



Bridging gaps, building resilience

Executive summary

Supported by
JPMorganChase

Authored by

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About Nest Insight



Nest Insight is a public-benefit research and innovation centre. Our mission is to find ways to support people to be financially secure, both today and into retirement. We conduct rigorous, cutting-edge research, working collaboratively with industry and academic partners to understand the financial challenges facing low- and moderate-income households. We use these data-driven insights to identify and test practical, real-world solutions. Our findings are shared widely and freely so that people around the world can benefit from our work. For more information, visit: nestinsight.org.uk

About this report

Led by the research and innovation team at Nest Insight, this report introduces early exploratory findings from our programme of research and trials exploring ways to increase financial resilience among households on low, moderate and volatile incomes. A full set of outputs from this programme can be found at: nestinsight.org.uk/research-projects/financial-resilience/

About our programme partner

JPMorganChase

With a legacy dating back more than 200 years, JPMorganChase has a track record of demonstrating leadership during times of both economic growth and financial instability. The firm employs approximately 22,000 employees throughout the U.K. and is committed to operating a healthy and vibrant company that plays a leading role in advancing a sustainable and inclusive economy. The firm provides £600 billion in credit and capital to nearly 4,500 medium and large companies and supports over two million retail customers. At the same time, together with its non-profit partners the firm has supported over 33,000 low income households reduce their debt and improve their financial health, helped over 10,800 small businesses to grow their activity and placed over 9,800 individuals into apprenticeships or full and part-time employment. For more information, visit: jpmorganchase.com

About our strategic partners

The **BlackRock** Foundation

BlackRock is a global investment manager serving the UK market for more than 30 years with a purpose to help more and more people experience financial well-being. BlackRock's Emergency Savings Initiative is made possible through philanthropic support from The BlackRock Foundation. The initiative brings together partner companies and non-profit financial health experts to make saving easier and more accessible for low- and moderate-income earners across the US and UK, ultimately helping more people to establish an important financial safety net. For more information, visit: blackrock.com/corporate/about-us/social-impact



Nest was set up by the government to give every UK worker somewhere good to save, and aims to deliver long-term growth for members while carefully managing risk. It's now the largest workplace pension scheme in the country, with 13.7 million members. One in three of the working population has a Nest pension pot. By 2030, we expect that number to grow to half of the entire UK workforce. Nest's members benefit from an award-winning responsible investment strategy and one of the most diversified DC portfolios in the industry. By the end of the decade Nest will have close to £100 billion assets under management. For more information, visit: nestpensions.org.uk

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The Money and Pensions Service (MaPS) is an arm's-length body sponsored by the Department for Work and Pensions (DWP), established by the Financial Guidance and Claims Act 2018. It was setup to support the policy aims of DWP and HM Treasury (HMT) in relation to pensions guidance, money guidance, debt advice, and the improvement of financial capability from childhood through to later life. For more information, visit: maps.org.uk



Right now, more and more people are struggling financially. The cost-of-living crisis, massive increases in heating bills, and global events – whether it's children, caring for others, or just trying to manage on your own – make it hard to stay on track. You can have a plan, but it's the in-betweens, the unexpected repair or something that needs to be purchased, that throws you out of sync, that causes spirals. It's not a secret anymore – money troubles are everywhere... solutions matter. Not everything can be fixed, but these ideas that link to big issues affecting the majority of people in this country could help people move forward. However, they need to be simple, clear, and designed with real lives in mind.



Tracy

Experts in Action member

Background

For many households in the UK, an unexpected expense or loss of income can create outsized, long-lasting challenges. As well as having a negative impact on someone's position today, an event like this can also leave people with a bigger gap between where they are now, and where they want to be in the future. We know that not all of the options available to people support them to move towards their goals or closer to financial security. This is the core of resilience building – to meet a precarious financial moment with options that help you recover and progress, rather than being further set back.

This report reflects the findings of the first stage of our financial resilience project. What emerges from this work is a sense that many households' best efforts to manage shocks with the options currently available can leave them more vulnerable, more indebted, less able to save or stuck repeating patterns that don't help them prepare for the next shock. It also brings focus to the ways that, depending on their ethnicity, gender, age and other characteristics, some people are not only disproportionately likely to experience financial shocks, but may also feel less able to recover.

We explore solutions that have the potential to address some of the needs people expressed around finding ways to earn, save, spend and borrow in a way that allows them to bounce back after experiencing a shock, and start to hone in on the practical spaces where opportunities exist to support households on low, moderate and volatile incomes to feel more in control of their financial trajectories when they experience an unexpected expense or loss of income.

The findings from this stage of work will feed in to the exploratory quantitative research activities. While we have heard a diversity of experiences and needs, the quantitative component of the exploratory research will allow us to better understand the scale of some of the barriers and enablers to resilience that we heard, and better identify solutions with the potential to have impact at scale.



Defining and measuring resilience

Our definition of financial resilience is **the ability to weather present financial shocks and prepare for shocks that might happen in the future**. It's about individuals and households, and how the options available to them within the system can either take them backwards, keep them in a reactive cycle, or help propel them towards financial stability, depending on how they are designed and accessed.

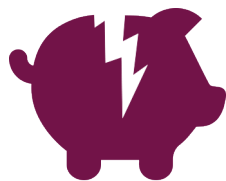
Who lacks financial resilience?

Certain groups are consistently overrepresented amongst those lacking the ability to move forward after a shock. These include **young adults, women, ethnically minoritised groups, renters, disabled people, those living in deprived areas, and households on low or volatile incomes**.

The scale of the resilience challenge

Using Nest Insight's measures of financial resilience, our analysis finds that millions of people in the UK live in households with low financial measure resilience and would struggle to manage both smaller and more significant financial shocks.

Resilience to small or moderate financial shocks



1.1 million working households on low and moderate incomes (nearly 11%) have **less than £250 in accessible savings**.¹

Resilience to larger income-loss shocks



A growing proportion of households who are struggling are those who are in work, and 1.4 million households on low and moderate incomes where the head of the household is employed **do not have enough in savings to cover more than a week of lost income**.

A further 1.7 million households **only have enough in savings to cover between a week and a month of lost income**.

¹ This measure of savings includes current accounts in credit, savings accounts, ISAs, National Savings, shares, insurance products and investments.

Bridges to resilience

We heard from the experts by experience and profession we spoke with that key factors that could contribute to improved financial resilience for households in the UK.

1 Recovery and control

For households, resilience is about how well they recover and the control they have over their journey after a shock. But shocks don't wait for you to recover before hitting again. Without the forward momentum of a solution that supports a good outcome – a savings pot that can be used and replenished, a timely and affordable loan, an emergency covered by insurance protection – most find it challenging to be 'resilient enough' should something happen again soon. As a result a series of even small financial shocks can create a ripple effect, quickly depleting emergency funds, increasing reliance on credit, forcing sacrifices in quality of life, and leading to significant emotional burden and relationship strain.

2 Past experiences and progression

Households and institutions need new ways to disrupt the patterns that drive low resilience. When people look into the future, they often just see the past repeating itself.

They envision the same kinds of challenges with debt, the same barriers to saving, the same uncertainty about whether they have the options they need today to be more resilient in the future. And, without a fuller picture of people's needs and how well the solutions currently available meet them, institutions and providers risk reinforcing that perspective. Might part of helping people build resilience be updating perceptions on both sides and building a system that addresses the issues that drive recurring challenges? As we discussed solutions with participants, we also heard how previous interactions with providers had left people feeling uncertain about whether their circumstances were well understood, and therefore whether they were being offered the right products or services for them.

3 Context and inclusion

Inclusively designed solutions have the potential to help people become more resilient and gain more control over how they save, spend, and borrow when they experience a shock. In this phase of our research, we heard how age, caring responsibilities, gender, ethnicity and culture, physical and mental health, life events, faith and household composition all contribute to people's experience of building financial resilience. When people don't find the inclusive solutions they need in a moment of difficulty, they are not just disconnected from mainstream products and services. They also face a widening gap between where they are the moment a shock happens and a positive financial outcome. There is an opportunity to provide solutions that better address the barriers and unmet needs presented by people's different life and financial circumstances.

Solution area

Needs to be addressed



Joined-up and hybrid solutions

such as joined-up borrowing and saving solutions, insurance and saving solutions, linked energy payments and savings.



- **Multiplying people's efforts**, combining multiple products or services in one place so that people can tackle multiple tasks at once.
- **Lightening the load**, bringing solutions together or sequencing them in a way that reduces the time and effort required.
- **Reduce the tension between today and tomorrow**, addressing underlying drivers of low resilience.

- **Build on existing behaviours**, especially related to saving and budgeting.
- **Start new financial habits**, by giving people options they may not have considered or previously had access.
- **Help people feel more in control**, by helping people prepare for future challenges.



Deposit and progression loans

such as childcare loans, deposit loans and deduction loans.



- **Making it safer and less costly to borrow**, through comparatively fair and competitive interest rates, and building flexibility into repayments.
- **Laying a foundation for future resilience**, by improving people's visibility as 'good customers' within the system, (e.g. improving a credit rating).
- **Softening the impact of other sources of financial vulnerability**, (e.g. poverty, disability and ethnicity premiums).

- **Help consumers make more informed decisions**, by improving how the cost of borrowing is communicated – especially for small-sum, short-term loans.
- **Minimise the impact of one-off or planned events** on their long-term financial wellbeing.
- **Peace of mind** that costs will be covered in a straightforward and manageable way allows people to make decisions without the background noise of scarcity.



Solutions for managing volatile incomes

such as variable recurring payments, flexed payroll linked savings, and planning solutions powered by open banking data.



- **Greater control and flexibility** over their routine spending.
- **Easier ways to save** in a way that matches earning rhythms.
- **Support with planning and budgeting around irregular pay** and reducing the mental load of managing a volatile income.

- **Choices** over pay frequency or flexible access to pay.
- **Options to borrowing that account for the reality of volatile incomes** and allow people to match their payments with their income.

In this report we explore three solution areas that have the potential to address some of the resilience challenges and needs people shared with us. They provide an initial starting point for exploring what a supportive system of options, products and services might look like (see page 6).

Building resilience will require an integrated and comprehensive system of solutions.

We have outlined a range of potential solutions that Nest Insight aims to explore further through continued research and real-world trials. They represent approaches and areas where we believe there is significant opportunity to better support households to manage financial shocks. However, we haven't covered every potential solution area, because there are many other organisations developing, piloting and implementing innovative solutions to address the range of resilience challenges facing households. These include:

- › Access to affordable credit.
- › Support to access government grant and other entitlements.
- › Innovative ways of assessing creditworthiness.
- › Insurance.

We have heard from the households in our exploratory research and experts by profession, and seen in our preliminary analysis that the picture of building financial resilience for those on low, moderate and volatile incomes is

challenging and complex. They shared with us how the experience of multiple income and expense shocks can make it harder to recover, and that intersecting vulnerabilities, such as those experienced by minoritised ethnic groups and women, mean that some households are even more at risk of being set back.

The central themes arising from this phase of the work:

1. **Building financial resilience can't just be about individuals working harder to bounce back after a shock.** The challenges people have are systemic and interrelated, and we heard about the ways that the options available to them within the system as it is currently does not offer them enough. A lack of inclusively designed solutions and the compounding effects of recurring shocks mean that individual efforts to build preparedness for unexpected expenses or losses of incomes sometimes fail to support households' 'bounce' and can actually hinder them or set them back further. The challenges to resilience are also deep-rooted, as we heard from households in the personal histories and experiences that shape their attitudes and behaviours, and in the ways that institutions have traditionally engaged with them. The next stages of our work aim to increase our understanding about households' needs, and trial solutions that reflect the nature of the challenges they are working to overcome.
2. We have advocated for the role of better tools, and will continue to explore opportunities for innovation across different types of solutions. However, we also heard from participants that **access alone is not enough**. Access to the wrong solution can still mean households miss out on the opportunity to 'bounce forward' after experiencing a financial shock, or end up being worse in a worse position or unprepared for future shocks because the root need or barrier to building resilience has not been addressed. And access does not mean participation. Behavioural, inclusive and human-centred design can support more people to benefit from solutions that already exist.
3. There's an opportunity to focus **on solutions that have the potential to address financial resilience gaps at scale**. With over 1.1 million households lacking £250 in savings, our aim is to identify solutions that can tackle the shared resilience challenges of many groups. Whether through workplaces, networks of providers such as credit unions, utilities providers, public services or other touchpoints, we are keen to explore and test wide-reaching approaches for building financial resilience. In the coming months, our work will contribute to the evidence about the scale of specific challenges, and we will model what the potential impact would be on the UK economy if those challenges were resolved.

With our early understanding of those needs, we've identified some solution areas that we believe have the potential to address some of the practical needs facing households, and support them to bounce back after a shock. We have focused on hybrid solutions including joining up borrowing and saving in ways that work for people, and solutions offering greater flexibility for managing variable pay.

Next steps with our programme of research and innovation around financial resilience include:

- › A nationally representative survey to better understand the drivers of resilience and households' needs, and the distribution and scale of those challenges among households in the UK.
- › Analysis of national datasets and modelling to begin to measure the potential benefits to the wider UK economy, and the ways that improving households' financial resilience could contribute to economic growth.
- › An evaluation of borrowing and savings models offered by credit unions, involving 6 credit unions across the UK, and examining the resilience outcomes of people who save and borrow, as well as what might work to make such models available to people at scale.
- › Real-world trials of resilience-building interventions, including joined up borrowing- and savings hybrid approaches.

In our upcoming trials and evaluations of existing products and models we will also explore the barriers and opportunities for scaling up borrowing and saving solutions that help people bounce forward as they recover from financial shocks. Alongside our interest in resilience outcomes for individuals, we also aim to better understand providers' perspectives on the feasibility and commercial viability of solutions, and address regulators' concerns questions around access and safety.

As we share our findings from the next stage of our programme, we look forward to expanding our network of partnerships to collaborate on real-world trials, and sharing evidence about what works to build financial resilience for households on low, moderate and volatile incomes.

For access to the full report, other resources and our website:





Contact us:

insight@nestcorporation.org.uk

To find out more, visit our website:
nestinsight.org.uk

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