HM Revenue & Customs

Research report

Individuals Segmentation Enhancement

17 October 2012

Contents

17/10/12

Research requirement (background to the project)

In March 2007, HM Revenue & Customs (HMRC) commissioned a large project called the Individuals Prioritisation Project to develop an overarching segmentation of individual customers, and a prioritisation of what matters to individuals from ***their*** perspective rather than HMRC's, to identify:

- how to increase compliance/reduce cost of compliance
- how to improve customer experience
- what innovations/different ways of doing things could be considered.

This delivered a five segment model – Unaware, Willing but Need Help, Willing and Able, Potential Rule Breakers and Rule Breakers.

The long term aim of the individuals' segmentation project is to help improve the relationship between HMRC and individuals, and the engagement of individuals with HMRC products, processes and services in order to make it as easy as possible for people to pay what they owe and receive what they are entitled to.

Whilst the Individuals Customer Segmentation has been incredibly instrumental in developing Personal Tax and other Lines of Business strategies, in order to develop and implement effective plans we need substantial additional data about our individual customer segments, to help us design and develop tailored approaches to dealing with our customer segments.

What is our current thinking?

HMRC put together a new customer centric HMRC strategy in the early summer of 2009. Off the back of this, supporting strategies for individual taxpayers, business taxpayers and tax credit claimants were developed, which were presented to the HMRC Board in October/November 2009.

The strategies are split out by segment, and suggest different approaches according to which segment a customer sits in. The table below sets this out for the individuals:

17/10/12

Unaware	Needs Help	Willing and Able	Potential Rule-Breakers	Boundary Pushers	Rule Breakers
We assume that they are PAYE / taxed at source. We therefore assume that there isn't a lot of tax at stake (in terms of non-compliance). Therefore we should focus on life events where individuals are likely to have to interact with HMRC	We assume here (based on the ABC work)* that there are some individuals who we can move out of Needs Help (because they just have knowledge or confidence gaps), and some we can't. In this case we should be focusing on the non-permanent needs help.	The strategy for this group is to improve processes and communication, and so deal with this segment in a more cost-effective way. We will expect the growth in on-line SA returns to continue, further channel shift is unlikely, as we don't have the resource to invest in our e-channels, but we would like it to result in a reduction in contact.	This group is similar to the Willing and Able, the issue here is that we can correctly identify the behaviours so that we can target communication to maintain current behaviours of compliance.	There is little implication here for individuals, with the exception of High Net Worth Individuals.	This group should be handled entirely within Enforcement and Compliance.

*The ABC work (Antecedents, Behaviours and Consequences) was a follow-on research project from the original 2007 Individuals Segmentation. In essence the ABC work was commissioned to add to the understanding of why people are the in segment they are in, their attitude towards the state and HMRC, and what influences segment allocation.

We expect to be able to deliver these strategies by shifting our interventions upstream (i.e. via education and guidance) and away from downstream activities (e.g. compliance interventions like audits and inspections).

These strategies contain assumptions that we might want to test, including:

⇒ That there is a 'permanent' and 'non-permanent' split in the Willing but Needs Help segment;

⇒ Boundary Pushers are a particularly small segment for Personal Tax.

However, in order to deliver our strategies effectively, we need to ensure that our Individuals Segmentation (upon which much of the supporting strategies are based) is enhanced with additional data, to help test the assumptions above and with operationalisation of the segmentation.

There was therefore a need to:

- Enhance the segmentation by collecting additional data, to support PT and other parts of HMRC's efforts to operationalise the strategies in 2010/2011

- Provide evidence to inform how the Tier 2 Strategies are implemented including how we can target particular segments.

- The outcome of this work would be an enhanced set of data about our individual segments to be used to develop and implement plans to achieve the strategies for 2010/2011.

The purpose of this work therefore, was to provide an enhanced picture of our individual customer segments to ensure alignment and validation of the strategies as applied to individuals.

Who did the work (research agency)

The research was conducted by Quadrangle.

When the research took place

Fieldwork took place between 18th February and 26th March, 2010.
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Method, Data and Tools used, Sample

Sample was provided by Experian, and a stratified random sampling approach was used.

We achieved a total of 3,899 completed interviews (original target was 3,750).

Sample was weighted on age, gender, region and social grade to achieve the nationally representative view.

17/10/12

The respondent sample achieved was robust, and able to provide us with both a nationally representative view, as well as a granular view of our key audience groups.

Research participants completed a 25 minute telephone survey, covering the following themes;

- – Profiling and Qualification:
    - age, gender, Social Grade;
    - awareness of HMRC;
    - tax eligibility;
    - benefits & credits eligibility;
    - sources of help.

- – HMRC Contact:
    - overall satisfaction;
    - frequency of contact;
    - time spent fulfilling obligations.

- – Confidence and ability:
    - confidence and ability to engage with HMRC;
    - ease of fulfilling obligations generally;
    - online capability;
    - attitudes towards HMRC (and the help they offer).

- – Compliance:
    - boundary pushing;
    - attitudes towards taxation;
    - attitudes towards cheating;
    - retention of official documentation.

- – Attitudes:
    - attitudes towards finances and taxation;
    - attitudes towards online services;
    - opportunity for non-compliance.

- – Demographics:
    - recent life events;
    - internet access;
    - education, marital status, working status (including partner), income (personal and household);
    - ethnicity, disability, language.

17/10/12

Analysis

An overview of the statistical approach used in this research:

Step	Description
Sampling	Ensure representation within budget and timeframe
Weighting	Rim weighting (incomplete post-stratification) was used to balance resulting sample to represent population in terms of age, gender, region and social grade. Weighting was minimal, since the raw sample was representative to begin with
Dimension build*	Construction of four dimensions to support the segmentation creation, via factor analysis of attributes
Cut-off positioning	Determination of the most appropriate position of each dimension cut-off. This essentially amounts to the segmentation creation itself. A number of attributes that most define the dimension were identified. For any given cut-off, the proportion of respondents strongly agreeing and disagreeing with the statements were measured. This allowed the creation of a scale whereby any cut-off may be considered in the context of the questions asked.
Profiling	Profiling of the segmentation against both attitudinal and demographic measures
KDQ algorithm creation	Creation of rules to assign individuals to segments on the basis of a handful of questions
Driver's analysis	Quantify importance of a range of different measures on some overall objective
Link to external data	Matching survey data to wider contextual data to improve insight and targeting

*Four segmentation dimensions were created to form the framework of the segmentation using the same approach as last time, but enhancing the definition of the dimensions. Initially, factor analysis was run on all attitudinal statements resulting in 15 factors/ themes. These 15 factors, along with pseudo-factors based upon non-attitudinal data, were then grouped into the four dimensions;

– Awareness: calculated as the weighted average of attitudinal awareness and actual awareness

– Motivation: individuals not classified as unaware are allocated to a segment according to their motivation to comply with HMRC. There are six motivational dimensions that emerge from the factor analysis;
  • Attitude to compliance
  • Social responsibility
  • Fear of penalties

- HMRC operations
- Sense of fairness
- Reasonable care

- Opportunity: where individuals are not motivated to comply, we looked at Opportunity (in addition to fear of penalties) to allocate them as Rule Breakers or Potential Rule Breakers. There are three measures of opportunity
  - Opportunity awareness
  - Opportunity activity
  - Self-Assessment (Tax Engagement)

- Ability: where individuals are willing to comply, the Ability dimension is used to identify those who are Willing and Able, and those who are Willing but Need Help. There are a number of areas which gauge ability;
  - Online competency
  - Financial Confidence
  - Problem Solving
  - Self-starter
  - Practical Ability
  - Pro-activity
 - Perceived Ease of Compliance

Main Findings

In summary

The overall segmentation remains broadly consistent with the segment sizes identified in 2007/8, with no evidence of any major systemic shifts emerging in the interim period.

There is strong proof that as the demands of compliance – where much of the burden continues to be on the individual - continue to become more taxing than what is demanded of individuals elsewhere, there will be a continuing need to simplify wherever possible.

Further analysis of a seven segment model identified sub groups within the Unaware and Rule Breaking segments (see appendix).

5 Segment Model
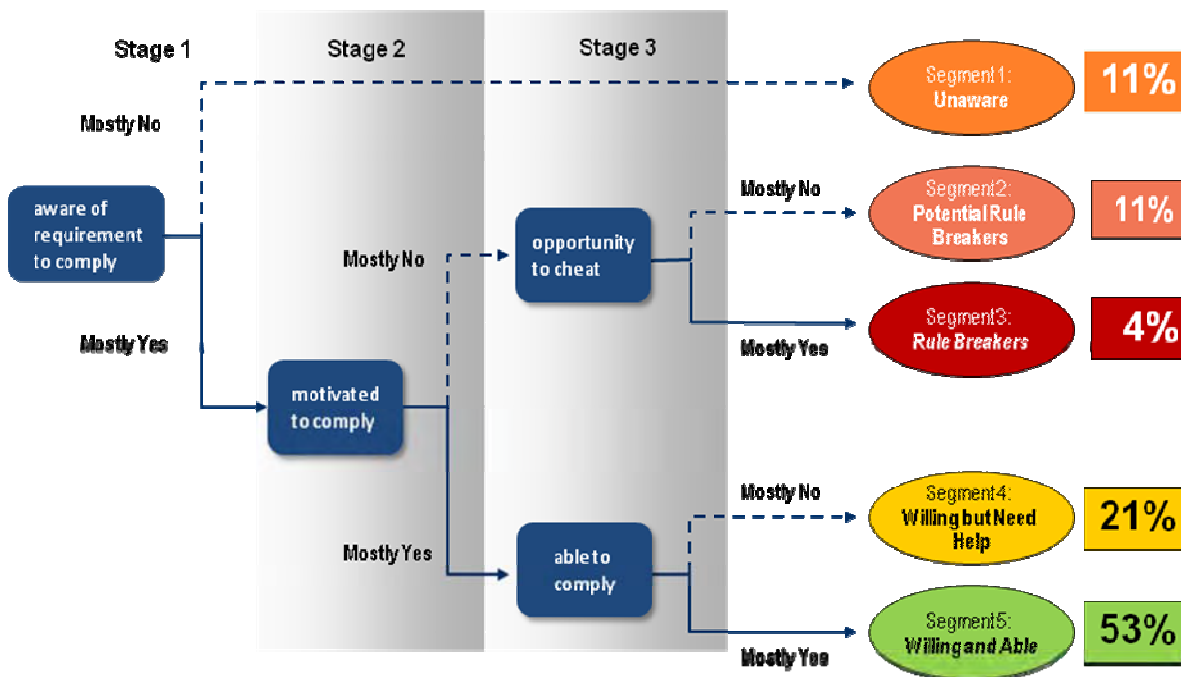
The segment profiles already presented from 2007 are consistent with those which emerge from this wave of research. The latest segment profiles are complementary to earlier segment descriptions, adding an additional layer of detail and clarity to those communicated from the previous research.

Within the following demographic profiles, we highlight only those attributes that appear to be robust based on statistical tests, where comparisons refer to the difference between a segment and the aggregate of other segments - for example, W&A is compared with the NOT W&A and so on.

Only demographic factors have been tested statistically. Financial stability and factors such as paying cash in hand have been compared to the entire base rather than the remainder and have not been tested statistically.

Willing and Able

The largest of all the segments (53%) the Willing and Able are highly motivated to comply, and disapprove of cheating on taxes, benefits or credits. Of all the segments, they have the strongest sense of social responsibility. It is this, more than a fear of getting caught that is likely to stop them cheating:

They are content with the service provided by HMRC, regarding them as a fair, effective, trustworthy, helpful and flexible organisation.

Although they are not aware of ways to cheat the system, they are motivated to comply by a disapproval of cheating, and a belief that taking risks with tax is not worth it.

They are confident that they pay all the tax they owe, and receive all the benefits to which they are entitled, with an understanding and ability to do what is required meet their HMRC obligations.

The Willing and Able like to get things right, taking care over official forms and paper keeping, and actively planning their finances. They tend to be IT literate, and confident problem solvers with a high level of problem solving ability.

The Willing and able are more likely to be financially stable**. They are less likely to have experienced serious financial issues, decided to leave their workplace, or started their first job in the last 18 months.

Compared to those who are not W&A they are more likely to be qualified, aged 25 to 54, in full time work and from the middle and lower middle classes:
- More likely to hold a degree and less likely than other segments to have no qualifications;
- More likely to be working full-time and less likely to still be in education;
- Less likely to be aged under 25 and over 65;
- More likely to have earnings between £30-£60k compared to other segments

In summary, Willing and Able are the most stable. They take their obligations seriously, and have a solid understanding of the system, Key characteristics are:
- Committed to paying the right amount of tax at the right time
- Believers in the system, its fairness and purpose
- Capable, confident, able decision-makers and problem solvers
- Able to use the tools and information available to get things done
- Record keepers rather than risk takers

*** compared to the entire base and not tested statistically*

Willing But Need Help

Willing but Need Help make up 21% of the individuals population. Characterised by a low level of ability and a high level of motivation to comply, WbNH hold the belief that it is wrong to cheat on taxes, and take their social responsibility seriously.

They do not believe they have the opportunity to avoid paying taxes, and are unaware of ways to cheat the system. They also show the strongest fear of getting caught, though concerns are likely to be focused on potential embarrassment more than penalties.

Although aware of their responsibilities, the WbNH often feel unable to meet them. Whilst they are confident that they pay all the tax that they owe, they may struggle to calculate their required contributions and lack confidence in doing things which are not routine.

17/10/12

WbNH are less likely than other segments to be confident IT users, and may struggle to complete online tasks. They also tend to prefer face to face contact rather than telephone.

As such, they need help understanding and completing official forms, and expect this kind of support every time they engage with HMRC.

Demographically, the Willing but Need Help are more likely than those who are not WbNH to be working class, older, retired and without qualifications:

Half are married (52%), a similar proportion to that seen amongst the other segments (51%), but, a higher proportion are widowed compared to the rest (10% against 7% in the rest).

Compared to the aggregate of all other segments, WbNH have a smaller proportion of people earning over £30k whilst a higher proportion earn less than £10k, and are also more likely to have experienced financial difficulties within the last 18 months.**

*** compared to the entire base and not tested statistically*

Unaware (11% of the population)

Accounting for around 1 in ten of the population (11%) the unaware are characterised by a lack of confidence in their ability to understand their obligations generally, and to do what is required to meet them:

They generally tend to have a dim view of HMRC operations and the tax system, and mixed views on whether it's okay to cheat on taxes, tax credits and benefits. Some believe that they don't receive enough public services in exchange, and think the government wastes tax payers money. Compared to other segments, the Unaware tend not to show due diligence when completing forms, and can be rebellious in the face of authority.

Relative to those who are not Unaware, this segment is likely to be younger, in full time education, and less likely to be working full time or self employed. Also,
- A higher proportion are single compared to the Aware (44% compared to 27%);
- Tend to be on a very low annual income – almost half earn less than £10K compared with only a third in those who are Aware.
- Slightly more likely to have no qualification than the Aware;

The lack of confidence in ability to understand HMRC obligations is universal across the Unaware segment. However, further analysis of a 7 segment model (see appendix) reveals that there are also two clearly identifiable Unaware sub-segments:
- Motivated to comply, who are willing to pay taxes but unaware of how (5.4%);
- Unmotivated to comply who believe tax is unfair and public spending is wasteful; these people are unwilling and unaware (5.5%).

Demographically there are few differences between these two subgroups when compared with the rest of the other segments. However, the Unaware segment as a whole is more likely to consist of the young in full time education and working part time, having clear implications

for life events, and for longer term engagement with the tax system, particularly in engaging young people on low income and in vocational education.

Potential Rule Breakers

Potential Rule Breakers make up 11% of the population. Although they have a low motivation to comply they are not comfortable breaking the rules. As such, they do not have a problem bending the rules in their favour, but they are fearful of the potential consequences of cheating (more so than Rule Breakers).

They are also more likely to prioritise their personal needs over any taxation obligations, taking the view that having money for everyday things is more important to them than paying their taxes. And so they are more likely to do all that they can to ensure they pay as little tax as possible.

Potential Rule Breakers are resentful of the tax they pay and the system, which they believe is not fair and works against them. They do not feel that the taxes they have to pay are fair, since they do not get enough public services in exchange, and are less likely than others outside this segment to see paying tax as a social responsibility.

Compared to the aggregate of other segments, Potential Rule Breakers has a higher proportion of 65+ and under 25s. In addition,
· Social grades B and C1 are under represented;
· About 20% hold no qualifications, compared to the 15% who have no qualifications in the total of other segments;
· Relative to other segments, Potential Rule Breakers are also slightly more likely to be male.

Although they are boundary pushers in attitude, Potential Rule Breakers are less likely to have had the opportunity to cheat than rule breakers (for example, they are less likely to have worked cash in hand to avoid VAT than other segments**). Although they are attitudinally minded to cheat, they are prevented to do so by the system and lack the confidence to work their way around it.

** compared to the entire base and not tested statistically

Rule Breakers (4% of the population)

The recession has not impacted the size of this segment, which has remained stable at 4% of UK population.

Despite having the ability to understand and meet their obligations, Rule Breakers are the least motivated to comply of all the segments.

Although they are confident that they can easily calculate taxation contributions, and submit the required information to HMRC, they feel that the amount of tax they are obliged to pay prevents them from doing things they need to do.

17/10/12

Rule Breakers also feel that the government wastes tax payer's money, and are rebellious in the face of authority. As such, they believe it is ok to cheat on taxes /benefits/credits, and crucially, are aware of the ways of doing so.

This segment is therefore more likely to do everything they can to ensure they pay as little tax as possible, for example, paying by cash to avoid VAT**, or not declaring some of their income.

Rule Breakers have a relatively neutral perception of HMRC, but do not believe they are effective in catching those who cheat the system.

Demographically, Rule Breakers do show some dominant characteristics but due to small sample sizes, only a few of the 'risk factors' are statistically robust. For example, compared to those who are not Rule Breakers, they are:
- More likely to be male (69% of Rule Breakers compared to 49% of non Rule Breakers);
- More likely to be single (42% of Rule Breakers compared to 29% non Rule Breakers);
- 1 in 5 are self-employed (19% of Rule Breakers) compared to non Rule Breakers where only 1 in 10 are self-employed.

The attitude that it is okay to cheat on taxes, tax credits and benefits is universally seen across the Rule Breaking segment. However, further analysis of a 7 segment model (see appendix) identified two Rule Breaking sub-segments:
- Low ability: unwilling to pay taxes but with minimal understanding and resources they are less able to cheat (1.8%);
- High ability: unwilling to pay taxes, with awareness and resources to cheat (2.3%).

*** compared to the entire base and not tested statistically*

The main differences are seen in the following attitudes (✓ indicates over indexing on that attribute):

Attitude	Low Ability	High Ability
Uncomfortable dealing with tax	✓	X
Can easily calculate required tax contributions	x	✓
Need help understanding and completing official forms	✓	X
High online competency	x	✓
Problems doing things for the first time, not good at doing things that are not routine	✓	X
Can never find what they need online, not confident calling official bodies to sort problems	✓	X

17/10/12

In addition, the Low ability Rule Breakers are less likely to actively plan their finances, and less likely to describe themselves as organised than High Ability Rule Breakers.

There are some demographic differences between the two sub-groups (although due to low base sizes these are indicative only). For example, whilst those aged 16-24 are over-represented in all Rule Breakers (compared to those who are not Rule Breakers), the extent of over-representation is more pronounced in the low ability sub segment.

Appendix:

7 Segment Model