

PERSONAL LOANS – UK – 2024

Interest rate rises have made loans more expensive, but demand remains high, both for aspirational goals and debt consolidation.



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Personal Loans - UK - 2024

This report looks at the following areas:

- Market performance over the last five years and forecast for 2024-28
- Market share of major unsecured loans providers
- Ownership of unsecured loan products
- Future borrowing plans
- Loan purchase drivers
- Consumer attitudes towards personal loans



Interest rate rises have made loans more expensive, but demand remains high, both for aspirational goals and debt consolidation.

Overview

Borrowers still most likely to owe money from a traditional lender

Retail banks, building societies and retailers account for 50% of existing personal loan customers. Traditional lenders provide a sense of safety and security for consumers when taking out a loan, as they have long track records of providing finance to individuals.

Low interest rates will entice the most new customers

For lenders, competing on interest rates is a key part of attracting new business. 44% of existing or would-be borrowers consider low interest rates as an important factor when choosing a new loan. With rates having risen across the market, there is now more scope for cheaper products to stand out.

Borrowers' concerns around taking out a loan in the current economic environment need to be addressed

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58% of consumers say that the current economic uncertainty has made them concerned about taking out a loan. High interest rates and stubborn inflation mean more people are monitoring their finances, and this will have an impact on the types of credit borrowers use to fund purchases. Lenders can ease concerns around the economy by allowing payment holidays or offering flexible repayments to suit an individual's needs so that it does not endanger their ability to pay for other necessary expenses.

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Report Content

EXECUTIVE SUMMARY

Opportunities for the personal loans market

- Confusion around loan impact on credit scores can be reduced by improving product information
- Promote tailored loans to under-35s to benefit from greatest borrowing intent
- Providers must continue to offer support as economic concerns remain

Market dynamics and outlook

- The five year outlook for personal loans
- Value of personal loan lending expected to rise by 18% to 2028
- Total consumer credit lending reaches new high in 2023
 - Graph 1: gross unsecured lending, by credit card lending and other consumer credit lending, 2013-23
- Lloyds Banking Group leads unsecured lending market
 - Graph 2: value of outstanding balances for unsecured personal loans/unsecured lending, by selected providers, 2022

What consumers want and why

- Over half of Brits have unsecured debts
 - Graph 3: loan and credit product ownership, 2023
- Half of loans originate from traditional lenders
- Half of structured loans were taken out within the last year
 - Graph 4: timing of most recent structured unsecured personal loan* taken out, 2023
- Most loan holders initially borrowed more than £5,000
 - Graph 5: value of the most recent type of structured personal loan* taken out, 2023
- Prospective borrowers are drawn to loans for a wide range of reasons
- Low interest rates and flexible repayments key to new borrowing
- Ability to repay and economic doubts lead concerns around personal loans
 - Graph 6: attitudes towards personal loans, 2023

Innovation and Marketing

- Shawbrook Bank introduces new capability to reduce loan processing time
- Nationwide makes changes to offering as it upgrades its systems

MARKET DYNAMICS

Market size and performance

- Personal loans lending grew in 2023...
 - Graph 7: gross lending on unsecured personal loans, NSA, 2019-23

- ...and surpassed pre-pandemic levels

Market forecast

- Value of new personal loans lending expected to rise...
- ...but at a slower rate compared to recent years
- Learnings from the last income squeeze
- Forecast methodology

Market share

- Lloyds Banking Group is the biggest unsecured loans lender
- Most lenders report an improvement in their loan books

Broader consumer credit environment

- Total consumer credit lending reaches new high in 2023
 - Graph 8: gross unsecured lending, by credit card lending and other consumer credit lending, 2013-23
- Credit card lending drives growth in gross unsecured lending...
- ...with other forms of consumer credit also surpassing pre-pandemic levels
- Uptick in all quoted loan interest rates...
 - Graph 9: Bank of England base rate and quoted interest rates for personal loans, credit cards and overdrafts, 2020-23
- ...with base rate changes making personal loans less affordable

Macro-economic factors

- Inflation is still the key factor affecting consumers' finances
 - Graph 10: RPI and CPI inflation rate, 2021-24
- Consumer sentiment: the recovery is continuing...
 - Graph 11: household financial wellbeing index, 2019-23
- ...but most people are still feeling the effects of higher prices
 - Graph 12: "Have you been affected by any of these issues over the last two months? Please select all that apply.", December 2023
- Household savings activity fell in 2023...
- ...but showed signs of improvement in the last quarter
 - Graph 13: monthly changes to household savings deposits, 2019-23

Social, environmental and legal factors

- Consumer Duty adds regulatory burden but should improve borrower support
- The Consumer Duty focuses on four key outcomes
- FCA sets out credit information market remedies
- UK government plans to reform the Consumer Credit Act
- Regulation of BNPL yet to be confirmed

WHAT CONSUMERS WANT AND WHY

Loan and credit product ownership

- Over half of Brits have unsecured debts
 - Graph 14: loan and credit product ownership, 2023
- Those aged 35-54 most likely to owe money on a personal loan
 - Graph 15: loan and credit product ownership, by age, 2023
- Credit cards and BNPL provide stiff competition to personal loans
- Most borrowers owe money on only one form of credit
 - Graph 16: number of loan and credit products that consumers currently owe money on, 2023
- Personal loans more commonly held by those with multiple credit products...
 - Graph 17: loan and credit product ownership, by number of loan and credit products that consumers currently owe money on, 2023
- ...as borrowers build-up experience and confidence before taking out a loan

Type of loan held

- Half of loans originate from traditional lenders...
 - Graph 18: type of structured unsecured loan* money is owed on, 2023
- ...but specialist lenders play a major role
- Half of structured loans were taken out within the last year
 - Graph 19: timing of most recent structured personal loan* taken out, 2022-23
- A quarter of loan borrowers have a high-cost credit product

Value of most recent loan

- Borrowers are most likely to have taken a loan for between £5,000 and £10,000
 - Graph 20: value of the most recent type of structured personal loan* taken out, 2023
- Most initially borrowed more than £5,000

Future loan borrowing plans

- Appetite for personal loans remains healthy...
 - Graph 21: consideration of taking out an unsecured personal loan, by household income, 2023
- ...rising to a third of under-35s
- Higher earners most likely to take out a loan in the next year...
 - Graph 21: consideration of taking out an unsecured personal loan, by household income, 2023
- ...but weak financial resilience could also drive loan uptake

Reasons to apply for a loan in the next 12 months

- Prospective borrowers are drawn to loans for a wide range of reasons
 - Graph 22: reasons for considering taking out an unsecured personal loan, 2022-23
- Home improvements most common reason for potential loan ownership

- Lenders have opportunities to engage with those looking to consolidate debt and make ends meet...
- ...but they must also offer support to protect those most vulnerable

Important loan factors

- Low interest rates and flexible repayments key to new borrowing
 - Graph 23: important factors when choosing a new loan, 2023
- Getting the cheapest deal is essential for many, but not always easy to achieve
- Flexible repayment structures and payment holidays still favoured
- Lender reputation is key to building trust and customer use

Attitudes towards personal loans

- Ability to repay and economic doubts lead concerns around personal loans
 - Graph 24: attitudes towards personal loans, 2023
- Providers need to utilise customer data to ensure repayments are viable
- Lenders need to promote the benefits of digital channels...
 - Graph 25: consumers who think personal loan providers should have an in-person application process available, by age, 2023
- ...that could also boost product awareness
- Under-35s most concerned about damaging their credit score
- Lenders need to reassure and support younger millennial workers...
- ...who are most concerned about borrowing in the economic climate

INNOVATION AND MARKETING TRENDS

Competitive strategies and launch activities

- Aro adds Plend to its lending panel...
- ...and partners with Money Expert to improve credit solutions
- Abound secures equity and debt financing to help improve access to loans
- Amplifi Capital agrees securitisation to expand Reevo Money
- Nationwide tightens access to loans as it upgrades its systems
- Paylink launches automated debt consolidation solution

Advertising and marketing activity

- Above-the-line advertising spend hits five-year low
 - Graph 26: total above-the-line, online display and direct mail advertising on unsecured loans and payday loans, 2018/19-2022/23
- Sub- and near-prime lenders account for majority of adspend...
- ...with Paypal the highest spender
- Digital channels attract highest overall ad spend...
- ...but strategies differ between lenders

- Graph 27: total above-the-line, online display and direct mail advertising on unsecured loans and payday loans, by media type, 2018/19-2022/23

APPENDIX

Market forecast data and methodology

- Market forecast and prediction intervals
- Forecast methodology

Report scope and definitions

- Market definition
- Abbreviations and terms

Methodology

- Consumer research methodology
- CHAID analysis – methodology data
- Nielsen Ad Intel Coverage

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