

Segmenting Financial Resilience

17th May 2016

Agenda for today

Morning session

Introduction

Segmentation context

Methodology

Focus on the 'Squeezed' segment

Lunch

Engaging the 'Squeezed' segment

The 'Cushioned' segment

The 'Struggling' segment

Review

Requirements from a Market Segmentation

Nick Watkins (Money Advice Service)

- Based on measures of financial resilience
- Encompass both money guidance and debt advice
- Be intuitive and easy to understand and communicate
- Be easy to apply to most datasets
- Have sufficient robustness and longevity
- Be able to work with other segmentation models
- Be cost effective



Building the model: Segmenting Financial Resilience

Karen Kelly, Client Partner & Henry Steenstra, Senior Account Manager

May 2016

To define an easily understood vocabulary to describe financial resilience

**Simple to
Apply**

Transparent

Insightful



Risk / Vulnerability

Demographics

Bills & Outgoings

Financial knowledge and sophistication

Life triggers e.g. divorce, redundancy



Ability to Cope

Sources of Income

Protection

Assets Credits / Liabilities

Our Approach

1

**Initiation
Workshop**

2

**Segment
Build**

3

**FinCap
Enhancement &
Validation**

4

**Personas &
Implementation**

1

**Initiation
Workshop**

2

**Segment
Build**

3

**FinCap
Enhancement &
Validation**

4

**Personas &
Implementation**

The purpose of the workshop was to agree the objectives of the segmentation and key aspects of resilience

**Engaging
required
departments**

**Determining
what drives
the segments**

**Assign
working
group**

Build & Description

1

Initiation
Workshop

2

Segment
Build

3

FinCap
Enhancement &
Validation

4

Personas &
Implementation

Driving Variables



650+ DEMOGRAPHIC, LIFESTAGE
AND LIFESTYLE VARIABLES
PER INDIVIDUAL...

- CACI's lifestyle database of 48m consumers across the UK
- Selected key driving variables from Ocean following the initiation workshop



Risk / Vulnerability

Demographics

- Age,
- Children,
- Marital Status,
- Occupation,
- Housing Tenure
- Number of People
- Number of Bedrooms
- Qualifications, Ethnicity, Region inc. urban/rural, Internet usage

Bills & Outgoings

Food Spend, Credit Card Spend, Mortgage, Number of Cars

Ability to Cope

Sources of Income

Household Income, Benefits: Unemployment, Income Support, Sickness, Incapacity, Child Benefit, Tax Credits

Assets

Savings Value, Investments Value, House Value, Pension Scheme

Liabilities

Number of Loans, Purpose of Loan, Credit Card Spend, Debt Value

Protection Products

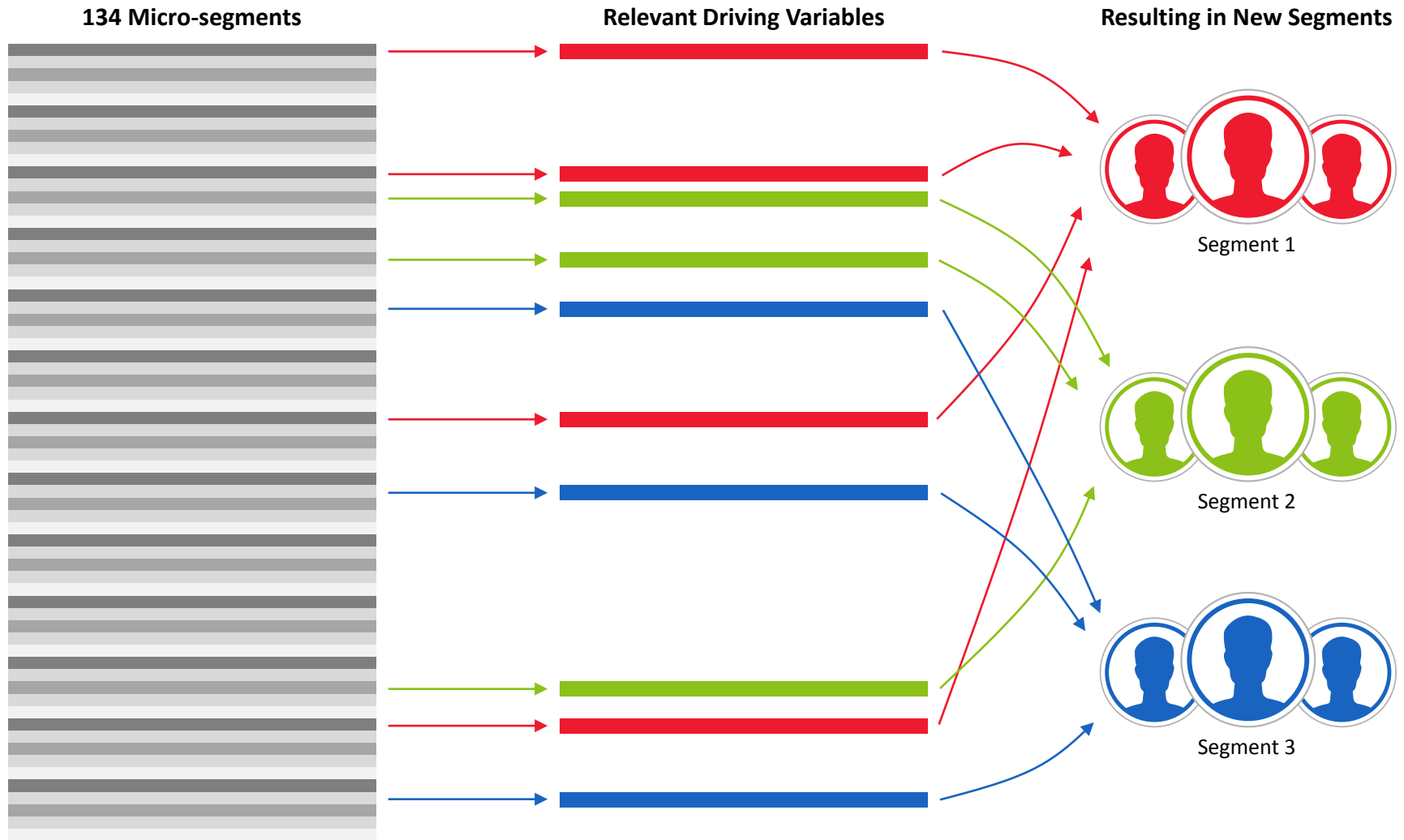
Life Protection, Whole of Life, Health Insurance (Personal and Employer, Home Buildings and Contents

The Building Blocks

- CACI's off the shelf financial services classification
- 134 Fresco microsegments formed the building blocks for the segmentation
- Summarised the driving variables from Ocean at microsegment level
- Simple to apply to consumers, research surveys and service users



Clustering Process



Our Approach

1

Initiation
Workshop

2

Segment
Build

3

FinCap
Enhancement &
Validation

4

Personas &
Implementation



VALIDATE THE MODEL

As a real up to date source of information we used it to validate our model.



ENHANCE THE SEGMENTATION

The new data source fed in and we could expand the sub-segments and descriptions

Our Approach

1

Initiation
Workshop

2

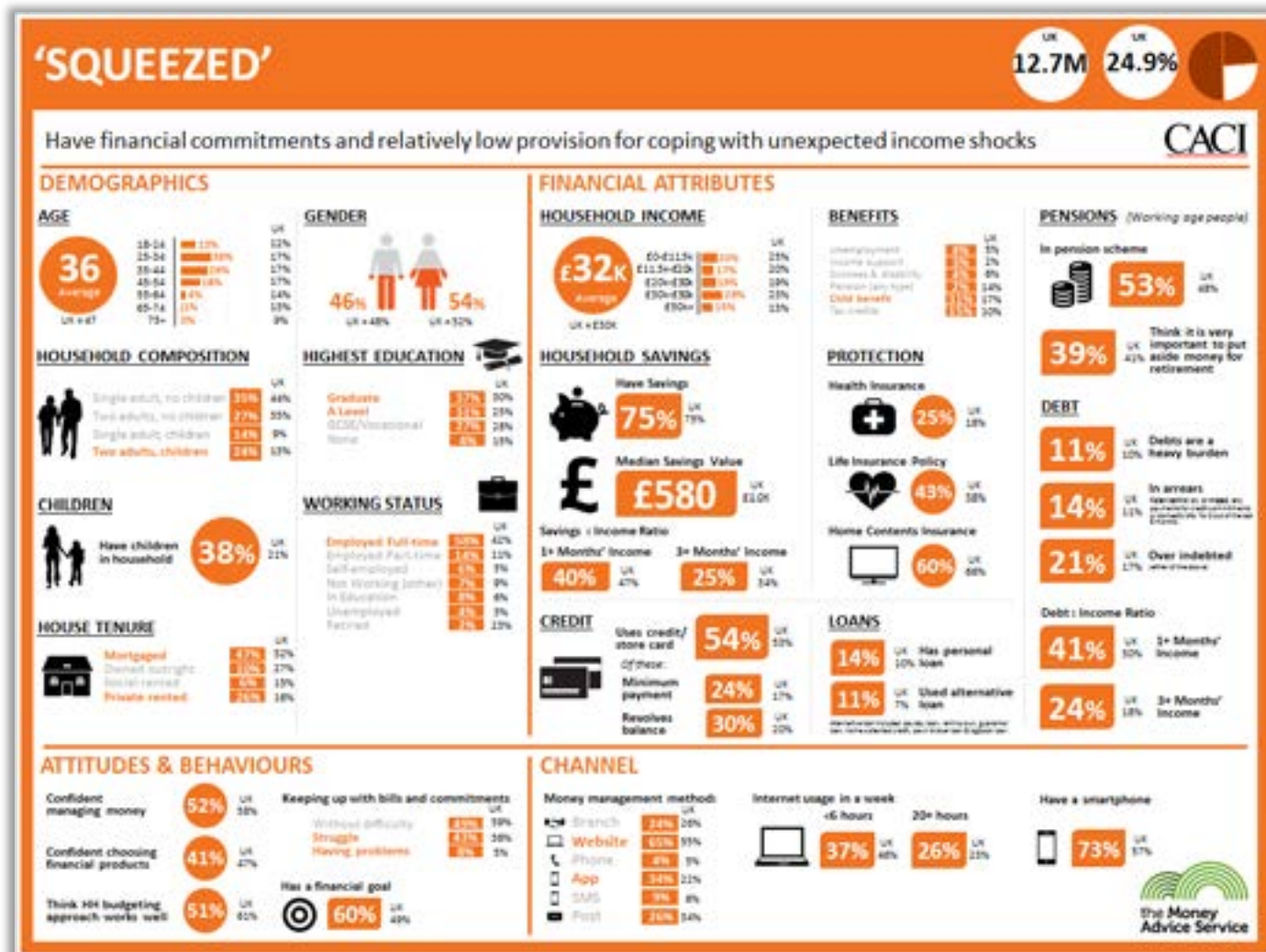
Segment
Build

3

FinCap
Enhancement &
Validation

4

Personas &
Implementation



Knowledge Sheet

CACI

HOME

HOW TO READ THE DATA

Key questions

All questions

MAS SEGMENT

Filter to greater than X overall percent: 0.0

A

B

C

D

E

F

G

H

I

J

K

L

M

N

O

P

Q

R

Break

All

UK: All Surveyed

UK%

2a

2b

2c

2d

3a

782,601

4,233,485

1,593,122

3,177,655

2,256,453

1.5%

8.3%

3.1%

6.3%

4.4%

a1. Respondent age

18 - 24

25 - 34

35 - 54

55 - 74

75 +

Prefer not to say

12.4

441

54.5

201

24.8

0

0.0

0

0.0

0

0.0

0

0.0

a1b. Respondent gender

Male

Female

Prefer not to say

48.4

107

52.0

84

40.8

90

43.7

97

47.2

61

29.6

a2. Marital Status

Married or in a legally recognised civil partnership

Living with partner (not married or in a civil partnership)

Single (never married)

Widowed

Separated

41.5

19

8.0

64

26.5

91



37.7

75

31.2

63

26.1



Select your answers from the drop-down lists

Respondent age	Select the age range
Home tenure	Select tenure
Household composition	Select composition
Type of property	Select property type
Employment Status	Select employment status
How many bedrooms in your home	Select bedroom count
How would you settle an unexpected £300 bill	Select method
How much of your credit card(s) balance is paid per month	Select credit card payment
Do you have a will	Select Yes or No

Clear Selection

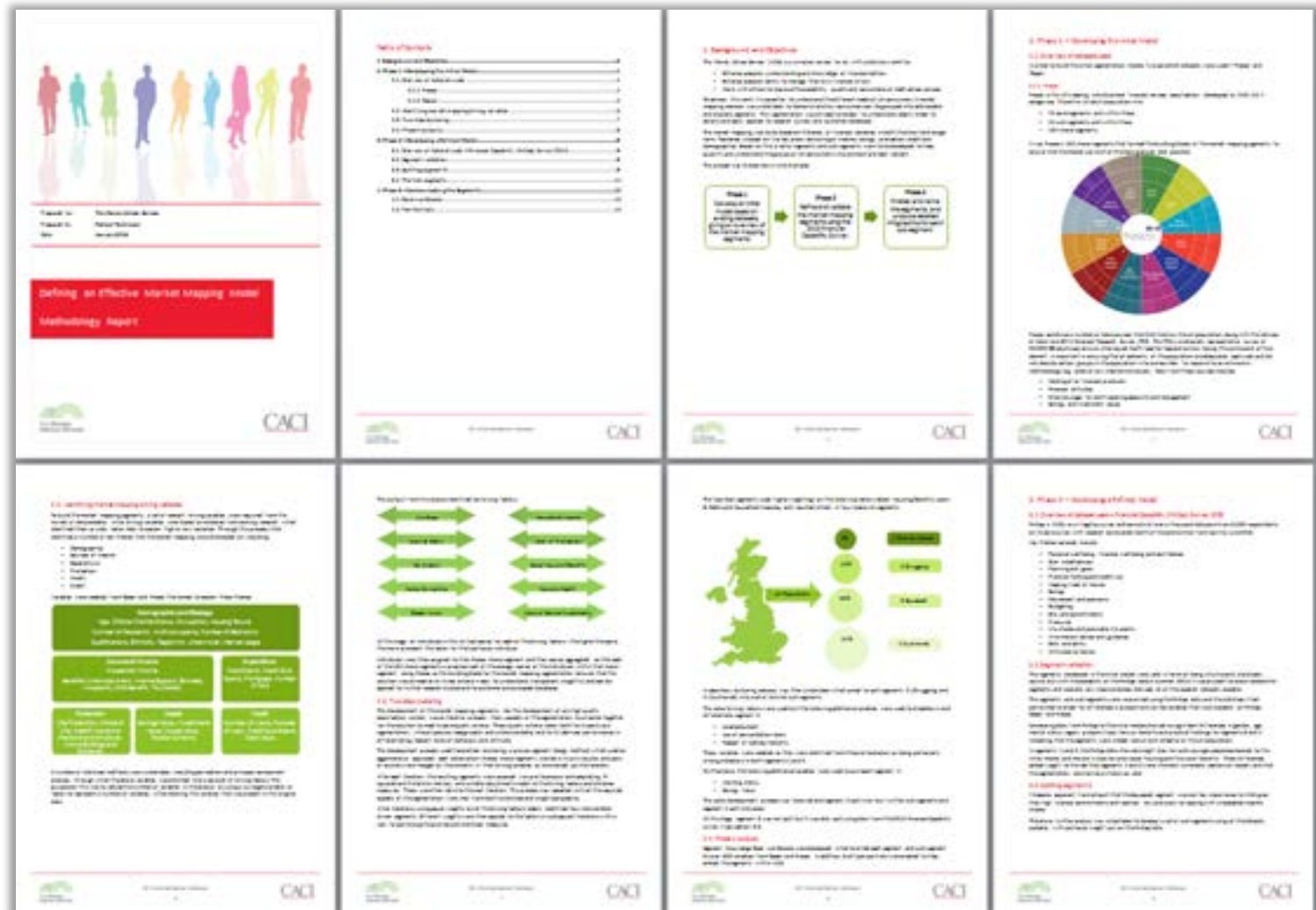
High Level Segment

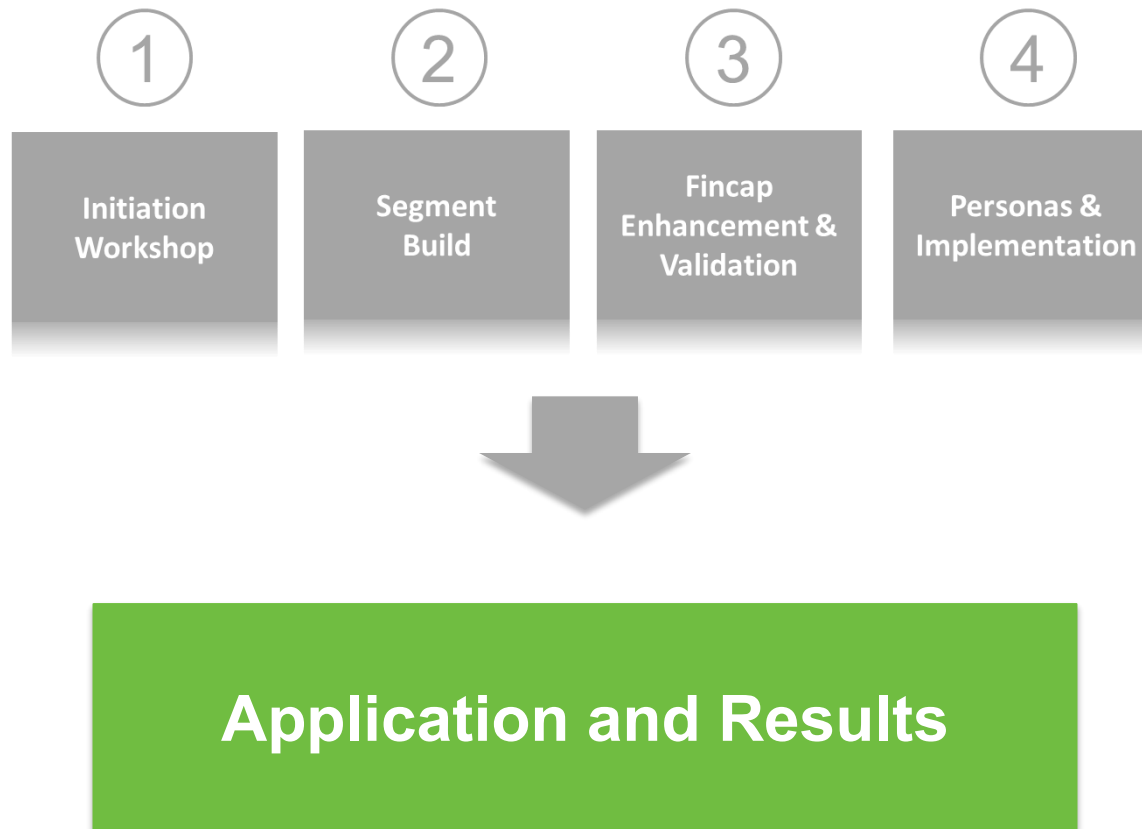
Please answer more questions

Secondary Questions

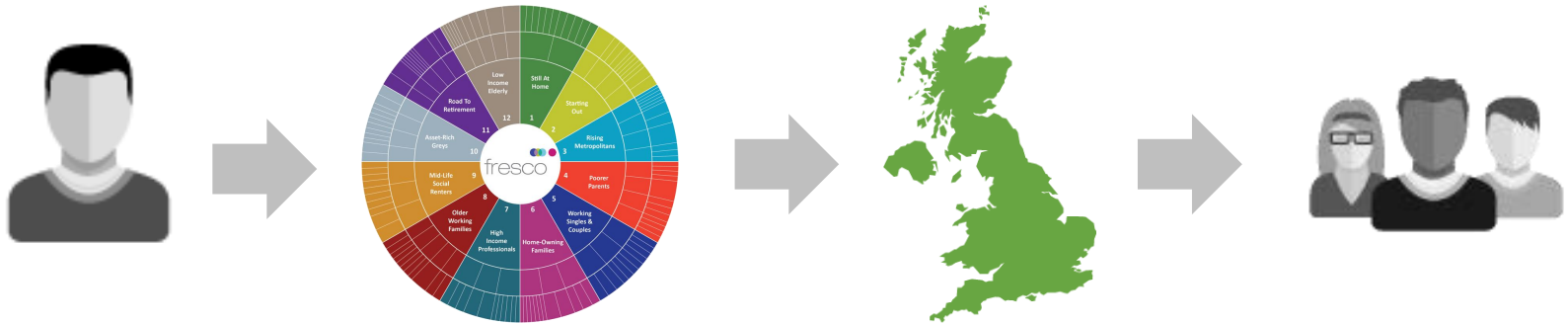
Sub Segment

Methodology Report





Applying to Consumers



Demographic Data

- Name
- Address
- Age

Fresco

Providing the
bridge to apply
segmentation...

UK Population

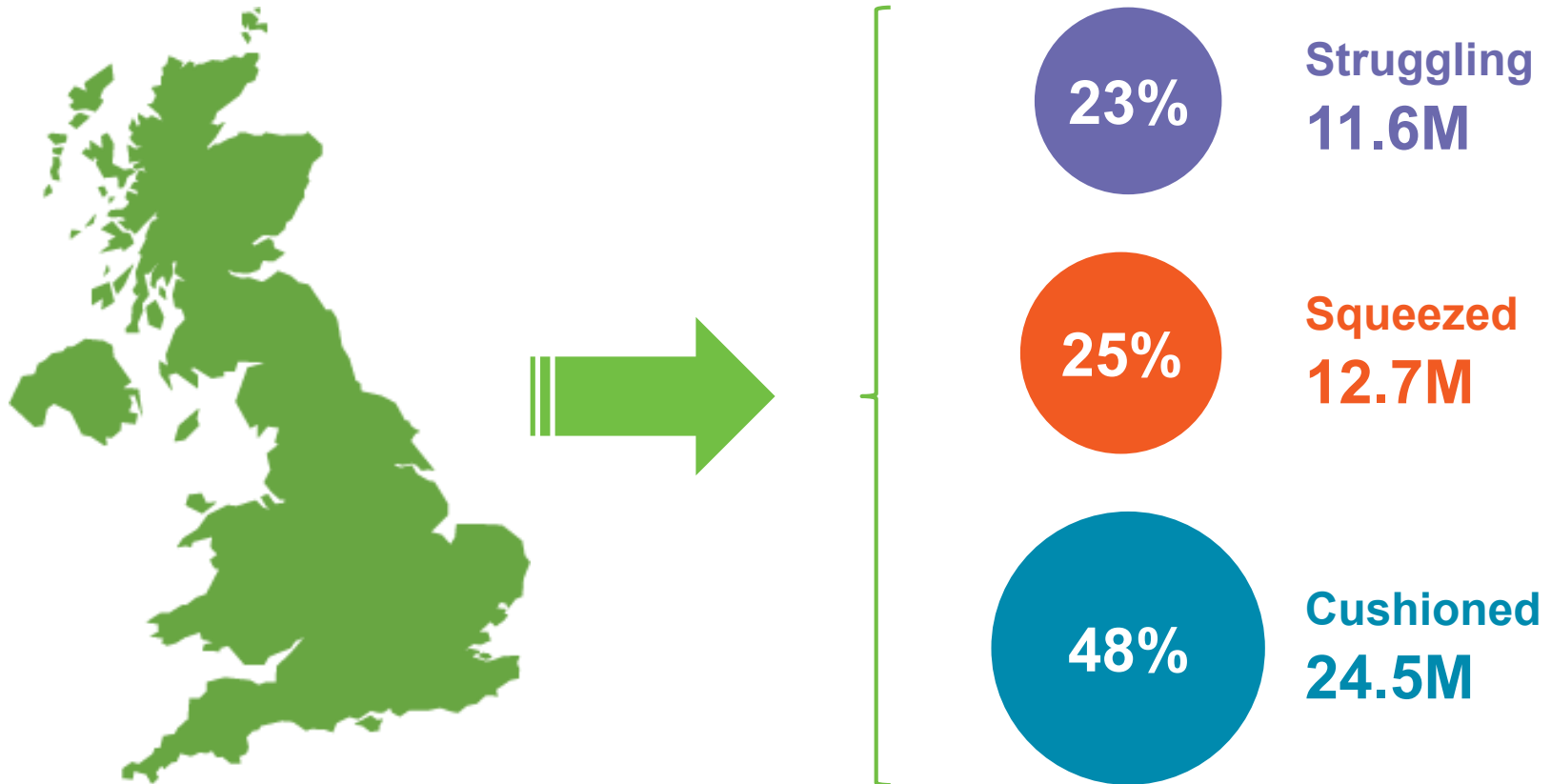
...onto the UK
adult population

Applied To

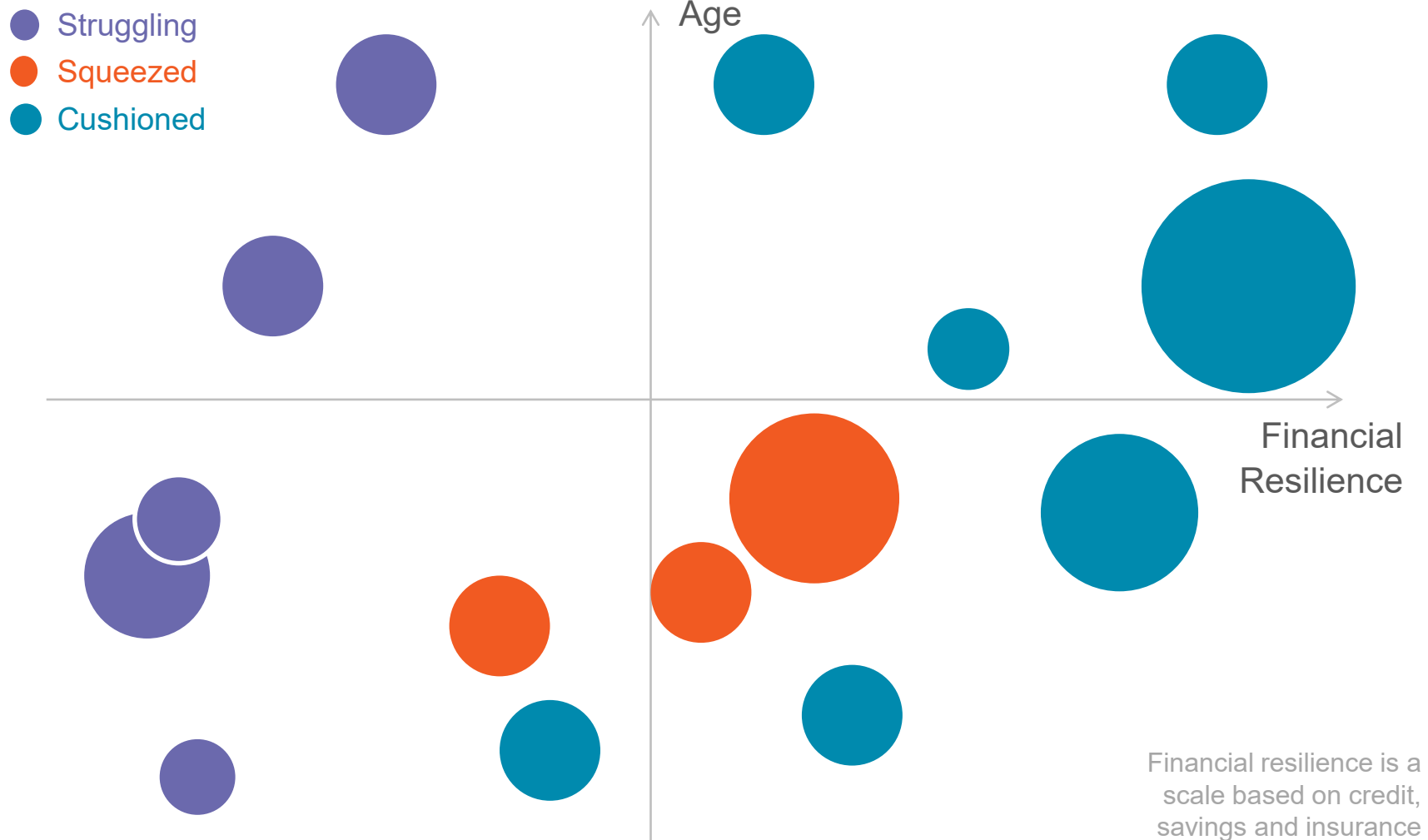
- Service users
- Site visitors
- Survey respondents
- Partner agency*
- Financial services*

*available via discussion
with MAS/CACI

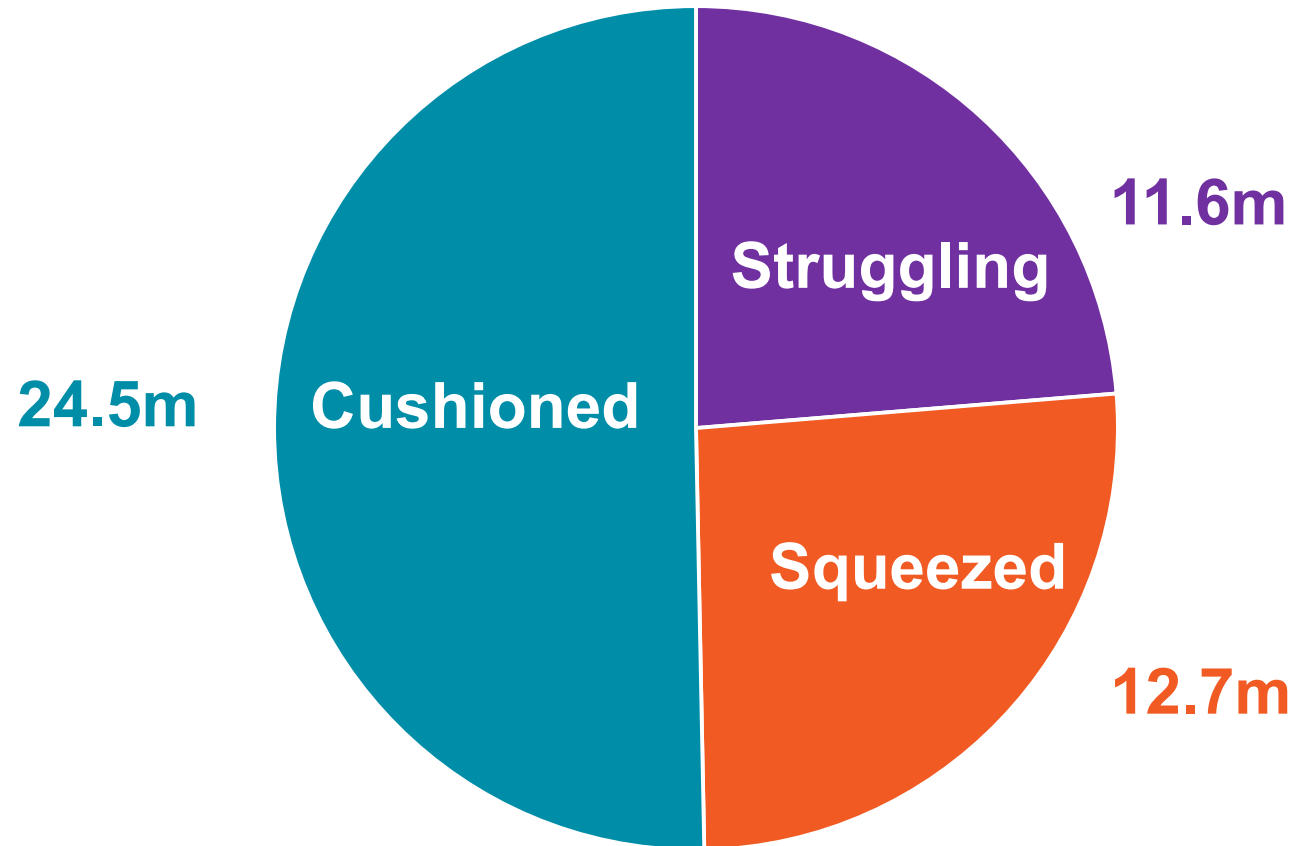
Segment Summaries



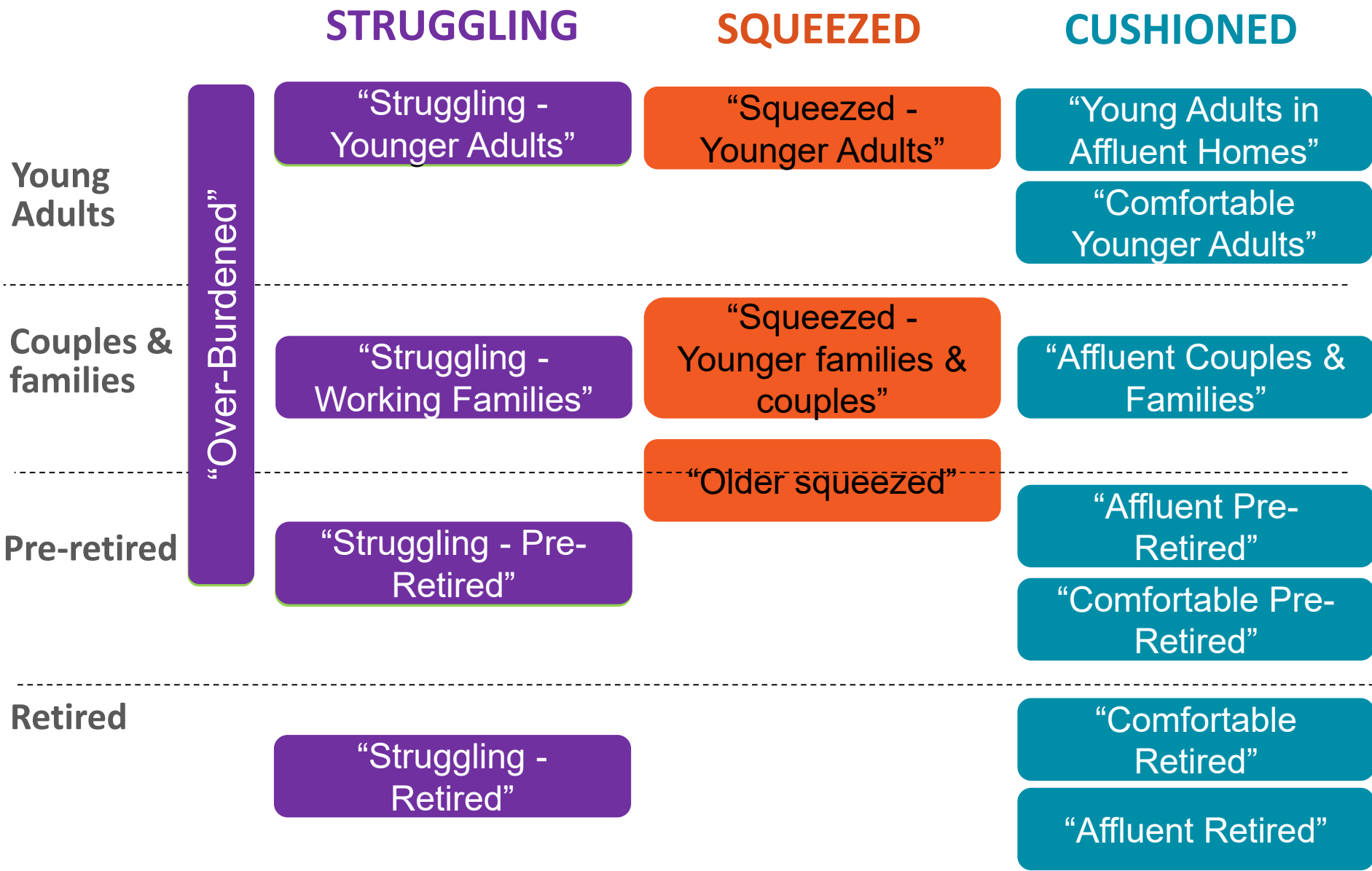
Sub-Segments



Three Macro-Segments...



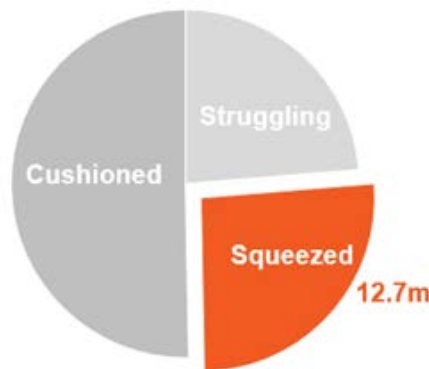
... and 15 sub-segments



A focus on the ‘Squeezed’

Ali Pugh (Director, Jigsaw Research)

Mike Healey (Money Advice Service)



Coding of the
YouGov 'Engaged'
Panel (250k)

MAS Financial
Capability Survey
2015

TGI

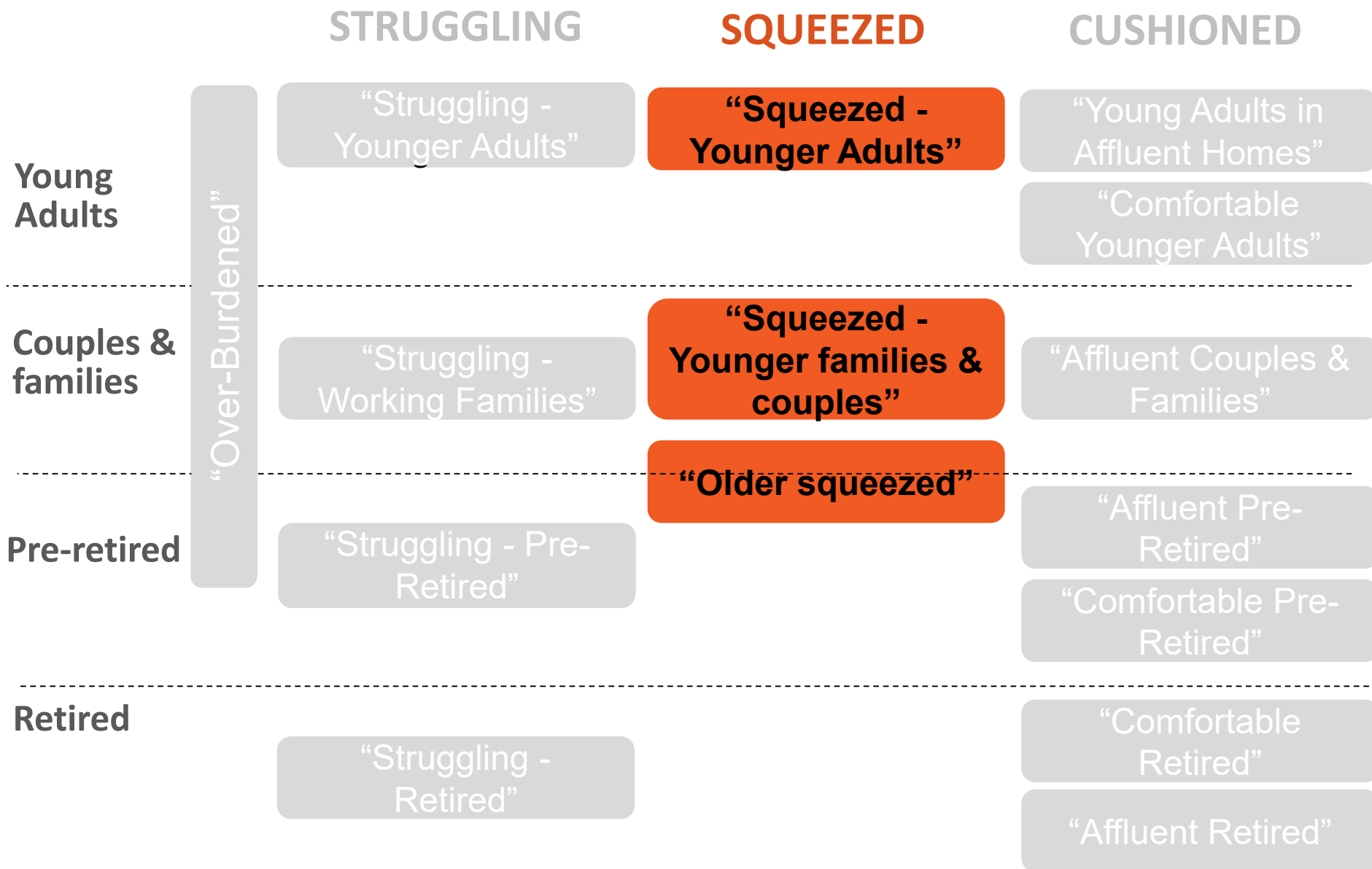
Squeezed

'Ethno-lite'
qualitative
research (Jigsaw)

Why 'Squeezed'?



Squeezed sub-segments



Squeezed – Characterised by...

**All
working
age
(<55)**

**Private
renting &
mortgage**

**Mostly
working
(Low to
middle
income)**

Families

**Moderate
Skills &
knowledge**



**37% have a
degree**

Digital



**83% go online
daily**

**Highly
mobile**



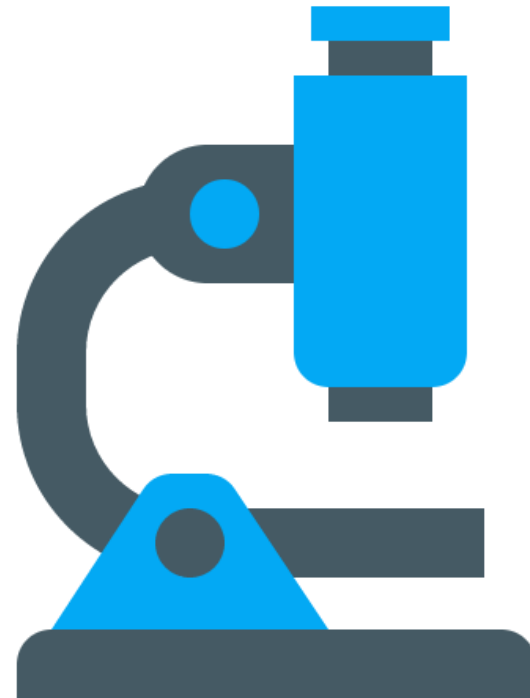
**73% have a
smartphone**

Why we did what we did

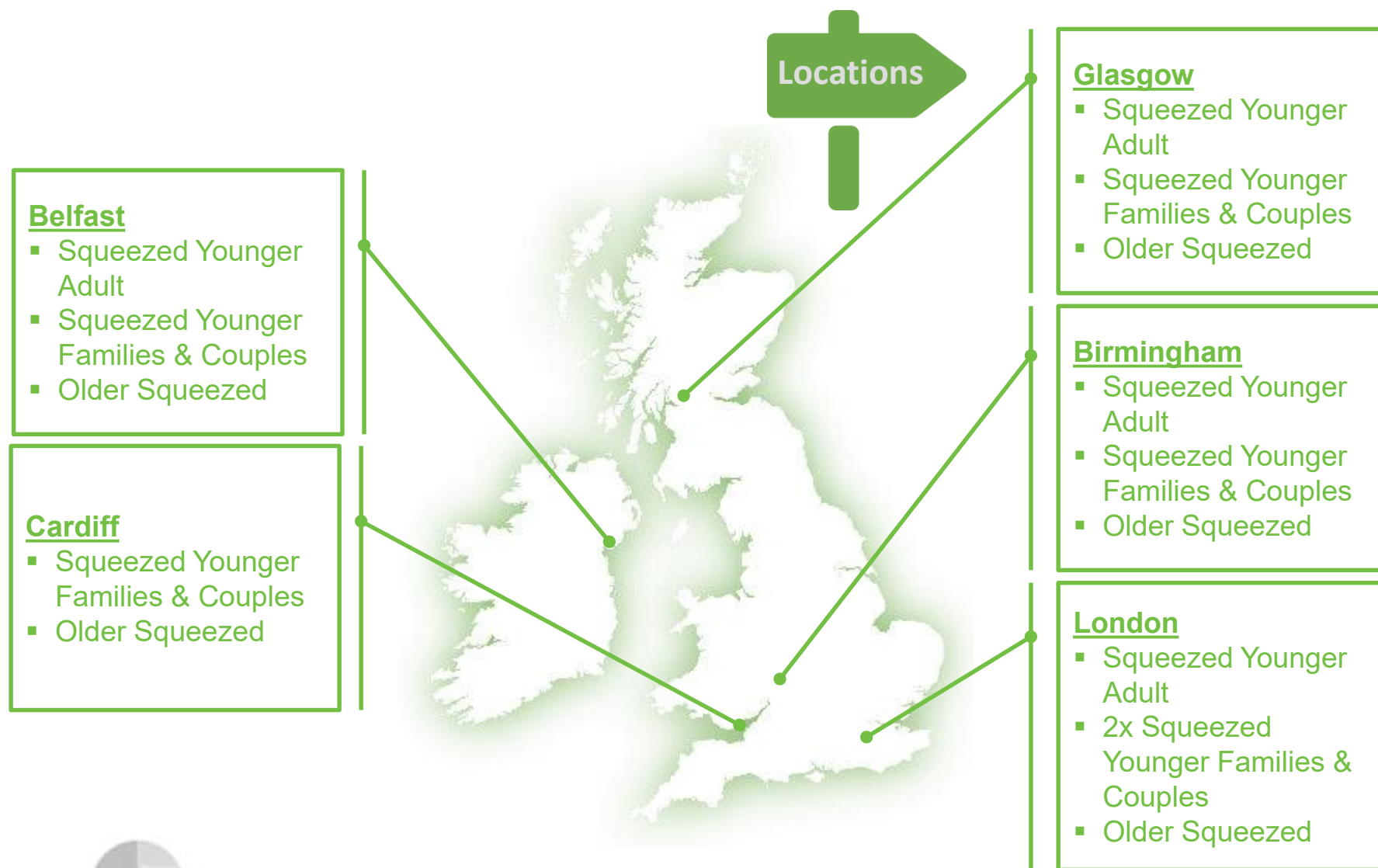
Getting closer to consumers was a key focus for MAS

Deployed an 'ethno-lite' approach

Supplemented with online longitudinal element



Sample and research locations



15 x 2 ½ hour filmed depth
interviews (4 – 14 Dec 2015)

They consider themselves
to be vigilant with money....
but manage more than plan

Lots of things going on in
their lives at the moment...
so tend to be focussed on
the 'here & now'



They report some good financial behaviour...

They use online tools to keep track



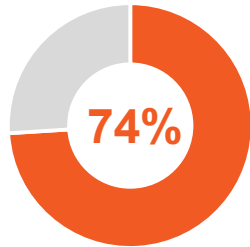
89%

(64% UK)

Regularly check their bank balance
online or via an app
(Couples & families)



They save money regularly



(56% UK)

Save money every or most months
(Couples & families)



And they say that they have goals and plans



48%

(35% UK)

Have financial goals with plans
(Young adults)



37.



Many are under pressure and struggling

Hard to make ends meet

51%

(41% UK)

Struggle to keep up with their bills and credit commitments



Pressured to spend



31%

Feel under pressure to spend on their children even when they cannot afford to do so
(Young adults, couples & families)



22%

Feel under pressure to spend like their friends even when they cannot afford to do so
(Young adults)

Unplanned spending

48%

(42% UK)

Make impulsive purchases

Source: YouGov

38.



Net 8-10 ratings where 0 is not at all like me
and 10 is sounds a lot like me

The Squeezed are living for today...

Have aspirations/life goals

But can feel stuck & unrewarded –
in **limbo** and are **drifting**

Usually earning enough to cover
principal obligations, but are
vulnerable (if not acknowledged)

Tactical, not strategic

Can lack the means to move
forwards (money & **knowledge**)



Impact of children significant

A force for 'good' behaviour

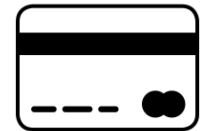
A force for 'bad' behaviour

Can add to already strained
relationships between
parents



A heavy reliance on credit

35% over-use credit cards (do not pay in full each month)
(UK = 25%)



22% agree “*With a credit card I can buy the sort of things I couldn't normally afford*” (Source = TGI)
(UK = 15%)

11% use high cost ‘non mainstream’ credit

(UK = 7%)

And dealing with debt is a major issue for many

 **27%** 'Over-indebted'
(Young adults)



 **29%** Have 3+ months income in debt
(UK = 18%)



More under control than it once was (for some)...

...but rarely revisited to see if it's managed in most effective way

Servicing of this debt can have a severe impact on disposable income





Debt often a key limiter of savings

No buffer against unexpected events leads to vicious circle with debt used to plug holes

Many with savings accounts but low balances and/or short term goals

BUT can be impressively disciplined when required

Squeezed have limited saving buffers

Only **25%** have 3+ months income in savings

42% could not pay an unexpected £300 bill

Saving goals for the short term:



38% saving for a holiday



31% saving to paying off debts



21% for home improvements & **20%** to buy own their home



Engaging the ‘Squeezed’



Don't feel they need advice

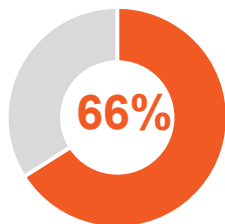
Specific needs nonetheless
- buffer, debt control...

...and bigger picture/holistic
approach to money

Positive framing could be
effective, helping them to
move on

Accessing advice, but it's limited

2 in 3 accessed money advice or information



(60% UK)

Received money advice or information
in the previous 12 months

Going online and to friends & family



39%

(24% UK)

Friends & Family
(Couples & Families)



29%

(21% UK)

**Price Comparison
Website**
(Older families)

With few accessing the professionals




2%

(6% UK)

Used an IFA
(Couples & Families)



Life is too busy and they lack confidence

 **27%** Agree they are too busy to sort out their finances (Young adults)
(UK = 13%)

And they lack confidence with money matters

52% Confident managing money*
(UK = 58%)

41% Confident choosing financial products*
(UK = 47%)



They are distracted 'media stackers'

Television

Comedy & Reality TV:
'Willing to pay for VOD'

19% Watch video clips (UK = 14%)



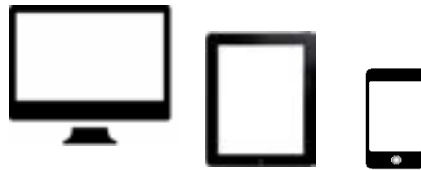
Messaging



37% use mobile to email (UK = 26%)

35% instant messaging (UK = 23%)

across multiple devices



Shopping



58% say *'Shopping online makes my life easier'* (UK = 48%)



Social Media

45% feel the need to check social media every day (UK = 29%)

84% use Facebook in last month
6 in 10 using Facebook several times a day (YouGov)



And they are disengaged with 'news' and financial matters

Few read the 'news'

28% Disengaged with newspapers (YouGov)
(UK = 21%)

67% DO NOT regularly read the financial sections in press or online
(UK = 62%)

And they increasingly turn to social media for news & info

 **1 in 5** Young adults use social media as their main source of news

 **8%** Young adults accessed money advice or info via social media
(UK = 4%)



- They are making do and drifting – interested ‘bystanders’
- Engaged with regular ‘keeping track’, but are not budgeting and not focussed on the long term – they are reactive, not proactive
- They have no savings buffer to rely on leaving them susceptible to life events and unexpected costs
- They live for today and don’t want to do without – if they can’t afford it now, they continually resort to credit, often worsening their ‘debt spiral’
- They lack positive financial ‘role models’
- They are a busy and distracted group, therefore challenging to engage.



- **How can the financial services industry better meet the needs of the ‘Squeezed’ segment of consumers?**
- **What could be the role of Fintech to help engage this segment?**
- **How can we help the ‘Squeezed’ to save more rather than living for today?**

Engaging the Squeezed Panel session

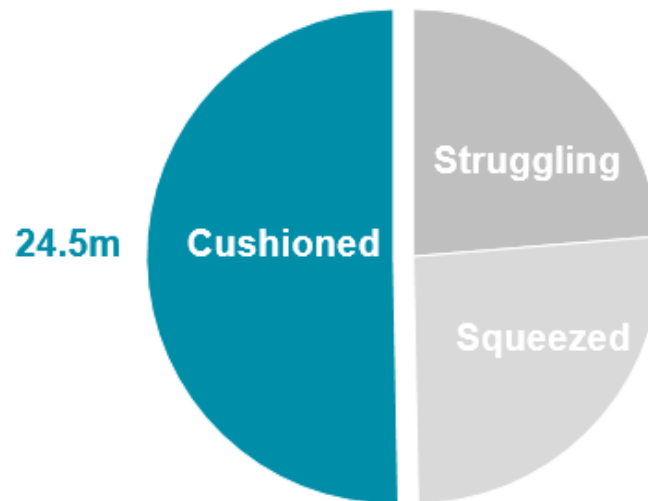
Matthew Whittaker – Resolution Foundation

Niall Bellabarba – The Oak

Jake Eliot – The Money Advice Service

A focus on the ‘Cushioned’

Vanessa Hill (Money Advice Service)



Who are they?

Most financially resilient group



Higher household income



Better financial buffer



**Confident managing money and
choosing financial products**



**Lowest level of over-indebtedness but
not exempted to risks**

Comfortable young adults and pre-retired with
high levels of over-indebtedness

Sub-segments defined by life stage



Young adults

Comfortable
Younger
Adults

Young Adults
in Affluent
Homes



Couples and families

Couples &
Families



Pre-retired

Comfortable
Pre-Retired

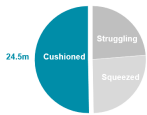
Affluent Pre-
Retired



Retired

Comfortable
Retired

Affluent
Retired



Can't be looked as one group

Comfortable Pre-Retired (1.4m)

- **High salaries**
- **Savings of about £5.5k**
- **Over-indebtedness in line with UK population**

Affluent Pre-Retired (6.7m)

- **High salaries (£39k average)**
- **Very good levels of savings**
- **Very confident managing money (70% vs UK 58%)**



Mini ethnography

Sample & research locations

10 x 2 ½ hour filmed depth and
friendship depth interviews
29 February – 16 March 2016

Glasgow

- **Comfortable Pre-Retired**
(Single depth)

Belfast

- Comfortable Younger Adults
(Friendship depth)
- Comfortable Pre-Retired
(Single depth)

Bristol

- Comfortable Younger Adult
(Single depth)

Cardiff

- Comfortable Pre-Retired
(Couples depth)

Birmingham

- **Comfortable Younger Adult**
(Single depth)

London

- Comfortable Younger Adults
(Couples depth)
- Comfortable Younger Adult
(Single depth)
- Comfortable Pre-Retireds
(Friendship depth)
- Comfortable Pre-Retired
(Single depth)



What do they have in common?



Good
foundations &
support
systems



Property is
king



They are
'better' with
money but
there is room
for
improvement



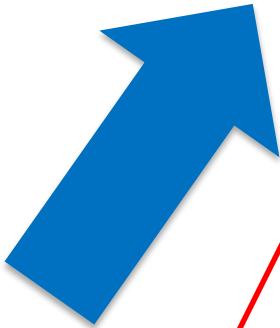
Can be fallible
& vulnerable
to life events



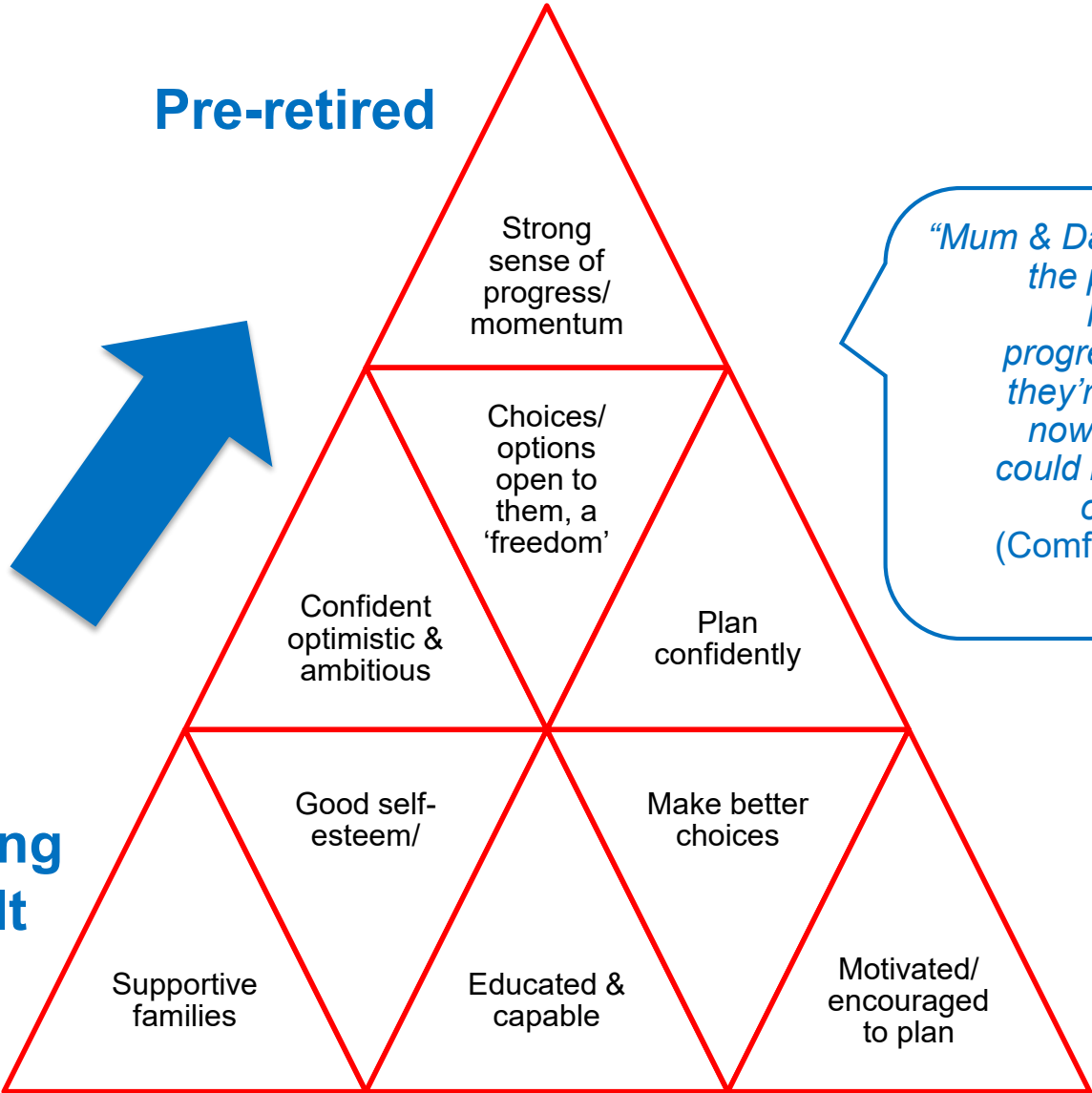
Early good foundations and good support throughout life



Pre-retired



Young adult



"Mum & Dad have struggled in the past, but I've seen how they have progressed & grown, and they're both on their own now. So it's like, 'Oh, I could really take a leaf out of your books'."
(Comfortable Young Adult, London)



Buying property is generally
‘when’ not ‘if’ for young adults

Greater ability to overcome barriers

- Deposit:
 - Inheritance
 - Good credit score,
 - Savings habit ingrained from early age



Understandable ‘investment’

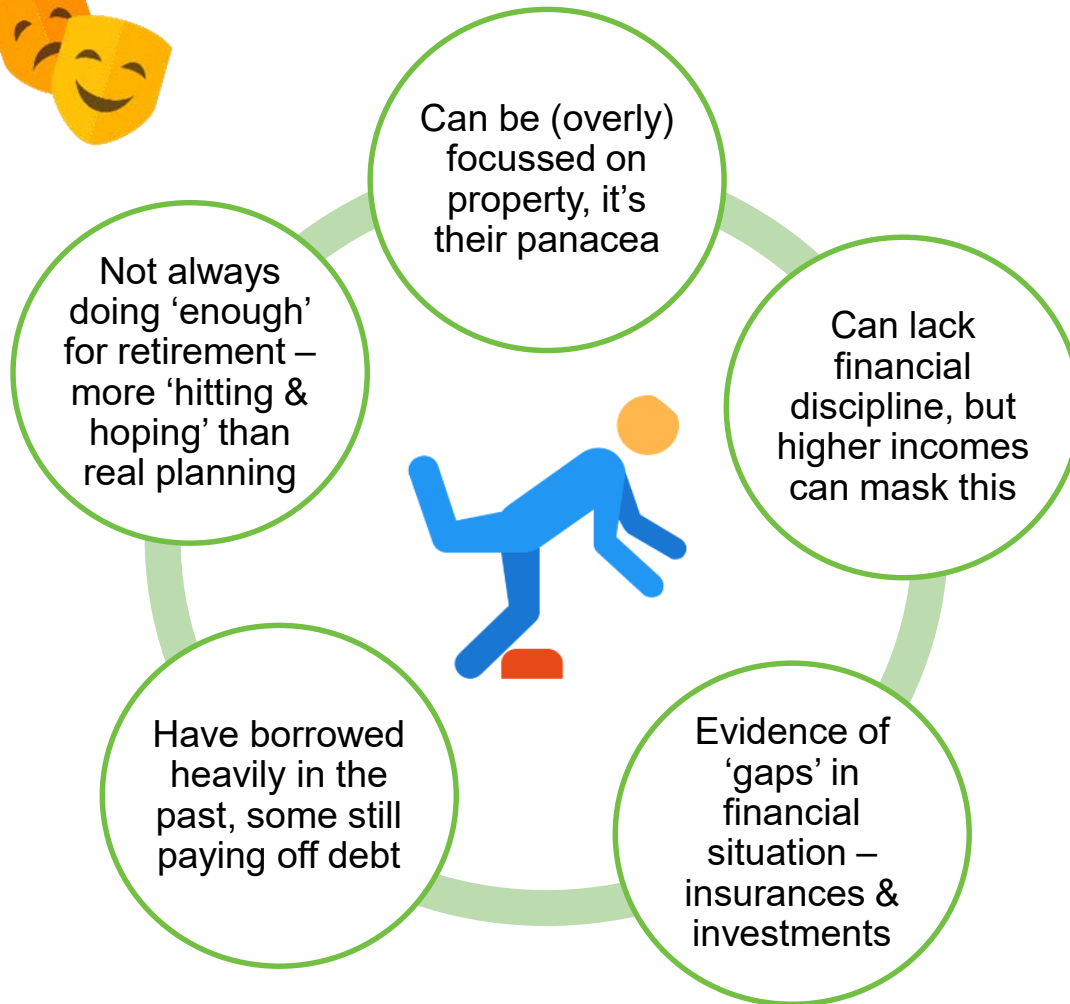
As well as financial security, the home provides **emotional rewards**

- Sense of achievement
- Status/grown-up
- Independence
- Would almost be an embarrassment not to own property

“Once we’re a bit more stable, we’d like to go into property development.”
(Comfortable Young Adult, Birmingham)

BUT their focus on property can blind them to everything else...resulting in a lack of focus on long(er)-term planning with property expected to provide for more things than it can probably cope with

They are fallible and vulnerable despite signs of good behaviour



Life events with considerable impact on their lives

- Redundancies (young adults)
- Divorces/separations
- Illness
- Endowment mortgage shortfalls





Supporting them can be challenging

- Not always see themselves as needing to improve their approach to finances
- Relative comfort could underpin complacency and inaction
- **Blind spots:**

Negative life events

Obsessive focus on property

- **Areas where the Cushioned need more guidance:**

 <p>Protection against negative life events</p>	 <p>Advice around key financial decisions e.g. home buying and pensions</p>	 <p>Portfolio approach to finances for the short/ medium & longer term</p>	 <p>Help to get into more sophisticated & varied financial products</p>
---	---	--	---

Case Study – Peter

BEFORE

- Ex-policeman, living in Cardiff, late 40s
- Comfortable and secure with wife and 3 children
- 10 years of extravagant spending by him and wife aimed at funding lifestyle and re-boot unhappy marriage
- Key problem: **credit cards and loans, including many missed, late or partial payments, and divorce**
- **Now Struggling:** has had to sell family home to put towards, though not wipe out, debt

“It creeps. It was manageable, manageable, then not quite so comfortable, but you let it happen. It was a slow dawning, I could see it happening. I should have been more forceful in controlling it, but I allowed it to carry on.”



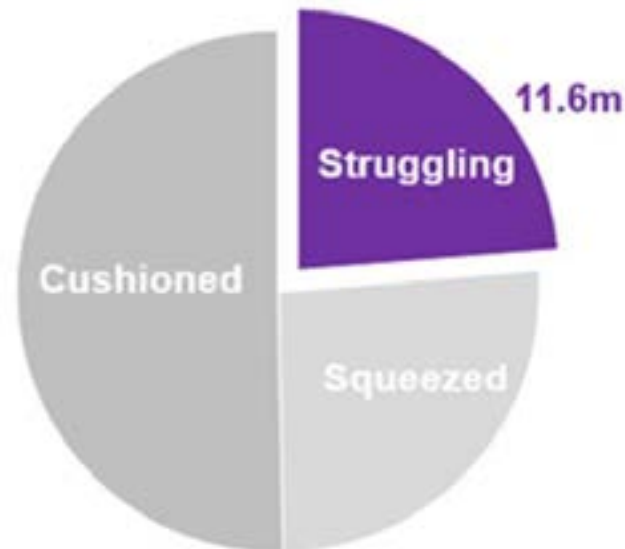
TODAY

- Has agreed repayment terms with creditors
- Works 3 jobs
- Lives modestly (he and his ex-wife live apart in rented houses)

“I would think nearly anybody if they’ve been through it would realise that that’s as stressful as the separation itself, dividing property, dividing everything and clearing up the financial mess afterwards”

Focus on the Struggling segment

Helen Pitman (Money Advice Service)



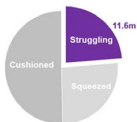
Struggling segment made up of 5 sub-segments

Over-burdened



- Highly vulnerable group
- Aged 18-55
- Dependent on benefits
- Largely social rented sector

Other struggling sub-segments



Struggling – Characterised by

**Low
incomes**

**Renting
social
housing**

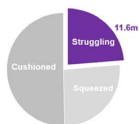
**Moderate
digital
access**

**On
benefits**

**Many
have a
disability**

**Modest
qualifications**

**Lower
financial
skills**



Limited savings and plans

Many are budgeting at a basic level...

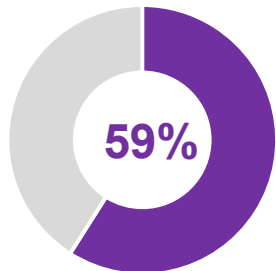
62%

set a budget of how much they
can spend

(For those keeping track of personal income and expenditure)

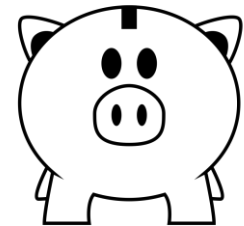


but there is a shortage of savings activity...



(40% UK)

have less than **£500** in savings



few have aspirational financial goals and...

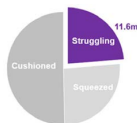
77%

(68% UK)

have no plans to achieve their
goals

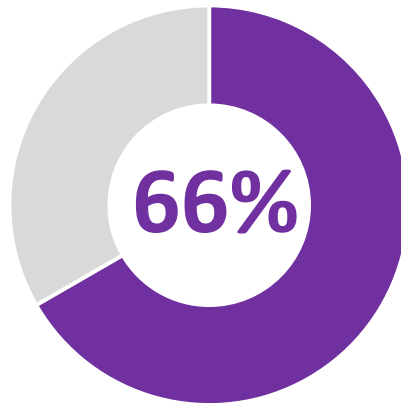
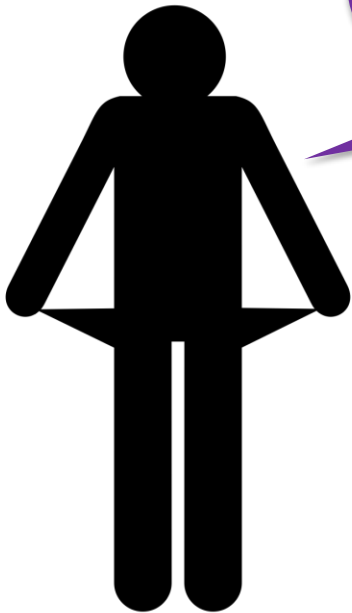


69.



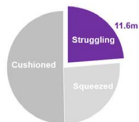
Hampered by low income

Low income means that it's almost impossible to maximise income or build up a savings buffer



**Personal income
<£17,500**

(45% for squeezed segment)



1 in 4 are over-indebted

30% of the
overburdened

31% of
working families

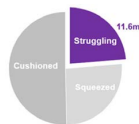
Struggling segments

- Over-burdened
- Young adults
- Working families
- Pre-retired

Over-indebted factors

- Renting
- Larger families
- Single parents
- Low incomes
- Younger people

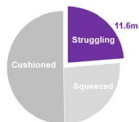
71.



Struggling with everyday cost of living

- Do not use **mainstream lending** to same extent as squeezed segment
- Monthly rent or mortgage payments are **half** that of squeezed segment
- Those who are unable to make repayments are falling behind on **utilities and rent**

RESULT: Under constant pressure and day to day “struggle”



Finding themselves in a dead end...

Short termism

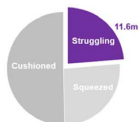
They'd rather take £200 now, if offered it, than £400 in two month's time

Helplessness

“Nothing I do will make much difference to my financial situation”

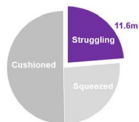
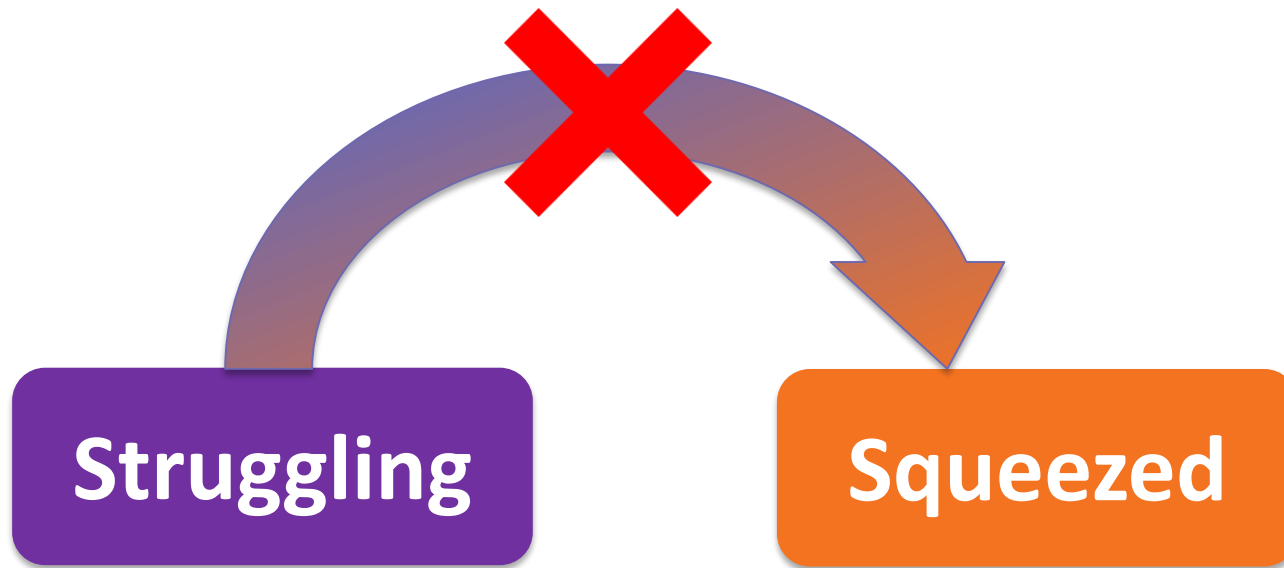


Survival mode: nothing much that can be done to resolve the situation



Need a MASSIVE change to move

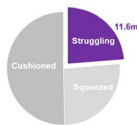
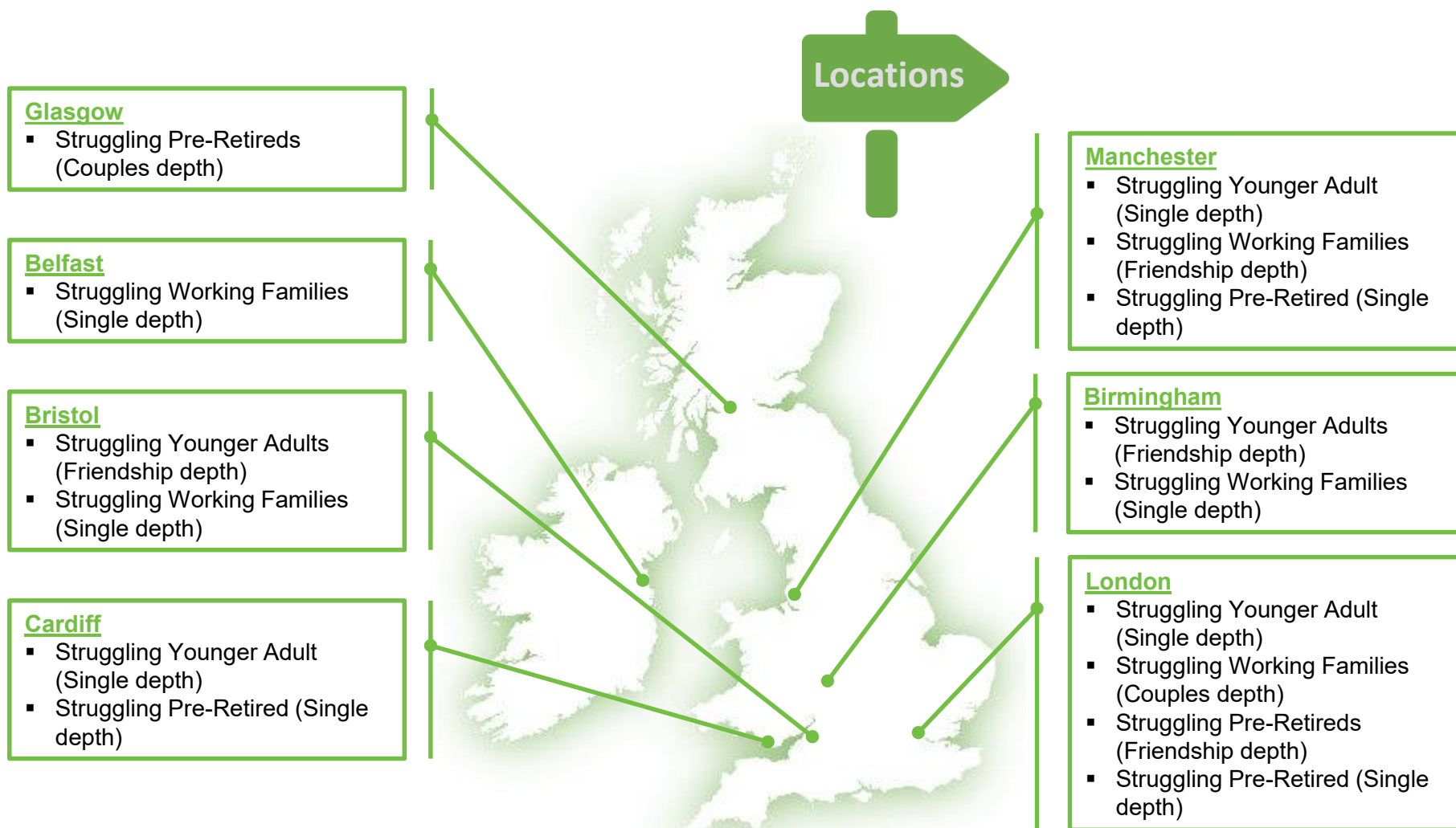
Most will remain within the **struggling** segment



The 'Struggling' – An ethnographic perspective

Luke Perry (Director of Qual, Jigsaw Research)

'The Struggling'- Sample & research locations



15 x 2 ½ hour filmed depth interviews
29 February – 16 March 2016

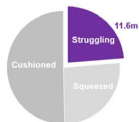
A financial tight rope

Life is very difficult and financially constrained

Acutely precarious finances easily tip over into crisis

Situation and temperament governs approach to money

Some cope and survive but many are defeated and despondent



Financial capability a barrier



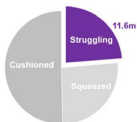
Financial capability a major barrier

Some evidence of 'good' but very basic behaviour

But many lack skills or knowledge

As a result they are not in control of their money situation at a basic level

Often leads to poor decision making, particularly credit



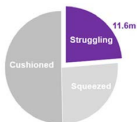
Overwhelmed by debt

Over indebtedness extends to numerous areas of their lives

Often fail to foresee the consequences of borrowing

Bury head in sands, some resigned to never paying off

Cements a belief that they will be trapped forever



Debt advice is key need



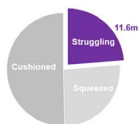
Alongside basic money management

Takes a long time to acknowledge the issue and struggle to know true situation

Some have sought advice but struggled in the process

Some slowly working way out through drastic measures

Both preventative and remedial is required



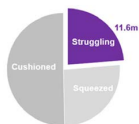
Complex personal situations

Financial situation was compounded by broader personal complexity

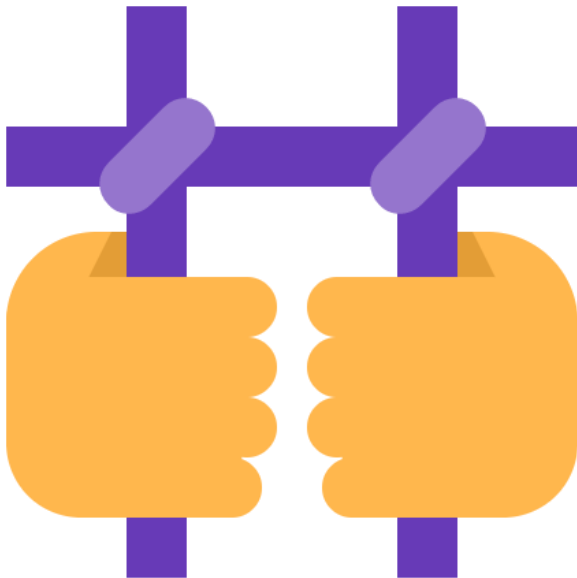
A lack of wider support structures in their lives

Unhappy history with institutions, financial & other, drives suspicion

Present broader complex issues beyond just financial



Feeling trapped



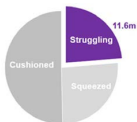
Circumstances dictate a *very* short term approach – hour to hour

Limited and confined in what they can do, feel fatalistic about situation

Likelihood of moving forward can feel very low

Basic money management and debt prevention/solution are primary need

Only then can longer term plans and options be explored



The struggling



Living life on a financial tightrope

Money a constant source of anxiety

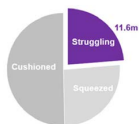
Financial capability a major barrier

Outlook dominated by debt

Hampered by broader complexity

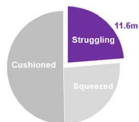
Suspicious of institutions

Feel very trapped by their situation



‘Struggling’ – What can we do?


Michael Royce (Money Advice Service)



Support for Universal Credit claimants



The screenshot shows the 'Universal Credit' landing page. At the top is a green header with the Money Advice Service logo, 'My Account', and a search icon. The main heading is 'Universal Credit' in large green letters, followed by 'Practical support and advice' and an illustration of a hand holding a coin. Below this is a section titled 'What is Universal Credit?' with a paragraph explaining it as a single monthly payment. A box titled 'You can find out how to:' contains three bullet points with green checkmarks: 'track your spending', 'keep on top of bills', and 'stay out of debt'. At the bottom, a green box says 'Get tailored advice by answering these questions:', followed by a question 'Have you received your first Universal Credit payment?' and a dropdown menu with 'Choose...' and a 'Next >' button.



The screenshot shows the 'My Profile' page. It has a green header with 'My Profile' and a 'Close' button. Below the header are three tabs: 'My Details', 'My Preferences', and 'My Progress', with 'My Progress' selected. The main content area has a grey box with text: 'This is a list of tasks that might help you to follow the advice you've received and make the most of your money. Simply check the boxes next to the tasks as you complete them. Ok, got it!'. Below this is a progress bar with 12 steps, the first of which is highlighted. The tasks are organized into three sections: 'This week' (two tasks), 'This month' (one task), and 'Soon...' (three tasks). Each task has a checkbox and a description. At the bottom, there is a 'My tasks' section and a 'Budget Calculator' button.

- ❖ Full UC rollout by 2020/21
- ❖ 8mn households
- ❖ Universal Support delivered locally
- ❖ Self-help support
- ❖ In-work and out-of-work UC claimants
- ❖ Transition to monthly UC payments
- ❖ Transactional banking

Thankyou!

[https://www.moneyadviceservice.org.uk/en/
corporate_categories/research](https://www.moneyadviceservice.org.uk/en/corporate_categories/research)