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NEWS RELEASE

Interest Rate Rise To Have Little Impact On Consumers

Research shows drop in income will hit harder

London (7 November 2006): Although 23 percent of UK mortgage borrowers believe they will face real financial difficulties if interest rates rise later this week as predicted, their fears are not entirely justified; in fact, just 1 percent would be affected. In contrast, job loss is potentially a far greater threat, with a quarter of all households (27 percent) at risk of falling into difficulties if the main earner loses their income for a month or more.

These findings are part of a report published by the Personal Finance Research Centre at the University of Bristol. The research, supported by Genworth Financial, was launched today in Westminster at a meeting attended by political commentators and representatives from a wide range of stakeholders. The research is an in-depth analysis of data gathered through 45-minute interviews with more than 5,400 people for the Financial Services Authority's (FSA) baseline survey of Financial Capability, which was published earlier this year.

The new study investigates how many people would be at risk should they face an economic shock. It looks at the possible effects of increases in expenditure, such as the recent rise in fuel bills and the 0.5 percent increase in the Bank of England base rate, and also the significant drop in income that would result from the main wage earner losing their job.

Key findings of the research are:

Almost 60 per cent of the UK population seem financially sound and a further 25 percent of people are “managing reasonably well” financially. Just under 10 percent of the population show signs of financial stress, yet members of this group seem to be burying their heads in the sand as many of them consider that they are living within their means. Many of them have heavy unsecured credit or mortgage commitments. Two further groups are clearly struggling financially and falling into arrears with their commitments: 6 percent mainly because they have low incomes and a further 2 percent because, although they have average incomes, they are over-indebted.

Interest rates

- Mortgage borrowers were asked how they would make ends meet if their mortgage repayments went up by a tenth – representing the 0.25 percent increase in August 06 and the widely predicted increase in November 2006. Although 23 percent of mortgagors feel they would begin to have real financial difficulties, modelling showed that only an additional one percent would actually be affected. Those at greatest risk are young home buyers and people with large mortgage commitments.

Fuel Bills

- Between July 2005 (when the survey data was collected) and October 2006, six energy suppliers have raised prices by between 23 and 49 percent. In view of this, the study investigated the likely impact of a 40 percent increase in expenditure on fuel. As might be expected, such increases bear most heavily on the very elderly and people with the lowest incomes. In contrast, most of the population will be able to accommodate them in their household budgets.

Risk of Income Shocks

- 28 percent of the UK population has experienced a major income shock in the past 3 years. The most common strategy to deal with an income drop is to cut back on spending and half of the people affected have done so. A third of the people who had experienced a large fall in income had subsequently fallen into arrears with household commitments.

Job losses

- 27 percent of the UK population are at very high risk of falling into difficulties if the main wage earner loses their income for a month or more. This group did not have savings that would replace lost earnings and respondents indicated that they would need to borrow to make ends meet or would be unable to pay their creditors.

"Lenders and insurers need to share responsibility for ensuring the long-term financial security of our customers," said David Lane, Genworth's regional manager for Western Europe. "It is only through a deep understanding of the financial burdens borne by a considerable proportion of the population that we can develop useful safety nets. These are important today but will be vital if economic conditions worsen."

"We hope that this study will stimulate the development of practical policy solutions for the worsening personal debt exposure in the UK, based on a robust partnership and dialogue between the Government and the financial sector."

Elaine Kempson, Professor at the Personal Finance Research Centre at the University of Bristol said: "This study shows that losing your job represents the biggest risk to someone's ability to make ends meet and nearly three in ten adults in the UK would be in serious difficulty if they lost the main wage in their family. We need to raise awareness of the dangers of living for the day and not planning for the future"

"Although increases in fuel prices and mortgage interest rates represent much less of a risk for most of us, a minority of people will be hit hard. It is important, therefore, that we focus on ways of helping those who are most vulnerable. That means supporting initiatives to tackle fuel poverty among the poor and very elderly, while making potential home buyers aware of the dangers of over-borrowing "

More detail on the findings

Londoners are at the greatest risk of being damaged by an income shock. The likelihood is higher amongst younger and/or poorer people, and those without educational qualifications. Single people, or households with only one earner, are more likely to face difficulties in the event of a job loss. Tenants run a higher risk than homeowners.

The 23 percent of mortgagors who fear they will face financial difficulties if the interest rate goes up by an additional half a percent are disproportionately aged under thirty, on middle incomes, and living in London or the South West.

In contrast, those most adversely affected by the recent fuel price increases are in the poorest fifth of households and the very elderly.

In addition to the one in twelve people already in financial difficulty, the report also identifies further one in ten adults in the UK who are showing signs of financial stress. These people are always overdrawn, and tend to borrow on credit cards to pay bills. They also tend to have large amounts of unsecured credit and mortgage debt, and no savings to fall back on. Despite all this they tend to believe that they are living within their means.

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About the research

The research, supported by Genworth Financial, was undertaken by Professor Elaine Kempson and Adele Atkinson at the Personal Finance Research Centre, University of Bristol. It is based on secondary analysis of data from the FSA's baseline survey of Financial Capability.

The FSA financial capability baseline survey carried out in 2005 showed that large numbers of people did not have adequate provision to deal with a substantial drop in income. This latest research provides a detailed analysis of the groups most at risk. It has tested the effects of job losses, an additional 0.50 percent interest rate rise, and substantial increase in fuel bills.

About Genworth Financial

Genworth Financial, Inc. is a leading insurance holding company, serving the lifestyle protection, retirement income, investment and mortgage insurance needs of more than 15 million customers, and has operations in 24 countries. For more information, visit www.genworth.com.

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