable, with the figure rising to 57% of 18-34 year olds; a demographic that typically has fewer assets to fall back on.

As a result, three in ten (28%) are now terrified for their financial future – a similar number to last year, when 30% of those surveyed admitted to feeling terrified. The situation appears to be stagnating for some, but is actually getting worse for many.

A recent report from the National Institute of Economic and Social Research (NIESR)[2] revealed Britain's poorest households have suffered a staggering £4,500 hit to their finances since the start of the Covid pandemic, with those on lower incomes bearing the brunt of the ongoing cost of living crisis.

21%

of 18-34 year olds are reliant on savings to pay their rent or mortgage

Three in ten (28%) say they are the most financially unstable they've ever been, rising to 37% of renters. A similar proportion (29%) say that housing costs have increased so much that they no longer know how they will afford these costs and are questioning how they will be able to keep a roof above their heads.

A third (33%) are only getting by due to their savings. But what will happen when these savings run dry? It's concerning that 13% are reliant on savings to pay their rent or mortgage, rising to 21% of 18-34 year olds. When they run out, where will they turn for help? Already, a fifth (21%) of people don't have any savings at all.

The situation is unlikely to improve any time soon, with 35% saying they don't expect to be able to save any money in the next six months, rising to nearly half (45%) of 35-54 year olds. This is an increase from the 37% who said the same in 2023.

One in five (17%), and 25% of 18-34 year olds, say that they will have no choice but to take out a loan when their savings are gone. With more people set to be seeking loans, it's incumbent on providers to ensure that all consumers have access to fair, transparent sources of credit – but this isn't always the case.

Top five financial concerns in 2024*

Concern	%
Rising cost of living	50%
Energy cap / high cost of utility bills	37%
Inflation	28%
Mortgage or rent costs	17%
Running out of savings	16%

** Selected from a multiple-choice question.*

02

The real cost of high-cost borrowing

People are desperately looking for solutions to address their deepening financial plight. In this vein, around one in ten (12%) are considering whether they will need to declare themselves bankrupt in the next six months, whilst a quarter (26%) of 18-34 year olds are facing the prospect of moving back in with their parents because they simply cannot afford to live alone.

Others (26%) say they are likely to start a side hustle or second job to make ends meet, whilst one in five (19%) think they will have to rely more on state benefits to get by, rising to 26% of 18-34 year olds.

Credit is providing a lifeline for many. Our research reveals that one in seven (13%) adults are reliant on credit to pay their bills – rising to a fifth (19%) of renters. This reliance is only set to grow, with nearly one in five (16%) saying they will need to borrow to get by in the next six months, jumping to 26% among 18-34 year olds.

The spectre of some damaging short-term credit option

Against a backdrop of growing reliance on credit and increasing levels of financial vulnerability, there is strong evidence that people are being pushed towards damaging high-cost credit. More than a quarter (27%) of those surveyed have turned to high-cost lenders after being rejected by mainstream lenders – worryingly, this figure has grown from 22% in 2023.

This type of credit can lead to poorer financial outcomes in the long term. Indeed, one in seven (14%) said that borrowing money from a high-cost lender has made them fall into a spiral of debt, and a third (35%) struggled to repay the money they borrowed from a high-cost lender (up from 23% in 2023).

Transparency is also an issue, with people increasingly unclear of the true cost of taking out this type of credit - three in ten (30%) say that the fees and charges were higher than originally expected, compared to 20% in 2023.

These are damning figures and speak to the fact that some lenders continue to deliberately offer misleading information to encourage people to take on more debt in order to generate higher profit margins for their business. The industry is also plagued with hidden, or unexpected, fees that are further fuelling consumer mistrust.

The FCA's Consumer Duty is working to address these issues, but there is a real and urgent need for affordable, short-term credit options that provide an alternative to high-cost borrowing and Britain's irresponsible, predatory lenders. Now more than ever, it is crucial to build a fairer, more inclusive credit system that is genuinely supportive of those who need it.

And it is something that is urgently needed. Three in ten (29%) think their bank could do more to support them – rising to two in five (43%) of 18-34 year olds – and three in ten (29%) say they need much more guidance about the support options available to them. That's why we launched the Creditspring Benefits Finder, which helps people discover unclaimed benefits they may be entitled to. To date, the Benefits Finder – which is free for anyone to use - has helped people to find more than £430 million in previously unclaimed benefits, with an average of £896 per month.

30%

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27%

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up from 22% in 2023

35%

struggled to repay the money they borrowed from a high-cost lender

The BNPL boom, a ticking time bomb?

In recent years, the number of consumers using Buy Now Pay Later has increased significantly. Research from Finder[3] shows that as of 2024, around half of UK adults – equating to around 26.4 million people – have used BNPL. This is up from 36% at the start of 2023.

As it stands today, BNPL is being used at scale across the UK. It is the second most common form of borrowing after credit cards, with one in ten (10%) people using BNPL since August 2023 compared to 16% using credit cards. A quarter (25%) of people use BNPL once a month or more (rising to 36% among 18-34 year olds), and a fifth (21%) of people say it is their preferred payment method for online shopping.

Part of the spike in usage may be due to a perceived sense of familiarity, which can in turn create the illusion of safety. Our research shows that a fifth (20%) of 18-34 year olds chose to use BNPL after seeing their friends use it.

If used in a safe and responsible way, BNPL can be useful in spreading the cost of a higher value purchase. But to be safe and responsible requires a level of understanding about the exact nature of BNPL and its associated risks, which our research shows is currently lacking among the general population.

36%

of 18-34 year olds use BNPL once a month or more

25%

of people use BNPL once a month or more

21%

of people say BNPL is their preferred payment method for online shopping

There is clear evidence that these misunderstandings around BNPL are contributing to reckless financial behaviour that is causing further damage to economic circumstances - one in seven (15%) respondents to our survey admit they don't feel in control of their spending when using BNPL.

As financial products remain confusing – and potentially dangerous – a significant change is needed in the credit market. The FCA's Consumer Duty rules are a step in the right direction, but further regulation is now vital.

More broadly, there are early signs that some players in the market may be recognising the potential pitfalls of BNPL and taking decisive action to protect consumers. NatWest, for example, recently announced that it will be shutting down its BNPL offering after just two years.

NatWest cited lack of demand as the reason for terminating its BNPL offering which, for some is an early indicator of a bigger shift towards overall decline in the popularity of the product, the catalyst for which is a lack of consumer trust as governments fail to regulate BNPL. For others, it's merely a symptom of an overcrowded market - a view that's supported by the collapse of BNPL provider Openpay in 2023, and Zip exiting the UK market in 2022 following a major loss.

Whatever the future of BNPL, what's clear is that dangerous misconceptions are rife. This is not the fault of consumers – if they are on a trusted website and a payment option is being pushed to them at checkout, it's natural that they would trust it.

Instead, the onus must be on the government to bring in appropriate regulation, and fast. But policymakers continue to drag their heels, and until such a time that BNPL becomes a fully regulated financial product, it is on BNPL providers to step up and fill the void. They must take responsibility for communicating clearly with customers, ensuring they are fully aware of the financial contract they are agreeing to, and its potential ramifications.

83% are unaware that BNPL is not a financially regulated product

52% are unaware that they can file a complaint to the Financial Ombudsman about a BNPL issue

50% are unaware that using BNPL can impact their credit score

45% don't know that if they miss a BNPL payment they could be referred to a debt collector

43% don't know that BNPL lenders add a late payment fee for missed payments

35% don't know they can get into debt using BNPL

28% are unaware that BNPL is a form of borrowing

The intrinsic link between mental and financial health

Last year's Financial Stability Tracker exposed a deepening connection between money and mental health, and the findings from this year's research show that the link is starting to create issues in other areas of life, including the workplace. Three in ten (29%) people say that their mental health has significantly worsened as a direct result of the cost of living crisis, and a fifth (21%) say that this is now the worst their mental health has ever been because of money worries, rising to three in ten (28%) 18-34 year olds.

With our findings echoing that of the Office for National Statistics (ONS[4]) which show rates of depression were higher among those who found it hard to afford housing costs or energy bills, there is a clear need to address financial challenges head on, and work to ease financial pressure so people can have some breathing space to address their mental health. This is particularly important when considering that a quarter (24%) of people don't think their mental health can improve as long as they are in debt.

For many people, their worsening mental health is having a knock on impact in other areas of their lives. One in five (22%) struggle to sleep at night due to money worries, rising to three in ten (31%) among 18-34 year olds, and a fifth (20%) say that money worries are impacting their ability to perform well at work, increasing to 31% among young people (18-34).

These findings align with a recent report from the Resolution Foundation[5] which shows that young people with mental health problems are more likely to be out of work than their peers.

Tackling this issue demands a coordinated, cross-sector approach. It requires healthcare systems to ensure the right support is available for people to improve their mental health, and for the government and financial providers to provide the policies, products and services to ensure consumers can improve their financial health and resilience.

29%
of people say that their mental health has significantly worsened as a direct result of the cost of living crisis

21%
of people say that this is now the worst their mental health has ever been

28%
of 18-34 year olds say that this is now the worst their mental health has ever been

22%
of people struggle to sleep at night

31%
of 18-34 year olds struggle to sleep at night

20%
say that money worries are impacting their ability to perform well at work

31%
of 18-34 year olds say that money worries are impacting their ability to perform well at work

How finances are impacting life choices

This year's research also shows that finances are increasingly impacting the choices people make. Within this theme, our research explores having children and ability to choose when to retire.

Having children: a choice increasingly dictated by finances

Child Poverty and Action Group[6] estimates the cost of raising a child to age 18 in 2023 was £166,000 for a couple. This is a significant sum of money, particularly when considered in the context of other financial demands, for example rising housing costs, utility bills, and food.

And now it appears that financial pressure is a key factor in peoples' decisions to have children or grow their family. A quarter (25%) of 18-34 year olds say that, despite wanting children, they have decided not to as it is too expensive, rising to more than a third (35%) for people living in London. And half (49%) of those aged between 18 and 34 have chosen not to have another child, despite wanting one, as it is too costly.

Sadly, the impact of the cost of living is being felt even more acutely by those reliant on IVF to have a child. One in ten (11%) women who say they were planning to undergo IVF treatment to have a child can no longer afford it due to cost of living pressures, with the figure doubling to one in five (22%) in London.

With the UK birth rate falling to a record low, and campaigners saying that procreation has become a luxury amidst rising housing and childcare costs[7], our research highlights the extent to which financial pressures are a key consideration for people wanting to start or grow their family.

Retirement: hopes are postponed

According to the Pensions and Lifetime Savings Association (PLSA)[8], the annual cost of a 'moderate' retirement income for a single person is now £31,300, up from £23,300 a year earlier.

With such a significant increase in a short space of time, it's natural that many people are rethinking their retirement plans to ensure they are able to live comfortably. Our research shows that one in five (18%) plan to postpone their retirement plans to cope with rising living costs, and this rises to a quarter (25%) of 35-54 year olds.

Nearly one in five workers (16%) have had to come out of retirement to make ends meet, and this is a trend that's being seen particularly in London, where around a quarter (23%) of people have ended their retirement to cope with rising costs.

06

It's time for action

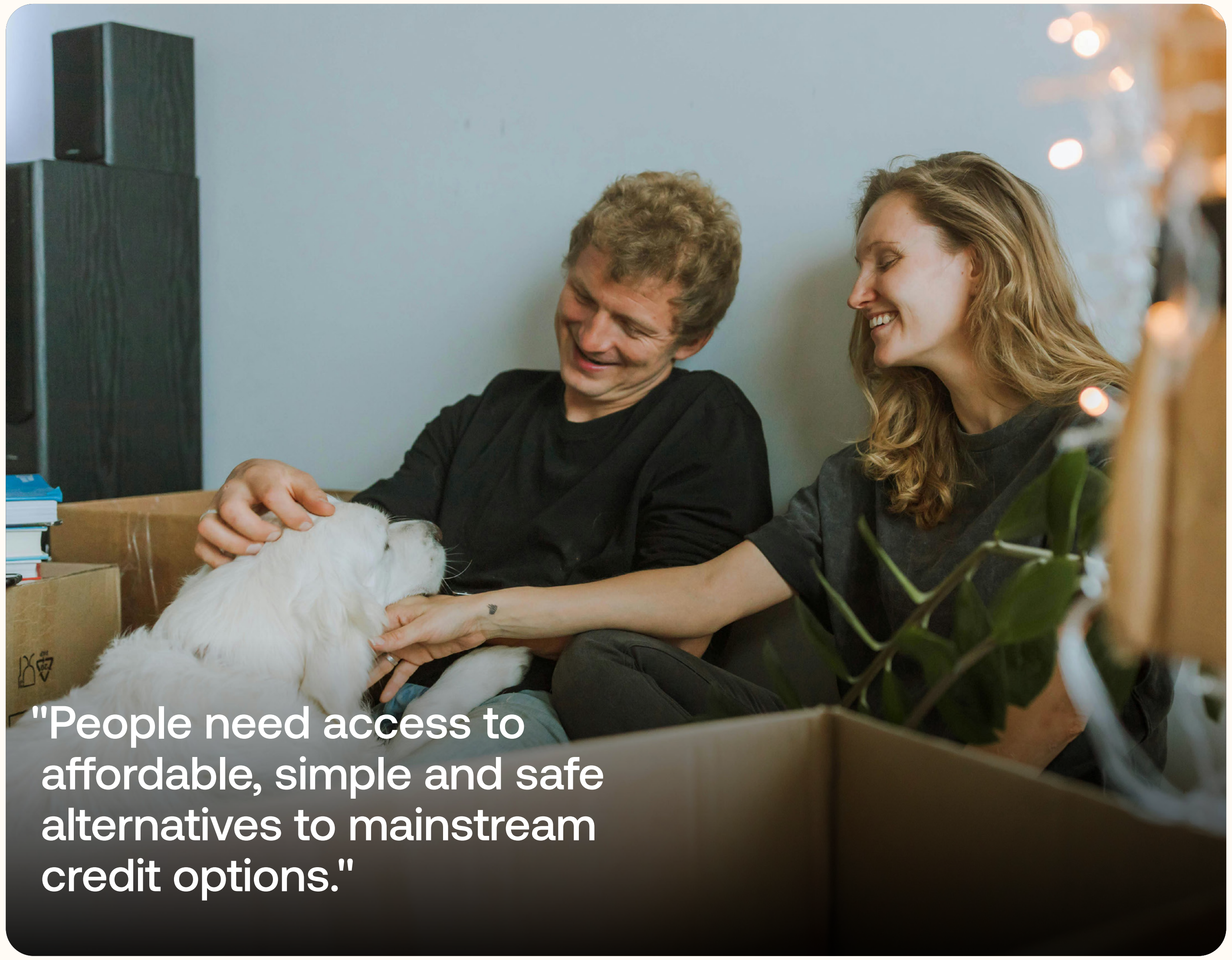
It's been a challenging few years for people across the UK, and our research shows the true extent to which this is impacting peoples' mental health, life decisions and overall financial situation.

Now, as savings start to run dry after years of financial pressure, many people are forced to turn to predatory short-term lenders just to afford essential costs. But there is a longer term, financially ruinous cost to high-cost credit, and it is critical that consumers are protected from making decisions that will not serve them in the long run.

Credit is a crucial part of a functioning economy and demand shows no sign of declining anytime soon. To the contrary, reliance on credit and borrowing will likely increase further as people continue to struggle with rising costs with fewer savings to fall back on, and in many cases greater debt piles.

Of course, there are other longstanding issues with credit products. The industry must also do more to support borrowers; young people are crying out for their banks and other financial providers to offer them more effective support. Almost of equal importance is finally tackling the stigma around borrowing encouraging people to reach out for advice or support when they need it.

However, the sad fact remains, too many people remain locked out of mainstream credit. This needs to change.



Boosting transparency in the credit industry is a vital step. People need access to affordable, simple and safe alternatives to mainstream credit options, and this requires:

- A simpler approach to borrowing so people can easily understand the true cost of credit
- Clearer terms - no confusing terms and conditions that can lead to debt spirals
- No misleading information that encourages people to take on more debt than they can safely afford to repay. This should not be a viable business model in the 21st century

This is where subscription finance comes in; it's relatable and makes things easier for consumers to understand. It can help to drive more responsible lending and transform our broken system.

With Creditspring, people pay a small, fixed monthly subscription fee, and can then access up to two no interest loans per year, to use as they need. This means our members know exactly how much they are going to pay the moment they apply as it eliminates confusing APRs, hidden charges, and - most importantly – the risk of debt spiralling uncontrollably.

It's fairer, safer, and easier to understand. And it can empower people to take back control and improve their financial resilience at a time when households are under intense pressure.

It is our sincere hope that by the time we publish the next Financial Stability Tracker some of the issues outlined in the report will have been addressed. In the meantime, we remain committed to driving positive change, and showing how prioritising simplicity and fairness can create a brighter, more stable future for all.

Creditspring

At Creditspring, we believe that subscription finance can deliver the clarity, transparency and safety consumers need in their credit products. This is why we're confident our model is the best solution for UK consumers looking for credit. With a Trustpilot score of 4.8 and thousands of thank-you notes, our members agree.

Excellent ★★★★★ **11,042 reviews on** ★ Trustpilot

Upfront Cost

We have removed the confusing interest aspect of credit to make things easier for our members.

No Hidden Costs

You pay your small monthly fee, the no-interest loans, and that's it!

Easy To Plan

Our membership model makes it easy to plan your repayments. The moment you sign up you know exactly how much and when you will repay.

No Debt Spiral

The membership model is specially designed to eliminate the risk of a debt spiral, so you can work on your financial resilience without worries.

Same Price For All

We believe it's unfair for financial products to become more expensive when you are tight on money. With Creditspring, the Prime Minister would pay the same as you.

Clarity

You shouldn't need to be a banker to understand your products. We use easy-to-understand words so you know exactly what you're signing up for.

Easy Access To Your Funds

Access your loans when you want to, not when someone else wants to give them to you!

Easy To Understand

We use a language and a model our members know and get from everyday life, which can't be said about APRs.

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