THE FUTURE OF CREDIT

A SUMMARY REPORT OF
RESEARCH CONDUCTED FOR THE
FINANCE & LEASING ASSOCIATION (FLA)

Britainthinks
Insight & Strategy

FLA

FOREWORD

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Almost everyone has relied on credit at some point in their lives – perhaps to finance a new family car, convert the spare room into a nursery, or even replace a vital piece of business equipment.

The vast majority of customers will have used this credit without incident and repaid it within the agreed timescale. They may have rolled their eyes at the reams of pre-contractual information or ignored it completely – they certainly won't have read it.

The provision of too much information is something of a tradition in this sector because the format, timing and language used in consumer communications are mandated by the 1974 Consumer Credit Act (CCA).

But this is changing.

After years of campaigning by the FLA, the Treasury is now consulting on how to reform the elderly CCA into something more fitting for modern users in the digital age. Not a moment too soon because the Customer Understanding outcome of the FCA's Consumer Duty has created an absurd situation in which firms will find themselves having to provide additional information to explain the outdated and opaque notices that the CCA requires lenders to send to customers.

With change underway in the regulatory framework, we wanted to undertake some research about what our customers think of consumer credit products, how they use them and what improvements could be made for the future.

As such, we have called this piece of work the Future of Credit, and convened a coalition of the willing – firms, consumer groups, regulators and other stakeholders – to help us shape an ***Agenda for Change.***

Are we serving our customers well? Can everyone access credit at affordable rates? What can we, as lenders, do differently? What is within our gift and what solutions can only be delivered by Government?

This is the first opportunity in almost 50 years to reassess how the consumer credit system currently operates, but also to shape how it should operate in future. Consumers have told us what they want, now we need to make those changes.

EXECUTIVE SUMMARY

Credit is universally used and essential for many people who use it as a safety net. In our research, we explore people's current attitudes and behaviours to credit, and their views on its future in their lives.

Lenders from across the market engaged positively in the work, as did consumers. We used a quantitative nation-wide survey, qualitative online diaries and interviews, ahead of bringing the consumers together with FLA members in a workshop to identify how credit could evolve to the benefit of consumers and providers.

The research showed that for many, credit is functioning effectively. It plays a valuable role in their lives. Most appreciate the freedom and flexibility it gives them in managing their money. They also recognise, however, that there is a loss of control if their credit becomes unmanageable and they have difficulties with repayments.

With that risk in mind consumers seek a deeper relationship with lenders. Consumers want the relationship to be built on trust. They also want the decisions made and the credit offered to them to truly take their personal circumstances into account and to be explained fully. The fact that many find financial products almost impenetrable leads to low engagement and is a barrier to deeper relationships.

To address these challenges, the industry should improve consumers' experiences when choosing and using credit, through greater flexibility of products, better provision of clear information and dialogue on decisions.

CONTEXTUAL FINDINGS

HOW DO CONSUMERS PERCEIVE, CHOOSE, AND USE CREDIT?

CREDIT IS A FACILITATOR OF CONSUMERS' LIVES.

We heard that the ultimate value of credit lies in what it allows people to obtain and achieve in life, for example, affording a new car, paying for a wedding, buying clothes, food, or even paying bills. It is through this lens that consumers think about their credit use, rather than as a 'financial product'.

CONSUMERS ARE LESS LIKELY TO UNDERSTAND HOW THE CREDIT MARKET WORKS...

...than how it helps them. Lenders need to help customers know what they are signing up for and consider the consequences. Consumers tend disproportionately to focus on their credit scores when thinking about obtaining credit, wondering about how their score will be affected rather than the sustainability of their financial position.

CONSUMER DECISION MAKING IS RATIONALLY AND EMOTIONALLY DRIVEN.

Both rational drivers (longer term weighing up of options) and emotional drivers ('in the moment' decision making) interact when consumers are deciding to use credit. The specific credit journey they experience and reason for using credit impacts how rational or emotional the decision making is with the two interacting throughout.

TYPICALLY, CONSUMERS FOLLOW THREE STEPS WHEN CHOOSING CREDIT.

They start with a specific need. Then they assess the options available to them, for example, via comparison websites or going with an option presented to them. Lastly, they assess affordability, often by looking at what the monthly payments are likely to be. The levels of consideration given at these stages vary significantly depending on how emotionally or rationally driven a consumer is as well as the type of credit they are using and the desired outcome.

WHEN CHOOSING CREDIT, CONSUMERS WANT TO REDUCE THE AMOUNT OF 'COGNITIVE FRICTION' WHILST MAINTAINING THE RIGHT AMOUNT OF 'FUNCTIONAL FRICTION'.

Cognitive friction refers to aspects of the process that make the journey feel difficult to understand and can cause consumers to feel uncertain about their choices. On the other hand, functional friction consists of factors which can make the journey feel cumbersome, for example, long application forms. Of the two, consumers feel some degree of functional friction is important to retain in the journey to ensure credit is being accessed with some rational consideration. They also value journeys where cognitive friction is reduced and they feel implicitly confident the credit they are using is the right option for their circumstances and needs.

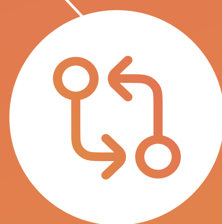
WHAT DO CONSUMERS WANT TO SEE IN THE FUTURE OF CREDIT?

MOST CONSUMERS FEEL CREDIT IS WORKING WELL CURRENTLY.

They feel they can obtain and achieve what they want and need in life using credit and that the experience of doing so is mostly positive.

WHEN PROMPTED ABOUT THEIR EXPERIENCE WITH CREDIT, CONSUMERS IDENTIFY AREAS WHERE IT COULD BE IMPROVED.

Some consumers feel they do not always understand which credit products are best for them. Others feel that they have either too much or too little choice. For example some are unsure whether they should use a credit card or a second charge mortgage to fund their house renovations. And if the former, which of the many options available to them is the 'right' one? Many now are also looking for more engagement from lenders, and for them to have a more holistic understanding of their total credit usage and appropriate support for those who begin to struggle with repayments or accessing credit when needed.



TO DELIVER ON THIS IN THE FUTURE, CONSUMERS WANT THE RELATIONSHIP THEY HAVE WITH LENDERS TO ADAPT AND CHANGE.

Currently, consumers' relationships with lenders are transactional and characterised by low trust. In the future, consumers want a deeper relationship with lenders where they feel confident that they are choosing (and being offered) the most appropriate products for them.

FOUR PRINCIPLES UNDERPIN A NEW RELATIONSHIP BETWEEN CONSUMERS AND LENDERS:

GREATER PERSONALISATION

Consumers feel credit products are often not tailored to their specific personal circumstances. For example, they are offered higher cost products even when they have demonstrated they repay what they owe. In the future, consumers want to see a more personalised experience, where they can feel confident that lenders are offering tailored products and support for them.

GREATER FLEXIBILITY

When they are using credit products, consumers feel they have to follow terms set by the lender, notably the amount and how they repay. In the future, consumers want the ability to flex how and when they use credit around their circumstances, so they feel more in control of their credit and how it is paid back.

A NEW AND DEEPER RELATIONSHIP OF TRUST AND TWO-WAY DIALOGUE

GREATER CONTROL

Consumers want to reduce the cognitive friction in their experience of choosing and using credit. This is caused by not knowing which product is best for them and can likely be reduced by meeting the principles of greater personalisation, flexibility and consumer education. On the other hand, consumers want some functional friction in their experience to be retained so that they feel able to reflect on their credit use.

GREATER EDUCATION

Consumers have limited understanding of how the credit market works and the intricacies of different products and instead place a strong focus on their credit score. This means they can feel uncertain in their decision making. Consumers welcome initiatives for helping them improve their knowledge in the future, like how lenders' decisions are made and understanding of products' terms, so they can build confidence to choose and use the right products for them.

About BritainThinks

We are an international insight and strategy consultancy focussed on providing our clients with the insight they need to make better decisions. We do this by putting the people who matter most to our clients' organisation at the heart of their thinking.

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