



MAKING FINANCIAL SERVICES FASTER

FCA's Financial Lives Survey 2020: Janine Menasakanian, Investments Consulting Director and Jonathan Warren, Consultant discuss the impact of the pandemic on Vulnerable Customers.

Full Transcript

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Janine: So, Jonathan, the FCA's Financial Lives Survey last year or this year, I should say, was an interesting read. It was fascinating. In fact, obviously the focus was on the pandemic and the impact of the pandemic on individuals' financial lives. According to the regulator, currently over half the UK adult population is showing characteristics of vulnerability. Now, with 2020 being quite unique and a very challenging year for everybody. What do you think the specific impact has been on vulnerable customers particularly?

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Jonathan: Yes, well, quite unsurprisingly, vulnerability increased during the pandemic by around 15 percent according to the Financial Lives Survey. In the 2017 Financial Lives Survey, the FCA found that around 50 percent of us have displayed at least one characteristic of vulnerability. But what's happened between 2017 and 2020 is there was actually a fall of around 10 percent in vulnerability so that the net impact is around the same place. The reduction was largely attributed to reducing digital exclusion and improving financial resilience. So I was actually pleasantly surprised the vulnerability had only risen by around 15 percent. Having expected much worse in the midst of a pandemic. So the adverse life events and lower financial resilience were apparently balanced by a small improvement in health-related issues, which is something that I actually found quite hard to believe given the physical and mental health implications of covid-19. I suspect the reduction in health problems may actually reflect the well-reported delay in diagnosis of serious conditions, given the restrictions on the NHS services at the moment, that are obviously strained by the pandemic.

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Janine: No, that's a fair point, actually, Jonathan. You've got something there. It'll be interesting to see what the results are next year, I suppose, in that regard, obviously. Unfortunately, the pandemic has had a profound impact on many adults' financial situations. But there has been some sort of societal inequality, hasn't there? It hasn't affected everybody in the same way. Have the financial situations of vulnerable customers been particularly hard hit by the impacts of covid-19, do you think?

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Jonathan: Well, like many of history's negative events, there are often some positives that emerge which were probably unexpected. So I've spent a lot of time over the last couple of years talking about the perception of a correlation between vulnerability and age, which unfortunately is largely true based on declining health. But it appears in this scenario, it was

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actually offset by the financial advantage of accumulated wealth. So 75 plus age group have actually seen a reduction in vulnerability, as have the retired and outright property owner segments, their financial capacity, i.e. their accumulation of knowledge and experience through years of using financial services products. Their resilience, as we know, there's a lot of wealth concentration at the upper end of our society has seen them navigate the pandemic well compared to the working population, particularly the self-employed. Financial resilience is key as peoples' income has been hit hard by the pandemic. Quite soberingly the Financial Lives Survey says that 11 percent of people are likely to use a food bank in the next six months.

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Janine: That thought is sobering, isn't it? And one would only hope that the figures will reduce. As far as the industry is concerned, Covid-19's impacted financial services. I mean, we've been fortunate in some respects in that it's not been as badly impacted as some of the other industries. But what it has done, which I would regard as a positive step, is that it's accelerated many of the trends that were already underway, and one such trend is, the access or digitization of our industry and the access that people now have to digital tools. How do you think the providers have responded as far as this is concerned? And then have vulnerable customers welcomed the approach as well?

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Jonathan: Again, like all major events, they tend to be a great driver of change, and providers have been forced to adopt electronic authentication and improve self-service capability as people have been unable to physically access services. Online banking has increased significantly in the 65 plus segment. This lockdown provided, I guess, the final impetus to overcome the resistance to adoption. In fact, 14.7 million of us have apparently increased our use of the Internet and mobile banking, and as we know the FCA through a series of papers, talked a lot about increasing, switching and shopping around and in various aspects the reducing financial resilience we've seen has driven more people to go in search of better value for money. So 7.8 million people, for example, have switched to a new insurance or protection product or provider to lower the cost. Trust in financial services remains low with insurance seeing a significant net decline as people began to claim on policies where cover for the first pandemic in over a century was not explicit.

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Janine: No, and I know that a lot of people were very disenfranchised by their travel insurance policies, for instance, when they found they weren't covered during the summer of last year. Now moving on as covid-19 continues to evolve, and more people across the UK from all backgrounds are finding themselves vulnerable. What are your thoughts as we look towards the future?

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Jonathan: Well, the vaccine rollout is giving us all hope in terms of something like normal, we should see an improvement in the resilience and negative life events that have been picked up in the Financial Lives Survey. But I don't think the recovery will be instant in all of those things. I do, however, think one aspect that the Financial Lives Survey didn't touch on was the health issues, and I think there will be a longer tail impact based on the physical and mental health implications of lockdown and dealing with Covid-19.

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Janine: No, I agree, and my final question, Jonathan, you've been super entertaining me with your answers. My final question to you, as someone who's been working in this area for some time now and doing some work with some of the larger providers on their approach to vulnerable customers. What advice would you give to those who haven't necessarily addressed some of the issues to ensure that they serve their vulnerable customers and their customers generally? To ensure brand values are maintained.

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Jonathan: I repeated this quite regularly, but the problem with developing a comprehensive approach to vulnerable customers is actually complex. It permeates through every part of the organisation and business, and consequently, the answer to that isn't simple. The first thing I would do is promote the value of implementing a benchmark against which you can continually measure your progress. So the vulnerability radar that we developed with TISA is a good example, as are the maturity assessments that we can conduct around targeting capabilities. The FCA have sort of concluded a spectrum vulnerability, so the capability to use data to again measure becomes key that ensures that your responsive approach is proportionate to the need that you're dealing with. There are many areas, but as the regulator said, you can't really put a price on basic sympathy and empathy. But fostering that in our procedural, audit-focused, risk-averse structure that we built around financial services is not as simple as it might sound.

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Janine: Great, thank you, Jonathan, I really appreciate that.

Jonathan: Thank you, Janine.