

KENSINGTON MORTGAGES SENTIMETER

New report highlights the growing importance of the self-employed

INTRODUCTION

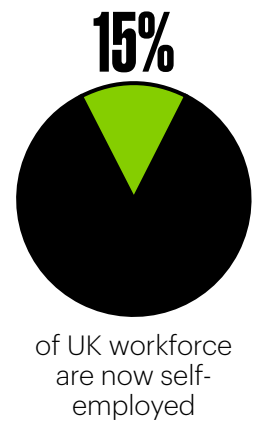
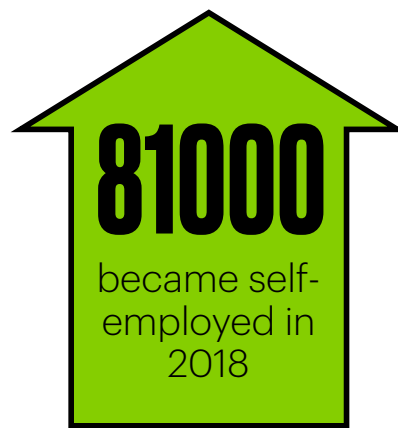
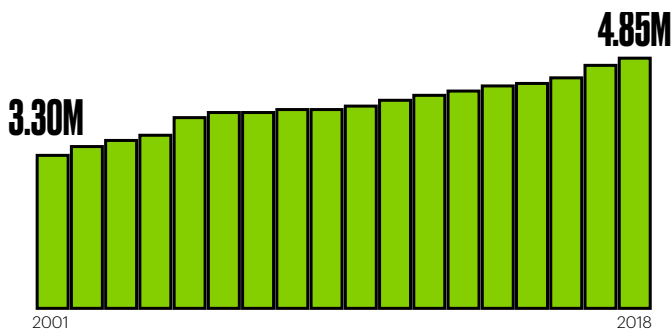
A steady increase in the number of self-employed workers has been a noticeable feature of the UK economy for many years. The number of self-employed workers has grown from 3.3 million people (12% of the labour force) in 2001 to 4.85 million (15.1%) today, according to data from the Office of National Statistics (ONS).¹

ONS figures also show that self-employed workers accounted for more than one in six (17.4%) of London's workforce by 2016, up from 13% in 2001; and for 16.2% of workers in the rest of South-East England, up from 12.5% in 2001. About half of all the UK's self-employed workers are based within London, South-East and South-West England, but the trend is also clear elsewhere in the country: the self-employed accounted for 13.5% of workers in the Yorkshire & Humber region by 2016, up from 9.6% 15 years earlier.²

As they grow in numbers, the UK's self-employed workers also grow in economic importance. Sole traders, contractors, freelancers and micro-business owners provide a flexible workforce and valuable expertise for many thousands of employers across all industries; but this group also contains the entrepreneurs who are creating the next generation of UK businesses.

The growing importance of this group means their perceptions of the economic threats and opportunities they face is a key metric for assessing business sentiment and levels of business activity in the year ahead. To discover their views, Kensington Mortgages commissioned the latest edition of our 'Self-Employed SentiMeter': a survey of over 1,000 self-employed UK workers.

As ever, the results reveal a broad range of views, in relation to matters including their expectations for their businesses and for the UK economy, the effect of new technology, the impact of Brexit and the state of their own personal finances.



CONFIDENCE AND OPTIMISM

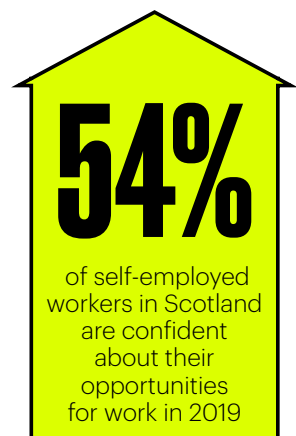
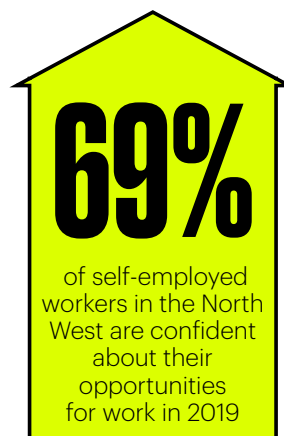
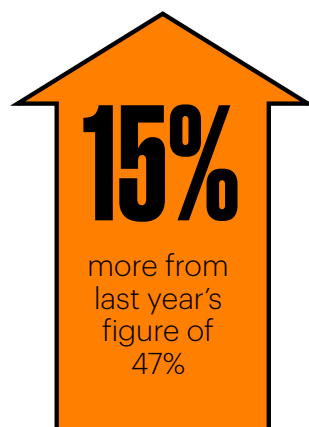
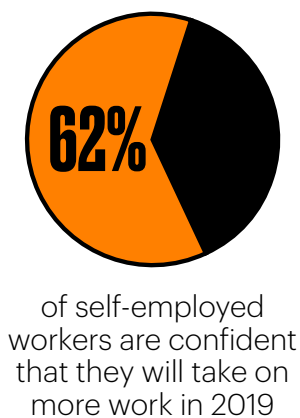
The key finding revealed in the survey is a mood of growing confidence and optimism among the self-employed – which some may find surprising, given the political and economic uncertainty created by Brexit and other factors.

Almost two-thirds of self-employed workers in the UK (62%) say they are confident they will take on more work in 2019, a significantly larger percentage than the 47% who expressed confidence this would be the case in 2018's SentiMeter survey.

Some regional variations are visible. Self-employed workers in the North-West of England feel the most confident, with 69% saying they expected their workload to increase during 2019; while self-employed workers in London were most likely to say they were 'very' confident. The least confident self-employed workers are in Scotland, where only 54% feel confident about opportunities for work in 2019.

Respondents were also asked if they expected to make more money after tax in 2019 than in 2018. Just over half (50.9%) said they were confident or very confident that this would be the case, compared to 42% in 2018. In addition, while in 2018 20% of self-employed workers said they were not confident they would make more money in the year ahead, this has fallen back to 18.7% in the latest survey.

Again, the two regions where respondents expressed the most confidence in relation to this question were London and North-West England. In both regions, just over 60% of self-employed workers were confident they would make more money in the year ahead.



UK LTD - BREXIT

The torturous political and technical struggle to negotiate and execute Brexit, which dragged on throughout 2018, seems to have had a negative impact on some respondents. The percentage of respondents who expect Brexit to have a negative impact on the UK economy has increased, from 52% in 2018 to 63.1% today. Between 64% and 69% of respondents in the East of England, Greater London, North-West England and the East Midlands all thought Brexit would have a negative impact on the UK economy, with this figure highest in Scotland: 83.1%.

Yet the political turmoil has not removed all hope that Brexit could benefit the economy. Across the UK, 17.2% of the self-employed believe Brexit will have a positive economic impact, including 19.1% of the self-employed in South-East England, 19.5% in the West Midlands, 20.8% in the East of England; and 22.7% in Wales.

Asked whether Brexit would have a positive or negative effect on their own businesses, respondents produced a range of responses. 31% thought it would have a negative impact, up from 20% in 2018; and 54.8% thought it would have no direct impact, down from 63% a year earlier.

Respondents in Scotland were most downbeat, with 47.7% of respondents saying they expected Brexit to have a negative impact on their business.

In light of these findings it might be fair to say that the optimism the self-employed display in relation to their business prospects in general looks even more remarkable. Furthermore, some remain upbeat about the potential consequences of Brexit for their own businesses: those in Yorkshire were most positive, with 19.5% saying they expected a positive impact.



17.2% **22.7%**

of the UK self-employed workforce believe Brexit will have a positive economic impact

of Welsh self-employed workers believe Brexit will have a positive economic impact



31% **47.7%**

of the UK self-employed workforce believe Brexit will have a negative impact

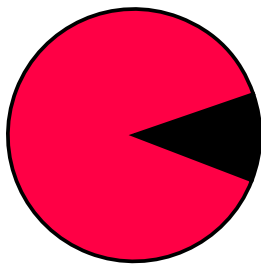
of Scottish self-employed workers believe Brexit will have a negative impact

EMBRACING NEW TECHNOLOGY

Almost nine out of ten self-employed workers in the UK (89%) believe new technology will have a positive impact on their business, reflecting widespread optimism and tech-savviness within this group. Workers in Wales are most positive about technology: 96% expect it to deliver a net positive effect to their business over the next two years.

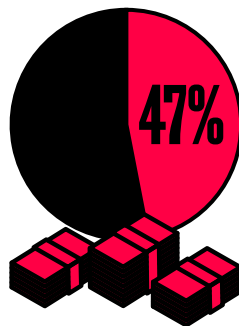
47% of self-employed workers across the UK believe new technology will help them to make more money, 44% think it will improve their day to day running of the business; and 43% think it will help to attract new business.

Workers in North-West England are least optimistic about the impact technology will have on their business, with only 82% believing it will have a positive effect. But in Wales and in five different regions across southern and central England more than 90% of workers had a positive view.

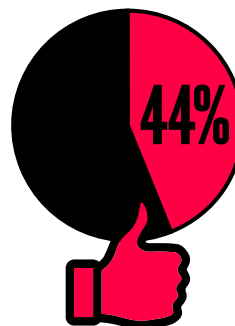


89%

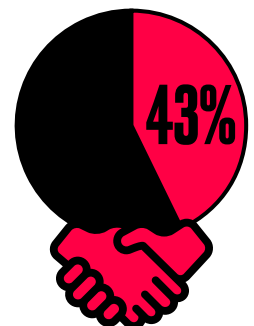
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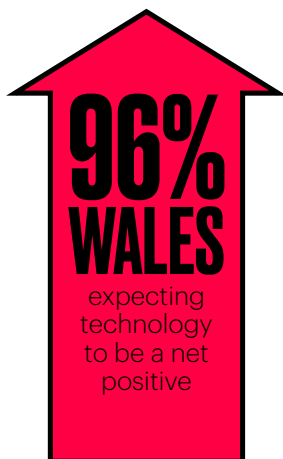
believe new technology will help them make more money



feel technology will greatly improve their day-to-day running of the business



believe technology will help them attract new business



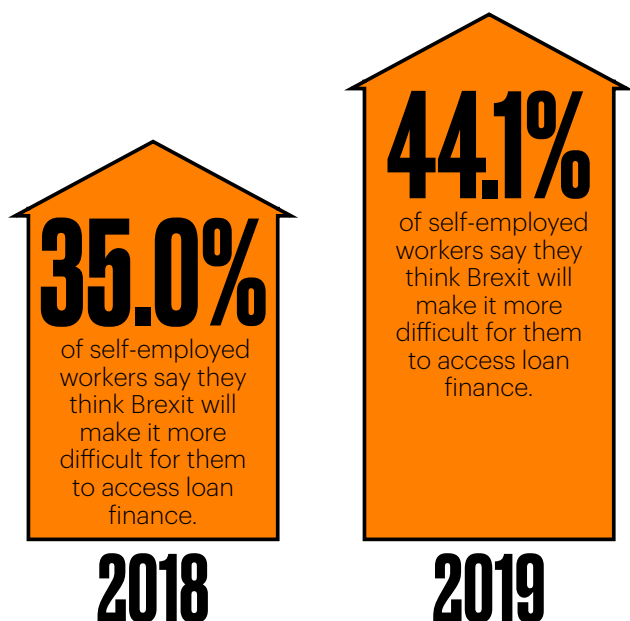
PROBLEMS ACCESSING LOAN FINANCE

The self-employed express some concerns about their personal financial prospects. The number of respondents who say they think Brexit will make it more difficult for them to access loan finance has increased since 2018, from 35% to 44.1%.

These findings reflect the fact that, despite their success, many self-employed workers across the UK continue to find it difficult to access certain financial products. It is still too often the case that the self-employed are effectively discriminated against by inflexible lending criteria used by many mainstream, high street banks and building societies.

A comparison between 2018 and 2019 survey results suggests there has been a small increase in the number of self-employed workers who use a broker or financial adviser when looking for a mortgage, from 19.4% to 23.3%, edging ahead of the numbers who approach a high street bank (22.7%) or building society (20.5%).

Today, only 3.1% of self-employed people approach a specialist company directly when seeking a mortgage. But specialist lenders, also accessible through a financial adviser, will surely continue to play a key role in supporting this group of under-served borrowers. Our findings suggest a clear need to increase awareness among the self-employed of the range of finance solutions such lenders can provide.

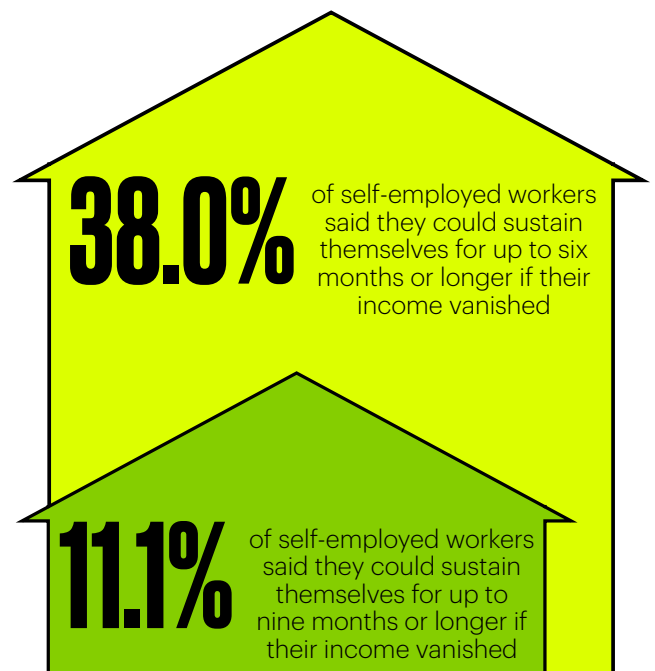


THINKING AHEAD

Although the survey results highlight some of the difficulties self-employed workers face when seeking to buy financial products, it also reveals some evidence of careful financial planning among these workers.

This should not really be surprising: one might expect the self-employed to be more likely to pay very close attention to their finances in the knowledge that their incomes may fluctuate.

Almost four out of ten respondents (38%) said they could sustain themselves for up to six months or longer, with more than one in ten (11.1%) saying their reserves would sustain them for nine months or more. This implied financial resilience contrasts with the findings of insurer Legal & General's 2017 Deadline to Breadline research, which suggested the average UK employee would only be able to sustain themselves financially for 32 days if their income vanished.³



A GROWING, EVOLVING MARKET

Kensington has undertaken this research with the aim of developing a better understanding of levels of business and financial confidence among self-employed people in the UK. The most important lesson to draw from the findings of this survey is the resilience and – against all odds – the growing confidence among the self-employed, despite the serious challenges facing the UK economy.

The willingness within this group to embrace new technology should encourage specialist financial services providers to focus on using a combination of technology, data and underwriting expertise to develop and deliver products and services that meet the varied needs of this growing market.

The range of mortgage solutions available to the self-employed market is growing, but the pace of this growth must keep up with the ongoing growth in self-employment. More lenders will need to develop more innovative solutions to meet the needs of this growing segment of the UK workforce. The number of 'non-standard' borrowing cases is increasing and will continue to increase for the foreseeable future. If mainstream lenders continue to demonstrate a lack of appetite for this type of lending, it is up to providers like Kensington, alongside the rest of the specialist lending community, to continue to seek to understand and serve this evolving market.

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