CUTTING BACK

How consumers in the UK are navigating the Cost of Living crisis and the implications for the **financial services sector**

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At a glance

There is a cost-of-living crisis, and we have conducted research to help our clients and partners in the financial services sector to understand the implications.

Thank you for taking the time to open and read this report.

In Q4 2022, Mustard conducted a survey with a Nationally Representative sample of 1,000 UK consumers aged 18+.

We set out to understand how consumers in the UK are navigating the cost-of-living crisis and the implications for the financial services sector.

As predicted, and as reported, consumers are being forced into behaviour change and are cutting back – in some cases, quite drastically.

This report shares the headlines of how rising prices are impacting different audiences (attitudinally and behaviourally), with recommendations on how a targeted approach to proactive customer support can make a real difference to people, and build loyalty.

For more information, please get in touch. We would love nothing more to chat you through the insight and implications.

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mustard
making the difference

What we did

and what we covered

An online survey of 1,000 UK Consumers

Quotas set to ensure a **nationally representative sample** according to:

- Age
- Gender
- SEG
- Region
- Ethnicity

Surveys completed in **Q4 2022**.

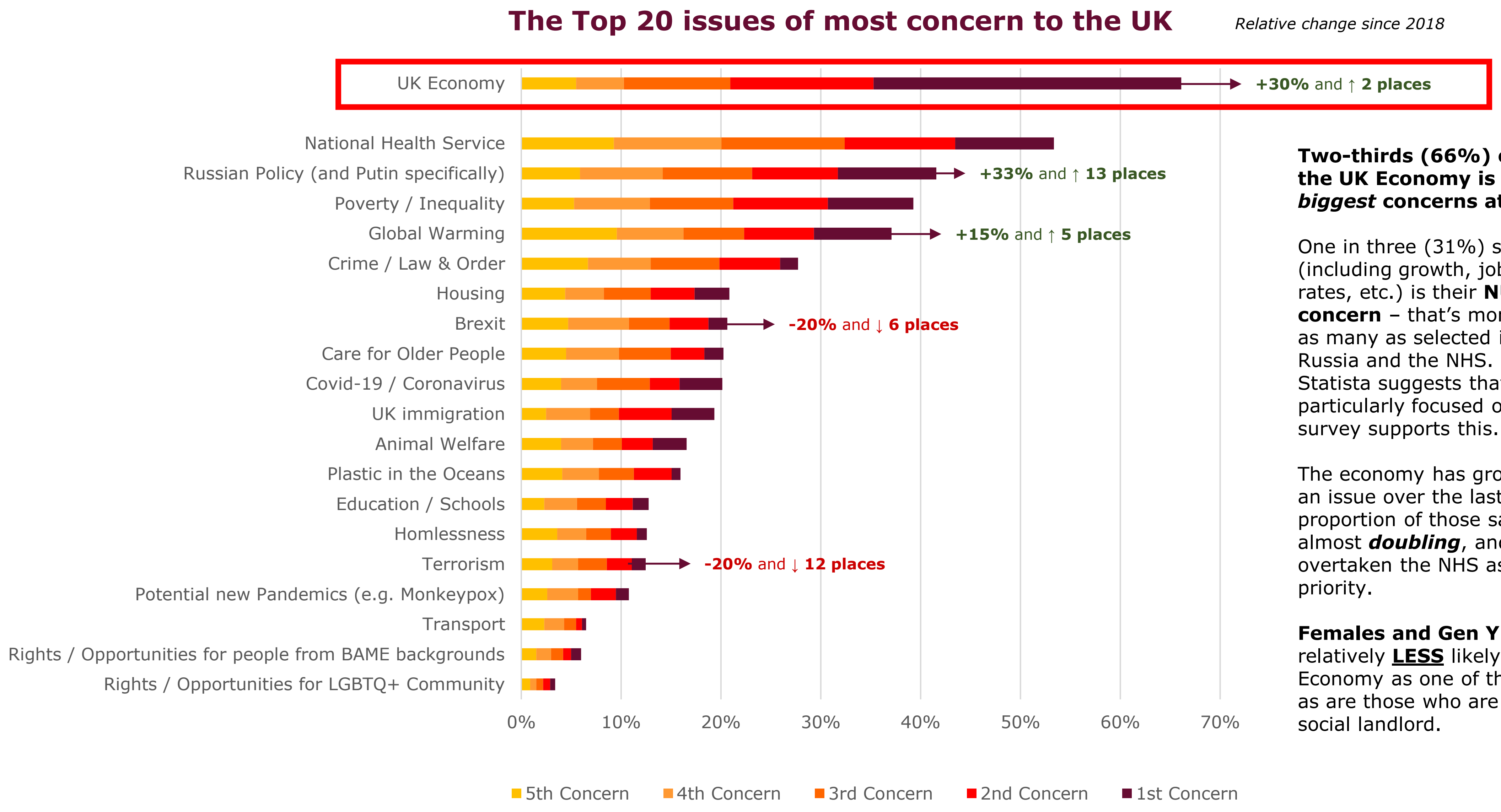
10-minute survey including:

- Screening, demographics and profiling
- Understanding macro concerns
- Priorities when grocery shopping
- Healthy lifestyles behaviour
- Financial services product behaviour / consideration
- Relative concern with rising prices / cost of living (and why)
- Scale questions to understand relative price concerns by sector / category
- Exploration of what things people say they are MOST likely to do and ALSO likely to do as a result of rising prices / cost of living by sector, including:
    - Leisure and Tourism / Days Out
    - Food & Drink / Grocery Shopping
    - Financial Services / Money Management
- Plus political affiliation

The state of the UK economy is now the undisputed number one concern of UK adults.

Of all the issues in all the world…

…It is the **state of the UK economy** that most concerns UK adults



Two-thirds (66%) of UK adults say the UK Economy is one of their *biggest* concerns at the moment.

One in three (31%) say the economy (including growth, jobs, inflation, interest rates, etc.) is their **NUMBER ONE concern** – that's more than three times as many as selected issues such as Russia and the NHS. Data published by Statista suggests that the concern is particularly focused on inflation, and our survey supports this.

The economy has grown significantly as an issue over the last four years, with the proportion of those saying it is a concern almost ***doubling***, and as such it has overtaken the NHS as the Nation's top priority.

Females and Gen Y (Millennials) are relatively **LESS** likely to select the UK Economy as one of their Top 5 concerns – as are those who are renting from a social landlord.

The vast majority of UK adults are now deeply concerned about the cost of living crisis and their personal finances.

Whilst Gen Y have often been known for being the "squeezed generation" burdened by student debt and priced out of the housing market, it is the older Generation X who currently show greater levels of concern about the economy.

Gen X have surpassed Gen Y as the biggest worriers

Those aged 42-57 are typically the most worried about the Cost of Living crisis.

How concerned are you currently about the "cost of living"?
(i.e. inflation, rising prices, etc.)?

	Gen Z	Gen Y Millennials	Gen X	Baby Boomers
Extremely concerned	35%	30%	38%	25%
Very concerned	24%	27%	26%	22%
Moderately concerned	26%	22%	20%	27%
Slightly concerned	10%	13%	14%	23%
Not at all concerned	1%	3%	2%	2%

Four-in-five UK adults (80%) are now AT LEAST moderately concerned about the cost-of-living, with more than half (56%) saying they are EXTREMELY or VERY concerned. Almost the whole population (96%) are concerned to some extent.

In contrast to the last financial crisis and the "Credit Crunch", the latest "squeeze" seems to be impacting different Generations. It is **Gen X** who are most likely to be extremely concerned (38% cf. 32%) and younger adults – i.e. Gen Z (35%).

Life-stage – in terms of mortgages to pay, families to feed, retirements to plan, etc. – will be a factor here for Gen X. Meanwhile, Gen Z are graduating and carving out their careers on lower wages, and are concerned about affording life's essentials as wages lag behind inflation.

Perhaps unsurprisingly, Baby Boomers show the lowest levels of concern, although, as the data shows, the older members of society are also more likely to be concerned than not.

Other published data sources suggest concerns with the economy skew upwards slightly with people living in small towns/rural communities, but generally concern is evident across ALL demographics and income brackets.

Despite this, most say their bank hasn't yet helped

There is a clear opportunity for FS brands to drive loyalty and deliver against ESG pledges by doing more to help alleviate consumer concerns.

Within a recently published report by *Personetics*, in the past three months, 63% of customers said they had not received any communication or advice from their bank on how to handle the cost-of-living crisis.

There is evidence to suggest people are open to help and advice from financial services institutions (and banks in particular)– which is potentially a big opportunity to drive true loyalty (rather than inertia), but could also present a big risk if it's not done at all, or done in the wrong way.

Anecdotally we are hearing that some brands, like HSBC, are proactively offering interest-free overdrafts. It is this kind of ***pre-emptive support*** that consumers will be positive about receiving.

Other headlines from the Personetics study include:

- 20% of customers feel that their bank doesn't care about them
- 61% want their banks to automatically transfer spare cash to savings, and 66% want their banks to identify advance warnings of financial stress and offer solutions and advice – i.e. proactive support
- 58% would consider switching to a competitor bank that offers better money management features

That said, a recent Cost of Living survey conducted by Royal London (Sep. 2022) showed that **a large majority – almost three-quarters of UK adults (72%) – said they had not approached anyone for help with the cost of living crisis**. Perhaps some people are too proud or too nervous to ask for help. More needs to be done to understand and overcome these barriers.

https://www.royallondon.com/about-us/media/media-centre/press-releases/press-releases-2022/september/cost-of-living-crisis-leaves-millions-taking-on-second-job/

https://personetics.com/resource-center/cost-of-living-crisis-why-banks-must-act-now/?utm_source=referral&utm_medium=referral&utm_campaign=cost+of+living+crisis

The cost of *insurance* is now one of the top concerns of UK Households…

…and the cost of *borrowing money* is also becoming increasingly worrying as interest rates rise.

The cost of insurance is one of the top concerns

Insurance premiums are a big worry for people, fourth only to energy, food and fuel.

	TOP 10 WORRIES	FAIRLY worried	VERY worried		Change since July 2022
1	Gas and Electricity Prices	19%	76%	95%	-4%
2	Supermarket / Grocery Prices	28%	65%	93%	+1%
3	Petrol & diesel prices	35%	44%	79%	-4%
4	Price of insurance (motor / home)	41%	33%	75%	-2%
5	Clothing & footwear prices	50%	20%	70%	+3%
6	Price of going on holiday	38%	26%	65%	-3%
7	Price of days out	43%	22%	65%	=
8	Price of meals out	44%	19%	62%	+2%
9	Price of health & beauty products	38%	13%	51%	-1%
=10	Interest rates (borrowing money)	28%	22%	50%	+7%
=10	Price of train travel	30%	21%	50%	+2%

The cost of certain financial products and services features highly in the list of things that UK households are MOST worried about.

Three-quarters of UK adults (75%) say they are worried about **the price of motor / home insurance** – in particular **females** (81% vs. 68% of males). It is a relatively big expenditure for people – according to Statista, in 2020 the average UK household spent £19.30 per week on insurance, with motor insurance accounting for more than half of this.

In addition, **the cost of borrowing** (in terms of high interest rates) is a new entry in the Top 10 of household worries – more than half of UK adults are now worried about this (up 7% from just 3 months previous)**. Unsurprisingly, worry levels are greatest amongst mortgage owners** (70% worried, cf. 50%).

Interest rates are also of particular concern to people from Black & Minority Ethnic backgrounds (65%) and Gen Y (i.e. Millennials) (64% worried cf. 50%).

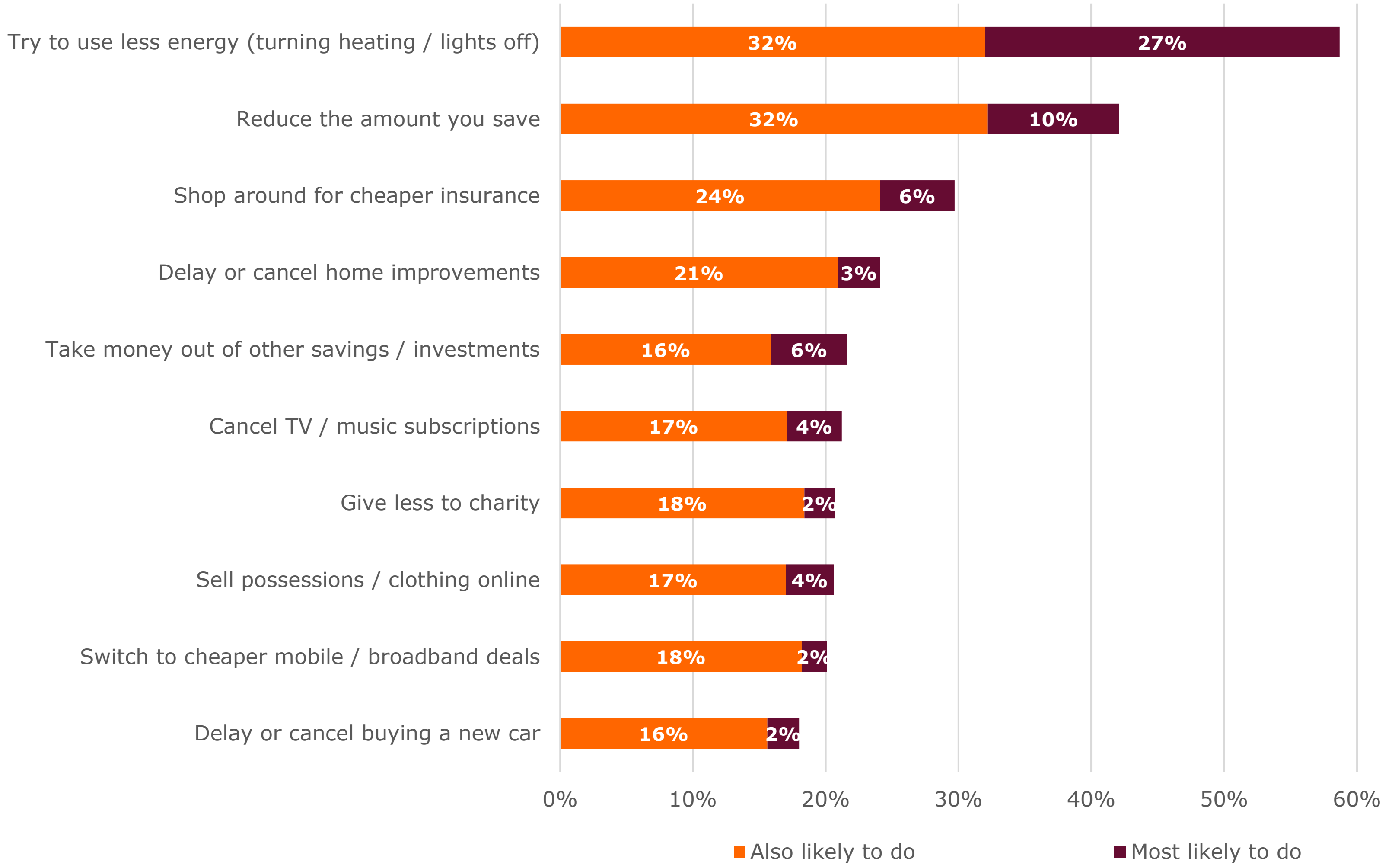
UK adults are cutting back in lots of different ways

Necessity is forcing behaviour change

UK adults are taking action and cutting back

Just 8% say they are effectively doing "nothing" (i.e. not changing behaviour at all).

TOP 10 FINANCIAL BEHAVIOUR CHANGES



Unsurprisingly, these consumer worries are driving behaviour change.

We provided a long-list of options, including ways in which people could manage bills / household finances, and asked which they were MOST likely to do and which others they are *also* likely to do in order to manage increasing prices and their cost-of-living concerns.

People say they will be cutting back in lots of different ways – including reducing ***energy usage* and *savings*.**

Aligned to previous insight, around three in 10 also say they will make efforts to shop around for **cheaper insurance**. It is Gen X and Baby Boomers who are relatively more likely to say this.

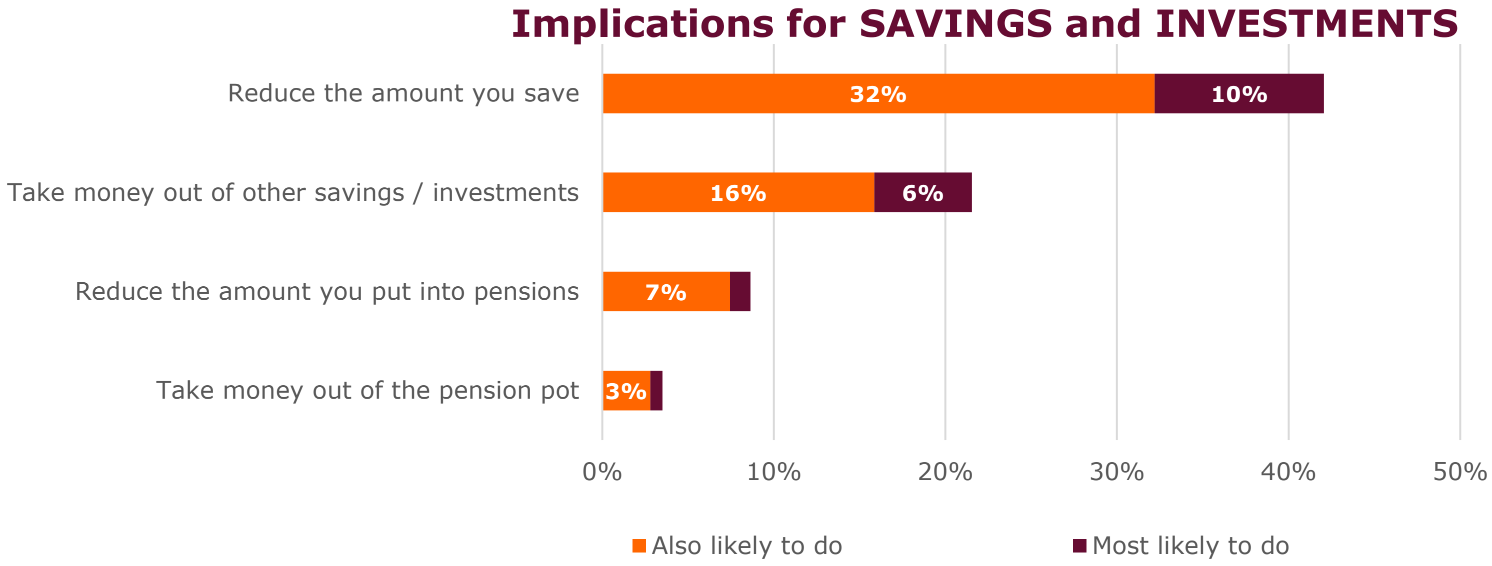
Implications for key products / services

Two of the most common consumer "actions" will be reduced savings and increased switching – particularly across insurances.

The increase in prices means there is an inevitable pressure on / reduction in savings . More than two-in-five UK adults say the cost-of-living crisis means they will need to reduce the amount they save – and for one in ten, this is the first "action" they will take.

Additionally, more than one in five (22%) will need to draw on other savings and investments – there is more reluctance to adjust pension contributions or draw down those funds.

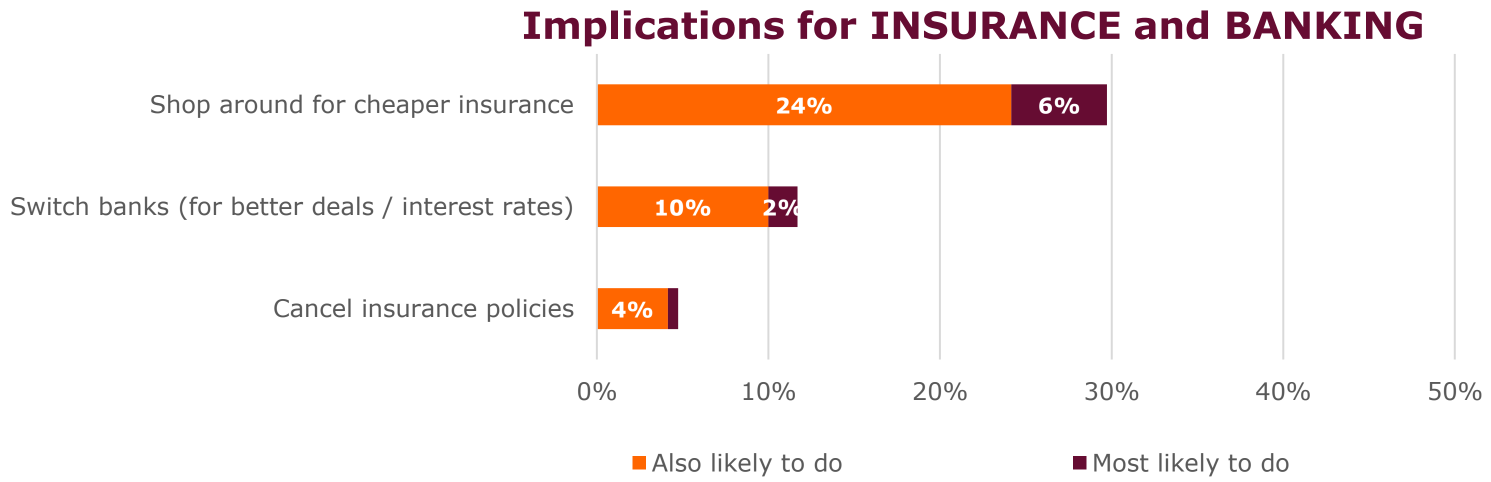
Baby Boomers are significantly more likely to say they will reduce the amount they save – 53% say this, including 14% who say it is their first "action".



There appears to be a greater likelihood of switching insurance rather than cancelling – although around one in 20 say they will cancel at least one policy.

Gen X and Baby Boomers are relatively more likely to say they will switch insurance policies, whilst Gen Y (Millennials) are more likely than other age groups to say they will consider switching banks for better deals / interest rates.

Previous published research often shows "quality of advice" as one of the top reasons why people switch bank accounts – now more than ever is a great time for providing that quality service!



Implications for key products / services

There is a reluctance to take on additional debt, so UK adults are feeling more inclined to cut back on big ticket spends.

The building sector is already reporting a slow down, with the cost of products rising and consumers delaying or cancelling their plans. Those households without the funds in place are reluctant to borrow, and those with the funds feel less inclined to spend them. The same nervousness is being felt and reported in the automotive sector.

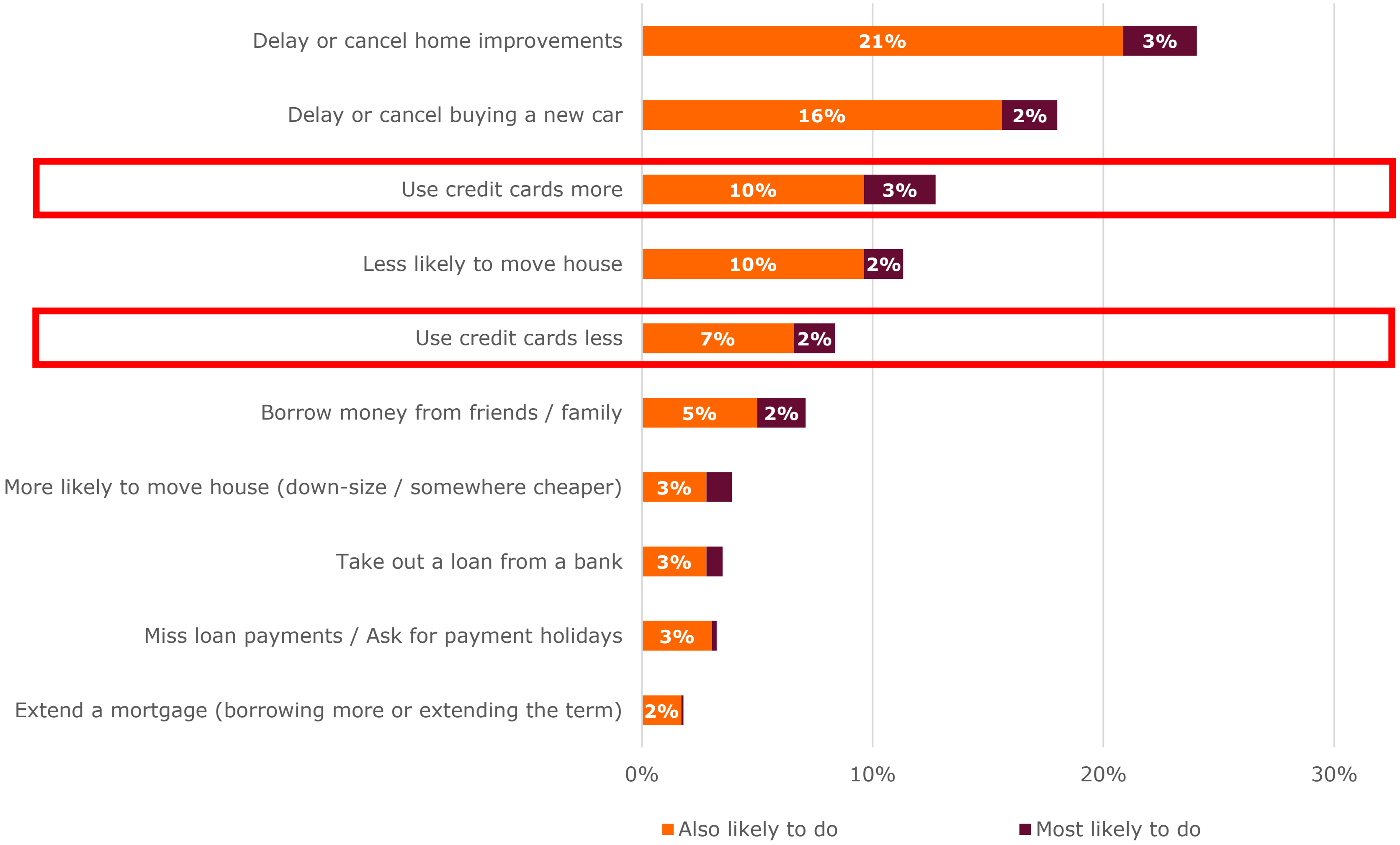
As mortgages are becoming more expensive, there is growing reluctance to move house, although some might consider down-sizing, this is significantly less than those deciding to "stay put". There is very little appetite for extending mortgages right now given the additional cost of borrowing. The media is reporting that house prices are starting to fall, and a crash could be on the horizon in 2023.

Whilst some households were able to save during lockdowns, others were unable to and some turned to loans where income was affected. They are even more ill-prepared for any further financial hardship – and debts will no doubt spiral.

Some people will be looking at **new credit cards** to try and reduce rates / take advantage of interest free periods, or will be using credit cards more. Gen Y, people with children in the household and people from BAME backgrounds are more likely to do this. Equally, as people cut back on discretionary treats and luxuries, 9% say they will in fact use credit cards less.

Very few (just 3%) say they are more than likely to take out a new loan to circumnavigate the CoL crisis.

Implications for LOANS and BORROWING



. https://www.theguardian.com/money/2021/jan/21/uk-increased-borrowing-2020-ons-covid-pandemic
https://www.thetimes.co.uk/money-mentor/article/good-time-buy-a-house/#:~:text=Figures%20show%20that%20house%20prices,2021%2C%20making%20mortgages%20more%20expensive

People are cutting back across sectors

There is further evidence of a reluctance to spend beyond means.

This reduction in big ticket expenditure is evident in other industries too. Our cost-of-living research study has spanned other sectors – including leisure and tourism, FMCG, food and drink and grocery retail.

Across sectors, there is evidence of people reducing their big ticket purchases and discretionary treats.

For example, within leisure and tourism **just 12% said the CoL crisis would NOT impact their behaviour**, whilst just 10% said this in relation to food and drink and grocery retail.

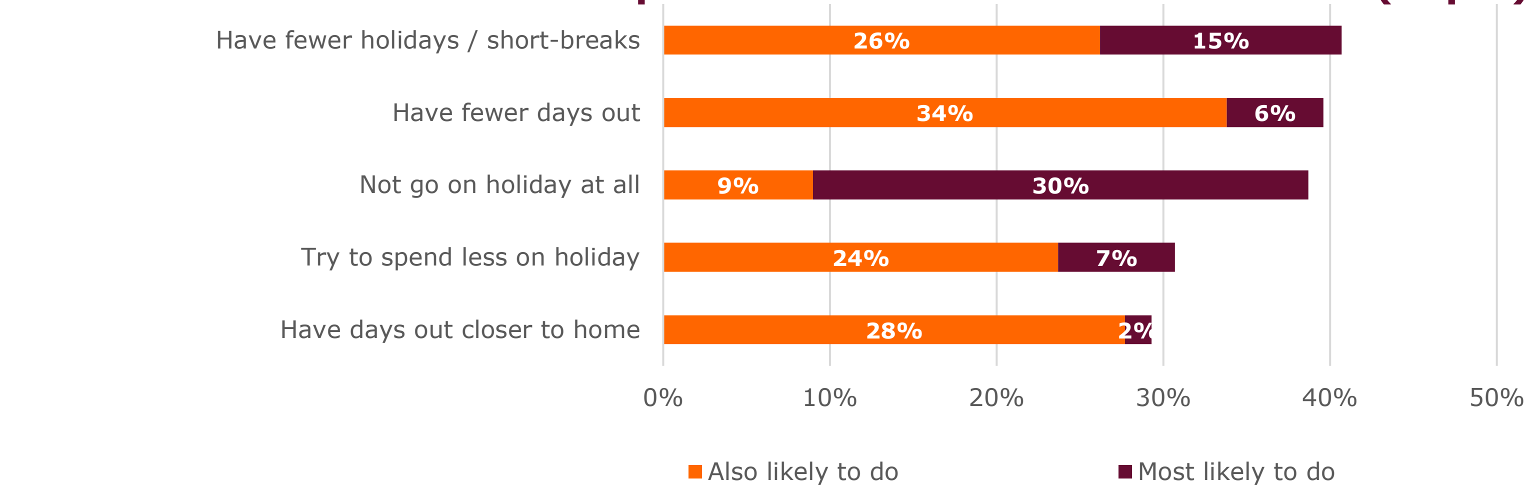
Males and Baby Boomers are generally the most likely to say their behaviours will **not** be impacted – but even amongst these sub-groups a large majority say they are going to cut back in one way or another.

In the **leisure sector**, consumers anticipate reducing the numbers of holidays and days out – with around one in three saying they are likely to not go on holiday at all.

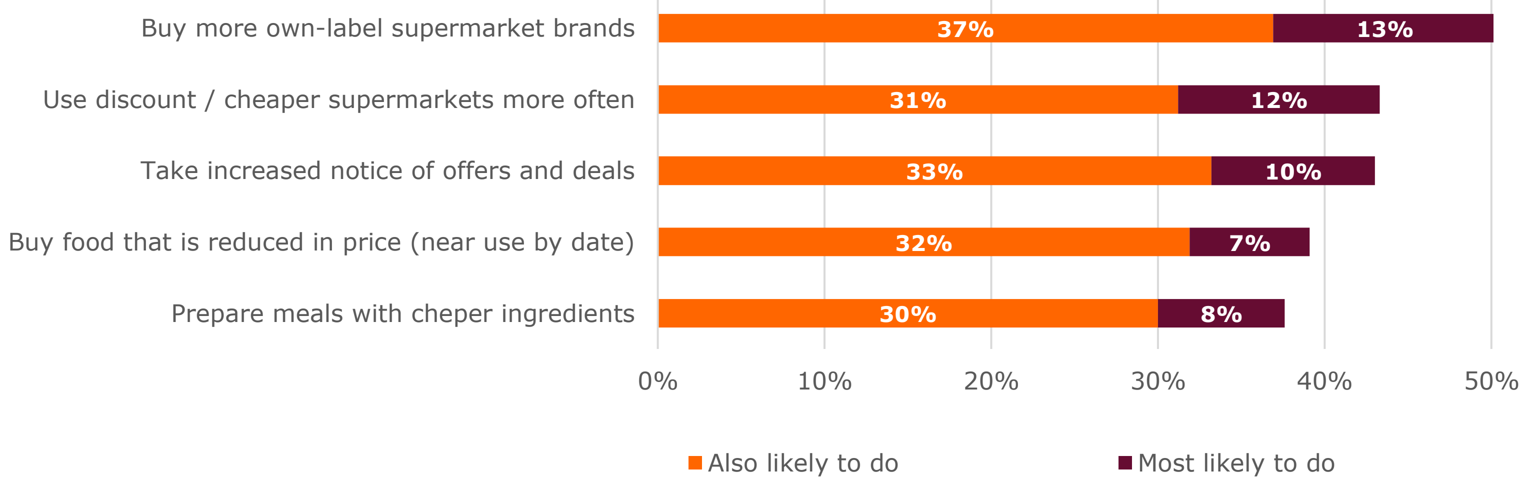
Behaviour change is also evident in **food and drink**. Gen X, in particular, are likely to be "trading down" in terms of brands and in their choice of supermarket.

In addition to the claimed behaviours related to "shopping smartly" within the chart opposite, 34% also say they will visit restaurants / cafes less often, and 28% say they will cut back on treats / eat more healthily.

Implications for LEISURE & TOURISM (Top 5)



Implications for FOOD/DRINK/GROCERY RETAIL (Top 5)



People are trying to cope in a variety of ways (1)

This includes reducing energy consumption and embracing the circular economy.

The cost of living crisis could, inadvertently, be benefitting the environmental and sustainability agendas.

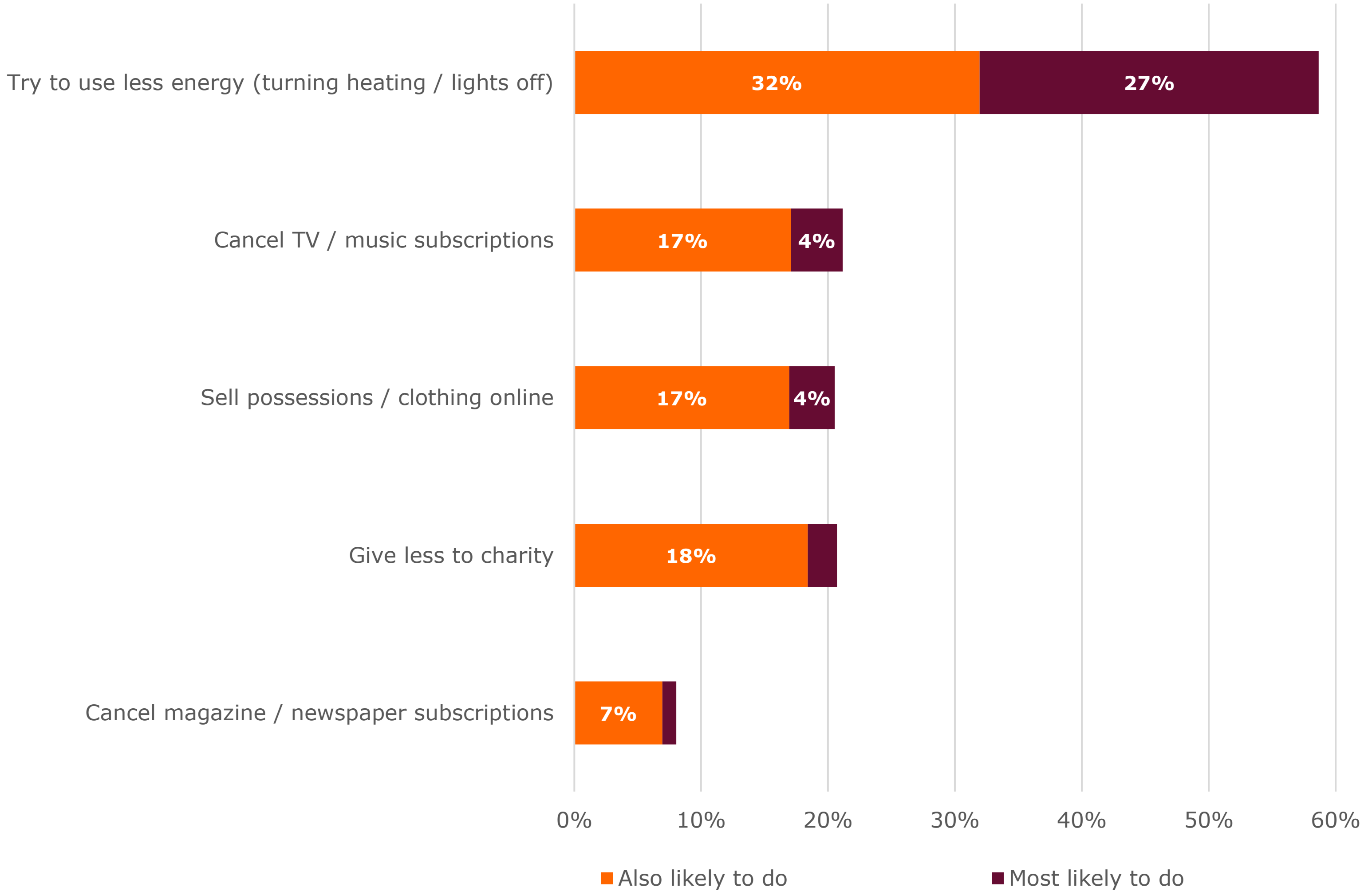
A majority of households in the UK are also trying to manage their financial situation by addressing their energy consumption. For more than a quarter (27%) one of their first actions for navigating the CoL crisis is to try to use less energy by turning off their heating and / or lights.

Aside from this, people are cutting back in entertainment (such as cancelling TV / music subscriptions) and are also likely to donate less to charity.

There is a lot of evidence to suggest the **circular economy** will benefit from the squeeze on people's incomes – with more than one in five (21%) saying they will **sell clothes / possessions online**. In particular, this is a popular way for females and households with children to cope with financial pressures.

As reported recently on the Mustard blog, online marketplace Vinted has gone from supporting 1.2 million UK members a couple of years ago to the eight million it hosts today, representing a staggering growth in its popularity.

OTHER COPING BEHAVIOURS



https://www.mustard-research.com/blog/buying-new-clothes-is-so-last-season/

People are trying to cope in a variety of ways (2)

This ALSO includes looking at different ways to boost income.

With the current unemployment rate in the UK now as low as 3.6 percent (September 2022) – the lowest for almost 50 years – households are trying to boost incomes in other ways too – and not just by using Vinted, eBay, Gumtree and Facebook Marketplace.

For some, just cutting back and selling unwanted items is not enough.

Many people are already working extremely long hours, with over a quarter (28%) of full time workers working beyond the recommended maximum 48 hours a week. As widely reported, industrial action is already happening or being discussed across multiple sectors and industries due to dissatisfaction with pay and working conditions. Everybody now knows who Mick Lynch is regardless of where sympathies lie!

Royal London's second Cost of Living survey of 4,000 adults in September 2022 also reported that **16% of workers have taken on an additional job to help pay for the cost of living increases**. Extrapolated to the UK adult population, that equates to 5.2 million people taking on additional employment.

Despite working multiple jobs or very long hours, many are still struggling to bring in enough money to pay for increased living costs. **Are we headed for burn-out Britain?**

Finally, there is also strong evidence that some other **people are turning to gambling,** with women in particular gambling more.

New research published by Opinium has revealed one in four (24%) women aged 18-49 who gamble expect to gamble more in the coming months due to the cost-of-living crisis, with one in 10 (12%) reportedly already having turned to gambling in an attempt to supplement household income.

https://www.opinium.com/gamble-aware/

https://www.statista.com/statistics/279898/unemployment-rate-in-the-united-kingdom-uk/

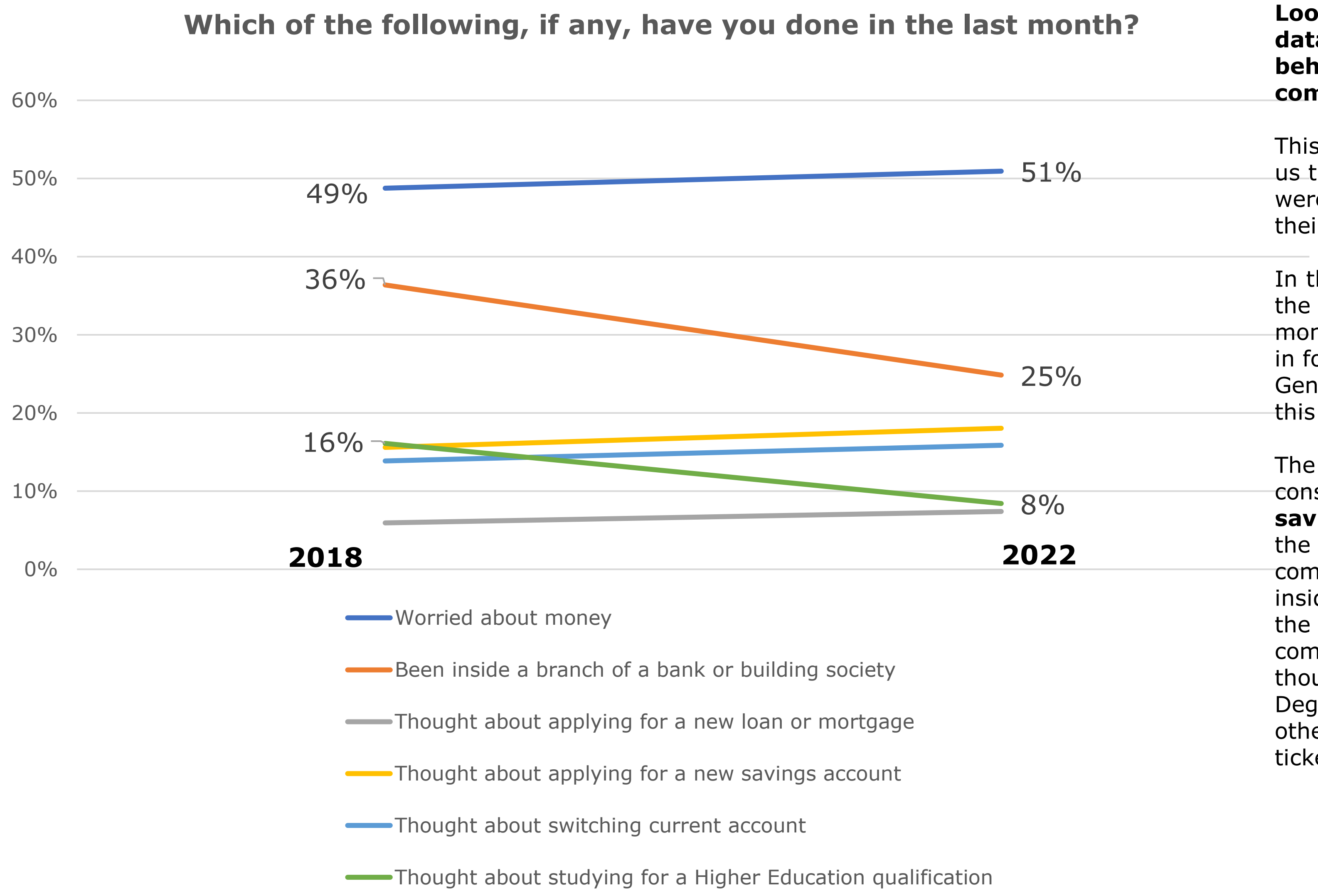
https://www.royallondon.com/about-us/media/media-centre/press-releases/press-releases-2022/september/cost-of-living-crisis-leaves-millions-taking-on-second-job/

Yes, there is a crisis going on, but people have *always* worried about money.

Looking back to before COVID, the proportion of people saying they have recently worried about money is only 2% higher in 2022, and the proportion considering new FS products remains relatively unchanged.

People have always worried about money

Likelihood of having recently worried is slightly up in the last 4 years, whilst consideration of FS products is largely unchanged (compared, for example, with a drop in people considering Higher Education).



Looking further back, we have more tracking data in relation to some other financial services behaviours and attitudes that allows us to compare Q4 2022 with "pre-Pandemic" 2018.

This includes measures of what UK consumers told us they were doing, as well as what FS products they were considering, and how they were feeling about their finances.

In the chart opposite, the top blue line represents the proportion who said they had "worried about money" in the last month – this figure is up just 2% in four years – and it is still younger people (61% of Gen Z and 60% of Gen Y) who are more likely to say this.

The proportion of consumers saying that they have considered a **new loan / mortgage**, a **new savings account** or a **new current account** within the last month is relatively stable – particular when compared with the proportion saying they have been inside a branch of a bank / building society within the last month (down from 36% to 25%) and compared with the proportion saying they have thought about studying for a Higher Education Degree (down from 16% to 8%, and consistent with other learnings regarding the cutting back of "bigger ticket" spends).

So what does this mean?

What are the implications for FS companies?

More than ever there is a need for up-to-date insight on consumers.

The market is as fluid as it's ever been. As such, it's vital for FS companies to have a regular and up-to-date view of what's happening so that they can respond and develop strategies and tactics that will give them first mover advantage in what is a very competitive marketplace.

With this in mind, FS companies might consider a number of initiatives to ensure longer term success, such as:

- **Reviewing segmentations** – Consumer needs and behaviour have changed significantly as a result of the pandemic, the war in Ukraine, and the impact that these events have had on the economy, both domestically and globally. If they haven't already, FS companies need to consider a review of their segmentation models.

  Our generational analysis has shown that the CoL crisis is impacting people in different ways. Having a clear understanding of consumer groups with similar attitudes, needs and behaviour will allow FS companies to more effectively target their communications and develop and adapt propositions to boost acquisition and retention levels.

- **Developing advice and support propositions** – More than ever, consumers will benefit from advice and guidance from their FS providers - either to thrive or survive. From our research, there is little evidence to suggest that FS companies are playing the 'long game' and looking to increase loyalty and retention amongst customers through delivering added value support.

  It is clear that many consumers would welcome help in this area. At one level, there are consumers who are concerned about their pension, or uncertain whether to use lump sums that they have to pay off their mortgage or lock away in a high interest savings account. At the other extreme are those who are struggling to survive, who might welcome any support or offers that would potentially help them, such as tools to better manage their finances, or proactive communications offering mortgage payment holidays to release funds for day-to-day spending or other debts.

- **Promoting social values** – These tough times present a real opportunity for FS companies to show they care. Marketing communications and initiatives that show where FS companies are providing help and support to consumers will help to position brands as fair and behaving responsibly – values that we know from a recent ESG study are important to UK consumers.

  Invest in the brand, and use PR and social media to share positive stories and differentiate your brand as being socially responsible.

Clearly there are other considerations based on what's happening in the market, and the impact that emerging issues are having on consumers. We hope that this summary report has given you food for thought and provided useful insight and understanding to inform your thinking and decisions.

Any questions?

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