

UK Financial Vulnerability Outlook

September 2024

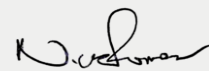
Foreword

Following the economic volatility of the past few years, the UK has been experiencing both persisting and worsening financial vulnerability. Whilst high inflation has eroded real wage growth, high interest rates have driven up living costs, resulting in a squeeze on discretionary incomes across the UK. This low discretionary income, allied to low savings characterises the segments of the UK households which are financially vulnerable in Baringa's financial vulnerability model .

The UK's high level of financial vulnerability is a systemic issue as 6.4 million, equivalent to 22% of households, now experience financial vulnerability. Two million are considered extremely vulnerable, defined as households at or below subsistence living levels, with minimal savings and income.

Despite expected economic improvements in the economy overall, many households are still reeling from the inflation and interest rates shock of the last two years. Our central winter 2025 (November 2024 to March 2025) projection estimates that up to an additional 2% of the population, equivalent to 0.5 million households, will become vulnerable or extremely vulnerable, as those already showing signs of financial vulnerability fall further into distress. In the downside scenario, where inflation and rates remain far higher, this corresponds to an additional 4% of the population or over one million households becoming financially vulnerable. Whichever scenario occurs, businesses, households and government need to be proactive in raising awareness and addressing this risk. More broadly there is a clear need for a coordinated government response, looking at financial support measures which cover essential household expenditures.

As a result of the rising levels of financial vulnerability, late pay and default risks are expected to be elevated, increasing debt by almost half a billion pounds energy utility sector this winter.



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Forecasting vulnerability and utility debt

Our financial vulnerability services and experts

Access the full report, our data & generate vulnerability scenarios



Contact our expert:

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- ▲ Baringa's financial vulnerability model can be used to forecast financial vulnerability for over 28 million households in the UK.
- ▲ Access our existing scenarios or generate your own according to macroeconomic conditions.

Customer debt risk and debt book forecast



Contact our expert:

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- ▲ Utilising customer profiles, Baringa's debt forecasting capability can provide realistic projections for payment delays and defaults across a range of customised scenarios.
- ▲ This can support our clients to understand vulnerability, debt risk, predict default events, and estimate impairment provision.

Vulnerability of model change








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- ▲ Baringa's vulnerability maturity assessment helps clients map and measure business maturity and helps propose how vulnerable customer needs can be met.
- ▲ Baringa has helped clients implement organisational changes such as customer segmentation and identification, staff training and development, process improvement, and technology enablement.

Financial vulnerability categories

Baringa’s financial vulnerability model categories households into five distinct categories. These are based on the level of household savings (relative to housing costs) and the level of discretionary income per adult after modelling essential expenditures such as housing, utilities, food, travel costs and the cost of dependents.

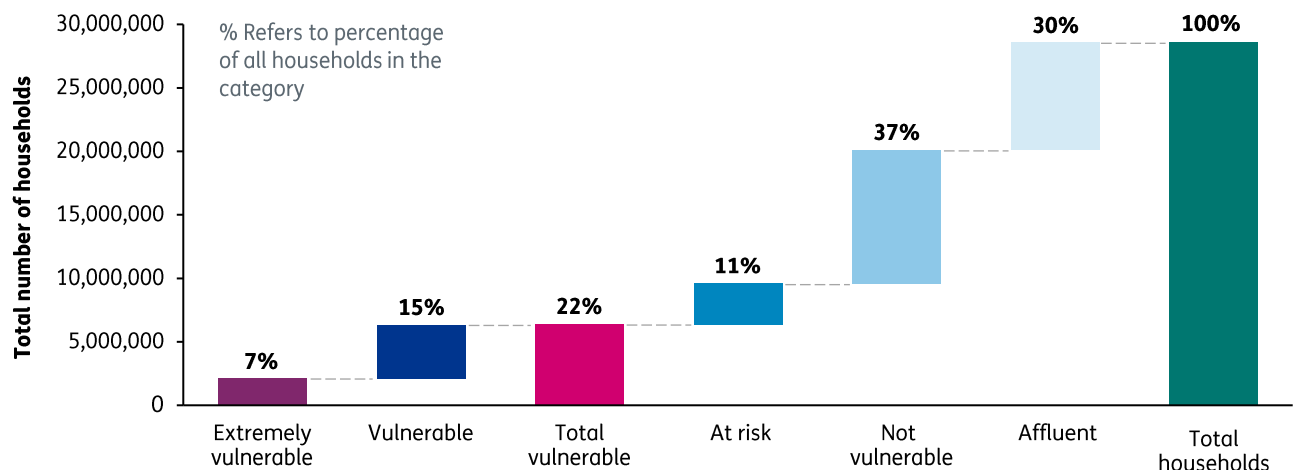
	Extremely vulnerable	Vulnerable	At risk	Non-vulnerable	Affluent
					
Description	Individuals at or below subsistence living levels, with minimal savings and income	Financially vulnerable to any income or cost changes	Individuals that are at risk of becoming financially vulnerable	Financially secure individuals that have savings and notable discretionary income	Significant discretionary income above other cohorts
Cohort sub-groups (discretionary income & savings)	<ul style="list-style-type: none"> ▲ Very low income and savings below monthly housing cost 	<ul style="list-style-type: none"> ▲ Low income and low savings ▲ Very low income and low to medium savings 	<ul style="list-style-type: none"> ▲ Medium income and low savings ▲ Low income and medium savings 	<ul style="list-style-type: none"> ▲ High income ▲ Medium income and medium to high savings 	<ul style="list-style-type: none"> ▲ Very high income

Section 1: Key vulnerability dynamics

The current state of UK vulnerability

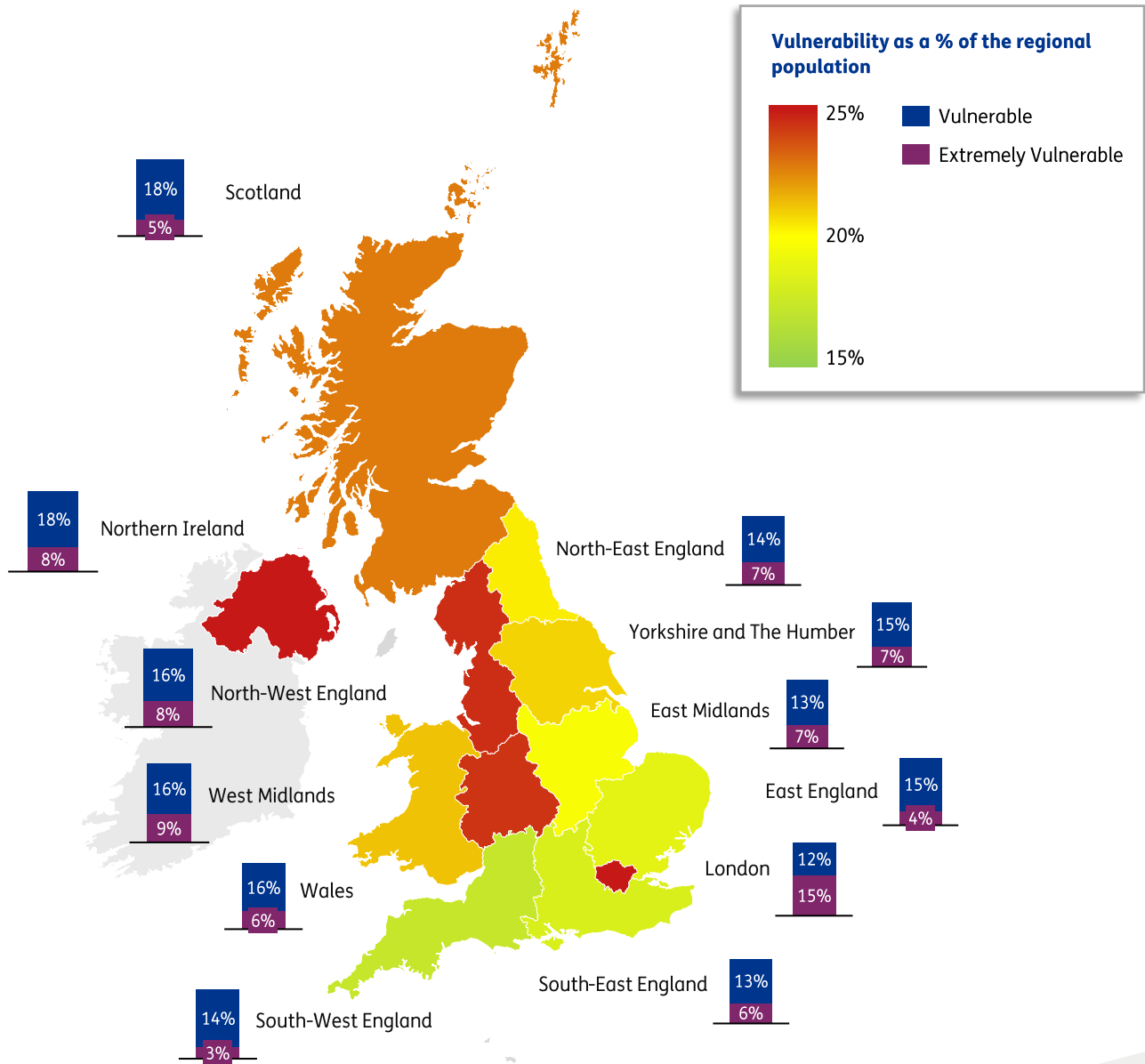
In 2024 there are 6.4 million households in Baringa’s vulnerable cohorts. These groups represent those who are routinely struggling to cover core expenditures of heating, housing and food. A further at-risk group represents those in precariousness being those whose ability to balance household books in light of worsening economic conditions. This includes real pay reductions or inflationary pressures on housing and energy costs. People’s ability to manage economic shocks are limited due to low level of household savings.

Vulnerability cohorts across the UK population mid-year 2024



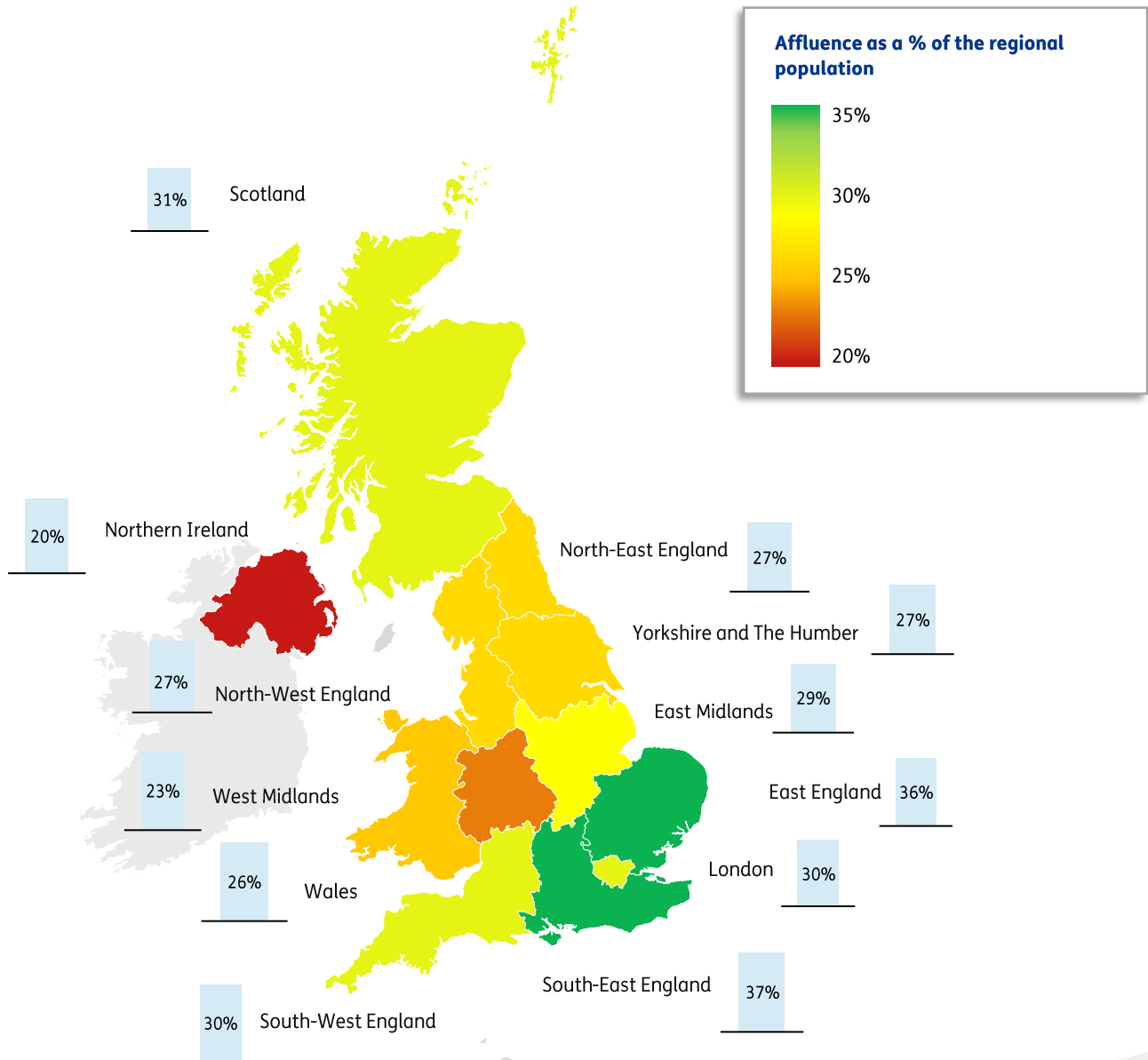
Vulnerability is elevated in Northern Ireland, West and London

The proportionate level of vulnerability varies across UK regions with the North-West, West-Midlands, Northern Ireland and London exhibiting particularly high levels of stress.



Affluence is concentrated In East and South-East England

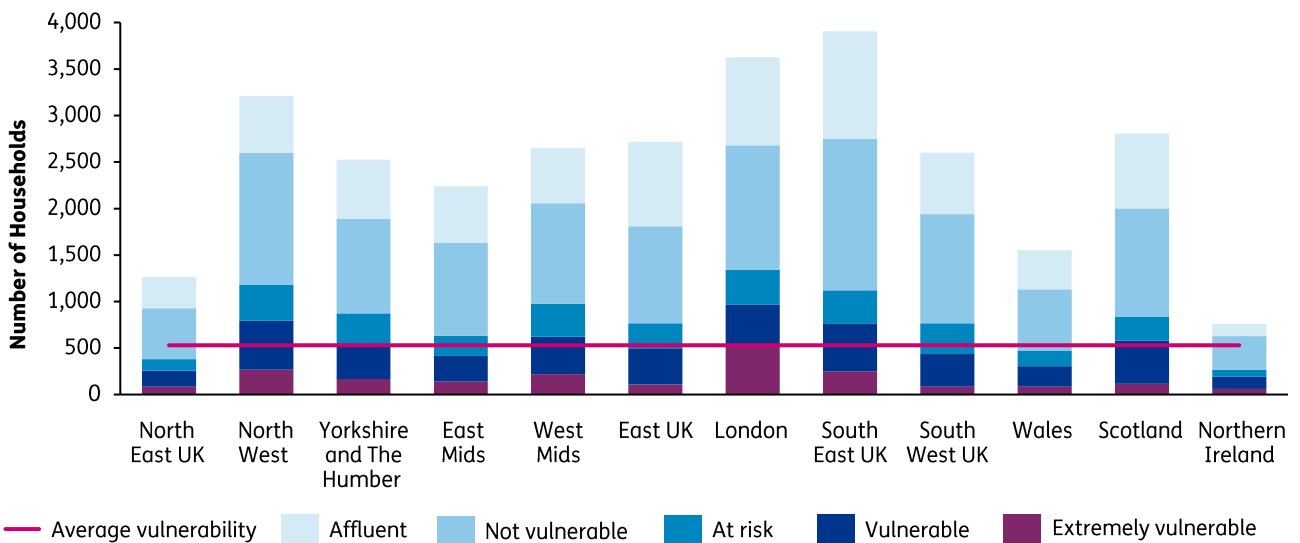
The South-East, including London have particularly high levels of affluence, followed by Scotland.



Vulnerability numbers higher in London, South-East and the North-West

The number of financially vulnerable households as a total is highest in London, the South-East and the North-West, likely interlinked with the larger populations. In comparison, areas such as Wales, Scotland and the East Midlands have fewer vulnerable households, all below the average vulnerability level across regions.

Vulnerability by UK region (1000s)

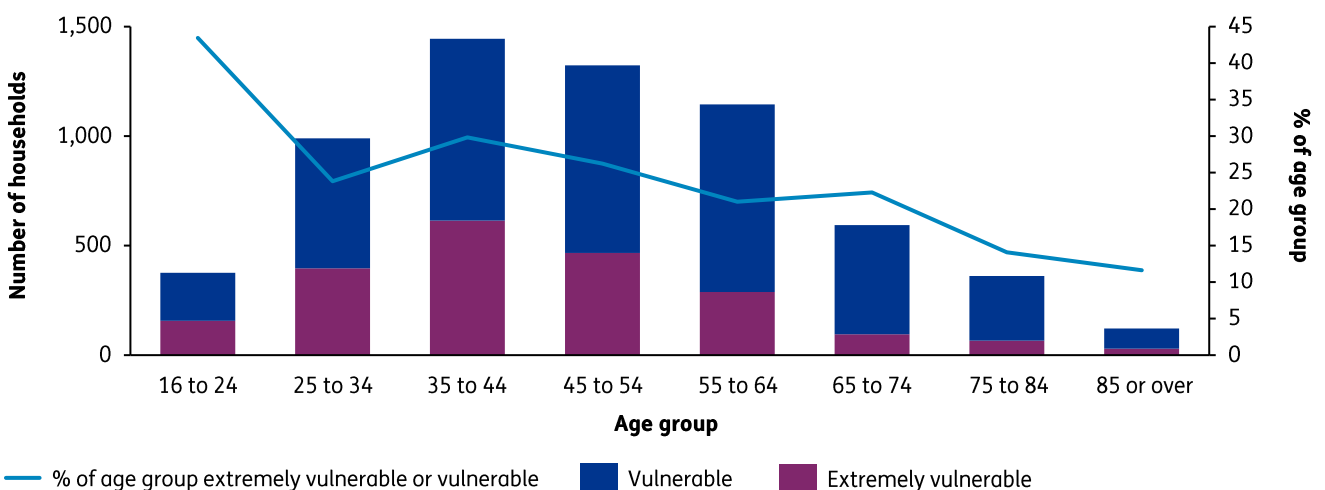


Vulnerability spikes between 35-45 age group

The number of financially vulnerable households increases markedly during middle age groups, as defined by the oldest income earner in the household.

Instances of vulnerability falls after the age of 55 whilst rising slightly at retirement age (65-74) before falling markedly in older age groups as successful policy actions, such as the inflation protection of pensions, has sought to address the historically high specter of pensioner poverty.

Vulnerability by head of household age group (1000s)



Section 2: Drivers of vulnerability

Five core drivers of vulnerability

In this section we identify and evaluate five drivers of vulnerability in the UK from most significant (left hand side) to least significant (right hand side).

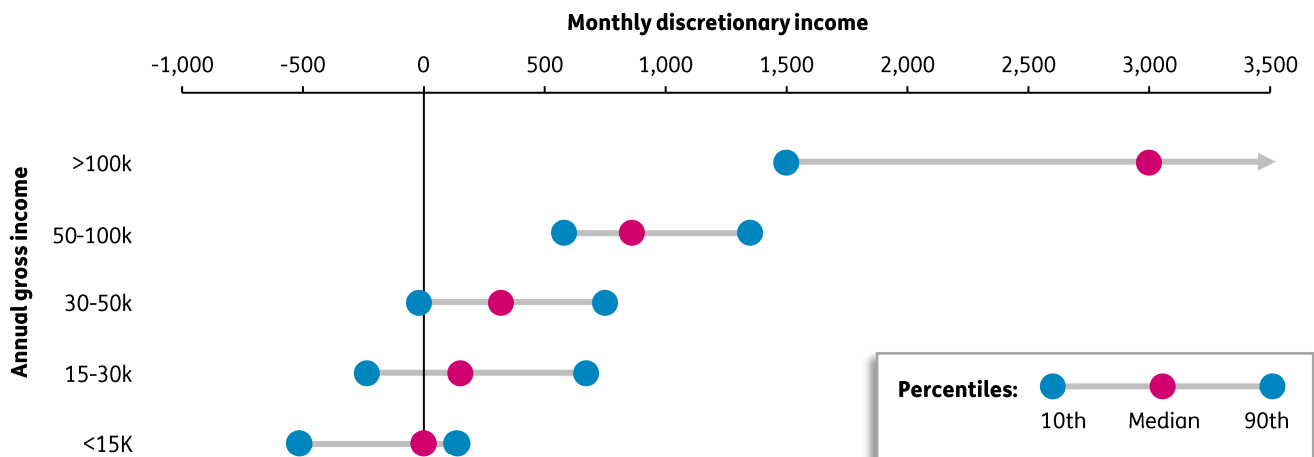
Drivers of vulnerability

Gross income	Savings	Housing type	Family size	Elderly dependents
▲	▲	■	▼	▼
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1 Low gross income leads to low discretionary income

Low gross income naturally correlates with low discretionary income. We show that for those households earning less than £15k a year the median household is barely able to balance the books each month after modelled expenditures. As a consequence, low income is the strongest driver of financial vulnerability.

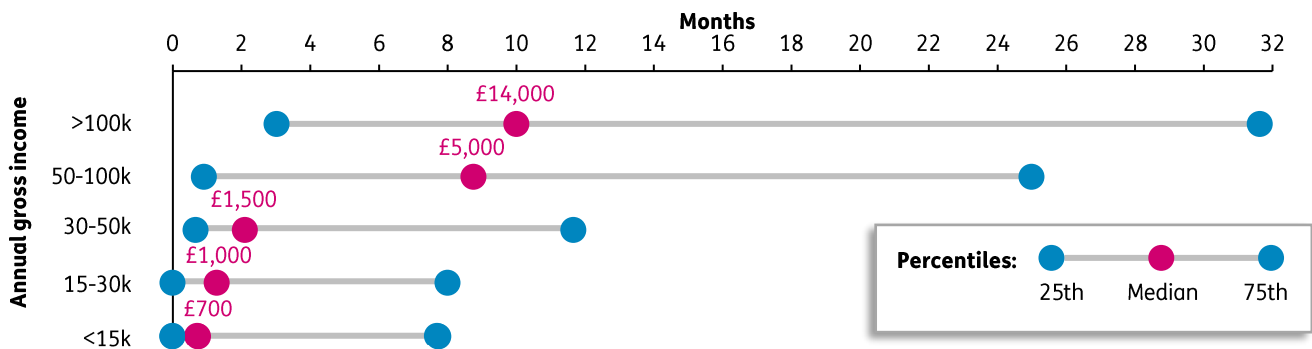
Discretionary income variation for annual income levels



2 Low income groups suffer from limited savings buffer

In addition to low discretionary income, low income households also suffer from low levels of savings, both in absolute terms and relative to housing costs. Low savings households have a limited cushion to withstand an income shock or unexpected expenditure such as the breakdown of white goods. This increases the precariousness of those households who are just managing to meet day to day expenditures.

Savings equivalent to average monthly housing costs by income (£)

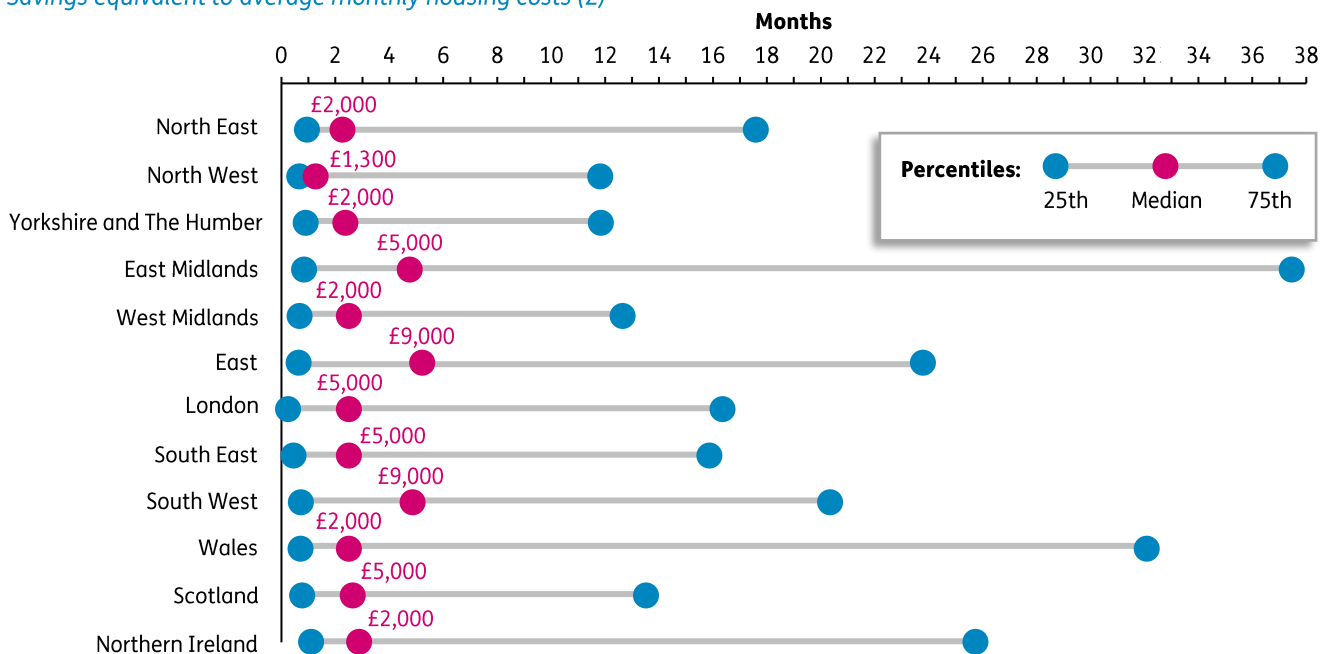


* Values referenced are average cash savings per household in the annual salary banding

The relative value of savings vary considerably by region

Cheaper housing costs outside of London and the South East provide more of a saving cushion for households, even if the value in cash terms is lower. This highlights how households in high housing cost areas can quickly fall into precariousness even though they have a relatively high savings value in cash terms.

Savings equivalent to average monthly housing costs (£)

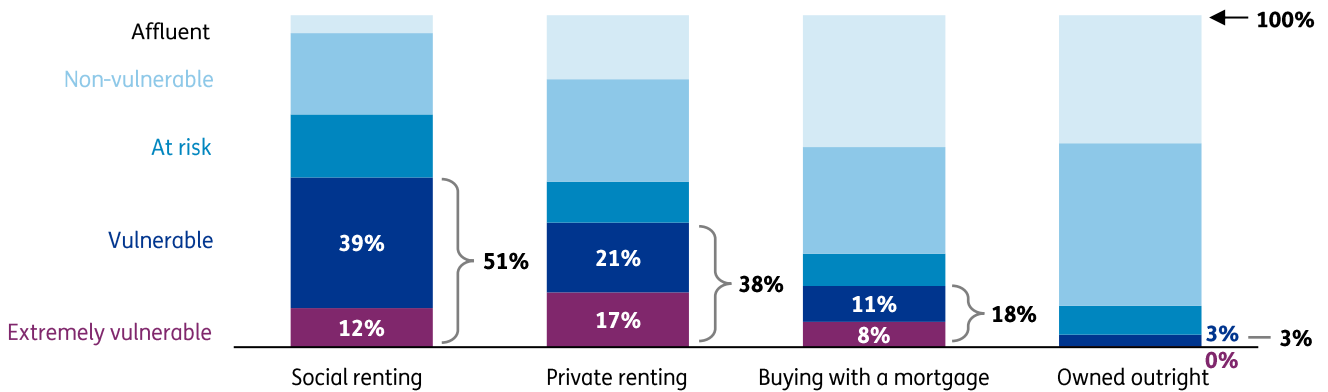


* Values referenced are average cash savings per household in the region

3 Housing type: Social renters most likely to be financially vulnerable...

Those in social rental accommodation are most likely to be in financially vulnerable categories with those who own their homes outright the least likely. This is despite the fact that social renting costs are on average half the price of those of the private rental sector.

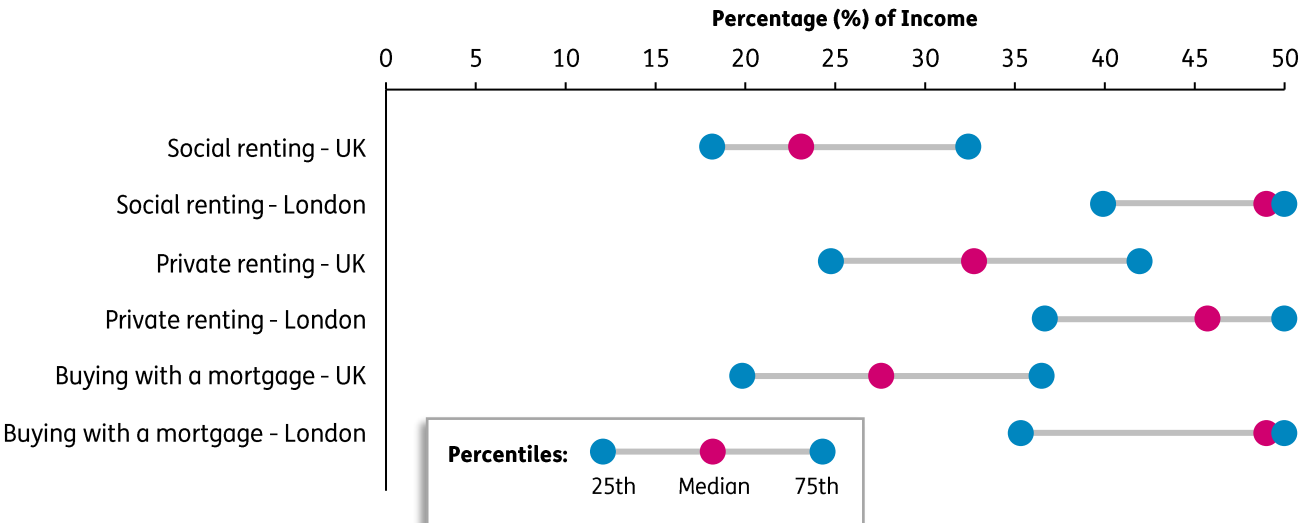
Vulnerability by housing type



London suffers from a housing crisis

London in particular is suffering from a housing crisis with the cost of housing across all accommodation categories far higher than the UK average. This goes some way to explain why London has such a large financially vulnerable population even though gross wages are far higher than the national average.

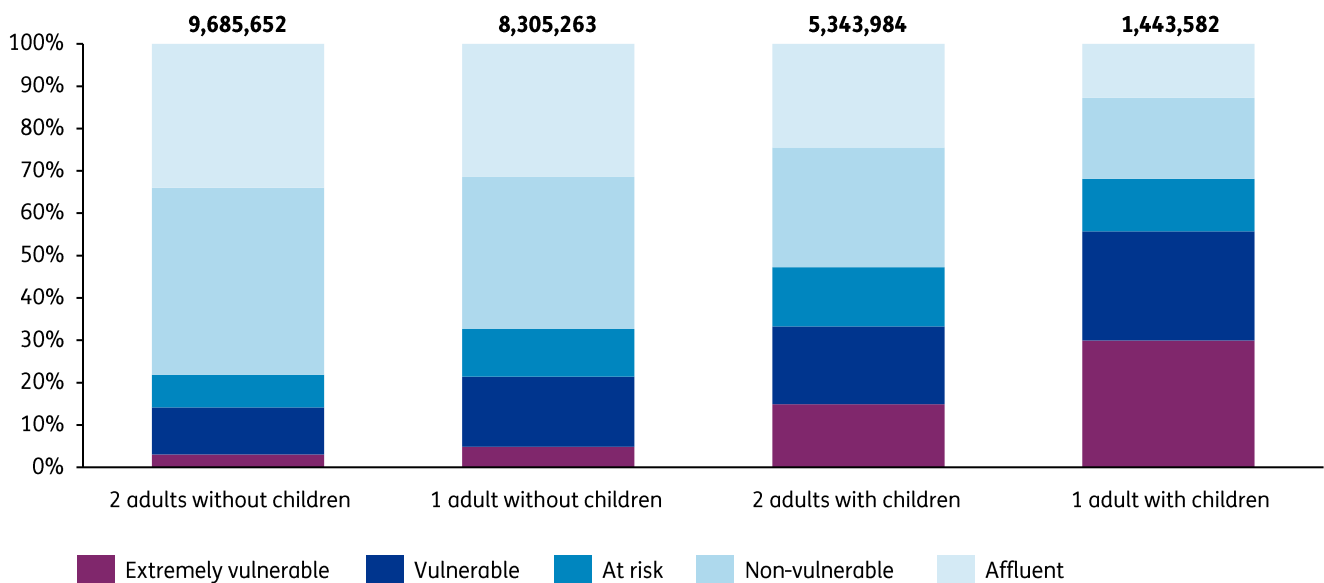
Housing costs as a percentage of monthly income by housing type (UK Vs. London)



4 Low earner to child ratio drives higher vulnerability

Two earners without children are least likely to be financially vulnerable relative to one earner with children. This shows how the costs of raising children, through higher housing costs and other bills, can be very high and force financial vulnerability when those costs are unable to be shared across multiple earners.

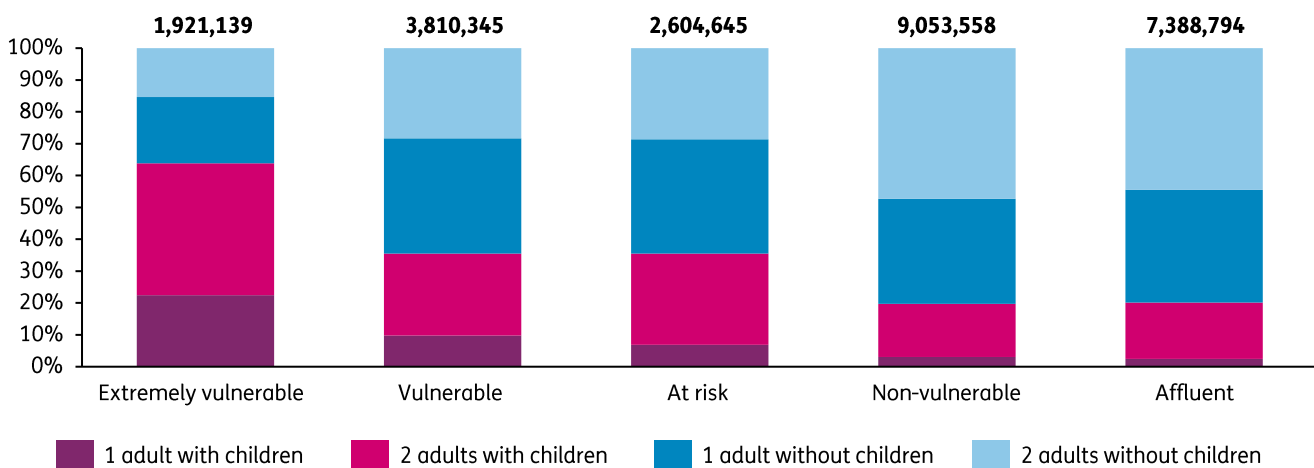
Percentage of each vulnerability cohort by family composition



64% of The extremely vulnerable population have children

The overwhelming correlation between those in extreme vulnerability and having children suggests strongly that child raising is a key driver of financial distress.

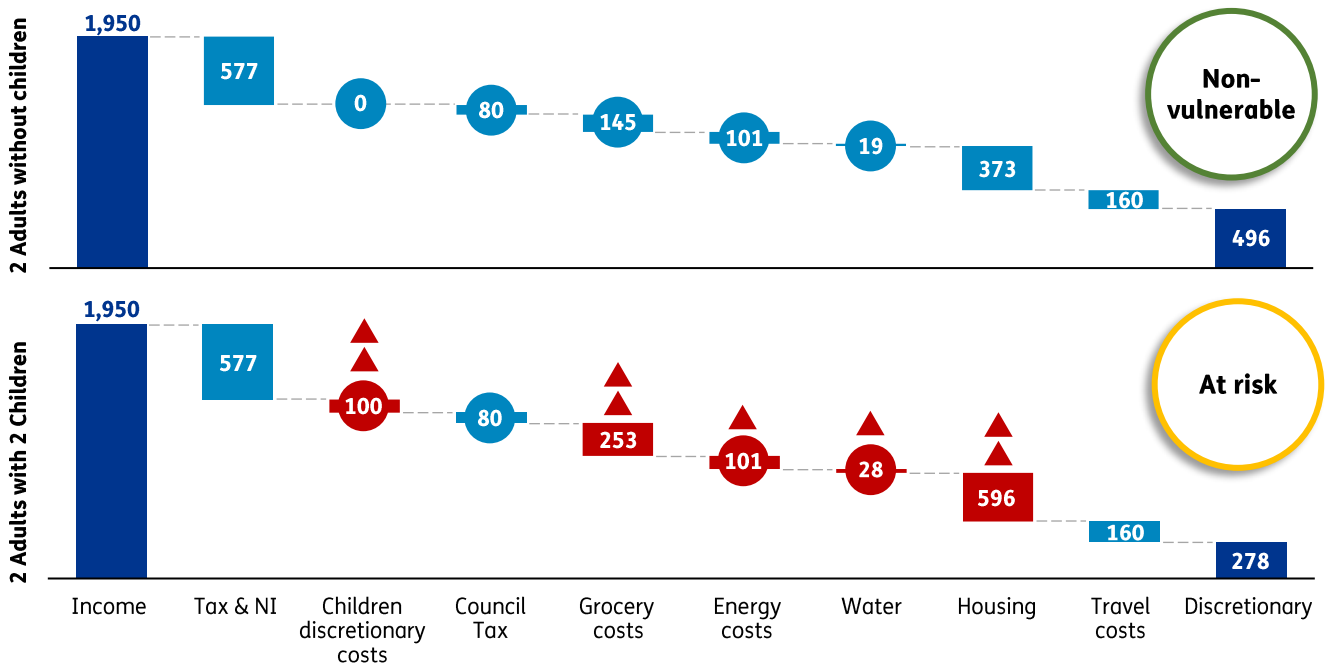
Percentage of each vulnerability cohort by family composition



Example: Children impact on financial vulnerability

A worked example shows how higher energy, food and housing costs considerably reduces the discretionary income per adult relative to a two-worker household without children of the same income bracket.

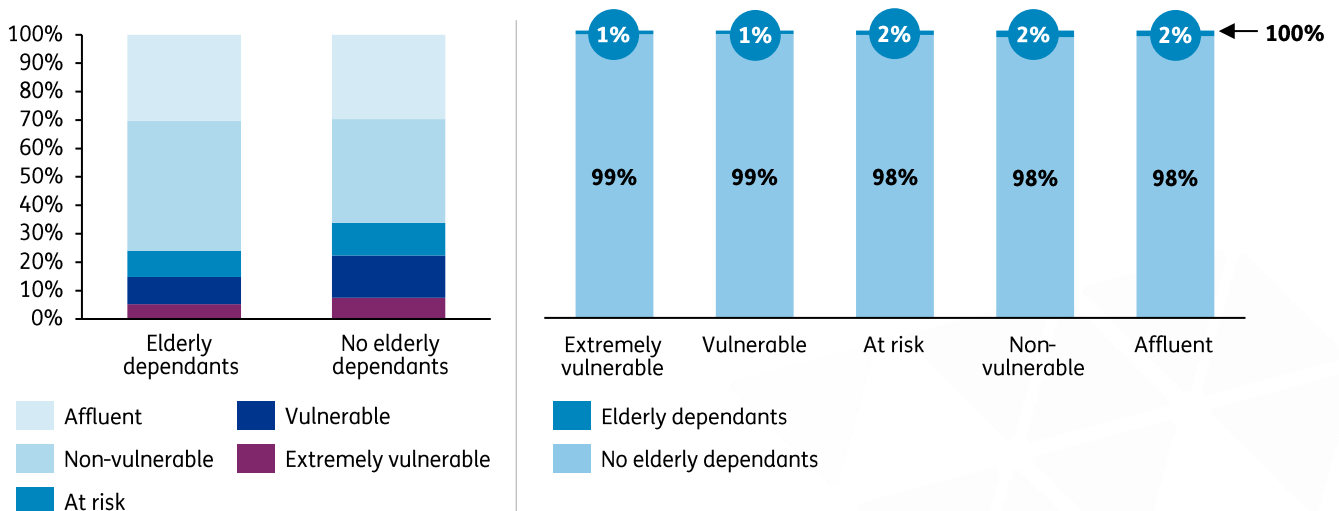
Income and spending average per adult with a salary of £46,800 per annum and no savings in the East Midlands



5 However, elderly dependents are not strongly associated

Having an elderly dependent (retired adult) in the household is not strongly correlated with higher financial vulnerability, as evidenced on the left-hand side graph. This may be due to role of pensions and the fact that elderly dependents appear equally distributed across income and vulnerability cohorts, as seen on the right-hand side.




Elderly dependents do not correlate to increased vulnerability across cohorts



Section 3: Winter scenario results

Forecasting vulnerability: Winter 2024/2025 scenarios

We consider three scenarios for the winter outlook (November 2024 to March 2025). In these scenarios we make different assumptions on utility bills as well as the macroeconomic environment such as inflation, interest rates and real wage growth.

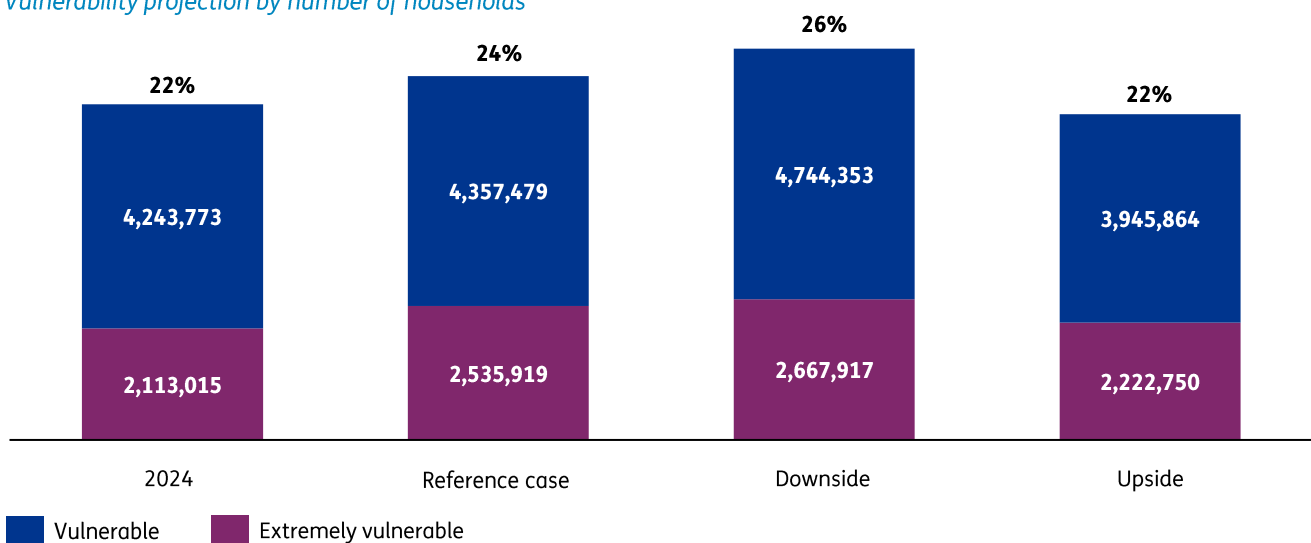
	Downside scenario	Reference case	Upside scenario
			
Description	Pessimistic projection of vulnerability by winter 2024/2025* whereby financial stress increases dramatically	Expected vulnerability projection by winter 2024/2025*	Optimistic projection of vulnerability by winter 2024/2025*, whereby macroeconomic conditions improve
Key assumptions (relative to base*)	Inflation: 4% Energy cost price: 1.23* Water utility price: 1.22* Mortgage rates: 4.5% Nominal wage growth 3%	Inflation: 2% Energy cost price: 1.13* Water utility price: 1.12* Mortgage rates: 3.5% Nominal wage growth 3%	Inflation: 1% Energy cost price: 0.98* Water utility price: 0.97* Mortgage rates: 3% Nominal wage growth 3%

* Refers to the period November to March 2025, relative to June 2024

Overall vulnerability projection

Vulnerability increases in both our reference case and downside scenarios relative to the 2024 baseline.

Vulnerability projection by number of households

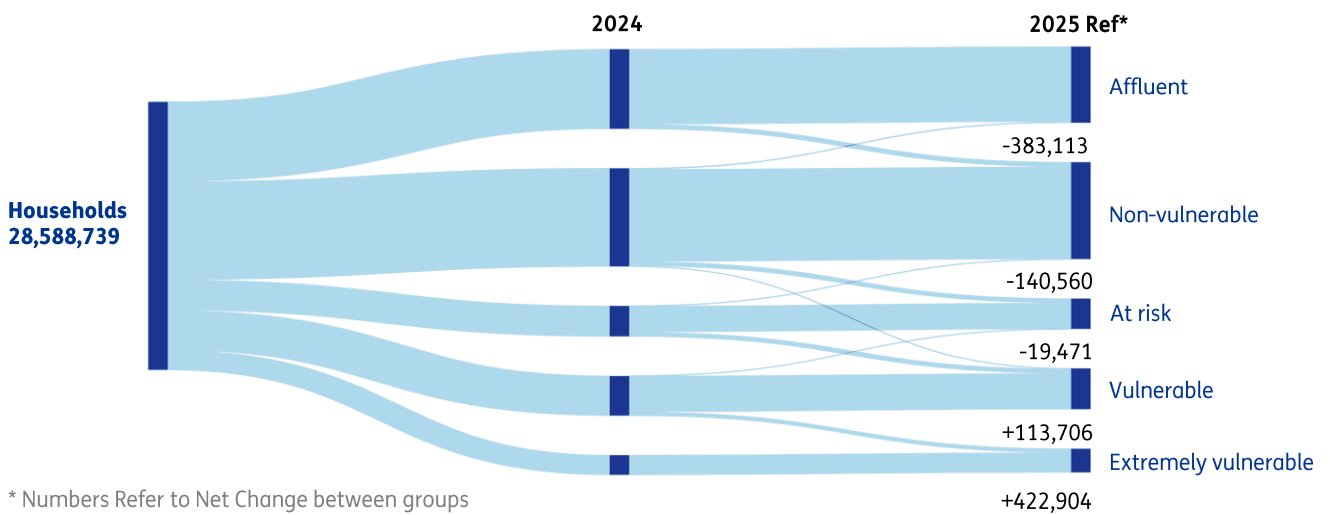


% refers to percentage of all households in the extremely vulnerable and vulnerable segments

Financial vulnerability increases in all vulnerable groups in reference case

In the reference case scenario, there is a considerable increase in the extremely vulnerable and vulnerable categories as households fall down from more affluent cohorts.

Net change in household vulnerability between 2024 and 2025 ref case



Extremely vulnerable increases significantly in the East and Scotland

There is a strong regional variation in our reference case with the East of England and Scotland seeing significant increase in the extremely vulnerable group in absolute terms.

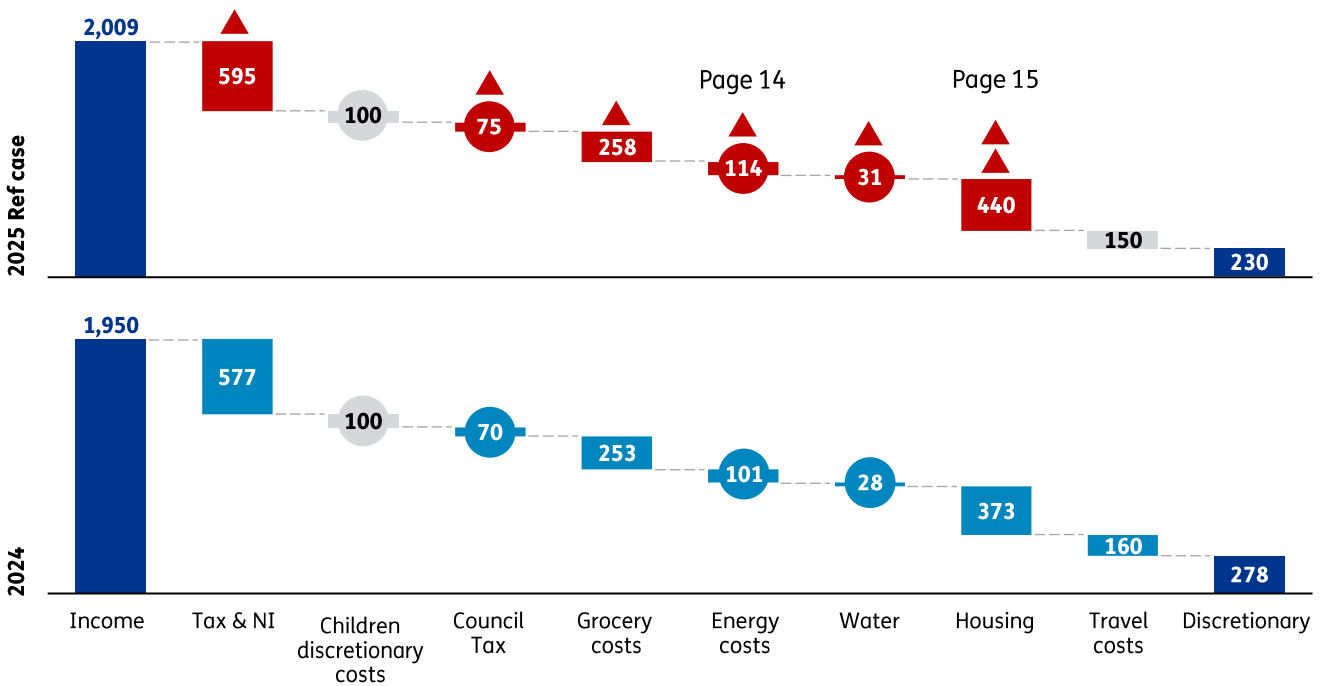
Regional change in vulnerability between 2024 and 2025 reference case



Example: Higher costs drive a reduction in discretionary income

Higher food, utility and housing costs reduce discretionary income markedly in our reference case.

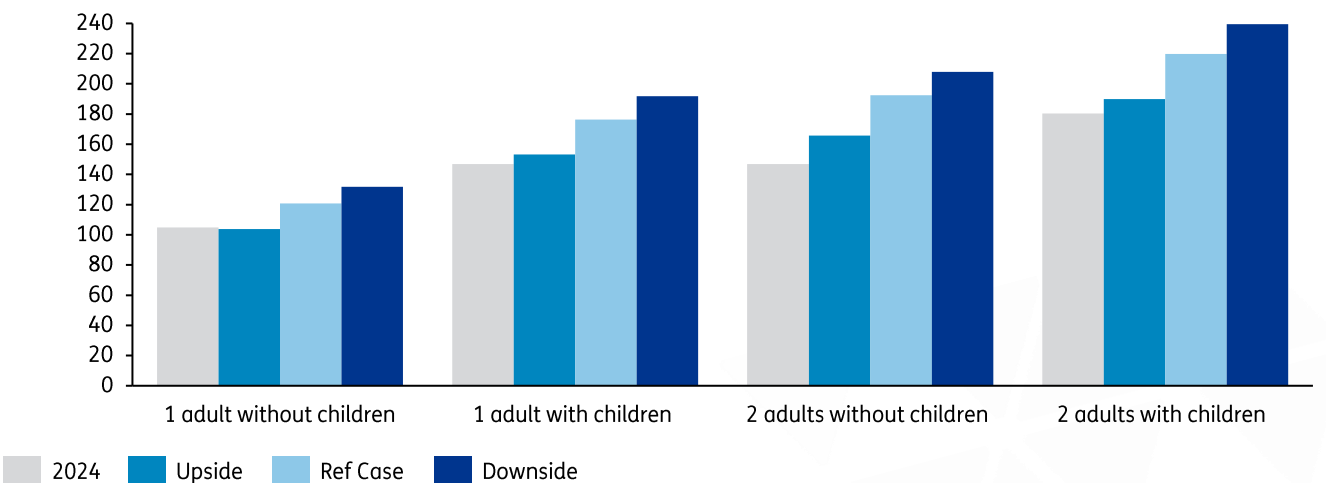
Income and spending average per adult, for families with two adults and children that have no savings in the East Midlands with a salary of £46,800 per annum



Winter energy costs squeeze incomes

Winter energy prices are expected to rise relative to our 2024 base in all scenarios generating a seasonal income squeeze for households.

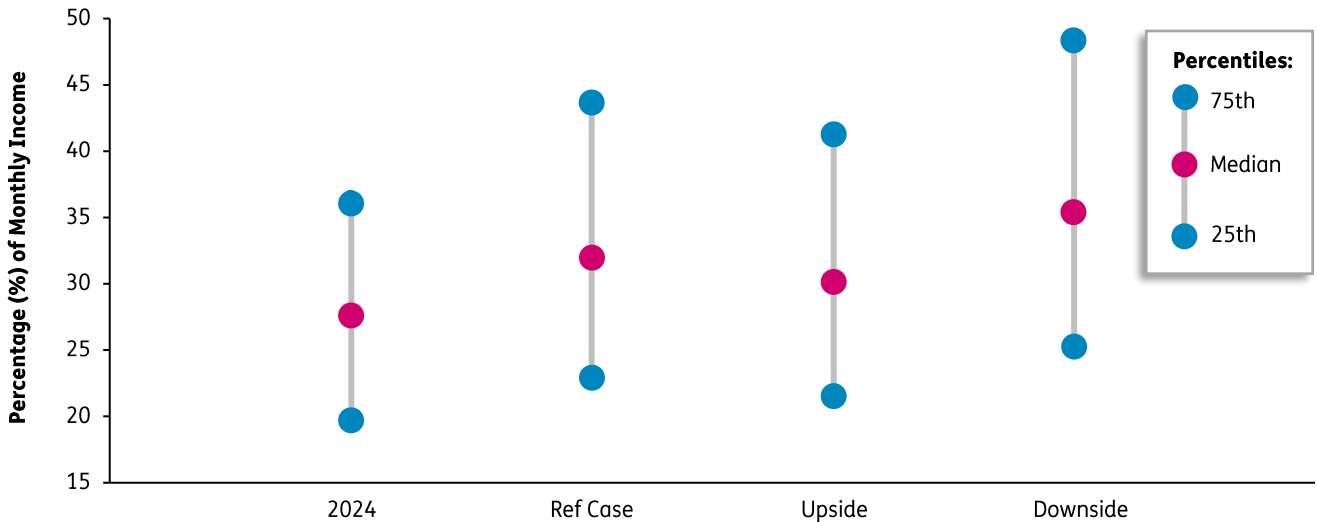
Energy costs set to increase more for larger families



Higher rates drive mortgage cost squeeze

Higher mortgage costs in our reference and downside cases, push households into our financially vulnerable categories.

Mortgage payments as a percentage of monthly income



Section 4: UK household energy sector debt forecast

Increasing numbers of households in debt

We anticipate the number of households in debt to rise considerably overall and especially in our most vulnerable cohort.

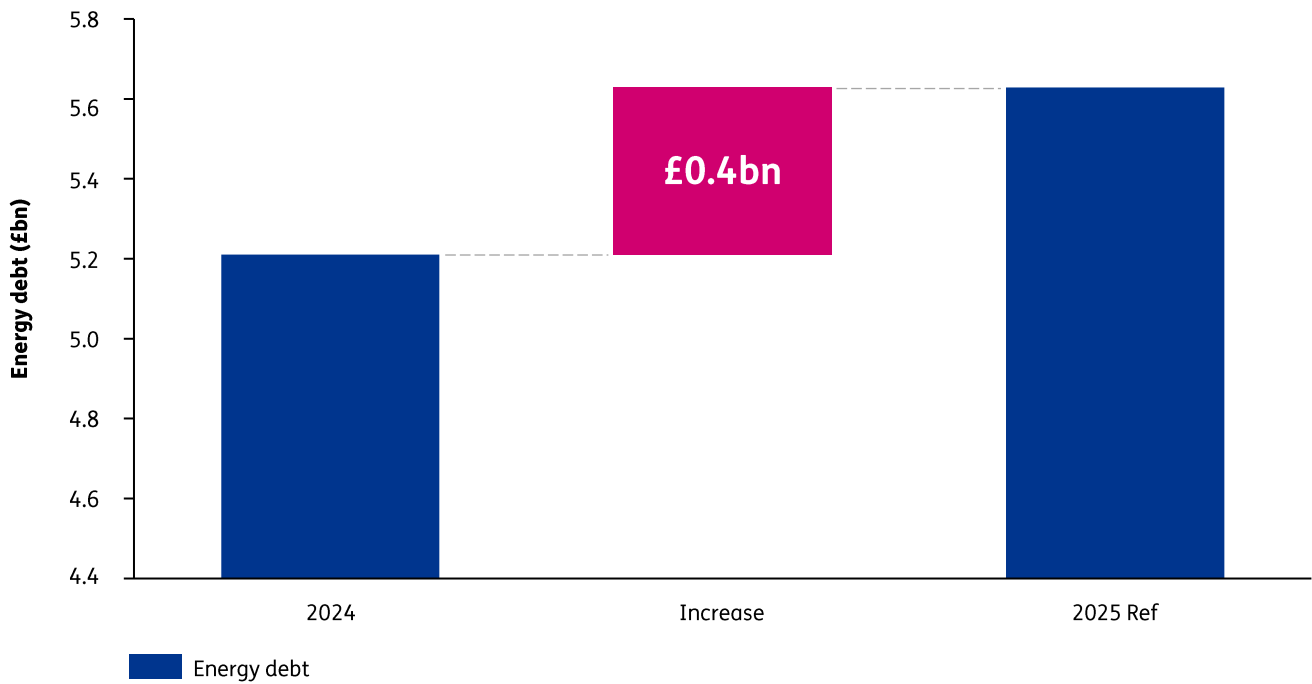
Number of households in debt by vulnerability category

Cohort	Net change
Affluent	0
Non-vulnerable	(7,000)
At risk	(8,000)
Vulnerable	102,000
Extremely vulnerable	423,000
Total	510,000

With total energy debt set to rise by £0.4bn

As a consequence of rising financial vulnerability, we project an increase of energy debt of c.£0.4bn in our reference case over the winter period.

Current and forecasted total energy debt in ref case



Energy debt figures derived from Baringa benchmarking of domestic suppliers. This view of total debt is broader than the figure published by Ofgem, which only considers debt outstanding for more than 91 days and excludes balances held within general payment schemes, e.g. through seasonal fluctuations.

With rise in prepay and unsecured most acute

Secured debt is set to increase only slightly by 0.3%, as customers struggle to maintain payment arrangements due to increased financial vulnerability.

Debt forecast by payment type

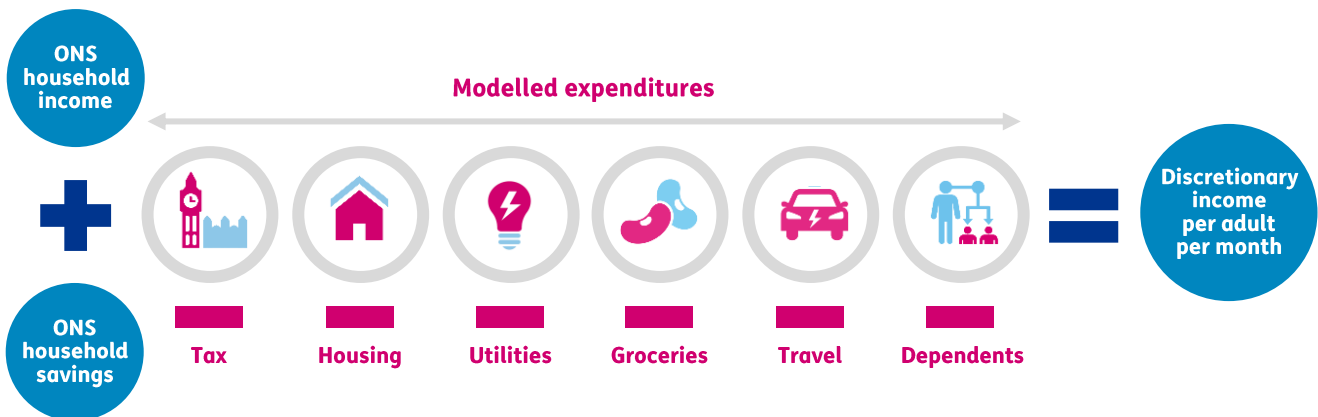
	Prepay	Unsecured	Secured
2024	£0.52bn	£4.15bn	£0.54bn
2025	£0.57bn	£4.52bn	£0.54bn
% change	High 10%	High 9%	Low 0.3%

Modelling approach




We modelled expenditures for c.28 million households across the UK.


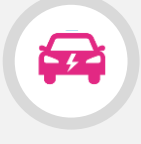

Modelling assumptions include regional based costs (e.g. rents, council tax and food costs) as well as family size based costs (e.g. mortgage size and child costs).

Leveraging ONS household income data, a discretionary income per adult is calculated.



Across our modelled expenditures, we accounted for a number of cost types through using existing data and Baringa assumptions.

Expenditure	Description	Approach	Assumptions
 Tax	Income tax	▲ 2024 Income tax thresholds	▲ 2 adults split income equally
	National insurance	▲ 2024 national insurance thresholds	▲ N/A
	Council tax	▲ Historical 1991 values using regional house price growth calculator from nationwide	▲ Country banding threshold data and regional averages
 Housing	Private rent	▲ Number of bedrooms devised by household income and number of occupants	▲ ONS average rents by bedroom number and by region
	Social rent	▲ Household value provided by ONS assumptions by region and number of bedrooms	▲ Social rent circa half regional private rent
	Buying with a mortgage		▲ Household value provided by ONS assumptions by region and number of bedrooms ▲ Loan to value ratio 60% ▲ 25-year mortgage ▲ 12 payments per annum
	Owning outright		▲ N/A
 Utilities	Electricity costs	▲ Industry body seasonal pricing and consumption use by household size and region	▲ National average
	Gas costs		▲ National average
	Water costs		▲ Differs by water provider (region)

Expenditure	Description	Approach	Assumptions
 Groceries	Cost of groceries	<ul style="list-style-type: none"> ▲ National male, female and child consumption average ▲ Deflated by regional price variation 	<ul style="list-style-type: none"> ▲ Grocery costs not adjusted for income or provider (e.g. premium groceries)
 Travel	Transport costs	<ul style="list-style-type: none"> ▲ ONS UK average travel expenditure ▲ rural/urban transport cost adjustment 	<ul style="list-style-type: none"> ▲ Travel costs vary per region ▲ Travel cost non-linear to family unit size
 Dependents	Children	<ul style="list-style-type: none"> ▲ Most essential spend covered by family size assumptions in utilities, groceries, household size ▲ Non-essential spend accounted for by additional child costs 	<ul style="list-style-type: none"> ▲ Additional £25 per week per child ▲ Skeleton payment not adjusted for income
	Elderly	<ul style="list-style-type: none"> ▲ Elderly dependents generate private and state pension income 	<ul style="list-style-type: none"> ▲ No additional pensioner costs considered, e.g. healthcare

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