THE FUTURE OF CREDIT

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

Britainthinks
Insight & Strategy

FLA

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FOREWORD

Stephen Haddrill
Director General

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created an absurd situation in which firms will find themselves having to provide additional information to explain the outdated and opaque notices that the CCA requires lenders to send to customers.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 relating 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 nationwide survey, qualitative online diaries and interviews, ahead of bringing 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 and understanding.

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 to focus disproportionately 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 are now 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, such as how lenders' decisions are made and understanding of products' terms, so they can build confidence to choose and use the right products for them.

INTRODUCTION

This research was conducted at a time when rising costs and political instability have been deeply affecting consumer confidence and spending. This has been alongside market and regulatory change. It provides a new perspective on credit use and the future of credit by focussing on the attitudes and experiences of a broad range of borrowers and taking an open and co-creative approach with members of the FLA.

The broader context of credit in the UK

Now is an important time to reflect on what is working well and the value credit delivers to consumers, as well as how it can be optimised to ensure positive outcomes and experiences in the future. A range of factors provide this important backdrop to this research:

The rising cost of living and how it may impact credit usage.

The cost of living is the top concern for the general public, with half being pessimistic about affording the luxuries in life and a third being pessimistic about their ability to afford the basics. There are already signs that this is pushing consumers to increase their credit usage. For example, the annual growth rate for all consumer credit increased to 6.9% in July; the highest rate since March 2019 (7.2%) . This research was conducted amidst this backdrop of concern about rising costs, directly exploring how consumers are feeling and what they are doing as a response.

Changes to the markets and how this may impact access to credit.

There is concern that the withdrawal of high-cost lenders from the market, and the introduction of more restrictive lending terms from others, will limit access to credit for some low-income consumers. One concern is that gaps may be created in the market which could be filled by unregulated or illegal solutions, at a time when more consumers may be becoming financially vulnerable. This research explored the ways in which consumers currently access the credit they use and how they would like this to change in the future.

New products and offerings that will potentially present both opportunities and risks for consumers.

The recent introduction of new products (e.g., deferred payment products) and offerings (e.g., green finance) are expected to shape the future of credit for consumers. Amid the potential for a plethora of new products and innovations, this research was conducted to provide insight directly from consumers on what they want to see from the future of credit.

1. https://britainthinks.com/financial-services-and-the-cost-of-living/?utm_source=rss&utm_medium=rss&utm_campaign=financial-services-and-the-cost-of-living
2. https://www.bankofengland.co.uk/statistics/money-and-credit/2022/july-2022
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7. https://www.fca.org.uk/publication/corporate/woolard-review-report.pdf

Changing regulatory landscape:

The Financial Conduct Authority (FCA) published the new Consumer Duty in July 2022, which requires industry to prioritise the needs of consumers .
The new Principle 12 states that **"A firm must act to deliver good outcomes for retail customers"**.
This provides a new context and set of actions for firms which could have far reaching implications and potential challenges, such as identifying who is responsible and potential application of the duty retrospectively.
In addition, the Financial Services Consumer Panel recently issued the FCA with recommendations following research exploring the experiences, motivations, and drivers of 'early-stage users of credit'. The Panel's recommendations could have implications for future regulation, and the Panel also recommended that 'the FCA should research and propose what the key features are of a good consumer journey in terms of balance between easy access and protective friction'. *This research for the FLA heard directly from consumers and explored their journeys, including both positive elements and pain points, to understand what consumers think of as a 'good' journey. This included working through the tension of them seeking to access credit easily whilst also being protected against the risks.*

This research for the FLA intended to build on other recent research on credit use. Understandably, other research has often focussed on potential detriment or harm and ways in which to negate this. There is also burgeoning understanding of how consumers use different types of credit and what the stages of the journey look like. For this reason, this research purposively sought to provide a broad and future-focussed lens on credit use from consumers, including a wide range of different types of borrowers, including those who had used multiple credit products for many years, and by broadly exploring what credit meant to them and what they would like in the future.

1. https://www.fca.org.uk/publication/policy/ps22-9.pdf
2. https://www.lewissilkin.com/en/insights/the-fca-new-consumer-duty-principle-12-is-here#:~:text=On%2031%20July%202023%2C%20the,all%20closed%20products%20and%20services.
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4. https://www.fs-cp.org.uk/sites/default/files/20221108_final_draft_panel_position_paper.pdf
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OUR APPROACH

The Future of Credit Project

Reflecting the broader context of credit, the changing use of consumer credit has been a priority for the FLA who has an ongoing project looking to understand the future of credit. The three core aims of the project are to understand:

- **The value of credit** to consumers, to the economy, and to society.
- **How consumers access credit** and how this might change in the future, including for consumers with thin or impaired credit files.
- **How the sector is evolving,** including new models and products, and the impact these might have on consumers.

Previous research with stakeholders

BritainThinks conducted stakeholder research for the FLA in 2021 which asked a range of industry stakeholders about their views on the future of credit. In this, stakeholders themselves pointed to a range of routes that could inform the future of credit. These were taken as starting points when developing the discussions with consumers in this research and included broad territories such as:

BECOME MORE CONSUMER CENTRIC

CONTINUING TO INNOVATE WITH THE EVOLUTION OF TECHNOLOGY

MOVING TO SUSTAINABLE, 'GREEN' FINANCIAL MODELS

What research with consumers aimed to achieve

This research was commissioned to develop an understanding of consumer perceptions of credit and what they want from it in the future. In particular, the focus was on exploring:

- **Consumer perceptions of credit** – the role consumers see credit playing in their lives, how important that role is, and what value it brings.
- **Consumer behaviour regarding credit** – how consumers access credit, the drivers and barriers to accessing it, and how these differ by prime, near prime, and subprime consumers.
- **Consumer views on innovation in the sector** – including views on new products and models and what their preferences and concerns are regarding opportunities for innovation.

Methodology

1. **Desk review** - review of existing research and literature about how consumers perceive and use credit, to ensure our approach builds on, rather than replicates, existing findings.
2. **Member engagement and development of innovation territories/scenarios** - a 90-minute workshop with the FLA team and members, to develop hypotheses to test with consumers and create innovation territories to share with consumers as a 'starting point' to understand their views on the future of credit.
3. **Quantitative survey** - an online poll with 2,106 members of the public who were nationally representative of the UK, including users and non-users of credit. The poll sought to understand a representative picture of perceptions and usage of credit. We asked respondents a number of questions covering:
   - Current and past usage of credit
   - Importance of credit for managing finances
   - Ease of access
   - Opportunities and difficulties they may have experienced
   - Importance of factors such as availability, ease, and flexibility when taking out credit
4. **Digital ethnography** - a one-week online community with 30 consumers who use credit products (a mix of prime, near prime, and subprime - full sample included in the appendix) to deep-dive into the individual perceptions and experiences of consumers, including their motivations and barriers to credit behaviours.

   Further to this, to understand how credit could be improved, we presented a range of hypothetical scenarios relating to innovations or changes to credit in the future.
5. **In-depth interviews** - 20 of the digital ethnography participants took part in 30-45 minute follow up interviews, with a broad spread across prime, near prime, and subprime consumers. These sessions were designed to build on insight from the digital ethnography stage, including:
   - Unpicking the participant's credit journey and how they felt at each stage.
   - Understanding any nuances between using different products.
   - Explore views on possible sector innovations in greater depth.
6. **Co-creation workshop** - a 2.5-hour workshop to bring together 18 consumers and 12 FLA members / lenders to discuss findings of the research. We used this session to co-create ideal future consumer journeys as well as to discuss feasibility and resolve tensions around what consumers want the future of credit to look like.

Rationale and limitations

This research explores the importance of credit to consumers and how they access it, as well as envisaging the future of credit from consumer perspectives. The quantitative phase, first, sought to paint a picture of national consumer credit usage. The qualitative methods, meanwhile, delved deeper into some of the trends we uncovered. It also brought together consumers and industry in order to address any tensions between what consumers want to see in the future and what the industry is able to deliver.

The research purposely included specific credit products that are provided by FLA members or of interest to the FLA. The research also ensured that there was a nationally representative sample within the quantitative strand, and a wide range of demographics within the qualitative strand. Additionally, the qualitative strand included a mix of credit scores (prime, near prime, and subprime).

As with all research, there are limitations to the scope. This research took a broad and general view of perceptions and use of credit, so it does not present findings in detail in relation to different credit products. The research also did not seek to do an in-depth analysis of the future concepts or innovations, instead using this as stimulus to prompt conversation around what consumers want the future of credit to look like.

The purpose of this report is to reflect on some of the key learnings and open up the conversation around the future of credit, and inspire ideas drawing on views taken directly from consumers. Further research will be required to explore views on types of credit and specific innovations and ideas in the future, as well as to explore the perceptions of specific groups of consumers.

Reporting conventions

We defined 'credit' as the products that enable consumers to buy goods and services with the understanding that the borrower will pay back later, usually with interest.

Any names mentioned in the report have been changed to protect anonymity.

SECTION 1

HOW DO CONSUMERS PERCEIVE AND USE CREDIT?

Credit is valued as a facilitator of consumers' lives and it is through this lens which it is most commonly viewed.

Consumers see credit as having important benefits, including providing freedom to do or buy things earlier, security as a safety net to fall back on, and flexibility of spreading the cost of payments. This provides greater freedom and flexibility in their lives.

Consumers are aware there are flip sides to these benefits, feeling that in some instances credit can be too easily accessed and used, leading to detriment.

The cost of living crisis is an important backdrop for consumers' credit usage.

At the time of fieldwork, stories about the rising cost of living were widespread across news publications and TV channels. Despite the fact that the Government had recently announced the energy support package for all households, soaring energy prices were particularly top of mind for consumers. The rising cost of living was raised by many consumers spontaneously in the qualitative research as a concern for the future. Some reported long-standing financial difficulties, which the rising cost of living would exacerbate, whilst others said they were starting to feel concerned about the future of their finances for the first time.

"I am worried about the cost of living. Can I afford to heat my home? And pay my bills? I am terrified."

40-59, Near Prime

What the rising cost of living means for future credit use varies widely depending on individual circumstances. Some participants expect they will use credit more through these difficult times. For example, one participant told us that she uses credit for items such as home appliances and furniture. This is because these are high cost items, which she is unable to afford outright in the current context. Using credit to buy these items means the payments are more manageable as they are smaller and spread over several months. She expects to continue to do this in the future to manage her money in this challenging context.

"I use credit for things like home appliances, furniture etc. as my money doesn't stretch far enough. With the rising cost of living, buying these items on credit makes it more manageable in terms of repayment structure and having more time to buy these off."

60+, Subprime

On the other hand, some say that the cost of living crisis makes them want to get their credit use more under control so as not to accumulate more 'debt'. One participant said he was concerned about relying on credit at a time when money would be tight. While he may have previously felt comfortable to purchase items on his credit card, he currently feels less able to stay on top of repayments. As such, instead of using more credit, he wants to cut back and pay off his existing credit debt.

"I am worried about the cost of living continuing to rise especially with Christmas.
I already have credit card debt and I really want to get on top of that rather than add to it."

18-39, Subprime

Consumers value credit as a facilitator of their lives and aspirations.

The ultimate value of credit to consumers is what it allows them to obtain and achieve in their lives. The role of 'facilitation' is varied and widespread, and highly dependent on the individual who is using credit. Some value credit as it allows them to purchase the necessities in life, others value credit as it facilitates them to enjoying their lives to the fullest, whereas others value it as it facilitates them to receiving rewards for their everyday spending. We explore the different types of facilitation in this section.

Credit facilitates consumers to purchase the essentials.

Perhaps because of the challenges faced due to the cost of living crisis, many consumers view credit as a way to stay afloat, with almost seven in ten (68%) of the public agreeing that credit can be a lifeline. This was reflected qualitatively, with some participants saying they use credit for groceries, essential non-grocery items such as clothes, and eating or drinking out. Some subprime consumers do so out of necessity due to their limited income. This means they feel they have to use credit to purchase the essentials and, without it, they would have few other options.

"I have always been brought up old-fashioned not to borrow and if I can't afford it to go without. But since becoming a single parent and with no family to help I have no option but to rob Peter to pay Paul. Payday loans are vile, but I have no choice at times."

40-59, Subprime

Credit facilitates consumers to purchase things that give them enjoyment in life.

Additionally, and perhaps at least partly as a response to the years of restrictions during Covid-19, consumers are also prioritising important life events and want to enjoy themselves. They believe credit helps them to do that. Almost two thirds (63%) of the public agree that credit allows people to buy the things that give them enjoyment in life.

One participant, for example, took out an unsecured personal loan so he could buy an engagement ring. Though he can typically save up for larger purchases, he finds it more convenient to use credit as it enables him to get what he wants more quickly and to spread the cost. What's more, as he is a prime consumer, he can often access good deals and he looks out for credit products with low interest. He does this because he feels he doesn't have to, or shouldn't, pay more for credit than he needs to. If it's expensive to borrow, he'd rather wait until he had the savings.

"I needed to buy [an engagement ring] for £2,000 at short notice and needed to keep it a secret as it is a gift. I could do this by taking out a loan with my bank and not have any letters to the house... Usually these larger purchases offer interest free or low APR, meaning it's a manageable way of paying for larger items without a huge interest bill at the end."

18-39, Prime

Other consumers use credit to facilitate them accessing better goods and services than they would be able to afford solely with their income. A key example of this is motor finance, which consumers often use as an option as they want to have a better car than they can afford to buy outright. Credit enables them to do this by allowing them to make smaller payments over time.

"I wanted to be able to maximise my choice of vehicle by using the money I already had as a large deposit. Taking out finance allowed me to buy a more expensive car"

40-59, Subprime

1. Q7a. To what extent do you agree or disagree with the following statements? Credit can be a lifeline. Base: All respondents (2106)
2. Q7a. To what extent do you agree or disagree with the following statements? Credit allows people to buy the things that give them enjoyment in life. Base: All respondents (2106)

Credit facilitates consumers being rewarded for their purchases.

A certain group – who typically tend to be prime consumers – value credit as it allows them to be rewarded for their purchases. For example, they will tend to pay for everyday items on their credit card as a way to earn points and rewards and pay it off every month.

Consumers view credit through this lens of facilitation, rather than as a financial product, and have little understanding of the underlying market infrastructure.

It is from the perspective of facilitation, rather than based on a thorough understanding of credit products and their features, that consumers see the benefits and downsides of credit. As such, consumers do not tend to engage with or understand the market and how it is regulated. In this context, consumers focus on credit scores above all else, and give little consideration to the mechanics of the system.

Therefore, consumers - particularly subprime consumers - are very interested in building their credit scores. They have learnt that by using credit and meeting repayment terms and thus improving their credit score, they can gain access to additional credit products, often at lower costs. Over three fifths (62%) of the public agree that credit is essential to build up their credit score in order to be accepted for financial products.

"When it comes to the end of the month, I make sure that I pay off the full amount [from my credit card]. This is starting to build up my credit score again since having finished off my debt management plan."

40-59, Near prime

For example, one participant told us that she is constantly trying to improve her credit score. This individual came to the UK from Germany 5 years ago. When she arrived, she had no UK credit history which meant that it was very difficult for her to access credit, even though she needed to. As such, she decided to try to build her credit score by taking out the credit that was available to her, which was usually high interest products and small amounts. She would pay these back monthly, trying to meet the deadlines so that it wouldn't impact her credit score. She has been able to improve her credit score somewhat, but she has difficulty understanding exactly what she can do to help as different credit reference agencies give different scores and offer different advice for how to improve them. Despite this, Sandra continues to try to build her credit score as she thinks this is the only way she will be able to access more affordable credit products.

"My interactions with credit are a bit different – they have always been very controlled because I've not had access to it because I'm not from here, so I've not had a way to build up a credit score… I've got different credit score providers but they've got completely different credit scores. It's really confusing to monitor."

18-39, Subprime

Consumers' use of credit is both rationally and emotionally driven.

It is well recognised by behavioural science that consumers are driven by rational considerations as well as taking more emotive short cuts and relying on heuristics when they make decisions. The same can be said when it comes to consumer decision-making in relation to credit.

Rationally, when consumers are considering purchasing a credit product, they are thinking about whether they can afford the purchase in the first place and then whether it is worth using credit over their own cash or savings. They also consider which credit product would be best for them overall, including which is the most affordable (typically looking to the monthly repayments, rather than the total cost of borrowing).

However, emotions also play a part in consumer decision-making. For example, when consumers really want something, their choices are guided by this and they give little consideration about how they obtain it, with some consumers exhibiting a tendency to view credit as a 'pot' which they can dip into for their expenditures. Furthermore, some consumers have a strong emotional attachment to their cash and savings, which means they would rather take out credit and protect 'their' money as a kind of safety net. Finally, the convenience of paying with credit, epitomised by deferred payment products, gives consumers the impression that credit is the easiest way to pay.

The weight given to the rational and emotional sides is dependent on the individual and is not 'static'

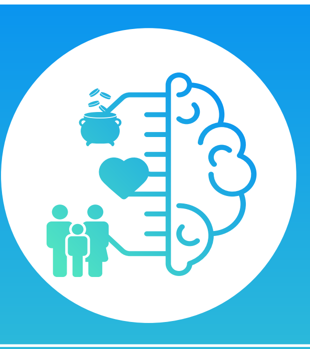
Rational decision making

Assessing if they can afford the purchase

Evaluating whether to use cash, savings or credit

Researching which credit products are available to them

Finding the most affordable credit product



Emotional decision making

Strong desire for the item

Seeing credit as a 'pot' to purchase items along with monthly income and savings

Savings/cash being perceived as a safety net so wanting to retain these

Some products presenting as a convenient way to pay (e.g. deferred payment products at checkouts), leading to a sense of 'why not?'

Diagram 1: Rational vs. Emotional decision-making

1. Q7a. To what extent do you agree or disagree with the following statements? Credit is essential to build up one's credit score e.g., in order to be accepted for financial products such as a mortgage. Base: All respondents (2106)

CASE STUDIES

CASE STUDY
MORE EMOTIONALLY DRIVEN DECISION MAKING

"A lot of time I can afford to buy the things outright, but it just frees up some money in the month. I'm quite spontaneous, I want to buy stuff and go places, I don't want money to hold me back."
18-39, Prime

Alexandra works part-time as an office manager. She is 29 years old and lives in London. Alexandra enjoys holidays and staying up to date with the latest technology – she doesn't want to let money hold her back from living the life she wants. Her income doesn't cover her outgoings, so she is a regular credit user and appreciates the freedom it can buy her. She has a credit card, multiple store cards, and has recently taken out an unsecured personal loan to buy a new smart watch.

She tries her best to stay on top of her monthly payments and rarely misses a repayment. Her prime credit score allows her to get better deals on credit products, which means she would often rather take out more credit than miss out on going away or buying a new gadget. The emotional nature of her decision making – seeing credit as means to live her life in the way she wants – means she can give little attention to more rational factors such as the cost of borrowing or her cumulative credit usage.

CASE STUDY
MORE RATIONALLY DRIVEN DECISION MAKING

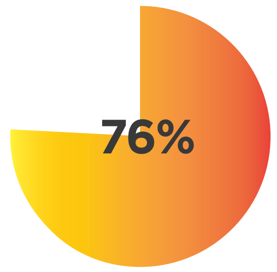
"My credit rating was poor for a while, but now I think credit is amazing if you use it when you need it and you use it responsibly. Now I only apply if I really need it, and I think more long-term now."
18-39, Subprime

Joanna is a subprime consumer who, in the past, got behind on her credit card and loan repayments which meant her credit score fell very low. For a long while, she was only able to access very high interest credit products, which meant she found it really difficult to get out of debt. This experience of financial detriment means that she now takes a much more cautious and rational approach to using credit.

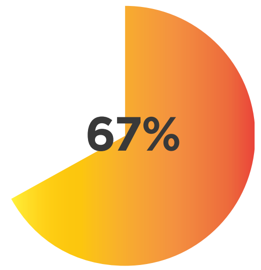
She has managed to raise her credit score over the last few years, which means more credit products are on offer to her at slightly lower interest rates. Because of her past experience, she is reluctant to use credit unless she really needs it or can definitely afford to pay it back, and is in the process of rebuilding her credit score. She is very aware of credit's drawbacks and is concerned about the prospect of damaging her credit score further and returning to the stressful situation she was in before. She always prefers to use products she feels are less risky, such as deferred payment products.

Credit delivers real value in consumers' lives.

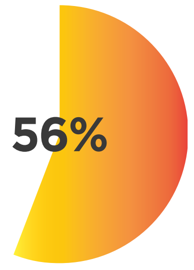
Whilst not all consumers have a straight-forward relationship with credit, they are typically able to identify three core benefits that they believe it delivers: freedom, security, and flexibility.



'Credit allows people to buy products and services when they need them'



'Credit gives people a financial safety net for any unexpected payments'



'Credit helps people spread out their costs and manage their money better'

Freedom is an important benefit of using credit, with over three quarters (76%) of the public agreeing that credit allows them to buy things when they need them. Also, consumers' ability to keep their cash and savings intact, and still purchase the item or service they want or need, gives them options that make them feel safe and protected. Also, this can be particularly important in moments of financial hardship, such as the current cost of living crisis, where consumers can simply lack the cash but still need items. In these cases, credit gives them the freedom to make these purchases when they need them, rather than having to go without or wait until they've had a chance to save up.

"Having the option to use credit when you don't have the lump sum there... It helps with money management."
18-39, Subprime

Tied up with freedom is **security**. When consumers hit hard times, credit allows them to continue living their lives and reaching their ambitions. Around two thirds (67%) of the public agree that credit gives people a financial safety net to fall back on when they have to make unexpected payments. Not only does credit provide security in this sense, but it also makes people feel safer when they are making big purchases or buying things online. This is especially true for credit cards, which consumers favour over cash or savings, for the additional protection in case something goes wrong.

"When times are hard and I need essentials, sometimes having the option to take credit helps, as my money can only go so far."
60+, Subprime

Flexibility is another key benefit of credit, as it allows people to purchase things without paying for them upfront. This gives consumers greater control over money management by using certain products, with 56% of the public agreeing that credit helps people spread out their cost and manage their money better. For example, Kevin uses car finance to spread the cost of his vehicle over 2 years, rather than pay for the full amount up front. However, consumers are more sceptical about this benefit when thinking about it through the lens of other people using credit, with only two fifths (41%) of the public in agreement that credit can help people feel in greater control of their finances.

"It's used to make life easier and spread payments. I have always had finance for car purchases to spread the cost and pay from my monthly income."
40-59, Prime

"Debt consolidation enables me to worry about only one monthly payment and converse with fewer creditors."
40-59, Subprime

1. Q7a. To what extent do you agree or disagree with the following statements? Credit allows people to buy products and services when they need them (even if they don't have the cash at that particular moment in time). Base: All respondents (2106)

Consumers are also conscious of the risks of credit. These risks represent the flip side of the benefits.

While freedom and flexibility are perceived to be core benefits of credit, consumers also feel there can be too much freedom and flexibility with credit, meaning some consumers can quickly accumulate more than they can afford, leaving them trapped and reliant on credit as they find it difficult to pay back. In this situation, the benefits of credit are flipped, as consumers are left conversely feeling out of control, with little freedom or flexibility.

Three fifths (60%) of the public think credit can be accessed too easily and almost four fifths (77%) agree that credit can often become unmanageable, leading to negative consequences. This was reflected qualitatively, with consumers believing that credit can at times enable people to buy more than they want or need and be too easily or quickly accessed. They recognise that credit can be a challenge to pay back and get on top of, and interest accrued over time means it can end up being an expensive way to spend, leading to longer term detriment such as impaired credit scores or emotional impacts such as anxiety. Some had personally experienced this in the past.

"Credit cards meant I could buy the things I couldn't afford at the time, but probably enabled me to shop unnecessarily."

18-39, Subprime

"In my opinion, once you start going into your overdraft, it's very hard to go into the green again as you are always having to pay it back each month once your salary is paid in."

18-39, Subprime

Experiencing risks first hand makes consumers particularly conscious of the downsides of credit. One of the participants used credit a lot when at university. He followed the latest trends in both fashion and technology and wanted to keep up with them. He found that it was very easy to access credit and often used credit cards, bank overdrafts, and payday loans, and he did so without considering how he would pay it back. Eventually, he got to a point where he kept missing repayment deadlines and had to rely on friends and family to help. As a result, he has become much more conscious of how he uses credit; nowadays, he has one credit card for emergencies and avoids other forms of credit.

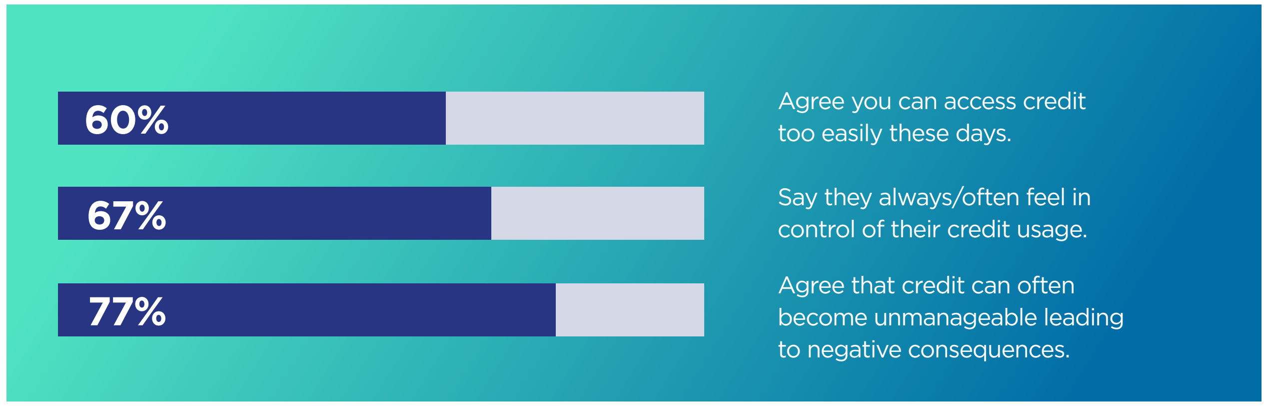
"I am much more wary now. I found myself in a bit of trouble in the past, living above my means – when I was at university, banks and lenders throw it at you."

18-39, Near Prime

"I do see these things when I'm on social media, that people have like £300 each month going out for Klarna. And I think 'that is the extreme and you need support. [...] I use Klarna all the time for clothes and shoes. I've got a holiday coming up and I want new sandals and clothes, so I've used Klarna. I use credit a lot to enjoy life."

18-39, Prime

Those who have not had a negative experience with credit personally also view these risks when thinking of other people's credit usage. This creates a tension whereby they feel in control of their own credit usage, but also see credit as risky when used by others. There is essentially a 'positivity bias' whereby consumers can underestimate their own risks when it comes to credit use, or the risk they may represent to lenders and how this is assessed.



The positivity bias when thinking about their own credit usage means consumers of all credit scores can downplay the risks credit represents to them and the risk they may represent to lenders. This bias can manifest in a couple of ways. Firstly, the belief that they manage their credit well means consumers, across the board, are less likely to think they need help or support with their credit. This means consumers may struggle to ask for help until it's too late and can reject support that is offered from lenders. Secondly, the bias can cause some subprime consumers to feel frustrated with lenders for offering them higher interest rates. They feel they manage their credit well and are a responsible person to lend to, they can downplay the wider context which may mean it's more challenging for them to manage the credit they have.

"I don't think it is fair people like me who are temporarily unemployed getting turned down for credit even though they have worked all their lives, but might need credit... There is not a lot for people who are unemployed, but who are responsible."

60+, Subprime

1. Q7a. To what extent do you agree or disagree with the following statements? Credit gives people a financial safety net for any unexpected payments. Base: All respondents (2106)
2. Q7a. To what extent do you agree or disagree with the following statements? Credit helps people spread out their costs and manage their money better. Base: All respondents (2106)
3. Q7a. To what extent do you agree or disagree with the following statements? Credit can help people feel in greater control of their finances. Base: All respondents (2106)
4. Q7a. To what extent do you agree or disagree with the following statements? You can access credit too easily these days. Base: All respondents (2106)
5. Q7a. To what extent do you agree or disagree with the following statements? Credit can often become unmanageable leading to negative consequences. Base: All respondents (2106)

SECTION 2

HOW DO CONSUMERS CHOOSE AND ENGAGE WITH CREDIT?

Consumers typically follow a three-step journey when they choose credit. It starts with a need, they see which options are available, and then they assess affordability.

A positive experience engaging with credit is one where consumers confidently understand the products they want to access and the journey feels 'smooth'.

This involves reducing the amount of cognitive friction (e.g. feeling uncertain about which is the most appropriate product) and keeping the right amount of functional friction (e.g. avoiding overly long paperwork).

Consumers typically follow a three-step journey when choosing credit.

Consumers will normally begin their journey with a ***need*** for something they feel that credit can facilitate, whether that be a large purchase, making payments easier, or earning loyalty points or vouchers. As noted in Section 1, ultimately credit is not viewed as a product, but as a facilitator to meet these needs. How much consumers assess whether they need to use credit for a given purchase depends on how emotionally driven they are and also rational factors, such as the price of the purchase and how urgent it is.

Once consumers have determined they will pay with credit, they think about what products they can ***access***. For consumers with a prime credit score, this is often not considered in depth as they know they have many options available to them and have not experienced issues in this area in the past. For consumers with subprime credit scores there will be more assessment here, particularly through comparison websites, with these consumers in particular looking for 'pre-approval'. This step is of greater importance for consumers with lower credit scores who are worried about damaging their credit score and further restricting access.

Finally, ***affordability*** is considered, mostly with regards to looking for the lowest monthly payment or interest rates available from the options that are available. It is these factors that consumers look to, rather than assessing if they can afford the total cost of borrowing or could afford the monthly payment if their situation changes. For prime consumers this is often not a key determinant in the credit products they choose with ease and familiarity often playing a larger part. For consumers with lower credit scores, affordability is a bigger concern, however these consumers are often limited in the range of products they have access to and so are limited in their scope to choose based on cost.

The original need remains consumers' main driver throughout their journey, and while assessing stages two and three at a surface level, will usually choose products that are as low effort as possible to assess and access. Furthermore, these assessment steps aren't something which consumers are usually conscious of or do explicitly.

1. Need

Journeys will typically be triggered by a need to purchase something. The level of need depends on the price of the purchase, and how urgent it is.

2. Access

Consumers consider which credit they think they will be able to access comparatively quickly, and without risk of being rejected to obtain their goal.

3. Affordability

Consumers consider the cost mostly in terms of the interest rate and monthly repayment. Decisions are heavily influenced by the credit product, and the consumer's credit score.

Diagram 2: Consumer journey stages

Pain points add cognitive or functional friction to consumers' journeys.

With the final purchase or thing they want to achieve in mind as the main driver for accessing credit, pain points revolve around factors which increase their mental load and make the process slower. These come in two kinds: cognitive friction and functional friction.

Cognitive frictions are factors that make the process more difficult to understand, such as not being aware of the range of credit products, and how to choose an appropriate one.

Functional frictions are delays caused by going through the procedure of applying for credit such as having to fill out long application forms, reading lots of information, and having to wait to hear whether applications have been approved and to receive access to credit.

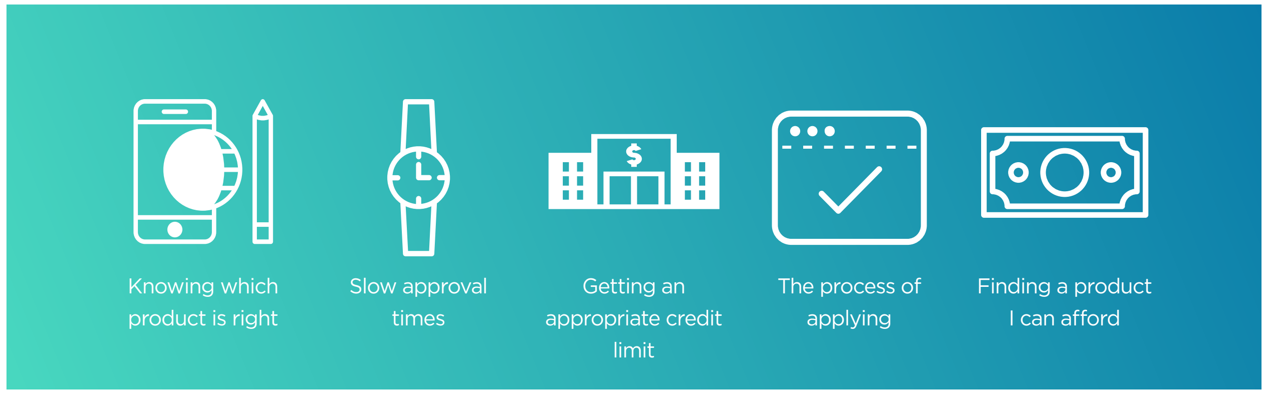


Diagram 3: Consumer pain points

The most 'painful' pain point encountered by consumers is trying to **find a credit product that they can afford.** This is mostly reported by consumers with subprime credit scores, who struggle to find access to credit without very high interest rates. For example, if an urgent repair bill comes through for someone who cannot afford to pay with cash, they will need to turn to credit. For those with a poorer credit history, they are going to be limited to a smaller range of high interest products. Coupled with the fact that consumers with lower credit scores will already be on lower incomes, the impact of a higher cost credit product will be even greater. In these situations, consumers are left with a dilemma between not being able to pay for something essential or taking out a credit product which is not affordable for them, and risk causing additional financial hardship and anxiety about repayment.

Several pain points relate to the process of applying for credit. These add a degree of functional friction to the journey, and include: **slow approval times** and the **process of applying** (that is to say the amount of information and documentation that needs to be provided to apply for a given credit product). Consumers more readily cite these as pain points when considering their journey on a surface and emotional level, as these create barriers to credit delivering the facilitation role.

Importantly, this does not mean consumers want access to credit to become a quick and easy process. Consumers are still concerned about accessing products which might not be suitable for their financial situation, and don't want journeys to be made quick and easy to the point of being able access unsuitable credit products. What consumers are looking for is a journey which has a comfortable amount of functional friction and minimal cognitive friction.

Receiving an **unplanned credit limit** is painful for consumers, as it can contribute to a loss of control. Consumers want to know their credit limit is right for their needs, and so receiving a credit limit that is too low that does not allow them to purchase what they need adds friction to the journey. On the other hand, lenders increasing credit limits or offering 'too much' at the outset can cause anxiety in consumers who feel they may spend beyond their means.

Most consumers report having a level of uncertainty about **which credit products are right for a given purchase.** However, as long as the credit product facilitates the purchase they need or want, this pain point is not reported by consumers as being that 'painful'. Instead, they reflect on this when considering their journey at a deeper and more rational level. For the most part, this pain point is more relevant to prime consumers who have a wider range of options to assess, whereas subprime consumers feel their options and choices are more limited.

"[It's difficult] Trying to understand if I'm getting a good rate. I know everyone is different, but it's hard to understand."
18-39, Near prime

As a result of these pain points, consumers value factors which make journeys feel tailored to them – these make journeys feel 'smoother'.

"I was offered an unsecured personal loan by my bank. I was reluctant at first and considered other lenders, but I chose to stick with my bank. It was easier to apply with them rather than search around numerous small loans on comparison sites"
18-39, Near prime

"I always go to the same garage for my car. I trust whatever they offer me, as they're down the road and I always go to them."
18-39, Prime

Consumers report journeys feeling smoother when they feel they can trust the lender. Trust is in large part built by familiarity, and so many consumers prefer to borrow from providers with whom they have previously borrowed or with whom they are familiar, though this does vary for different kinds of credit products.

For example, consumers are not very familiar with car finance providers and are likely to go with the recommendation of the dealership where they purchased the car, or another trusted third party.

Another key factor making journeys smoother is **ease of access.** For most consumers this relates to credit options being presented to them as a way to pay at the point of purchase. For example buy-now-pay-later options being shown at online checkouts or being offered financing by a car dealership. In these instances, credit is a convenient way to pay, it feels simple and straightforward, and consumers do not have to work out if it is 'right for them'.

The final main factor in smoothing the process that consumers appreciate is **pre-approval and quick approval.** Quick approval gives consumers comfort that they will be able to make purchases without delay, and so budget more accurately and remove anxiety from waiting for an outcome. For consumers with subprime credit scores, this is a particular concern, and they will gravitate towards products for which they have 'pre-approval' to avoid rejection and therefore damaging their credit score or not being able to make an essential purchase.

All of these factors work **towards minimising cognitive friction** and making a comfortable amount of functional friction, meaning that the final goal or credit-facilitated outcome is achieved correctly and in a straightforward manner.

Consumers would also like to see cognitive friction minimised when it comes to using and engaging with their credit after approval. This is mostly focussed on making repaying as simple and as flexible as possible.

Most considerations after credit has been obtained relate to consumers' broader financial situation, and generally their ability to repay and costs associated with repayment, rather than the functionality or ease of using the products themselves. For example, consumers prefer products which offer flexibility, such as being able to repay earlier without any additional cost should their circumstances allow or reduce or pause payments temporarily if they have a reduction in income.

"You don't want to be paying interest on your [0%] credit card. That's when it all changes. If you go over that 0% period, so much is going to interest, and you don't want that"
40-59, Near Prime

To be able to provide consumers with better experiences, to the benefit of both lenders and consumers, there are several concrete steps lenders can take. These are steps to add to their offering and, more importantly, change the relationship that exists between lenders and consumers.

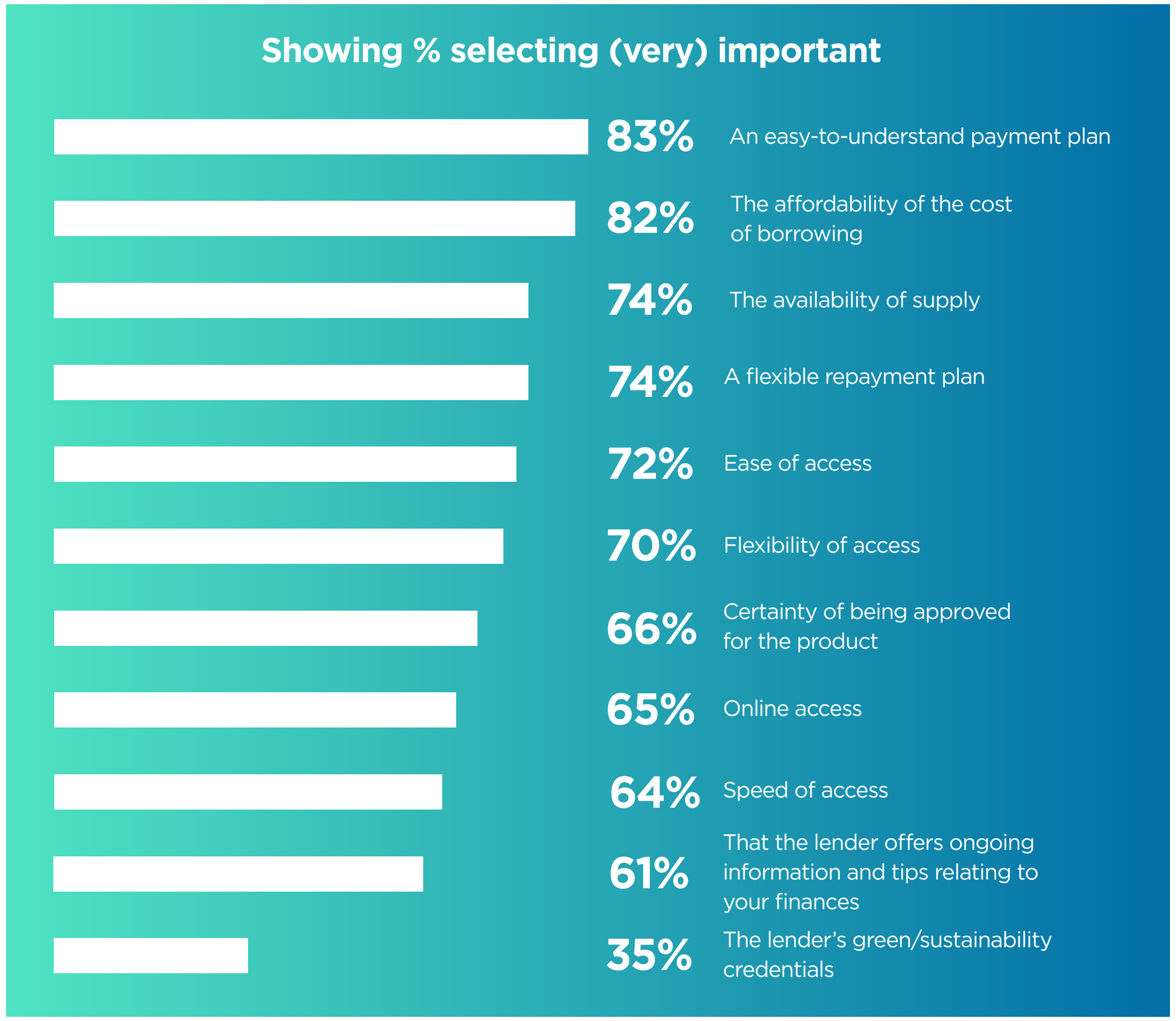


Diagram 4: Important factors when taking out a credit product

1. Q.8 How important, if at all, are the following factors when taking out a credit product? Please rate each factor on a scale from very important to very unimportant. Base: All respondents (2,106)

SECTION 3

WHAT DOES THIS MEAN FOR THE FUTURE OF CREDIT?

Spontaneously most consumers do not think their experience engaging with credit is in need of significant urgent improvement.

When prompted, consumers are seeking a deeper relationship with lenders in the future. They want this relationship to be built on trust that the decisions being made, and the credit offered to them, takes into account their personal circumstances and not just their credit score.

To deliver on this, there are several changes the industry can implement to improve consumers' experience of engaging with credit. These are underpinned by four principles: greater personalisation, greater flexibility, greater control, and greater education.

Routes to understanding consumers' views on the future of credit.

We took an iterative approach to explore consumers' views on the future of credit. Given there is low understanding of credit as a product, the underlying infrastructure, and wider market factors, it was essential to use stimulus to understand consumers' views on possible innovations in the sector. We worked with the FLA team and members to develop stimulus to share with consumers. The stimulus focussed on 'innovation territories' that those who work in the credit sector felt will influence the future of credit. They included:

- Open Finance innovations, such as more sophisticated credit checks and proactive advice.
- Green finance, including loans to fund environmentally friendly homes.
- Flexible offers, including choosing when and how you repay credit.
- Lifestyle products, such as credit specifically designed for older people.

In addition to understanding consumers' views on the innovation stimulus, we also probed on aspects of their experience they currently find challenging (e.g. not knowing which product is right for them) and sought to understand what may help improve on that challenge.

Finally, we held a co-creative workshop with consumers who use credit and professionals who work in the credit sector. In this workshop, we aimed to resolve the challenges that consumers currently experience when choosing and using credit and what this could look like in practice – outcomes that are both desirable from the consumer point of view and feasible from an industry perspective. The result of this workshop were several illustrative ideas for operational changes, outlined later in this section.

Spontaneously, consumers do not think the experience of choosing and using credit is in need of urgent improvement.

Most consumers feel, when reflecting on their own experiences, that credit works well. This is because consumers value credit for its facilitatory role, for example it is the means to bridge the gap until their next pay-day or to fund their annual family holiday. For the most part, if credit is working well 'in the background' by allowing consumers to obtain and achieve what they want, then there are few obvious opportunities spontaneously voiced to improve the experience.

The exception to this is a group of subprime consumers who struggle to access (affordable) credit. These consumers also value credit for what it allows them to do and achieve in life, however they more readily feel it is not working well for them. That is because the difficulties they face in accessing credit products at a rate they can afford or accessing products at all. This barrier prevents credit from delivering on its facilitator role and therefore is often top-of-mind when consumers think about how the experience of choosing and using credit could be improved in the future.

When prompted and considered more in-depth, consumers do identify areas where their experience can be improved. Specifically, they do not always feel they are certain they are acting in the most optimal way and would like to feel more confident in their decision making and usage of credit.

At a rational level, consumers want a simple way to know they are choosing and using the most appropriate credit products for them. This includes knowing they are using the most suitable of different types of credit product (e.g. a credit card vs. unsecured loan) and within that, using a product that best fits their needs and circumstances (e.g. is at a rate they can afford, offers suitable repayment terms).

Consumers want to feel confident in their decision making to choose the most suitable products – a rational desire that can be in tension with their stated preference to have a 'frictionless' journey where credit can swiftly act as a facilitator.

Looking ahead to the future, consumers want a deeper and more holistic understanding of different credit products available and the various associated terms and conditions. They want to feel more informed and empowered when choosing credit, so they can feel confident they are using the right product for them.

To improve the experience consumers want the relationships they have with lenders to change.

Principally, consumers want the relationship they have with the industry to change. At the moment, the relationship feels transactional and is characterised by low trust. This sentiment is not unique to lenders, with many consumers feeling the same about other financial institutions: they deliver a useful service but are not always felt to act in the best interests of consumers.

In the future, consumers want to have a deeper relationship with lenders. This means a 'two-way' relationship where the lender and the consumer have a dialogue, rather than a transactional 'one-way' relationship. It will centre on seeing consumers as individuals and include a dialogue about how and why decisions are being made, and incentivise consumers that are paying back responsibly.

If this is in place, consumers will feel confident they are choosing – and being offered – the right product for them. They will trust lenders to deliver and advise on the most appropriate products, but also play a wider role in consumer education and make sure consumers are using credit responsibly.

Consumers see this change in the relationship between lenders and consumers as the future of credit, rather than the introduction of potential new and innovative products which feel vastly different to what is available currently. In part, this is because credit is already working well functionally at facilitating them to obtain and achieve things in life.

Four principles of greater personalisation, greater flexibility, greater education, and greater control will underpin the new relationship.

The relationship between consumers and lenders can be changed by focussing on four key principles:

- **Greater personalisation** of products and application processes will mean consumers feel confident they are using the most appropriate products for their needs and circumstances.
- **Greater flexibility** e.g. of repayment terms, so they can tailor products to their circumstances and therefore know they are using the most appropriate products for them.
- **Greater control,** although consumers say they want a 'frictionless journey' they acknowledge that this can mean they access credit they don't need. Instead, they want to feel in control, which means reducing the cognitive friction from not knowing if a credit product is right for them, and to maintain a degree of functional friction that means they cannot access products too quickly.
- **Greater education:** increasing consumer knowledge about credit and credit scores, so they can better assess products they are eligible for and know which products are right for them.

"Treat people as a person, rather than just a number or their credit score. My credit report looks awful, but I have a good job and earn a good wage, but my repayments are so high it keeps me in debt."

18-39, Subprime

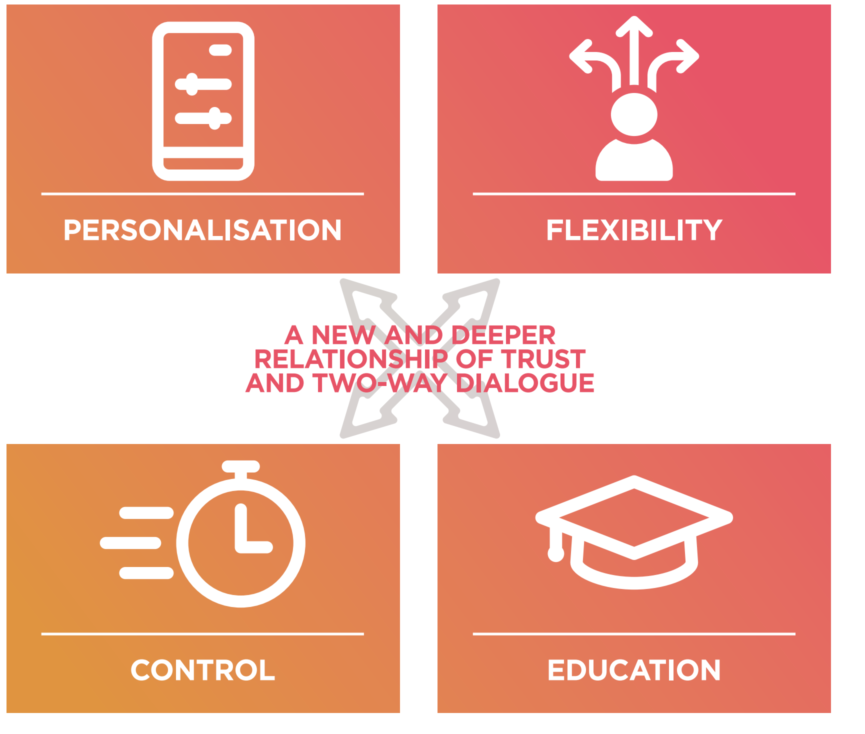


Diagram 5: New relationship between consumers and lenders

GREATER PERSONALISATION

What does 'greater personalisation' mean in the future of credit?

Consumers want to see credit products be more tailored to their specific needs and circumstances. A key part of personalisation is lenders knowing consumers as individuals and considering a wider pool of information when making decisions. Crucially, this means understanding the more 'human factors' which consumers feel are neglected by lenders at the moment (e.g., if they have always repaid on time and in full), rather than just their credit score.

Examples of personalisation include: more sophisticated credit checks, a list of different product 'options' (e.g. that include unsecured loans, credit cards etc.) that are appropriate for what they need credit for, and for products to be adapted as lenders acquire more information about consumers.

Why is 'greater personalisation' an important component of the future of credit?

Greater personalisation of products will play an important role in the future as consumers will be more confident they are using a product which is right for them, if it has been tailored to their specific needs and circumstances.

As it stands, consumers assume their credit score is the main piece of information lenders use to make decisions and they are offered products with associated terms (e.g. interest rates) as a result. Although consumers are unclear on the factors which influence credit scores, they feel the information is not optimal for lenders to make good decisions. As a consequence, they feel they are offered products which aren't right for them. For example, one of our participants knows she has a subprime credit score, but feels she earns a stable income and meets the repayment requirements on the credit she uses. That said, despite feeling she has demonstrated she is able to repay, she continues to be offered products with a high interest rate. She feels if lenders took into account more information about her, they would understand she represents a lower risk than what she feels she's currently perceived to be.

In addition, consumers feel they currently lack the tools to compare products in a meaningful way and therefore they find it difficult to know if they are choosing the right product to suit their needs. Whilst comparison websites allow them to input their information and see which products are available to them, they want this to go further. For example, by comparing different products rather than different options within a single product and giving more advice about which will be the most appropriate product for them depending on the amount they want to borrow and how long they want to repay.

There is little to no consideration that a more personalised approach may lead to consumers experiencing more negative outcomes as a result, for example, they may be offered higher interest rates.

EXAMPLES

Examples on how lenders can deliver on the principle of greater personalisation:

"A questionnaire or flow chart to work out which product will be best for you to use. For example, do you want a credit card or buy now pay later or something different? It would be good to know – this loan has a better interest rate than taking out car finance, so that's probably a better option for you."

40-59, Prime

Expanded comparison tools to navigate products

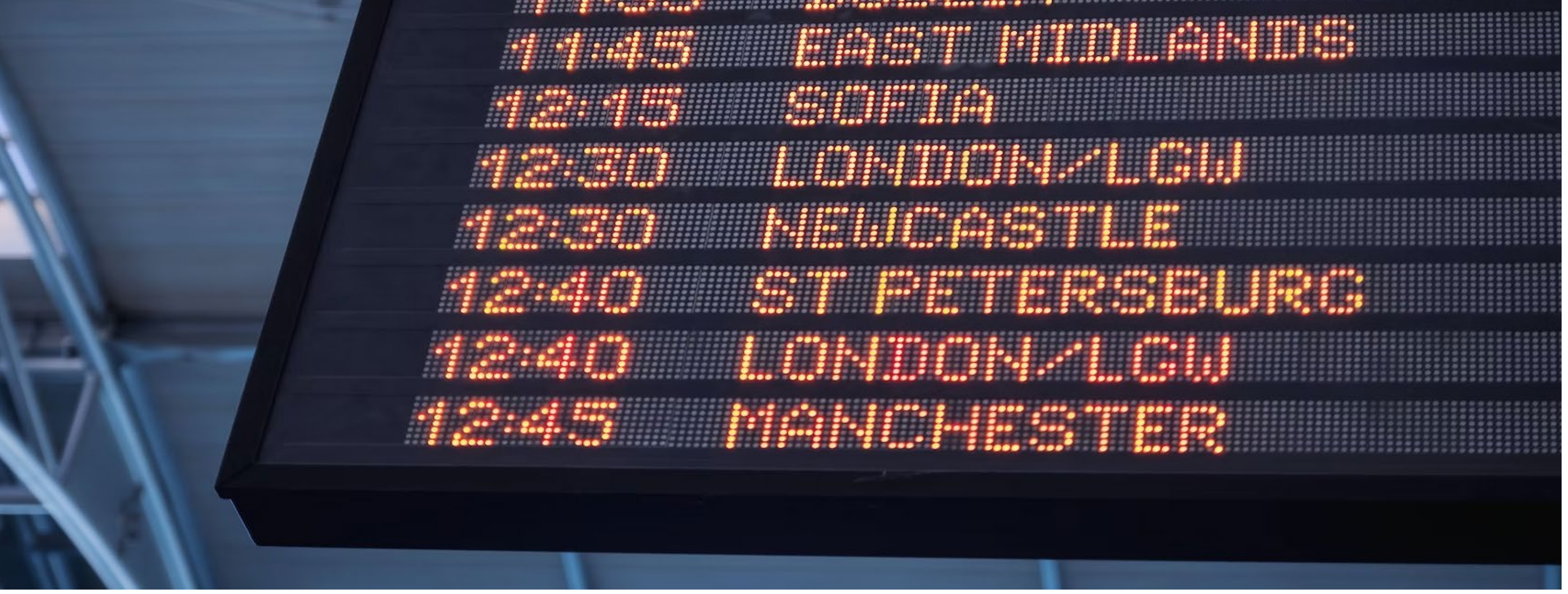
Consumers feel it is difficult to confidently know which type of product best fits their needs and circumstances. A more sophisticated and expansive comparison tool would ask additional questions about what they're looking for credit to facilitate and search different types of products. This will allow consumers to understand which product may be best for them, rather than simply what products are available to them.

Rewarding loyalty

Consumers do not feel their repayment behaviour is accurately reflected in the interest rates they are offered, instead decisions are made from a 'one-off' assessment. For example, a consumer is repaying a loan over 2 years and has been offered an interest rate of 5%. They feel if they have been consistently meeting the repayments, then this information should be considered, and for example for the second year their interest rate will be reduced to 3.5%. Consumers feel this more personalised approach where their behaviour is rewarded will encourage more responsible habits, but also demonstrate that the lender is responsive and 'on their side'.

"You should be rewarded for loyalty and staying, like lowering interest rates as a reward for keeping up with your payments."

18 – 39, Subprime



GREATER FLEXIBILITY

What does 'greater flexibility' mean in the future of credit?

In addition to lenders demonstrating greater understanding of consumers by offering personalised products, consumers also want to be able to manage their credit in a way that works best for them. Critical to doing that is greater flexibility to tailor how they use credit to cope with potentially changing needs and circumstances.

This goes beyond choosing a specific repayment date that meets their needs (e.g. when they receive their salary) at the outset of taking out a credit product, to being able to flex their preferences whilst they are using credit. This may include options to change the amount they repay on loans each month, the option to 'skip' a month when repaying, and the ability to say exactly how much money they would like to borrow.

Why is 'greater flexibility' an important component of the future of credit?

Currently, consumers feel there are limited options to flex how they use credit. This can mean they feel less in control of how they use credit, as it's often not in a way that's most optimal for them. In addition, it can make the relationship with lenders feel 'one way' i.e. lenders set the terms for consumers, who have no option other than to agree to them.

Greater flexibility will help consumers feel more in control, as they will be able to tailor how they use credit so it's in a way that works best for their specific needs. This includes at the outset when they first take out credit, e.g. being able to set a repayment date that works around their monthly income, allowing them to better manage their finances. But also whilst they are using credit, e.g. being able to flex their repayment plan will mean they feel reassured that the product will remain right for them, and they can stay in control, even if their circumstances change. For example, one participant in our sample does not work regular hours which means some months he receives a higher salary, compared to others. He would value the ability to flex how much he repays on his unsecured loan each month, most notably to pay back more without a penalty, on the months he earns more. This will mean he feels more in control of his credit and is able to reduce the amount he will be paying interest on at a rate that suits him.

Greater flexibility is a critical part of the changing relationship between consumers and lenders as it opens up the dialogue between the two sides. Lenders are open to hearing about how consumers' circumstances may change and are able to respond accordingly. For example, one participant in our sample was regularly paying back her credit each month, however, she broke her leg last year which meant she was out of work for two months. She would have appreciated the ability to flex her repayments by taking a 'payment holiday'. Although she was still employed, she was earning less money whilst she wasn't working, which meant she found it challenging to stay on top of her repayments. Greater flexibility would have given her peace of mind that she could stay in control of her finances.

EXAMPLES

Examples on how lenders can deliver on the principle of greater flexibility:

Choosing a monthly repayment date

"I am on a fixed term contract, but sometimes I do have a busy month, so the ability to overpay or underpay – that sort of flexibility might benefit me."

18-39, Prime

Consumers receive their salary on different days in a month and therefore would value the flexibility to choose the date they have to make repayments. This flexibility will help them better manage their monthly outgoings and feel in greater control of their finances.

Flexing the repayment amount on loans

"Flexibility [would make me trust the lender]. It shows the customer that the lender is willing to work alongside you."

18 – 39, Near Prime

Consumers also want to be able to flex the amount they repay each month on their loans, for example, paying more or less than the set amount. This includes the option to take a month 'holiday' as well as overpaying in a set month. As noted above, this will be especially valuable for those consumers with fluctuating monthly incomes.

GREATER CONTROL

What does ‘greater control’ mean in the future of credit?

Consumers want to feel as if they are in the ‘drivers’ seat’ when they are choosing and using credit. This is two-fold:

- They want to feel confident that they know what they’re doing and are making good decisions. For example, that they are selecting the most appropriate and affordable product for their needs and circumstances.
- Although they want the process to feel easy and straightforward, they also want to feel in control. Importantly, this means retaining some ‘functional friction’ to avoid them accessing credit too easily and quickly, e.g. including the option of a ’24 hour cooling off period’ before taking out a loan.

Why is ‘greater control’ an important component of the future of credit?

Control is important part of the future of credit, as it’s something which consumers feel is often missing at the moment. The consequence of this is that they are unable to act in a way that they feel is most appropriate for them. A lack of control is felt in several different areas of the consumer journey.

Firstly, consumers do not feel empowered to make decisions and use credit products in a way that is optimal for them. This is due to low levels of existing knowledge and confusing terms and conditions. In this context, they often have to make guesses and act in a way that ‘feels’ right; when reflecting on a rational level, they can be unsure if they’re using the most appropriate credit product.

In addition to low levels of knowledge, aspects about the products themselves can also contribute to a lack of control, namely: inflexible repayment terms, non-personalised products, and lenders making decisions without communicating the implications to consumers. For example, one of our participants had their credit limit increased without him requesting the lender to do so. He felt very concerned by this, as he did not trust himself with the higher limit and thought it would encourage him to spend more than he needed to and could afford to pay back. He struggled to ask the lender to reinstate his former credit limit, so instead closed down his credit card as a result.

The principle of ‘control’ is also important when consumers consider other people’s credit usage. As noted in Section 1, a majority of the public feel that credit can be accessed too easily these days, which can lead to people taking out and using too much, which can then become difficult to manage. Therefore, consumers – although they say they want a process that feels ‘frictionless’ – feel that some degree of functional friction is important to ensure credit is being lent responsibly and consumers can feel in control over the process.

EXAMPLES

Examples on how lenders can deliver on the principle of greater control:

“Cooling off periods”

“There should be a 24-hour window after applying to check you’re really sure it was the correct decision and a prompt asking you if you’ve changed your mind.”

40 – 59, Prime

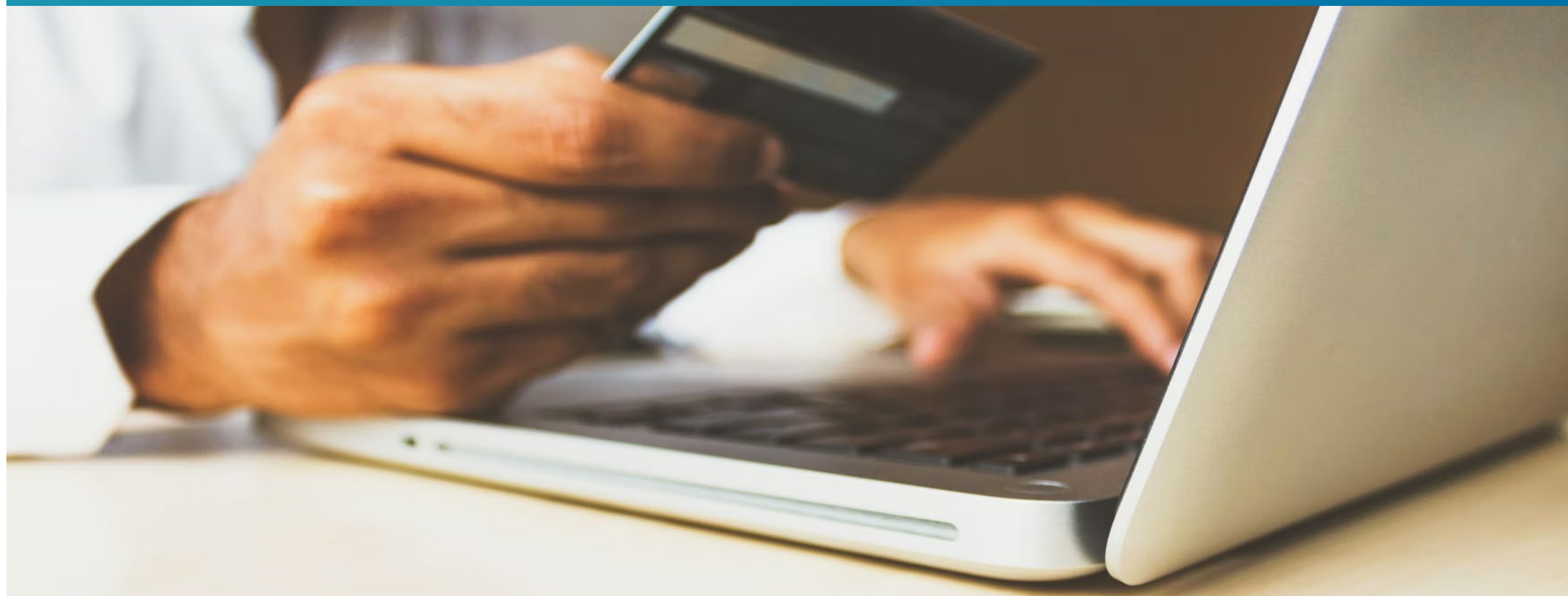
Consumers want functional friction to be added strategically to the journey, to make sure they are using credit responsibly and not taking out more than they need. This includes adding in friction which isn’t present in journeys at the moment. Consumers would value a prompt before they finalise taking out a credit product that asks them if they’re sure and/or if they would like to think on their decision for 24-hours. This will give them the space to check if they really need the credit they are applying for and stay in control of their finances. Importantly, this should not add additional functional friction to the journey, for example, if they do choose to wait 24-hours, then they do not want to have to resume the process of applying for credit from the beginning.

Proactive ‘check-ins’

“They could send you a notification saying something like ‘have your circumstances changed’ or ‘are you feeling ok about your payments? – that seems more approachable.”

18 – 39, Subprime

Consumers acknowledge their circumstances can change, which can affect their ability to repay and the sense of control they feel over managing their money. In addition, they also feel it can be challenging to approach lenders to ask for help and support as they worry about the consequences of doing so. To overcome this, consumers want lenders to send them proactive prompts asking them if their circumstances have changed and/or if they still feel in control of their repayments. This will help lenders feel more approachable and encourage consumers asking for help at an earlier stage.



GREATER EDUCATION

What does 'greater education' mean in the future of credit?

Consumers want to easily understand what is right for them. This is not to say they want to become experts in how credit works and the full extent of terms and conditions, instead they want to know the information that will allow them to feel confident in their choices.

This includes sharing information about different options for credit products and their terms and information about how lenders make decisions and the wider context which they're making decisions. This will move them away from the disproportionate focus on credit scores, to a more nuanced understanding of products and lender decision making.

It will be important for education to be accessible and engaging, for example, simple, jargon-free language and 'need to know information', rather than extensive and detailed information.

Why is 'greater education' an important component of the future of credit?

At the moment, consumers lack confidence that they are choosing and using the best products for them. They are unsure about the availability of products, the implications of terms and conditions, how lenders make decisions, and implicit within this how to 'improve' themselves in the eyes of the lender.

This lack of holistic knowledge means consumers disproportionately focus on their credit score. However, even credit scores can feel mysterious to some consumers due to there being several ratings agencies, each giving different scores and consumers being unsure what influences them.

There is a strong desire to know more about what to look out for and how to navigate the credit sector, so that they can feel confident they are acting in a way that's most optimal. This will allow consumers to feel more confident in their decisions and in control of their finances.

EXAMPLES

Examples on how lenders can deliver on the principle of greater education:

More dialogue with consumers

""They just reduced my credit limit without me knowing and I don't know why and they said they couldn't tell me. ... It'd be good if you knew what was going on to affect that."

40 – 59, Subprime

Currently, the actions and decisions of lenders can feel like a mystery to consumers, which means they struggle to understand how they can improve in the eyes of the lender. Consumers would welcome educational dialogue from lenders, which includes why decisions have been taken and also why they take time to make them. This will help improve the knowledge of the process and the wider context in which they are making decisions.

"Must know" information

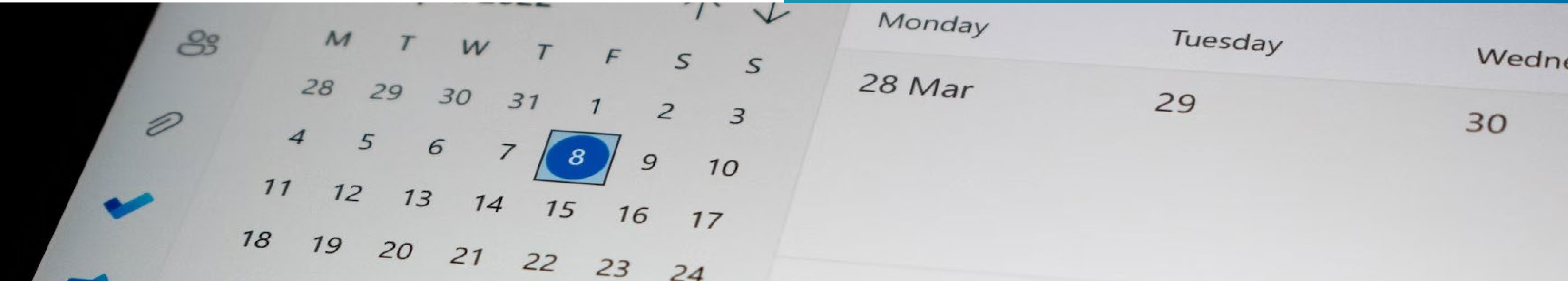
"Percentages just don't make sense in my brain. Just tell me how much I'm going to pay in pounds, so it's clear. Or say if I make the repayment every month then it won't cost me anything. Make it clear."

18 – 39, Subprime

Consumers want to understand e.g. the top 3 'need to know' points about any given credit product. Importantly, they want this conveyed in simple and straightforward language and familiar terminology. For example, also giving the amount of interest accrued in pounds (£) rather than as a percentage. This will help consumers feel more confident they are choosing credit products which are right for them and their circumstances.

Myth busting around credit scores

As noted, consumers disproportionately focus on credit scores when they are trying to make sense of the credit market. However, even this tool feels confusing to consumers. To improve this, consumers want to understand more about how credit scores are calculated and how they work, as well as what additional information lenders use to make decisions.



GREEN AND LIFESTYLE FINANCE

Future innovations relating to green and lifestyle finance lacked saliency amongst consumers. Therefore, it will be essential for industry to lead the way and bring consumers on this journey.

Although we explored 'green finance' and 'lifestyle finance' options initially, the innovations had less salience to consumers compared to others tested. In part, consumers found the models difficult to understand and the benefit to them was less clear compared to other models (e.g. those that gave flexibility).

The consumers that saw the greatest benefit to the models viewed it through a personal lens. For example, these models facilitated their personal interests i.e. those consumers who saw the environment as important saw greater benefits to green finance models. Consumers who saw the environment as less important felt they delivered fewer benefits.

The research shows there is scope for industry to lead the way and communicate the benefit to consumers, where new products may feel challenging to understand.

CONCLUSIONS

In 2021, stakeholders in the industry saw three key routes to the future of credit to improve outcomes for consumers, namely: becoming more consumer centred; continuing to innovate with new technology, and moving toward more sustainable 'green' products. This research with consumers in 2022 demonstrates that consumers and professionals in the industry are generally aligned on the routes to inform the future of credit, but there are some important builds.

Ultimately, what consumers want from the future of credit will help them achieve more positive outcomes. Consumers want credit to help them achieve their goals and want to do so in a way that engenders trust that the credit they are using is right for them.

The implication of this is a desire for a changing relationship between consumers and lenders: one of two-way dialogue and trust. This changing relationship can be centred around four key principles: greater personalisation of products, so they can be tailored to consumers specific needs, greater flexibility when using credit, so they can feel reassured they will stay in control, greater control when they are using credit and making decisions, so they feel as if it's working in a way that's right for them, and finally, greater education and dialogue, so consumers understand why decisions are been taken and what their credit means.

The findings point to several implications for the industry:

Lenders can deliver better value to consumers:

In line with the FCA's Consumer Duty, there is scope to deliver additional and fair value to consumers. Our research shows that consumers would value greater engagement and a deeper, more trusting relationship, over and above the introduction of additional technology and products. In turn, this will engender loyalty by giving consumers a 'reason to stay'.

The change in relationship will deliver more positive outcomes for consumers.

Greater dialogue between consumers and lenders will empower consumers to make better decisions. They will understand which products are right for them and how this fits in the wider context of choosing and using credit. This will increase their confidence to use credit responsibly and make sure it works in the best way for them.

The rising cost of living means it is a critical time to act.

The challenging context will likely lead to an increase in consumers using and relying on credit to manage their daily finances, and potentially increasing the potential for harm. In addition, the context may also lead some consumers to engage more with their finances as they aim to get through the difficult time. Both of these reasons point to an opportune time for lenders: there is a greater need to ensure positive outcomes for consumers at this time and potentially greater openness and reciprocity from consumers.

ABOUT AND ACKNOWLEDGEMENTS

Britainthinks
Insight & Strategy

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 to our clients at the heart of their thinking.

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Appendix

Survey sample

This is the sample for the participants who completed the online survey

Gender	Count
Male	1028
Female	1073
Other / Prefer not to say	5
Age	
18-34	590
35-54	702
55+	814
SEG	
ABC1	1162
C2DE	944
Region	
England	1769
Northern Ireland	59
Scotland	179
Wales	99
Ethnicity	
White	1814
Minority ethnicity	271

Qualitative fieldwork sample

This is the sample for the participants of the online community, depth interviews, and co-creation workshop

Gender	Count
Male	15
Female	15
Age	
18-34	13
35-54	12
55+	5
SEG	
ABC1	16
C2DE	14
Region	
England	22
Northern Ireland	2
Scotland	3
Wales	3
Ethnicity	
White	24
Minority ethnicity	6

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