



A flight to quality

At the beginning of the current economic crisis, it was consumers who sought safety. As the banking system collapsed around them, savers heavily disinvested from all but the safest equities and sought assurances about the protection of their savings deposits. However, as the economy deteriorated further, it became the providers' turn to worry. The size of the debt overhang and rising personal bankruptcies prompted a greater focus on the most affluent financial consumers – as lower-risk lending options, an effective source of capital and good cross-sales targets generally.

The HMRC estimates that the top one per cent of the UK population holds 21% of the wealth. This niche group, popularly termed the High Net Worth, has complex needs and its members are usually serviced via specialist personal relationships and niche brands. However, the ten per cent of the population below the High Net Worth, typically known as the Mass Affluent, are also very attractive, accounting for a third of all wealth. These consumers hold and use all types of financial products, from savings and credit to financial planning and insurance.

The Mass Affluent then represents a relatively small segment, identifiable by its wealth and heightened product need. A need reflected in both the greater number of products taken out, and their higher values - whether saving levels, credit



balances or insurance premiums. At the same time, and particularly importantly, they also appear less risky than the general population. It is hardly surprising therefore that so many financial services providers are building product and communications strategies to attract the 'Mass Affluent' customer. We believe that this focus is, if anything, likely to increase over time.

An easy target?

However, this is not as easy a target as it might appear. Firstly, the Mass Affluent is not an entirely homogenous group. Affluence comprises both an

income and an asset dimension and hence there are two types of Mass Affluent: those who are higher earners - the Income Affluent – whose income is over £50k, £75k or £100k, depending upon choice of definition, and those who have accumulated a large pool of liquid assets - the Asset Affluent; again typically defined as holding more than either £50k, £75k or £100k in liquid assets. HMRC data shows that, on average, over half of an individual's wealth is in the form of property. However, for most this is also their main home, and as such the value of the asset cannot easily be realised; hence the definition is usually stated in terms of liquid, rather than total, assets. Data from GfK's Financial Research Survey (FRS) suggests that the profile and behaviour of high earners, who also have a high value

of holdings, is much more like the Income Affluent than the Asset Affluent, and so we tend to view just the two groups: Income Affluent and Asset Affluent.

There are between 400,000 and two million Income Affluent, depending upon the minimum income definition chosen. The group conforms closely to expectations. The vast majority are working males, the majority of whom had a university education. In contrast, the 1.7 – 2.6 million Asset Affluent divide into two groups. One group are simply an older version of the Income Affluent, post-retirement – their income has fallen, but they have significant accumulated wealth. The other group however are less well-educated and have simply saved a higher proportion of their often-average incomes. They are also more likely to be female. So we can see that the Mass Affluent are not really one segment. Instead, there is a working lifestage high-income group and then an older asset-rich group, more likely to be retired and split into those who were previously top-decile earners and just as many who weren't.

Bricks and Clicks

Providers will need to be clear which of the two Mass Affluent groups they are trying to attract or retain. Given the increasing competitiveness of this market, and the divergence of behaviour and needs, a broad proposition is unlikely to be that effective. Instead, providers need to decide which sub-segment offers the greatest return on investment and develop the appropriate marketing and communications strategies. The Income Affluent are probably the easier to identify and are the more homogenous. They are also active across all financial markets – and as such are particularly appealing to the major banking groups. The question then is whether they are best attracted by



an overall segmented proposition, specific product propositions or whether they have to be brought in as undergraduates and nurtured.

The Asset Affluent, by virtue of their average age, tend to have more strongly established financial relationships. So the challenge here is how to attract them to a new provider. Interestingly, many of the Asset Affluent may not actually define themselves as 'Affluent'. While many of them will have enjoyed the rising prosperity of Great Britain over the years: home ownership, foreign holidays, driving a new car etc, they often have quite modest needs, do not frequently interact with providers and when they do so, prefer more traditional and conservative means. On the positive side, their balances are valuable and many are at an age when their insurance and financial planning needs will change and they are likely to welcome a traditional service proposition.

The quality, value and appeal of the Mass Affluent are clear, but clear to all all providers. Only a clear focus and well-defined propositions will yield the full benefits.

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