



Genworth®
Financial

WHAT IS DRIVING OPTIMISM AMONG 'STRIVERS' IN GREAT BRITAIN?

THE GENWORTH INDEX

November 18, 2009

BACKGROUND

In the third wave of the Genworth Index, which tracks financial vulnerability across 14 countries in Europe and now for the first time, the US, the Index score for Great Britain shows an improvement on 2008. Despite this improvement, the balance remains tipped towards relative financial vulnerability in 2009, and is still some distance from its baseline score in 2007, when Great Britain as a whole was experiencing relative financial security.

The improvement in the Index score since 2008 is explained almost entirely by the shrinkage in the size of what the index terms, the 'financially vulnerable' segment, from 22 per cent to 14 per cent. In contrast, there was negligible change in the size of the 'financially secure' segment. The proportions that were 'circumspect' were also similar in both years. It therefore appears that the increase in the size of the 'strivers' segment, from eight per cent to 15 per cent, was the result of a substantial net movement of households from the financially vulnerable segment.

The growth in the number of strivers hints at the underlying story for Great Britain. There was a substantial shift towards optimism, with 15 per cent in the 2008 survey expecting their own financial situation to improve in the next 12 months rising to 24 per cent in 2009. The number expecting their situation to get worse more than halved (from 36 per cent to 13 per cent). These changes are far greater than the average for all countries, and are unlike any other individual country in magnitude.

To a large extent, this redresses the situation in 2008 when the picture had been one of greatly heightened levels of pessimism since 2007 – far higher than any other country in proportionate terms. Notably, it also more than offsets the effect of a marginal increase in the proportions often or always experiencing difficulties. This was measured at 16 per cent in 2009 compared with 13 per cent in 2008 and 10 per cent in 2007.

In order to better understand what is driving this shift towards optimism, often in the face of continued financial difficulty, Genworth Financial commissioned Ipsos MORI Qualitative Hothouse to conduct a small qualitative study among UK consumers in the 'Striver' category, in order to understand more about their personal situations and to explore their grounds for optimism.

The Genworth Index identifies four distinct groups:

- **'Financially Vulnerable'**, comprises people who have been experiencing financial difficulties often or all the time and who feel that their situation is unlikely to improve.
- **'Strivers'**, is a relatively small group of people who tend to have experienced financial difficulties relatively frequently but who now feel more confident (that is, they are expecting their situation to improve). These individuals are neither financially vulnerable nor financially secure.
- **'Circumspect'**, is a large group who have not often experienced difficulties, if at all, and who tend to expect their situation to remain the same. These individuals are, again, neither financially vulnerable nor secure.
- **'Financially Secure'** is made up of people who have rarely or never experienced financial difficulties, and who expect their financial situation to improve.

A typical striver

Strivers are generally people who are struggling financially much of the time but expect their situation will improve in the near future. They may be in unskilled work or may have recently lost their job. They will generally be living in rented accommodation and despite recent financial difficulties are managing to keep up with bill payments. A striver may not have any savings, and prefers to spend rather than save.

METHODOLOGY

The study comprised 29 telephone interviews at the end of October 2009 with consumers drawn from Capibus, an omnibus survey conducted by Ipsos MORI across the UK.

The respondents were drawn from 51 respondents who had agreed to be interviewed by telephone who had answered two Capibus questions positively. The questions were:

Q: "Thinking about the general financial position of your household now, how often do you experience financial difficulties?"

They all answered: ALL THE TIME, MORE OFTEN THAN NOT or SOMETIMES

Q: "Looking ahead over the next 12 months, do you think the financial position of your household will improve, stay the same or get worse?"

They all answered: IMPROVE

THE SAMPLE

We did not impose any quota on who we interviewed. Given the small number of respondents and the limited time in which the survey was conducted, we interviewed anyone who was willing to take part. The quantitative data from Capibus shows that those who experience financial difficulties at some time but are expecting their financial position to improve come from a wide range of backgrounds. And our qualitative sample too covered a wide range of people from school students to pensioners all over the country. They also had a considerable spread of jobs and educational attainment ranging from manual labourers to PhD holders.

ABOUT IPSOS MORI

Ipsos MORI is one of the largest and best known research companies in the UK and a key part of the Ipsos Group, a leading global research company. With a direct presence in 60 countries our clients benefit from specialist knowledge drawn from our five global practices: public affairs research, advertising testing and tracking, media evaluation, marketing research and consultancy, customer satisfaction and loyalty.

KEY FINDINGS

The research showed that although 'strivers' answered the two key questions in more or less the same way, they are clearly not a uniform group in terms of the factors driving their optimistic expectations for the future. The reasons people expected their situations to get better ranged quite considerably.

Notably, it appears to have been factors relating to households' own circumstances that predominated, whether these related directly or indirectly to the economic factors or to personal circumstances more generally. For example, people talked about aspects of their work or job prospects, indirect effects of the recession on their ability to manage money or a child moving into full-time education. In contrast, perceptions about the wider economy featured far less. Also interestingly, respondents' expectations tended not to be consistently driven by media coverage on recession or recovery.

Overall, the reasons for feeling optimistic about the next few months appear to have centred on five key themes. The first three appear to relate directly or indirectly to the economic climate.

Work prospects

Some participants had recently moved into work or were about to do so, or had moved to a more secure job. The new income this would bring or was already bringing would enable them to make ends meet far better. Another group who had yet to make the transition into work were hopeful that the new skills and qualifications they were pursuing would bring them a new job or a higher paid job in the near future.

The optimism described by others who were already in work (employees and the self-employed), stemmed from an influx of new contracts or new employees having been hired recently and the promise of a bonus. This followed lighter workloads, redundancies and a four-day week having been imposed.

Money management

A few participants discussed having reduced their outgoings, particularly spending on discretionary items in recent months, while others discussed having made a concerted effort to pay down their borrowings. This made them feel better equipped to manage their finances in the future – both in terms of applying their newly acquired money management skills and in terms of reaping the benefit of the savings they had made in the coming months.

The wider economy

Related less to the households' own circumstances, some people (but not all) appeared to be feeling more optimistic because of more positive news stories in the media, including that retail prices were still coming down, although others felt that prices were going up.

Personal circumstances

Some people foresaw improvements in their economic situations in the coming months arising from an anticipated change in other aspects of their lives, such as the arrival of a baby; children going into full-time education; and a move to more affordable accommodation. One additional person anticipated receiving some financial compensation in the next few months.

Disposition

Finally, as we might expect, a few people described an innate optimism or a personal philosophy of looking on the positive side.

STRIVER STORIES

REASONS TO BE CHEERFUL

The central question that the research wanted to answer is why if this group has been experiencing hard times financially, is it expecting things to improve in the next 12 months?

Here there is no one answer. Consumers themselves were very varied in their backgrounds and circumstances, and accordingly gave a number of different reasons for expecting things to improve.

Personal Circumstances

Perhaps the largest group are people who are expecting a change in their personal circumstances that does not directly relate to the economic situation. A lot of this revolved around the presence of children in the household in more than one way. For one household, where both partners were unemployed, the prospect of a baby meant that their income from state benefits would go up when the baby was born.

For a couple of other households, where the children were a little older, it was the prospect of all their children being in full-time education that held out the possibility for the mother to find a part-time job which would help the household income.

For others it was the resolution of longer-term issues, for example the woman who had always struggled with her finances (before the recession too) as she had not worked for three years and was reliant on benefits. She had reached an amicable agreement with her ex-husband that he would take over the house and the mortgage while she would rent a property and get assisted help from the Council with her rent and Council tax. It is this housing situation which makes her feel optimistic for the future.

A Secure Job

Several of the respondents in work felt reassured that their job was secure. The university researcher, for example, had recently secured research funding for the next three years and felt more secure working in the University sector rather than in industry. Now that he had completed his PhD he was also hoping to earn a higher income in the future.

Having a secure job counted for a lot even for a respondent who felt that the recession might get worse before it got better:

"I don't think the recession has peaked yet, but I feel more positive because my employer is taking on new employees (who were previously made redundant) so I feel I have job security." Single Mother 25 Fife

This theme of companies having more work and employing more people was mentioned by two or three people:

"I think my job is very secure. The firm is pretty confident that we have got new contracts for the next three years secured. I am very good at my job and work as hard if not harder than others who work there." Working Female 40 Devon

Although this was most apparent with employees, it was also true of some of the self-employed respondents. For example, one self-employed truck driver expected more work from a large haulage company that had expanded by buying up a number of smaller firms that had gone bust in the recession. The haulage is largely for supermarkets which are becoming busier over the Christmas period so his optimism was grounded in that fact that:

"We're busy now and getting busier." Self-employed Male 51 Cambridgeshire

But as well as enjoying the security of a job, some consumers are even beginning to hope that they may earn more money in the near future:

"I hope things will improve but you can't predict what is going to happen. Who knows what will happen?" "We have been promised a small bonus at the end of the year and will usually get a pay increase in January." Working Female 39 Peterborough

Better Employment Prospects

For the many respondents who were unemployed, the main aim was to find a job and here quite a few of them seemed quietly optimistic that they would find a job in the near future. One of the students for example was due to start a part-time (two hours a week) cleaning job on campus shortly and for this reason felt that her financial position would improve slightly.

"I feel my financial situation will improve by getting a well-paid new job." Unemployed Female 38 Swansea

Another respondent's partner had now found a job which meant that their income had risen substantially:

"Before what we were spending was more than what we were earning and now what we're spending is less than what we're earning so slowly but surely we'll, hopefully, get back some of the money we've spent. We are currently paying off about £200 per month." Working Female 27 Newcastle

Whilst some of the unemployed respondents were using their time usefully to gain additional qualifications, which they hoped would help them get a job in the future:

"I am doing an English and Maths course, which is due to end soon and then I hope to do a plumbing course at college." Unemployed Male 27 Leicester

And for one of the older women who was currently unemployed, there was always the reassurance of her retirement pension only a year away:

"In 12 months time I will get my retirement pension and my work pension or I will have found another job." Unemployed Female 59 Manchester

Great Expectations

A few consumers were in some sense waiting for something specific to happen that they knew would have a beneficial impact on their circumstances.

"I am an only child, so I probably expect to inherit my parent's property at some point." Working Male 40 Devon

Another respondent who had lost his job as a result of an industrial accident was waiting for compensation for the injury, but knew that this might take some time. He had also been recovering slowly and expected to be ready to apply for a new position next year.

POSITIVE IMPACT OF THE RECESSION

While personal circumstances in many cases drove optimism, there were three main ways in which the economic downturn had benefitted people – the first was lower interest rates, the second lower VAT rates and the third, partly helped by the first two but not exclusively, had been a personal focus on reducing debt and putting the household finances on a more even keel.

Lower Interest Rates

This was primarily of value to people with variable rate mortgages, who had really noticed the difference in their monthly payments:

“My mortgage has just come off a fixed rate so I have therefore benefitted from a lower mortgage rate - it's about one third cheaper than my other one.” Unemployed Female 38 Swansea

“It sounds awful really, but with the recession... it's brought the interest rate on the house down that much it's meant we've got back on our feet a little bit, without having to live like paupers. So it's worked to our advantage to a certain extent. With having spare money, we've been able to actually do stuff and pay money off, rather than doing one or the other.” Working Female 27 Newcastle

And the lower mortgage interest rates could benefit people who didn't actually have a mortgage themselves, like the young woman whose mother had taken out a loan for her:

“My mum took out a loan for me against her mortgage. It's her mortgage, but it's my loan and because the interest rates are so low at the moment it's coming down quite nicely.” Unemployed Female 30 Hertfordshire

VAT

The same young woman also mentioned that the reduction in VAT had been useful for the household finances:

“The VAT they took off was quite nice, that does help when you're shopping... not a lot but it does help you to save a bit. That's been quite a good thing that they did.” Serial Unemployed Female 30 Hertfordshire

But quite a few respondents felt that the VAT cut had not had a noticeable effect on their household spending because it did not make very much difference to prices, though initially the price reductions had been attractive: *“Last Christmas when I went shopping it was like ‘Wow yeah this is cheaper than it says on the shelf’. But it's only pence, so I don't think that's made a difference.”* Single Mother at Home 35 Nottingham

Controlling Household Finances

One impact on a number of households of the recession itself and of their own changed personal situations (unemployment, reduced working hours etc.) was that they had often started to rein in their spending and were working much harder on managing their household finances.

Sometimes it was just reducing expenditure a little. For example, one consumer reported that she was generally more careful now with money and thinks more about the necessity of her outgoings although she has not cut back any regular outgoings:

“We go out less to eat in restaurants and now find ourselves eating at friends' houses and our friends eat at our house to save money.” Working Female 39 Peterborough

Sometimes it had prompted more drastic change, in particular reducing outstanding debts:

“It made us think more. We spend a bit more wisely now. We spend on different things now... We used to have quite a few credit cards with money on all of them, now we have cut it down to one credit card for emergencies. We paid off £100 on one or £50 on another so that every week we finished it off a little bit. Now we only have one card which we stick to and we don't want any more cards ... They are just a headache really...when you have a credit card sticking out of your wallet you know you're going to spend it.” Mother at Home 27 Yorkshire

And for a few respondents, the recession and the resulting change in circumstances had prompted a beneficial re-think of what they wanted to do:

"I feel that my husband losing his job has made him reassess what he wants to do regarding his future employment/ career. He has now re-trained as a plumber, something he would not have done if he were still employed as a builder." Working Female 35 Essex

NEGATIVE IMPACT OF THE RECESSION

While respondents may have been optimistic about the future, a number felt that the recession itself had only had negative effects on their lives:

"There are no positive benefits. The recession has increased food prices and utility bills further. And I am really struggling to pay the bills." Unemployed Female 43 Nottingham

"Things have got more expensive in the last couple of years and it's just a struggle sometimes. We have to be very careful and we have gone into our overdraft in the last six months, which we've never done that before. So we've found it quite difficult to pull ourselves back, but we've just done that now." Mother at Home 35 Nottingham

As we have mentioned a number of the respondents had lost their jobs and were unemployed. Although they were looking for jobs, they found that not only was it much harder to find a job, but that rates of pay have been affected too:

"It's all negative. I lost my job and although I am optimistic about getting another job, the hourly rate for the job I am looking for has dropped considerably because of the number of people looking for work. Employers are taking advantage of the high numbers of unemployed by lowering the pay rate." Unemployed Male 46 Scottish borders

PERSONAL EXPERIENCE OR MEDIA SPIN?

The most positive reason for feeling good about the future is that your personal situation has improved, but this is not the only reason people gave. Some had not yet got that elusive job or been able to pay off all their debt, but they were still more upbeat than might have been expected under the circumstances. For some that was a matter of their personal philosophy, whether based in religious faith or a positive disposition:

"I'm a very optimistic and positive individual and believe that my family will be able to live sufficiently come what may." Student Male 36 Manchester

"I'm a happy-go-lucky chappie." Pensioner Male 70 Grimsby

"Financial plans for the future? No, not really, I never thought of that, I take it daily as it comes." Unemployed Male 47 Bedford

Impact of the Media

The impact of news coverage appears to be mixed. On the one hand, despite his innate optimism, the pensioner quoted above felt that the media generally has been painting a fairly bleak picture:

"I think the media coverage has led people to be more negative. The more we read the more we seem to worry about it. I don't think it paints a rosy picture." Pensioner Male 70 Grimsby

However, other respondents picked up on the good news stories, which in turn made them more optimistic about the economy improving:

"I remember seeing a report on Sky News about the recession improving recently. I cannot remember the exact particulars of the story, but it has made me more optimistic and I think the economy will recover in the summer of 2010." Working Female 39 Peterborough

"You hear and see things and what have you...Prices seem to be coming down but obviously it's going to take a long time." Working Male 33 Leicester

But the conflicting messages can just add to the confusion, leaving one respondent unsure what to think about the economy on a macro level, even if she is optimistic for her personal future:

"On the national news, at least twice a week, you here there's more job cuts, more job losses and yet they're telling you that there's jobs out there. You kind of wonder how there are jobs out there when they're saying there aren't and all these people are unemployed." Unemployed Female 30 Hertfordshire

FORECASTING THE END OF THE RECESSION

Asked to say when they thought there would be a full economic recovery, the respondents were divided. The majority felt that it was likely to be sometime in mid to late 2010. Quite a few felt it was more likely to be in 2011 or 2012 and one or two pessimists thought it might take four or five years. There were also a number of people who just felt that it was too hard to predict at all.

A CLOSER LOOK AT FINANCIAL DIFFICULTIES

There are several reasons why people are having financial difficulties, some related directly to the recession but as with their expectations, others primarily linked to people's personal circumstances. Looking just at the reasons for their financial difficulties, we can group the consumers into clusters – students, pensioners, the unemployed, households on a single income, mums at home, the self-employed, people with jobs hit by the recession. These are clusters rather than clear-cut groups since households could include one or more of these types of person. For example one woman interviewed was self-employed but her husband had also been recently made redundant.

Unemployed

About a quarter of the sample we interviewed were currently unemployed and quite a few of them had been made redundant during the current recession. But others among the unemployed had not worked for some time or had a chequered working history. And there were also those who could not work – one respondent was on disability benefit for example, while another had lost his job as a result of an industrial injury.

Households on a single income & mums at home

About a third of the respondents attributed their financial difficulties to having just one earner in a normally two income household or were single mothers. As one single mother explained:

"I am finding it a bit difficult not have a job and living on benefits. It is affecting the whole household." Unemployed Female 30 Hertfordshire

For some the lack of work was just a temporary experience, for example the retail manager who was on maternity leave and planned to go back to her job in the near future.

For others it was a new experience, like the man who had previously shared mortgage payments with his wife, but was now separated and living in rented accommodation and found that his finances were constrained:

"I have to categorise things now, what things are more important than others. For example, I've had to cut back on paying household bills, food and petrol and I also go out and socialise less now than I used to." Working Male 40 Devon

Self-employed

People who are self-employed are used to ups and downs in their income, so not everyone blamed the recession for a decline in their income, but it had made an impact on the three or four respondents who were self-employed. One consumer, for example, had two self-employed jobs as a Holistic Therapist and as a Marketing Consultant, but she had noticed the impact of the recession on her and her family:

"I have less work now and correspondingly less income since the recession started. I am finding it difficult to pay bills and we can't afford treats for the family and there will probably be no holiday for us next year. So the financial difficulties are affecting the whole household." Working Female 35 Essex

Employed

Generally people in employment were less directly affected by the recession, but some of them worked in industries which had experienced a downturn. For example one respondent worked in advertising sales, where part of his income comes from commission, so he was finding things difficult:

"The market sector I work in is advertising sales. You get used to a certain level of income and a certain expenditure. The economy has changed somewhat, food shopping is going up week by week and fuel prices have risen too. We are having to make cut-backs and have three children so we have to re-prioritise our expenditure. Everyone is having to cut back and incomes have been frozen while bills continue to rise." Working Male 54 Sussex

Another respondent reported that while she felt her job was secure, she and her colleagues had accepted a four day week earlier in the year. Fortunately (and a reason for her growing optimism) this has now reverted back to a five day working week.

Retired

We only interviewed one retired person. Both he and his wife were pensioners and their pensions were their main source of income and they did not have any savings income. So they did find things hard at times:

"We do have to stretch it a bit [income from pension]." Pensioner Male 70 Grimsby

But this was the normal state of affairs rather than being something that had changed in any way with the economic downturn.

IMPORTANCE OF FINANCIAL SECURITY

SOMETHING EVERYONE WANTS

With only a couple of exceptions, all of the respondents felt that financial security was important to them, but they mostly had fairly short-term definitions of what was meant by financial security:

"It is having enough money to do the things you need to do and having enough money to pay your outgoings."
Mother at Home 38 London

"It means that me and my family have got enough money to keep ourselves solvent and all outgoings can be met."
Unemployed Male 32 Manchester

Only a few had more long-term views of financial security and the need for savings, but that was more often aspirational rather than realistic:

"It can't buy you happiness, but you need money to get places and to get the things that you need to get to a career." Student Female 17 Kent

"You should always have money behind you, for situations like this (husband has been unemployed since June). I had some savings but used them now." Unemployed Female 45 Angus

The two most important ways of achieving financial security seemed to be have a secure job and a foothold on the housing ladder and a number of the respondents currently had neither:

"For me getting a new job is the priority. Secondly, as we are tenants I am looking to buy the house we live in from the Council and then I am hoping that one day the house price will increase. I do not have a pension scheme currently and I view a house purchase as my best investment opportunity for the future." Unemployed Male 46 Scottish Borders

Ownership and Interest in Protection Products

Only two of the 29 respondents interviewed actually had a protection product, one respondent, a working woman only recalled that she had some type of payment protection for her mortgage when prompted by the interviewer but she was unsure of the cost or specific details of the policy and even what it covered her for. The other respondent was more clued up on the cover that he had, even if he was not very happy to be paying out for it:

"I have an accident/ health / redundancy insurance policy from Sun Alliance that costs £30 per month and I have had this policy for two years. I see it as a necessary evil. You feel you have to have it because you never know what's around the corner." Working Male 54 Sussex

One other respondent had once had an "income protector on a life insurance policy many years ago" which had cost him between £60 to £80 a month but he had found it too expensive. He would not consider such a policy now as he has "other priorities".

Other respondents were more interested in the idea when suggested by our interviewers, but generally this was not something they knew about, or in many cases, could afford.

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COMPANY OVERVIEW

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