

Britainthinks

——— Insight & Strategy ———

Financial services and the cost of living crisis

Webinar

Wednesday 13th July 2022



We put the people that matter at the heart of your thinking.

70+ Staff.

Year on Year Growth for a Decade.

Blended Methods.



The cost-of-living has risen significantly this year, and the impacts of this are already hitting home

In April we saw...

Energy price cap

↑ **54%**

National Insurance

↑ **1.25%**

And since the start of this year we have also seen...

Rent

↑ **8.6%**

Water bills

↑ **1.7%**

Council tax

↑ **3.5%**

With **food prices predicted to rise by up to 8.5%**, and a freeze on the income tax threshold, all this adds up to a **£1,200 hit to incomes**, which is felt most keenly by those on lower incomes.

At BritainThinks we have been conducting research to understand more about how these increases are affecting people, and the changes they expect to have to make as a result.



Why are we here today?

We have just completed our second wave of 'Cost of Living Diaries' – our self-funded research into the cost-of-living – to see how attitudes and behaviours have changed since the first wave in March.

For this webinar, we want to look specifically at the cost-of-living crisis through a financial services lens and consider what rising prices mean for your industry.

We will be exploring how consumers' attitudes and behaviours are changing, and where the financial services sector can help.



We have five key areas for you to consider:

1

Despite being stretched, people still want to enjoy themselves

2

Credit will be crucial, but what your customers need may be changing

3

A younger audience is turning to investing, but they are at risk from potential harms

4

There is a need to understand the newly vulnerable, because they will need support

5

Digital services drive engagement, but should be designed with the consumer in mind

#1

Despite their concerns,
people still want to
enjoy themselves



We know people are worried about the cost of living increases

92%

Are concerned

64%

Are very concerned

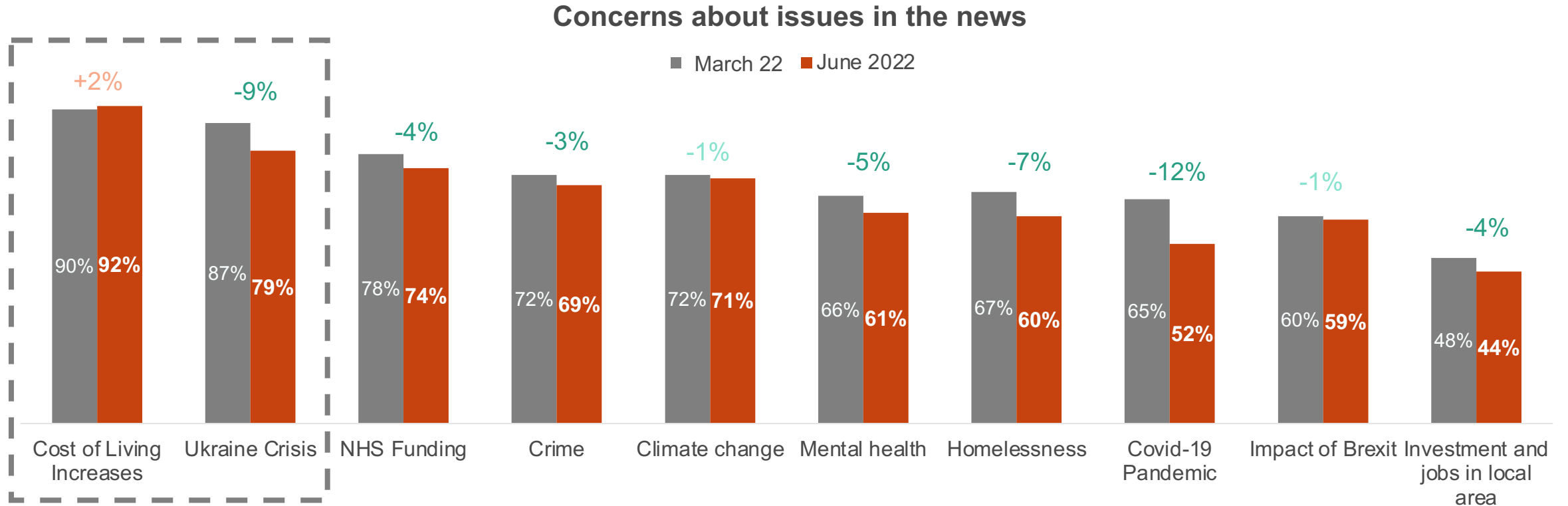
People are cutting back:

- 47% are washing their clothes at a lower temperature
- 40% are driving less to save on petrol
- 37% are reducing spending on things they need (e.g. buying food from value ranges)

*“Definitely what worries me the most is the talk around the cost-of-living is going up – you can see with petrol costs and electricity and obviously **this is really worrying for me.**”*

And these concerns have grown since March, outstripping concern for the war in Ukraine...

The cost of living is now the most prominent concern – other concerns still matter, but they are losing prominence



BritainThinks, *Cost of Living Diaries* Q1. These issues are often covered in the news. To what extent do you personally feel worried about these issues? Base (May: n=2076, June: n=2073)

But this doesn't mean that they don't want to enjoy themselves...

After two years in and out of lockdown, people are looking for ways to **enjoy their newfound freedom**, and are actively searching for **tips and tricks to make their money go further**.

“In actual fact there needs to be a balance; going out and having a few pints having something to drink, buying something nice...I honestly feel like we deserve it...I do feel like I've got enough on my plate to get through this as it is.”

#2

Credit will be
crucial, but needs
are changing



People will be turning to credit more in the coming months

13%

Already are or definitely will be relying on credit more each month to pay their bills

We know that people are finding it almost impossible to save money, and many have already resorted to using the savings they have, in order to to stay on top of things.

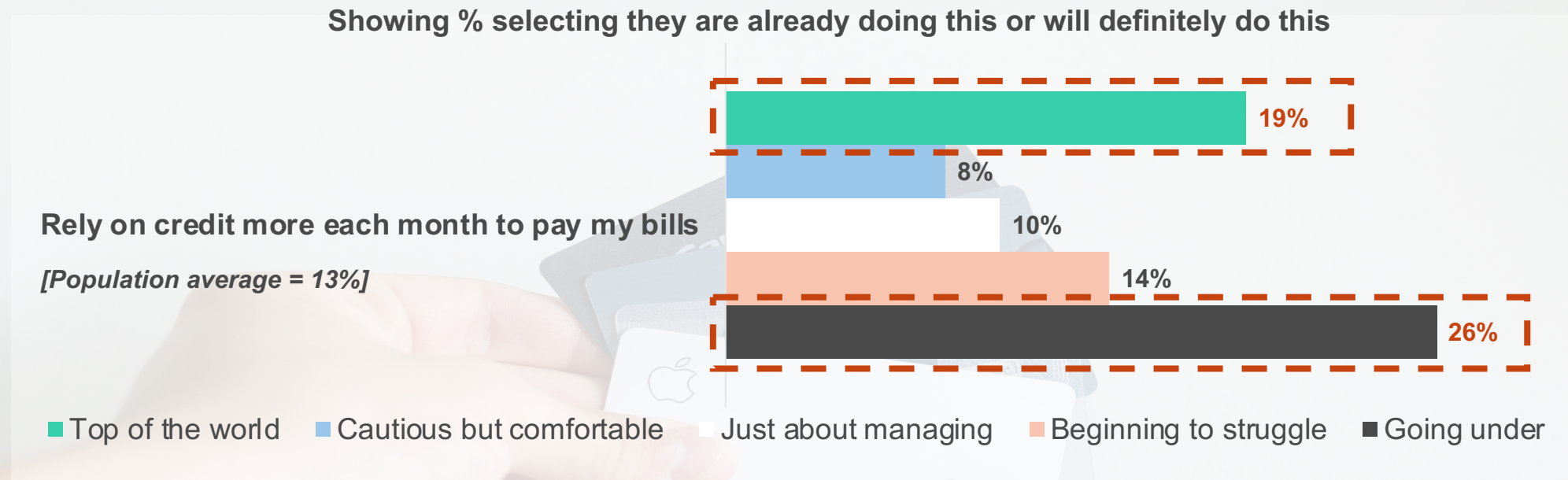
15%

Have taken out new credit products to be able to deal with rising costs

*"I had a plumbing emergency at the beginning of the week, which turned out to be a huge expense, and **I had to exhaust my already paltry savings** just to manage that."*

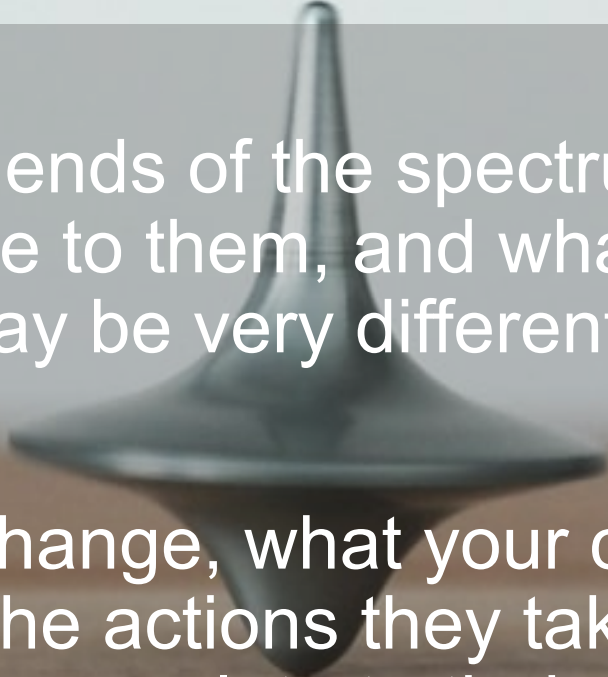
With new entrants to the BNPL space disrupting traditional views of what credit is

With those at either end of the spectrum more likely to rely on credit to pay their bills



Those with dependent children are also significantly more likely to rely on credit, with 23% agreeing they are already doing this or will definitely do this, as compared to 9% of those without dependent children.

But the needs and experiences of these groups may vastly differ

A black spinning top toy is balanced on a wooden surface. The top is a dark, glossy, spindle-shaped object with a sharp point at the top and a wider, flared middle section. It is positioned centrally in the background, behind a semi-transparent grey rectangular box that contains text.

As those at different ends of the spectrum access credit, the type of credit available to them, and what they are using it for, may be very different...

And in this time of change, what your customers need may also be changing. The actions they take in response to the rising cost of living may relate to their *mindset* as much as their *circumstance*.

#3

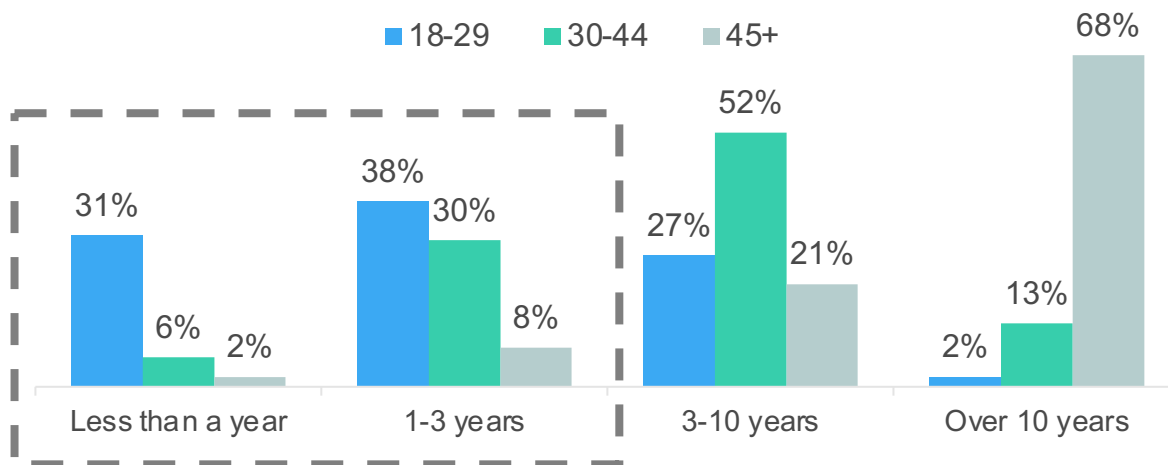
Younger people are investing, but they are also at risk of harm



A more diverse audience are involved in self-directed investing

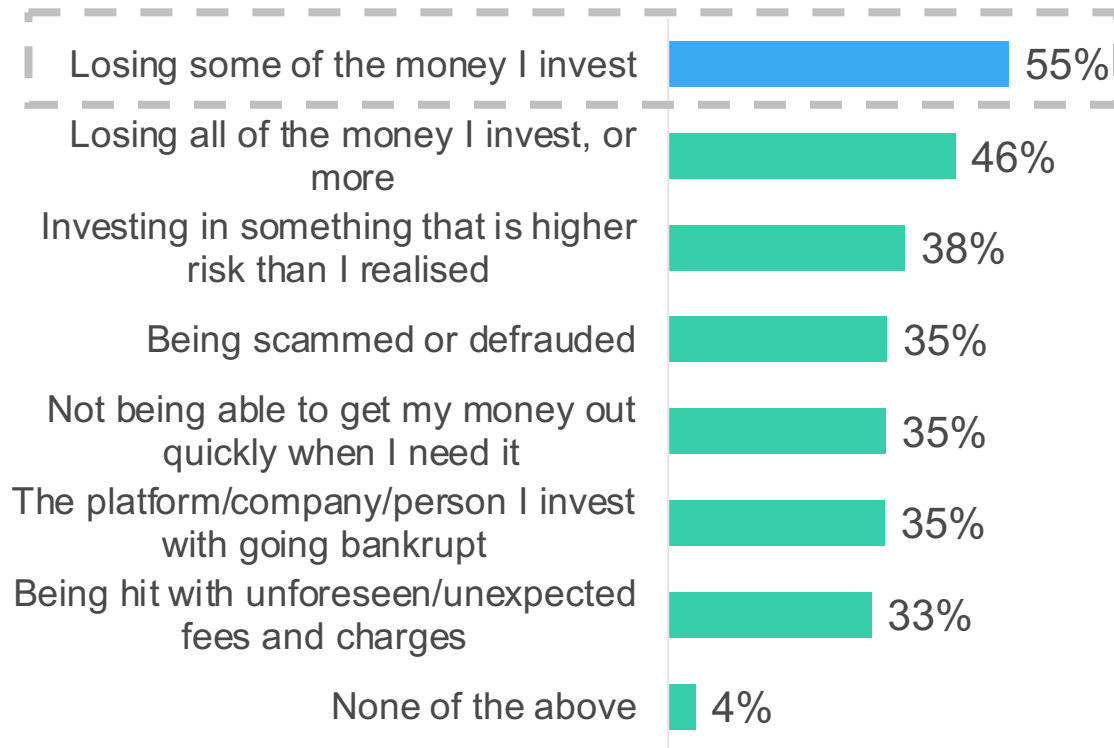
Prompted in part by the accessibility offered by new (online) platforms

- These investors skew more female, younger and more BAME than the more traditional, experienced investor set.
- They are particularly likely to lean on more contemporary media (e.g. YouTube, social media) for investing advice, tips and news.

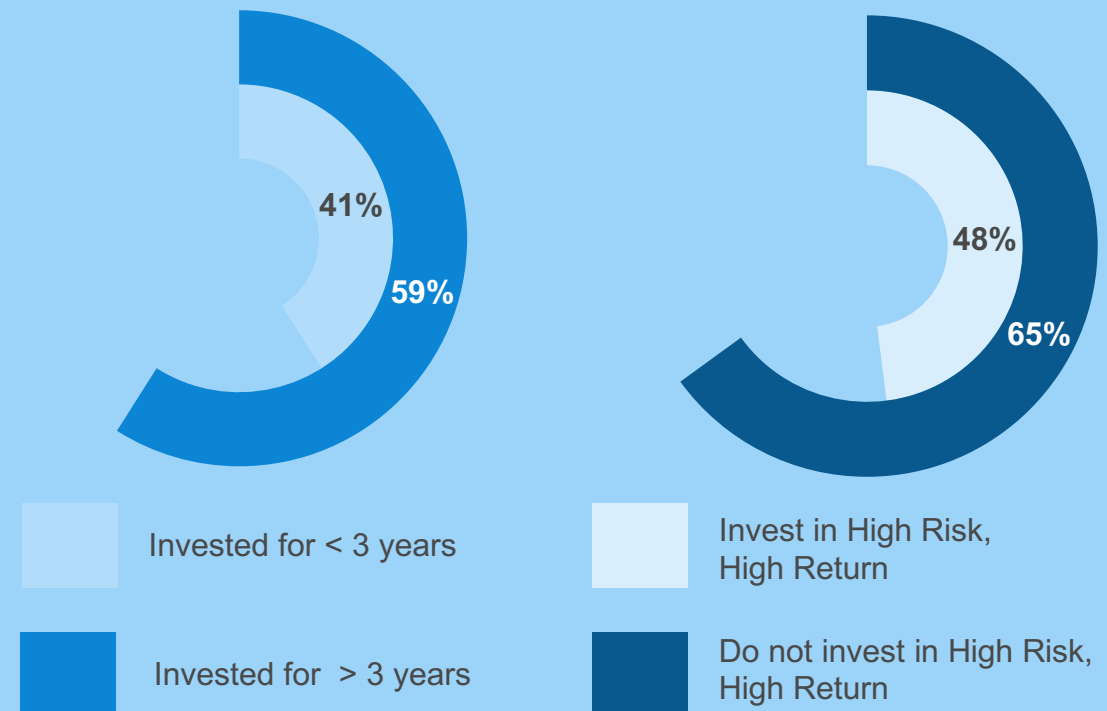


But there is a striking lack of engagement or awareness of the potential risks

Potential risks of investing

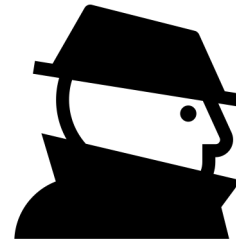
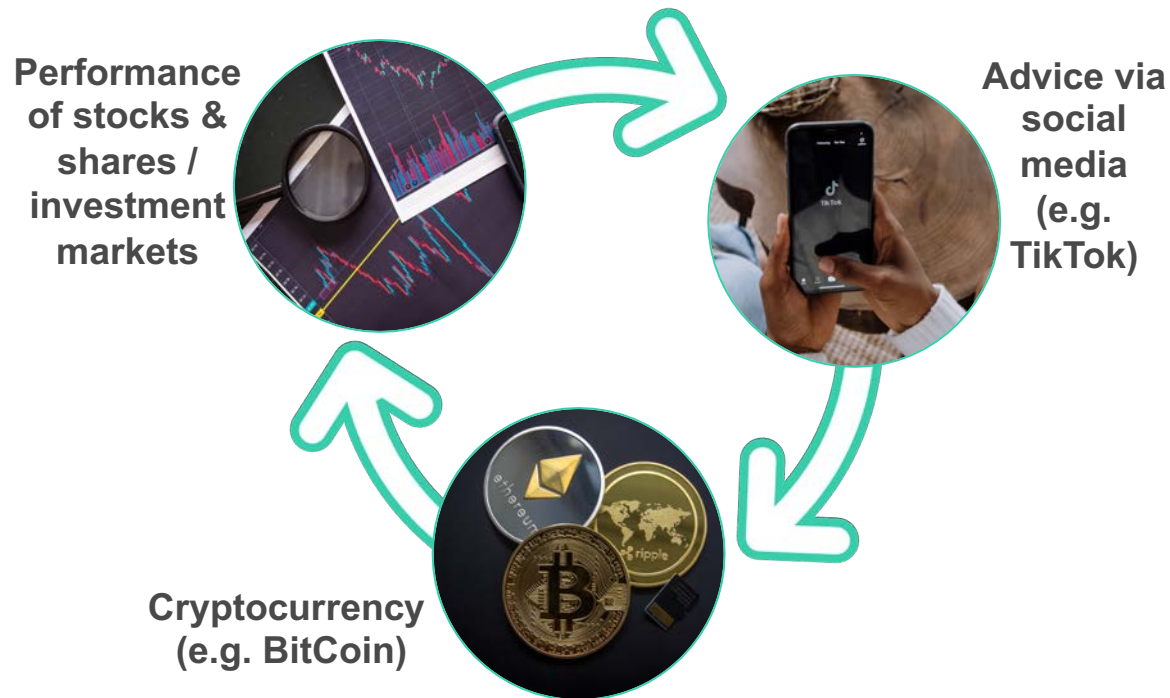


Newer investors and those investing in high-risk, high return in particular are less likely to see losing some money as a genuine risk

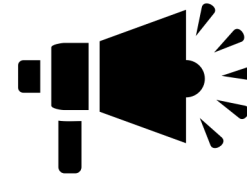


In the current climate we see increasing potential harms to young investors

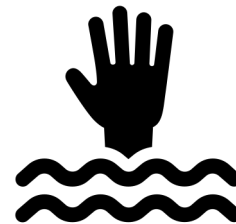
As people try to make their money go further, especially as interest rates remain relatively low...



These provide an opportunity for fraudulent approaches to this young group of investors



Fraud awareness and behavioural change campaigns have typically focused on older aged consumers with pensions



There is therefore an unmet need to support young investors against these increasing potential harms

#4

There is a need to
understand the
newly vulnerable



There is a whole tranche of people who are newly vulnerable

As the cost-of-living increases bite, there are people living in vulnerable circumstances for the first time who **may not know if they qualify for support or how to access this.**

They account for nearly a fifth of the population:

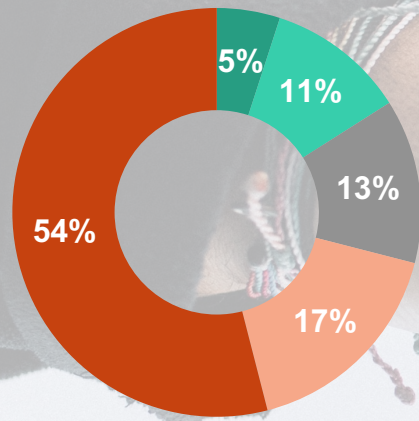
18%

Whilst they have mixed feelings about their finances, they are optimistic about their lives.

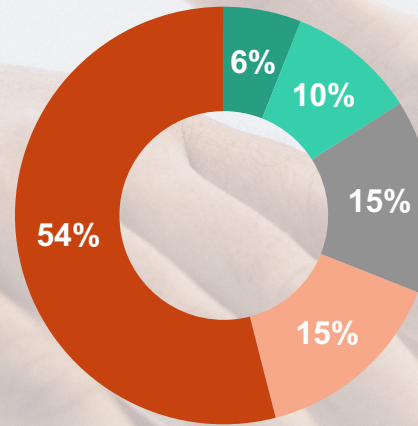
We know that this group are struggling, but are they able to access the support they need?
How can they be supported?

Many aren't yet looking to charitable and independent organisations for support

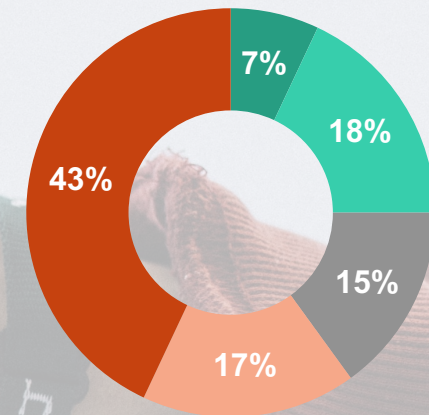
Seek help from a charity



Use a food bank



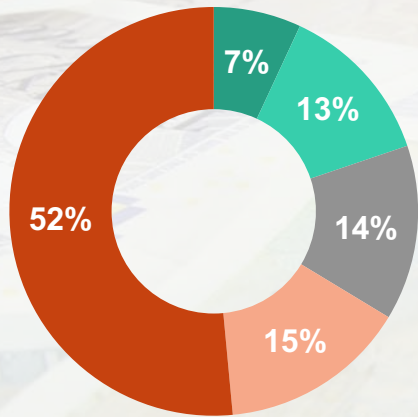
Seek help from an independent body such as Citizens Advice



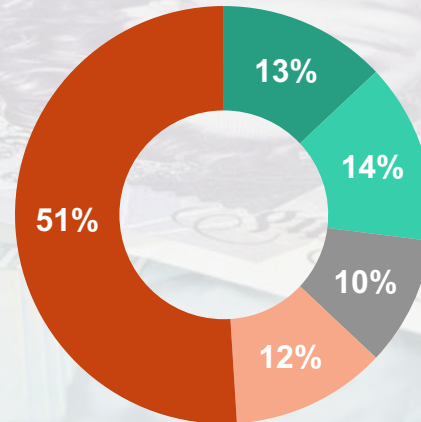
■ Already doing this / will definitely do this ■ May do this ■ Not sure ■ May not do this ■ Will definitely not do this

Nor are many looking to financial institutions or utility providers for support

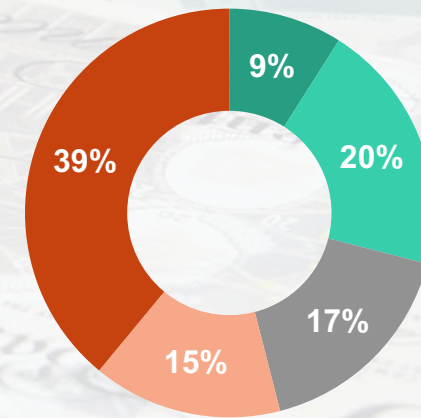
Seek help from my bank



Rely on credit more each month to pay my bills



Seek help from my utility providers to manage my payments

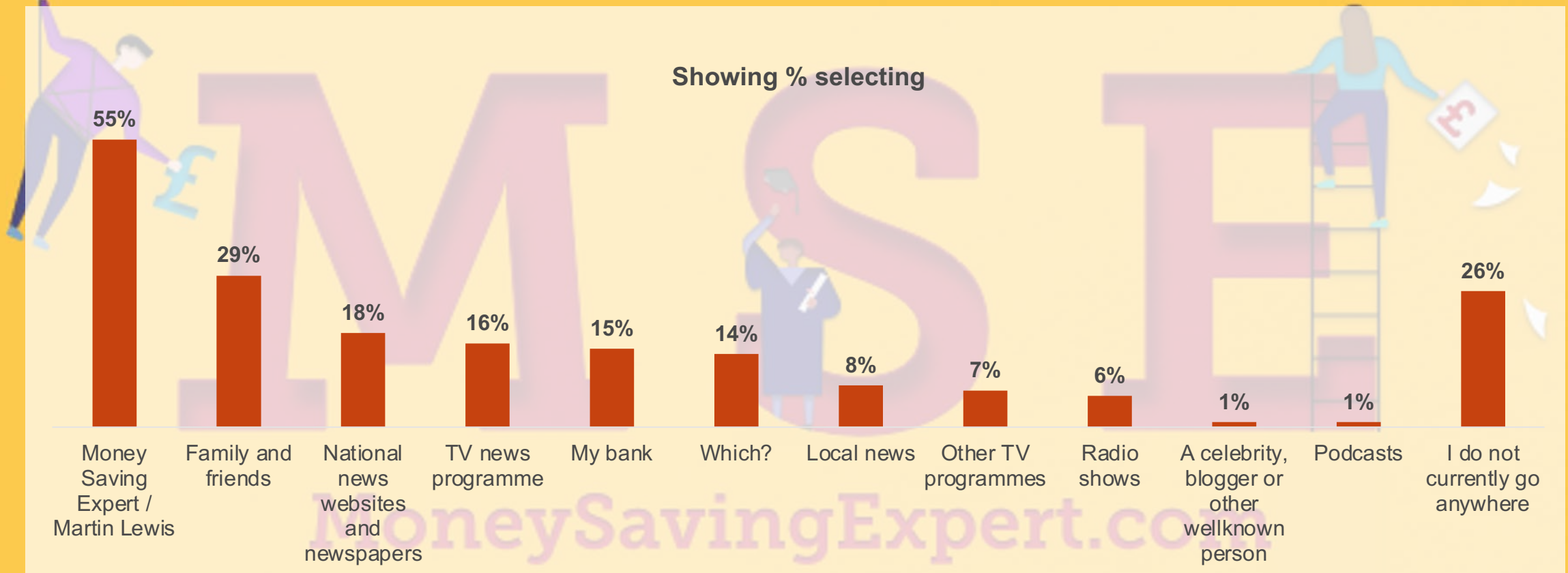


■ Already doing this / will definitely do this ■ May do this ■ Not sure ■ May not do this ■ Will definitely not do this

BritainThinks, *Cost of Living Diaries*, June 2022. Q6. To what extent, if at all, are you doing any of these this year in relation to your budgeting and spending? Base (n=2073)

Martin Lewis continues to be the most sought after source for tips, information and support about managing money

Showing % selecting



BritainThinks, *Cost of Living Diaries*, June 2022. Q9. Which, if any, of the following places do you go for tips, information and/or support about managing your money? Base (n=2073)

More research is needed to understand the newly vulnerable...

We're much more familiar with the poles at the moment – those who are still spending and those who are, and generally always have been, really vulnerable.

There is a need to need to better understand the section in the middle, in order to serve them well during the cost-of-living crisis.

Where does the financial services sector fit in?

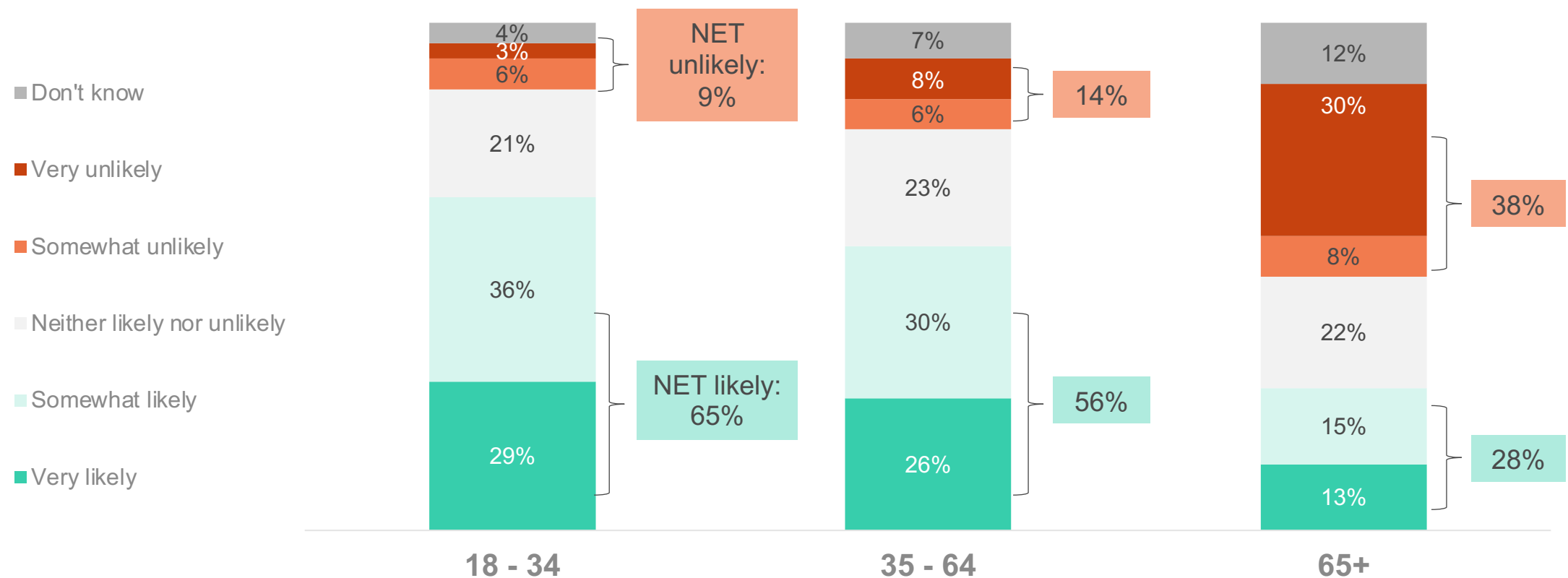
#5

Digital services drive engagement, but should be designed with the consumer in mind



Digital services can drive engagement with financial products

For example, young people who are less engaged with pensions and find them complex, are significantly more likely to use a dashboard, as found in our research for the ABI.



BritainThinks, Pensions dashboard research. (October, 2021) Q8. How likely, if at all, would you be to use pensions dashboards? Base: Those with a defined benefit pension (349); Those with a defined contribution pension at one job or more (629)

They can also help bring awareness and understanding

In our research for the ABI we found that a dashboard could help bring clarity to pension pay out rules and the number of pots and values of pensions owned.

Current issues

Confusion and a lack of understanding about pensions generally



Perceived impact of dashboards

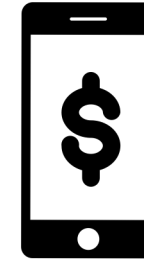
Will demystify confusing elements, e.g. different pay-out rules

A lack of knowledge about own pensions, pots and values

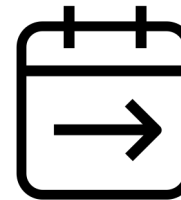


Will provide clarity on the number of (and help locate missing) pots and values

Similarly...



Banking apps are increasingly providing tools to support budgeting e.g. savings pots, keeping track of types of spending



In the current economic climate, providers should utilise these money management tools to help consumers with budgeting and forward planning

BritainThinks, Pensions dashboard research. (October, 2021)

Digital services will need to conform to the FCA's Consumer Duty

The new Duty sets higher expectations for the standard of care that financial service firms provide to their retail consumers. **It can be an opportunity for firms to be proactive rather than reactive to regulation**



Always putting good consumer outcomes at the center of their business



Focusing on the diverse needs of their customers at every stage



Ensuring consumers make good financial decisions and have greater trust in firms



A reminder of the five key areas for consideration:

1

Despite being stretched, people still want to enjoy themselves

2

Credit will be crucial, but what your customers need may be changing

3

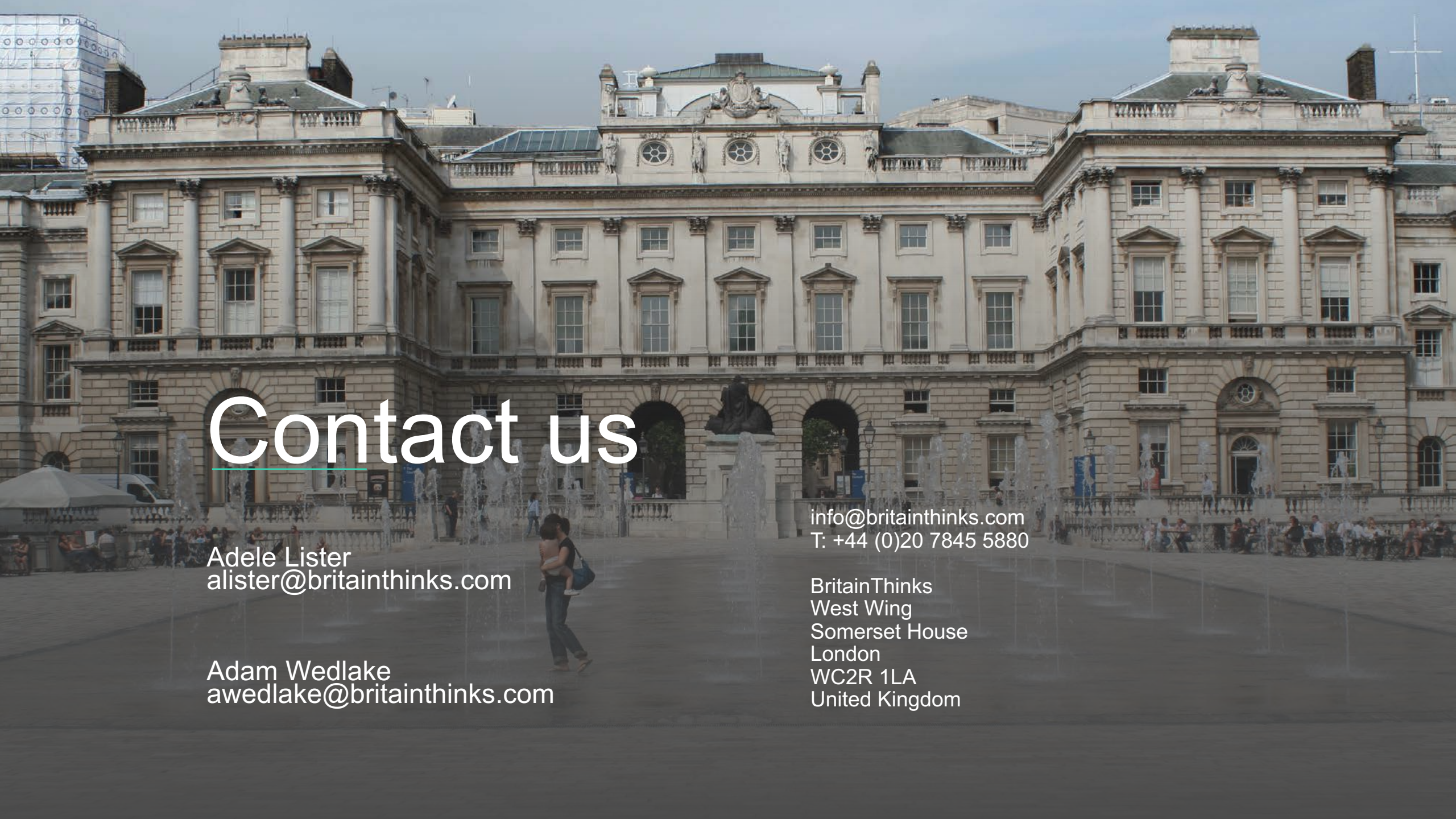
A younger audience is turning to investing, but they are at risk from potential harms

4

There is a need to understand the newly vulnerable, because they will need support

5

Digital services drive engagement, but should be designed with the consumer in mind

A wide-angle photograph of the Somerset House courtyard in London. The building is a grand, classical structure with multiple stories, many windows, and a central pedimented entrance. In the foreground, there is a large, active fountain with numerous water jets. People are seen walking and sitting in the courtyard. The sky is overcast.

Contact us

Adele Lister
alister@britainthinks.com

Adam Wedlake
awedlake@britainthinks.com

info@britainthinks.com
T: +44 (0)20 7845 5880

BritainThinks
West Wing
Somerset House
London
WC2R 1LA
United Kingdom