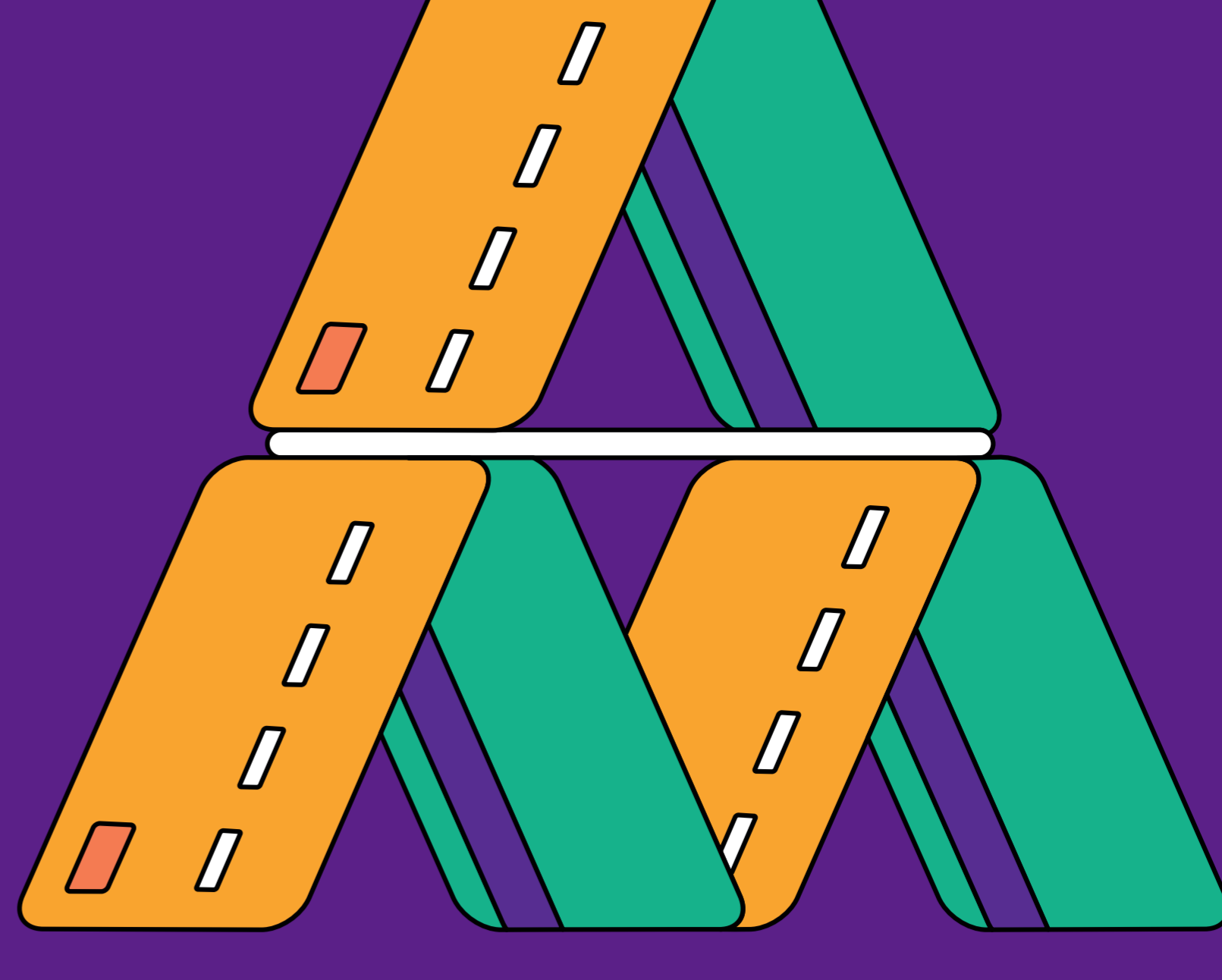


How consumer credit causes harm for people struggling with the cost of living

4 million people — 8% of UK adults — are stuck in harmful financial difficulty¹

Consumer credit helps people to budget and smooth expenses but for those struggling to make ends meet can lead to harm. StepChange has explored why poor outcomes happen and how the Consumer Duty can help.



1. Millions on the edge use credit to keep up with living costs

9 million UK adults (17%) struggling to keep up with bills and credit repayments have recently borrowed to pay for essentials.²

Who is using credit to keep up with essentials?

- 43%** of people receiving Universal Credit
- 27%** of people receiving disability benefits³
- 27%** of renters
- 24%** of parents with children under 18
- 17%** of UK adults

Top three credit products used to pay for essentials:

- Credit cards
- Overdrafts
- Interest-free buy-now, pay later

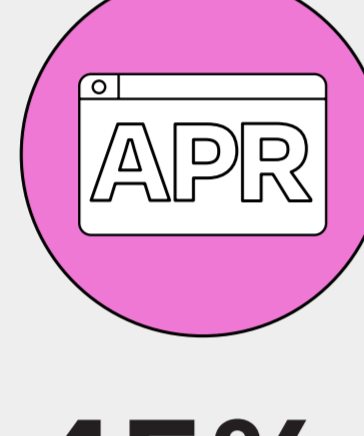
2. Becoming dependent on credit to cope often makes the situation worse

Rising repayments as debt increases reduce income and force those already struggling to further cut back.

Among those borrowing for essentials...



... to keep up with credit repayments in the last three months.

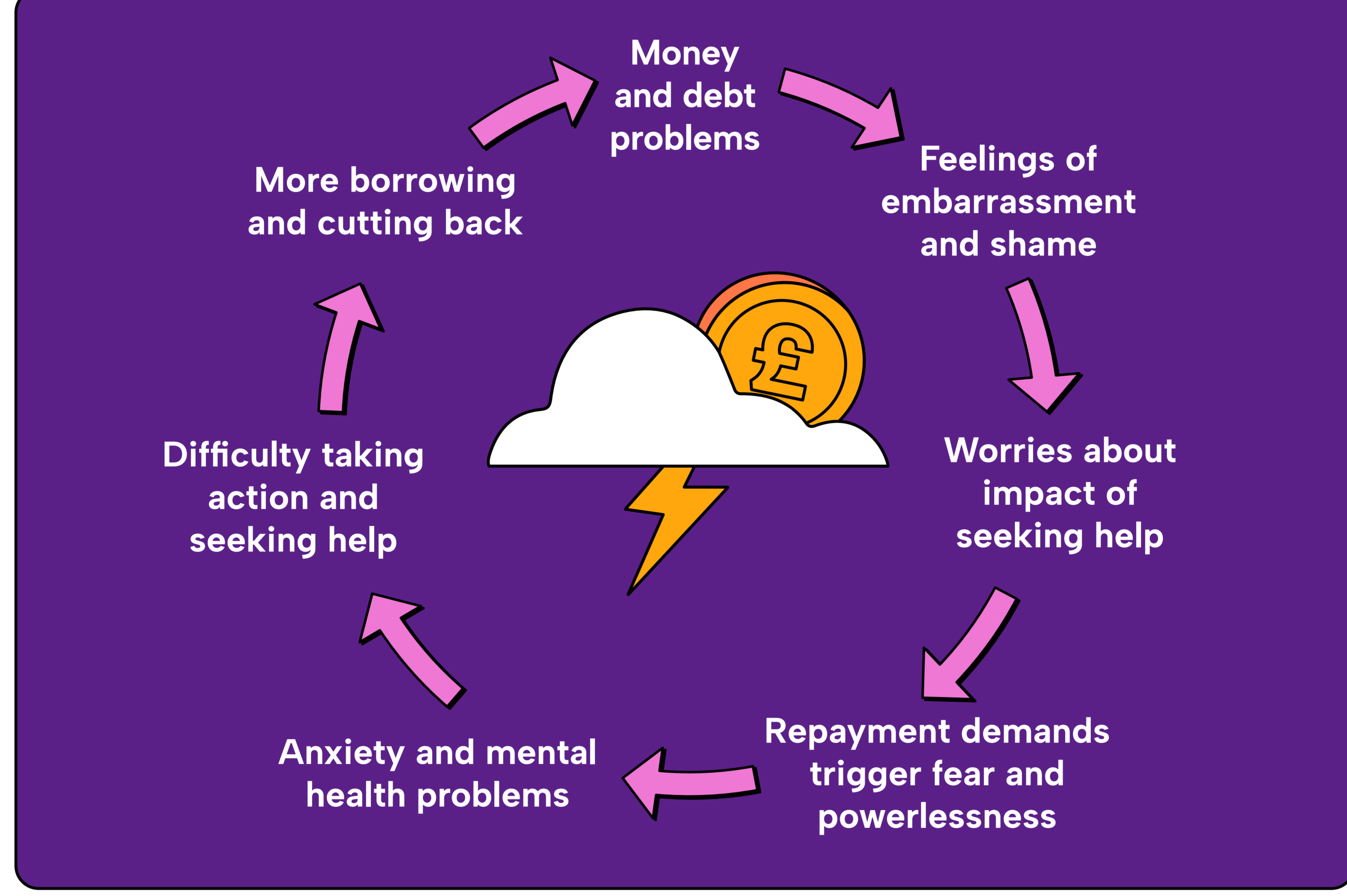


Lenders can make the situation worse by offering more credit or increasing interest charges:

45% of people who find it difficult to keep up with credit repayments have recently been offered more credit.⁴

19% of people using credit to pay for essentials have recently had the APR of a credit or store card increased.

3. A vicious cycle prevents people in difficulty from accessing support



55% of people struggling with credit repayments have been in difficulty for over six months.⁵

Unaffordable consumer debt causes real life harm

- 82%** of people struggling with credit repayments say debt negatively affects their health.⁶
- 50%** of people struggling with credit repayments say debt negatively affects relationships with their partner, family or friends.
- 70%** of people struggling with credit repayments say debt negatively affects their ability to get enough sleep.
- 24%** of people struggling with credit repayments say debt negatively affects their performance at work.

From debt trap to helping hand



The FCA, government and industry SHOULD prioritise preventing harm caused by financial difficulties journeys.

Top five priorities:

- 1** The FCA should make preventing financial difficulties journeys a key focus of the Consumer Duty
- 2** Consumer Credit Act reforms should address harmful debt communications
- 3** Credit information reforms should reduce barriers to seeking help
- 4** Urgently regulate interest-free BNPL
- 5** Ensure people struggling with essentials have access to safe alternatives to desperation borrowing

¹All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2,116 adults. Fieldwork was undertaken between 8th – 9th May 2024. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+). Harmful financial difficulty means finding it difficult to keep up with credit repayments for six months or more and reporting one or more negative coping strategies to keep up with credit, including rationing utilities, going without a healthy diet, going without appropriate clothing for the weather and missing household bills (including housing, council tax, energy, water and telecoms).

²Borrowed to pay essentials' means those who borrowed for housing costs, utility bills like energy, water and council tax, or groceries in the last three months.

³PIP, ESA or DLA.

⁴Recently means last three months.

⁵Struggling means that a survey respondent reports that they find it 'difficult' or 'very difficult' to keep up with credit repayments.

⁶Including physical or mental health.