



# Sizing the UK Near Prime Credit Card Market

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## ***Introduction and purpose of this document***

Last year PwC was commissioned by NewDay to complete a consumer survey to estimate the size of the UK near prime credit card market. This document summarises the key findings of that survey and describes the methodology by which it was conducted. In addition, we completed further analyses to help gauge the accuracy of the results, by comparing the survey results with other available information. The results of these analyses are also summarised in this document.

## ***What is the near prime unsecured credit card market?***

Following the financial crisis, mainstream lenders<sup>1</sup> tightened their lending criteria. This was a contributory factor in increasing the number of people in the UK who may find it difficult to open a credit card with a mainstream provider, but are not considered sub-prime<sup>2</sup>; we refer to these individuals as near prime.

There is no commonly accepted definition of near prime. Therefore, for the purposes of this study we have defined three different groups of consumers in the market, albeit with some overlap between the groups which the analysis in this study has then adjusted for.

The first group is those consumers who already hold a near prime card and are therefore part of the existing market. For the purposes of this study, these products were limited to those with a typical APR between 29.9% and 39.9%.

The second group is consumers who have specific characteristics that suggest they are likely to only be able to obtain a credit card from a near prime lender should they choose to apply for one today. We have defined these characteristics to fit at least one of three broad categories, these are consumers with:

1. A thin credit history<sup>3</sup> (for example they may not have had credit before); and/or
2. An adverse credit history<sup>4</sup> (for example they may have had a limited number of missed payments), and/or
3. Another constraint which prevents them accessing mainstream credit (for example they may have inconsistent address history or a low income).

Finally, we consider a third group of consumers who perceive that they are near prime, irrespective of their actual credit status, and therefore they believe that they are unable to access credit from any mainstream lender.

The total targetable market is therefore the sum of these three groups adjusting to remove any overlap. In addition, in order to be included in the near prime market, these consumers need to meet the eligibility criteria applied in NewDay's own brand credit policy. These are consumers that could be targeted for a near prime credit card based on their characteristics. However, only a subset of this targetable market will have a propensity to then choose a near prime credit card (for example some consumers with near prime credit characteristics may choose not to take credit at all).

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<sup>1</sup> Mainstream lenders refers to high street banks and building societies

<sup>2</sup> Sub-prime refers to customers that have a credit history which would make them ineligible for credit from either a mainstream/prime provider or a near prime provider, typically as a result of an individual's employment status, annual household income or a recent adverse credit history

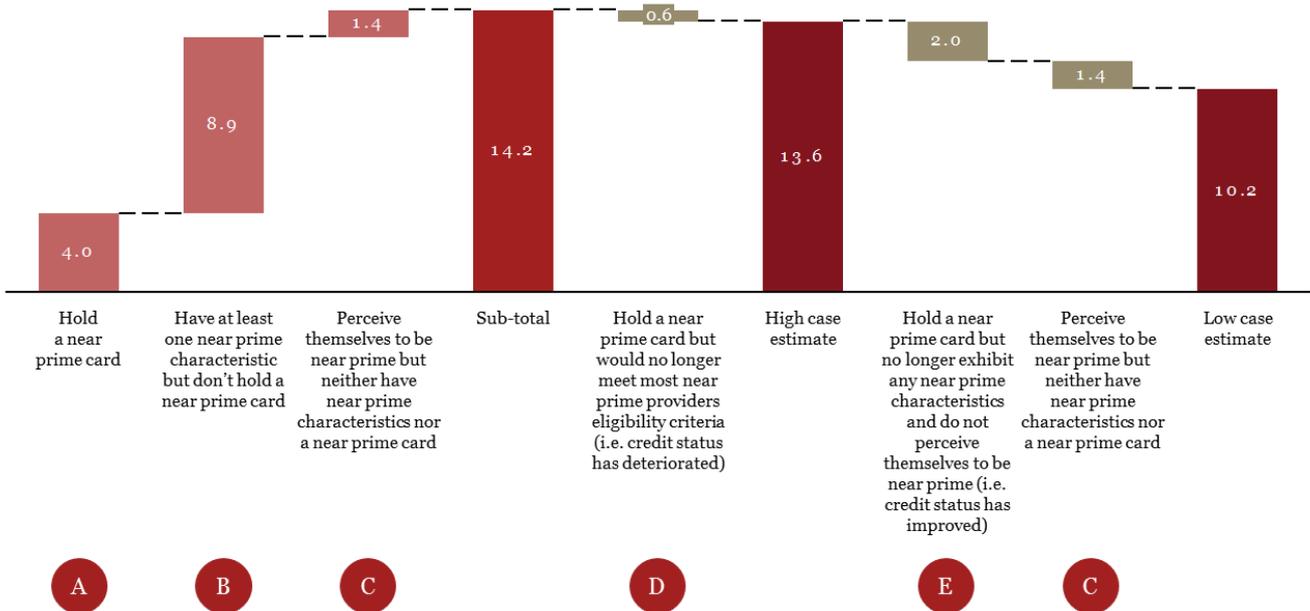
<sup>3</sup> This group would include customers who have recently turned 18 years old, have recently moved to the UK or have never applied for credit before

<sup>4</sup> This group has an adverse credit history, but would still be accepted under typical near prime lenders' credit policies. This would include customers with a limited number of the following blemishes on their credit history: arrears, County Court Judgements ("CCJs"), missed payments, voluntary arrangements or a history of indebtedness

## Key findings

The targetable UK near prime credit card market is estimated at between 10.2 and 13.6m consumers. We analysed each of the three groups of consumers that comprise this study's definition of the near prime credit card market (see previous page) as shown in Figure 1 below. Layering up each distinct group and adjusting for overlap between them provides an indicative market size estimate of people that could be targeted by virtue of their characteristics (irrespective of their propensity to actually apply) for a near prime card.

Figure 1: Consumer survey results extrapolated to the UK adult population (Number of adults: millions)



Based on this analysis we estimate:

- A. c. 4.0m consumers in the UK hold a near prime credit card today (“current stock”)
- B. c. 8.9m consumers do not hold a near prime card, but exhibit characteristics associated with the near prime market (for example an adverse credit history)
- C. c. 1.4m consumers who neither hold a near prime card nor have near prime characteristics, but perceive themselves as not being able to access credit from mainstream providers
- D. c. 0.6m consumers who hold a near prime card but would no longer be eligible for a new near prime card today, as their credit status has deteriorated
- E. c. 2.0m consumers who hold a near prime card, but would now be eligible for a for a prime card as their credit status has improved

The analysis above does not include any propensity analysis to gauge a consumer's likelihood to take a near prime credit card (which would be a subset of the totals mentioned above), instead it is focused on eligibility and customer status from a purely credit policy perspective.

As a cross check, we performed a separate analysis to estimate the targetable market, using the Experian ConsumerView database. This analysis showed that that there are c. 10.7m consumers with a credit score which is within the same range of the majority (80%) of the consumers who have opened accounts with NewDay in the last 3 months. This result is broadly consistent with our market sizing estimate above

## Consumer survey methodology

Our primary means of sizing the market was through a bespoke consumer survey conducted in June 2015. This was an online survey consisting of 26 questions, in which respondents were asked to select an answer from a list of potential responses. These responses enable us to identify which respondents have the characteristics, perceptions and/or propensities that fit our near prime unsecured credit card market definition and therefore indicate whether or not a respondent could be included in the targetable market estimate.

To give a statistically representative sample<sup>5</sup>, c. 3,000 people were surveyed; the approach taken to recruit participants was designed to be representative of the total UK adult (18+) population by age, gender, household income, location and length of residency in the UK. Each response was quality assessed and removed from the sample if it appeared the survey was answered incorrectly (for example respondents that completed the survey too quickly or choose the first response to each question were removed).

Since the survey was representative of the UK population we were then able to extrapolate the results to the UK population. In this method we took Office of National Statistics data on the UK adult (18+) population so as to be comparable to our survey population. Our analysis therefore assumes that if a certain percentage of survey respondents exhibited a characteristic, the same would be true of the UK population (for example if 16% of survey respondents have never applied for credit before, in the analysis we assumed 16% of the total UK population would not have applied for credit).

In addition to recruiting a representative sample we also compared the survey results to other available empirical data sources<sup>6</sup> to test their validity in terms of the results that the survey produced. A summary of this comparison is shown in Figure 2 below.

**Figure 2: Results validation – Survey results versus other comparable metrics**

Characteristic / Criteria	Survey result		Comparative result (% of UK adults)
Employment status: Unemployed	4%	4%	ONS: Proportion of 18+ population unemployed
Credit history: Don't currently own a credit product	16%	18%	PwC, Precious Plastic Survey: Proportion of people that have never had debt
Payment arrears: 3 to 6 payments missed in last six months	8%	7%	BIS: Proportion of population 3 months in arrears
CCJ: 2+ years ago / 1+ year ago and no missed payment	2%	3%	The Money Charity: CCJs in last 3 to 5 years / total UK adults
Indebtedness: Often worry / serious concerns about debt	5%	6%	Mintel: Proportion that are very uncomfortable with debt
Household income: <£8,000	7%	4%	DWP: Proportion of UK households with equivalised <sup>7</sup> income <£8,000
Bankruptcy: In last 2 years	3%	1% - 6%	The Insolvency Service; BIS: Bankruptcies in last 2 years / total UK adults; Households involved in formal action on debt

<sup>5</sup> Statistically representative sample refers to a sample with a greater than 95% confidence level with a survey sample of 3,000 respondents and an adult population of c. 51m people

<sup>6</sup> These data sources included both publically available sources and proprietary data of PwC and NewDay

<sup>7</sup> Equivalised refers to adjusting household incomes for those households which are smaller or larger than average so that they can be directly comparable. Our survey results do not make this adjustment, therefore these results are not completely comparable



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