Your Money, Your Life:

Experiences of Young People's Borrowing

Changing behaviours to seek a better outcome for economies and societies

Executive Summary
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This study

This project explores young people's (aged 18-24) experience of borrowing and their use of unsecured credit. The research interviewed 80 young people on their personal experience of credit and borrowing from across the UK. The key findings from the interviews were then shared at two 'hackathons' – participatory, solutions-focused workshops - which helped inform young people to design effective and relevant solutions to support their financial well-being and influence how their financial well-being should be best supported in relation to credit and borrowing. These solutions and others emerging from our research form our recommendations.

Key findings

- Credit and borrowing is an essential part of young people's everyday life, due to a broader normalisation of credit in society. Using credit is a key milestone in their journey to independence.
- Young people's experience of credit, both good and bad, can influence how they manage their money and their relationship with it, so it is key that young people get the best out of credit, and are protected from avoidable pitfalls.
- Young people use credit to manage their financial well-being - feeling in control and confident in managing their money, meeting day-to-day expenses, and planning for their future - such as by using credit strategically, to smooth income but also to invest in their future by getting a credit card to build their credit score.
- Whilst some were motivated to borrow for convenience, essential needs, or used credit for one-off purchases, many saw that via credit they were also investing in their financial future either through going to university and acquiring educational capital or building a good credit history to secure a mortgage in the future.
- More concerning was that around one in five of the 80 interview participants in our study did not think of certain credit products as a form of credit and understood as another form of finance such as a tax or payment:

  'No, I have not used buy-now, pay-later … Sorry, I've used Klarna, actually, I actually have used it. Is that the one that you do in instalments? Yes. I think I've done that once or twice when I was buying clothes and stuff online… it's just that if you don't want to buy it all in bulk then I think it's a good initiative to do it in instalments. I think it's a good idea.'

- This invisibility of credit is problematic. This may have been due to how certain products were marketed by social media, financial services, and FinTech providers but this may also have been a way of young people reducing the fear of taking on debt or the risk of becoming indebted.
- Young people did not always know where to go for support online which meant that some found it difficult to always make good financial decisions.
- Further, a substantial number of interviewees – close to two-thirds – felt that money and credit were taboo subjects, impacting their sense of permission to discuss and learn about debt and finance:

  'I think I've always felt in society it's a taboo subject that people don't really talk about that often, and when you do bring it up everyone's a little bit sheepish to talk about it, so I've always found it hard because like where do you get the information from, it's not something you're just born knowing, you have to learn about it somehow, but if people are so strange about talking about it then where are you supposed to get the information from, and if you do research online there's an overwhelming amount of different information.'

- The experience of money whilst growing up also influenced young people's perceptions and use of credit. Many young people exercise caution and seek advice before using credit such as from family, friends, or online.
- Young people identified the role and responsibility of financial services and FinTech to help them feel in control of their money and support their financial well-being, saying:
  - o Institutions that they interact with from financial services to employers could do more to support them.
  - o Financial services and FinTech could play a vital role in providing access to responsible credit and use the data they hold for good to help young people manage their money effectively.
- Many young people used the pandemic as an opportunity to rectify their credit – suggesting that a suitable pause in financial pressures can help young people address financial difficulties or mistakes. For others, the pandemic was an external circumstance that made their financial lives harder and required further use of credit.
- The research identified clear intersections between why young people use credit (financial need), the emotional effects of credit use, and the risk of detrimental impact on young people's mental health:

'This last month was really awful. There were days when I genuinely had not a penny to my name. I was over my overdraft…There were days when I'd get such bad anxiety about it and … my issue was not being able to address it, so it got like this was a couple of times before where I'd got money in and I've accidentally spent it and it's been so embarrassing and it's upsetting for me to talk about it, but I'd just brush it under the rug, and that's obviously not what you're supposed to do … I'm very confident and outgoing usually but it completely changes that and makes me very withdrawn and very, very anxious.'

- Policy and practice by governments, lenders, educators, and advice providers should often acknowledge the role of external circumstances (such as the pandemic and cost of living crisis) that can impact credit use, as well as the different contexts in which young people use credit to explore better ways to support financial decisions and credit use in this transition to independence.

Recommendations: next steps

Our recommendations have been developed alongside young people who helped us to identify and develop solutions to support their financial well-being at two hackathons, designed to bring together participants from the research and experts from our project steering group to collaborate and develop solutions.

1. **The Financial Conduct Authority (FCA) and the Money and Pensions Service (MaPS) can build on existing work to limit young people's unnecessary exposure to unsuitable credit and credit risks to protect young people's financial well-being;**

- Introduce and future-proof regulation of Buy-Now, Pay-Later (BNPL), and other unsecured credit products to ensure that consumers – including young people who often use these products - understand, can afford, and are protected from using such products.
- MaPS should support and signpost young people who are financially squeezed or struggling to social finance institutions such as credit unions and Community Development Finance Institutions (CDFIs) for access to responsible, affordable credit.
- The FCA and MaPs can further explore developing resources on relevant social media sites such as TikTok and Instagram, or other media platforms used by young people as these evolve, to promote communication. For example, better signposting to support young people who are considering using, or who have had to use, credit to meet essential needs such as food and rent.

2. **Banks, lenders and Fintech can refine money-management products and services, and improve their reach, to help young people manage their credit and financial well-being:**

- Young people want further development of products and services that help them control credit and money, encouraging all lenders to learn from innovators. In our workshops, young people called for:
  - o A diagnostic money app that worked alongside their bank account to save and set personalised financial goals to incentivise saving over credit use. Motivating good financial habits could be achieved by letting the individual select either a choice of rewards or a surprise incentive.
  - o Apps that act as a trusted community forum for young people to share financial stories so people can learn from other people's mistakes around credit use/debt to make informed borrowing decisions based on good outcomes.
  - o Current accounts with no or low-interest overdrafts for young people or those graduating from interest-free student accounts to avoid expensive credit such as the Nationwide FlexGraduate account.
  - o 'Jam jar' type current accounts to visualise and control spending and borrowing.
- Make sure that money-management apps and tailored current accounts are reaching young people. Some products that young people suggested do bear resemblance to products that already exist. For example, Monzo savings pots were often mentioned positively by young people. There are questions whether all young people are able to access what is already out there. To support responsible credit use and good money management, lenders should explore which young people are using innovative products, which young people experience barriers, and what those barriers are.

- Banks and building societies should provide tailored support and guidance at key moments through its services e.g. leaving home, starting university, etc. Personalised support could be offered through interaction on its app which benefits both the lender to 'know its customer' and the customer by sharing money tips and tools.

3. **The Money and Pensions Service should review financial education for young people, particularly around credit, working with schools, universities, employers and specialist organisations providing financial education:**

- MaPS and other financial education providers need to consider how social taboos can be overcome to support young people and adults to talk openly about money with confidence. This can facilitate constructive conversations about the necessity and reality of using credit, and when to ask for help. Schools are often tasked with financial education, but have a crowded curriculum and there are other options:
  - o MaPS and financial education providers could further explore what targeted marketing and signposting is needed so that young people can find financial education resources easily.
  - o MaPS could explore developing measures to badge financial education content as a trusted resource.
  - o Young people suggested mandatory, interactive, and memorable financial education in schools around credit and debt, including mobile phone contracts and student finance.
  - o Young people suggested that financial education might benefit from being given in a community or social media setting where people can share their experiences with others and receive financial guidance on best practices around credit use.
- Young people want to see social media and gaming better used to make financial education more attractive:
  - o Social media can communicate key messages to target different groups of people at different life stages to promote better borrowing.
  - o Interactive, face-to-face events for those who want to improve their financial well-being and increase their motivation for good money management, including the use of 'good' credit and 'bad' credit.
  - o Use gamification or create a simulation platform to teach money and credit management risk-free.

4. **The Government can address broader financial policies around income and spending, to tackle factors beyond young people's control, which make managing credit more difficult. Some young people spoke about external challenges that made budgeting very difficult, despite their good financial capability and effective money management. Greater certainty, and support, were called for to meet essential bills such as the cost of housing and utilities to avoid the use of credit. For example:**

- Apprentices and young people employed aged 23 and under should receive a National Living Wage to reduce their need for credit and open greater work opportunities to them.
- Introduce and advertise a social utilities tariff (for example, for credit products such as phones and other essentials like energy) to support those on low to moderate incomes, using existing models such as broadband social tariffs.
- Young people called for rent controls to protect renters from unaffordable rent increases across the sector, which led to taking on too much debt.

  'If I were to see this [recommendation] go ahead I think I would cry. I can't stress how important it is for young people to get a fair start to life when it comes to credit and finances.'

abrdn Financial Fairness Trust funds research, policy work and campaigning activities to tackle financial problems and improve living standards for people on low-to-middle incomes in the UK. It is an independent charitable trust registered in Scotland (SC040877).