

CONSUMER ATTITUDES TOWARDS DEBT AND CREDIT – UK – 2023

Consumer lending is set to expand further in 2023, driven by rising use of credit cards and overdrafts as people look to navigate the cost of living crisis.



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Consumer Attitudes Towards Debt And Credit - UK - 2023

This report looks at the following areas:

- The impact of the cost of living crisis on consumer borrowing
- Size of the secured and unsecured consumer credit markets
- How much unsecured debt consumers hold, and how comfortable they are with their debts
- Use of support and advice services for managing debt
- Consumer attitudes towards debt and borrowing



Consumer lending is set to expand further in 2023, driven by rising use of credit cards and overdrafts as people look to navigate the cost of living crisis.

Overview

Total unsecured consumer lending is set to grow by 10.2% in 2023. This is being driven by rising use of credit cards and overdrafts as the most accessible, convenient forms of revolving credit. Although interest rates continue to rise, many consumers will have no option but to continue expanding their use of credit.

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Report Content



Key issues covered in this Report

- Overview

EXECUTIVE SUMMARY

Opportunities for the credit market

- Overdraft deals can become a key current account switching incentive
- Banks must be proactive on debt support and guiding customers to advice services
- Utilise Open Banking to help customers find the best deals on credit

Market dynamics and outlook

- The cost of living crisis is driving demand for credit
 - Graph 1: gross consumer credit lending (excluding student loans), 2018-23
- Total unsecured consumer credit set to reach £359 billion in 2023
- Net lending reaches highest monthly level for six years
 - Graph 2: Monthly consumer credit net lending (excluding student loans), 2020-23

What consumers want and why

- Credit cards continue to be the most common form of consumer debt
- Credit cards continue to be the most common form of consumer debt
 - Graph 3: Types of credit owned, 2023
- 38% of unsecured debts are under £1,000
 - Graph 4: total level of unsecured debt, 2023
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 - Graph 5: consumer comfort with levels of unsecured debt, 2023
- The use of credit for unexpected bills highlights a lack of financial resilience
 - Graph 6: reasons for borrowing money, 2023
- There is opportunity to expand pre-emptive debt help
- Strong opportunity to expand the use of Open Banking to bring consumers the best deals on credit products
 - Graph 7: attitudes towards debt and credit, 2023

Innovation and marketing

- Above-the-line spend declines despite consumers seeking credit to navigate the cost-of living crisis
 - Graph 8: total above-the-line, online display and direct mail advertising expenditure on credit and loan products, 2018-23

MARKET DYNAMICS

Unsecured debt market

- The cost of living crisis is driving demand for credit
 - Graph 9: gross consumer credit lending (excluding student loans), 2018-23
- Total unsecured consumer credit set to reach £359 billion in 2023
- Gross credit card lending expands by 10.5%
 - Graph 10: gross credit card lending, 2018-23
- Other consumer credit set to grow as overdraft use rises
 - Graph 11: gross other consumer credit lending (excluding credit cards), 2018-23
- Net lending reaches highest monthly level for six years
 - Graph 12: Monthly consumer credit net lending (excluding student loans), 2020-23
- Household debts are on the rise again after the pandemic pay-off
 - Graph 13: outstanding unsecured debts (excluding student loans), 2020-23

Secured debt market

- Mortgage lending set for 20% decline in 2023
 - Graph 14: gross mortgage lending, 2018-23
- Rising interest rates have hit mortgage lending
- The cost of living crisis will limit house purchasing throughout 2023
 - Graph 15: monthly gross mortgage lending, by purpose, 2020-23

Cost of debt

- Rising interest rates are not dampening the need for consumer credit
 - Graph 16: interest rates on unsecured credit products, 2020-23
- The cost of living is driving overdraft use despite higher interest rates
- Rising mortgage rates will hit affordability
 - Graph 17: interest rates for selected types of mortgages, 2020-23
- Increased mortgage costs will see homeowner incomes squeezed

Write-offs, bankruptcies and insolvencies

- Debt write-offs remain fairly constant in 2022 despite the rising cost of living
 - Graph 18: value of write-offs to individuals, 2011-22
- The income squeeze has not yet translated to rising debt write-offs
- Bankruptcies decline to lowest level in over a decade
 - Graph 19: number of individual insolvencies, 2011-22
- Insolvency framework changes on the horizon with government expected to publish proposals in 2024

Macro-economic factors

- Inflation declines in the first half of 2023 but remains a concern for consumers
 - Graph 20: CPI and CPIH inflation, 2016-23
- Bank of England raises base rate more than a dozen times since start of 2022
 - Graph 21: Bank of England base rate changes, 2017-23
- Consumer sentiment: the recovery has begun...
 - Graph 22: the financial wellbeing index, 2016-23
- ...and people feel more confident about their financial prospects
 - Graph 23: the financial confidence index, 2016-23
- Demand for credit will remain, with two thirds of people feeling the impact of rising food and drink prices
 - Graph 24: issues affecting consumers in the last two months, 2023

Regulatory and legislative changes

- FCA's Consumer Duty comes into effect
- The Consumer Duty focuses on four key outcomes
- Consumer Credit Act reforms on the horizon
- Regulation of BNPL could be delayed

WHAT CONSUMERS WANT AND WHY

Types of credit held

- Two thirds of consumers have some form of debt
 - Graph 25: types of credit owned, NET, 2023
- Credit cards continue to be the most common form of consumer debt
 - Graph 26: types of credit owned, 2023
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 - Graph 27: consumers with current account overdraft facility debt, 2023
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 - Graph 28: consumers with buy now pay later/instant digital credit debt, 2023
- A quarter of under-35s hold debt on three or more forms of credit
 - Graph 29: repertoire of types of credit owned, 2023

Value of unsecured credit

- 38% of unsecured debts are under £1,000
 - Graph 30: total level of unsecured debt, 2023
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- Graph 31: total value of unsecured debt, by financial situation, 2023

Consumer comfort with debt levels

- Comfort with debt has declined in the last two years as people feel the income squeeze
- Comfort with debt has declined in the last 2 years
- Revolving credit will remain popular with those in healthy financial positions
 - Graph 32: consumer comfort with levels of unsecured debt, by financial situation, 2023
- There remains a gender gap in comfort with debt
 - Graph 33: consumer comfort with levels of unsecured debt, by gender, 2023

Reasons for borrowing money

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 - Graph 34: reasons for borrowing money, 2023
- Lack of financial resilience creates opportunity for income protection cover
- Consumers in healthy financial situations are more likely to use credit for holidays
 - Graph 35: reasons for borrowing money, by financial situation, 2023
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 - Graph 36: use of tools and advice services to manage debts, 2023
- Financial providers must be proactive in providing tools to manage debts
- App-based debt tools can help younger consumers manage their finances
 - Graph 37: use of tools and advice services to manage debts, NET, by age, 2023
- Mobile banking can become the first port of call for credit ratings and debt support...
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- Debt charities leads the way but support options are extremely fragmented
 - Graph 38: tools and advice services used to manage debts, 2023
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- Strong opportunity to expand the use of Open Banking to bring consumers the best deals on credit products
 - Graph 39: attitudes towards debt and credit, 2023
- Price comparison sites are well-placed to offer objective guidance on credit products
- Show consumers their likelihood of approval for credit products
- Show consumers their likelihood of approval for credit products...
 - Graph 40: attitudes towards data sharing and credit products, by age, 2023
- ...because many younger demographics are being rejected
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 - Graph 41: plans for new lines of credit in the year ahead, by age, 2023

- Encourage younger people to switch current accounts with enticing credit options
 - Graph 42: moving banks to access better credit options, by age, 2023
- A quarter of people with unsecured debts expect balances to rise in the next year
 - Graph 43: attitudes towards existing debts, 2023
- Increased support is vital with debts set to increase and payments already being missed
 - Graph 44: expectations of rising debt levels in the year ahead, by age, 2023
- Rising interest rates are a major concern and people are making cutbacks
- Two fifths of revolving credit borrowers have higher repayments than a year ago
 - Graph 45: attitudes towards revolving credit, 2023
- Paying down revolving credit is a growing priority

INNOVATION AND MARKETING TRENDS

Competitive strategies and launch activity

- NatWest enhances its free credit rating services
- HSBC and First Direct offer interest-free overdraft
- Experian data included in Zopa's credit decisions
- After rapid current account growth, Chase looks to credit products
- Monzo consumer lending drives first monthly profit
- Klarna adds late fees and credit opt-out function
- Nationwide reaffirms promise to keep branches open for cost of living support

Advertising and marketing activity

- Advertising spend on credit and loan products remains below pre-pandemic levels
- Above-the-line spend declines despite consumers seeking credit to navigate the cost-of living crisis
 - Graph 46: total above-the-line, online display and direct mail advertising expenditure on credit and loan products, 2018-23
- Halifax leads the way after significantly increasing above-the-line adspend
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- BNPL providers receive warnings over advertising as regulation looms
- Experian looks to be the first port of call with for people seeking credit products
- Barclaycard's latest TV ad focuses on its interest-free periods

APPENDIX

Report scope and definitions

- Report scope

- Market definition
- Abbreviations and terms

Methodology

- Consumer research methodology
- Nielsen ad intel coverage

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