

### Summary

- Covid-19 has further impacted the issue of vulnerability in the UK.
- Recent research from the FCA revealed that 27.7 million adults in the UK now have characteristics of vulnerability.
- Some employers and trustees are leading the way in recognising and addressing vulnerability among their employees/members, but more can be done.
- Providing financial education and guidance helps ensure members receive the right support at the right time.
- Speaking to members using clear, simple language is key.

# Vulnerability under the spotlight

**The issue of vulnerability is more acute than ever, given recent events. Francesca Fabrizi explores what this means for the pensions space**

We don't need official figures to tell us that the recent pandemic has had a sweeping negative impact on consumers globally, but seeing the numbers in black and white offers a stark reminder of how severe the problem of vulnerability is in the UK; and raises the question of what we as an industry should be doing about it.

The Financial Conduct Authority's (FCA's) recent *Financial Lives* research revealed that 27.7 million adults in the UK now have characteristics of vulnerability (such as poor health, experiencing negative life events, low financial resilience or low capability). These numbers cannot be ignored by firms operating in the financial sector as the FCA is clear in its message: It will hold firms to account for their treatment of vulnerable customers, and firms can expect to be asked to demonstrate how their business models, the actions they

have taken and their culture ensure the fair treatment of all customers, including those who are vulnerable.

The FCA defines a vulnerable customer as someone who, due to their personal circumstances, is especially susceptible to harm, particularly when a firm is not acting with appropriate levels of care; and, off the back of its recent research, has published guidance clarifying its expectations of firms on the fair treatment of vulnerable customers.

Firms should understand what harms their customers are likely to be vulnerable to and ensure that customers in vulnerable circumstances can receive the same fair treatment and outcomes as others. This needs to happen through the whole customer journey, says the FCA, from product design through to customer engagement and communications.

FCA director of consumer and retail policy, Nisha Arora, comments: "Protecting vulnerable consumers remains a key focus for us and given the impact of the coronavirus pandemic, it is more important than ever that firms get this right.

"While some firms have made significant progress, we want to see all firms across sectors taking steps to understand and respond to the needs of their customers, particularly those who

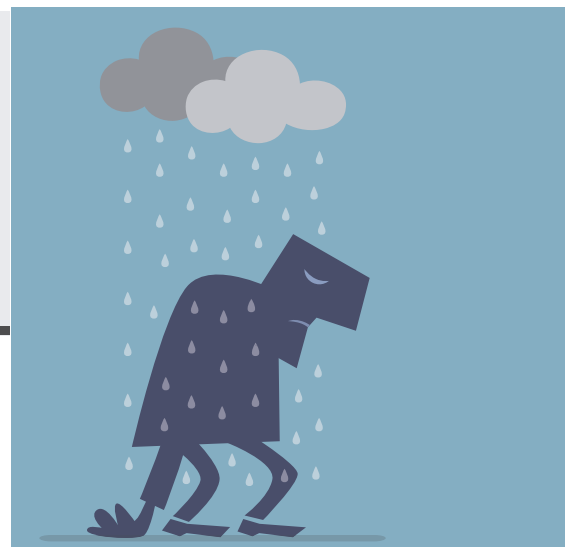
are most vulnerable to harm."

This is as relevant to the pensions sector as any other. In its report, the FCA offers the example of firms that advise on investments and pensions stating that they "have an older customer base, so common characteristics of vulnerability may involve health and life events associated with old age".

But it is not just the older customer that can be vulnerable – any pension scheme member can be vulnerable and this needs to be recognised by those managing their scheme. Additionally, the term 'vulnerable customers' covers many more members than some realise, argues CCTL professional trustee, Andy Cheseldine: "Anyone with reading or aural disabilities – visual or cognitive, cognitive impairment (age-driven or otherwise), who has been made redundant (or furloughed), bereaved, or is simply under excessive stress (and that alone could be half the population) qualifies. So, our processes need to be flexible and we need to be really good at listening to members' concerns."

### Pensions and the pandemic

Of course, the potential vulnerability of pension scheme members has been a concern for many years, having been catapulted into the spotlight by the introduction of pension freedoms in



2015. The pandemic, however, is making the problem worse.

Canada Life technical director, Andrew Tully, comments: “The issue of helping vulnerable clients is not new, but it has become particularly prevalent in the wake of the pension freedoms where more people still have money invested later in life, or risk becoming a victim of scams.

“Those who are financially vulnerable can be a key target of scammers, and unfortunately the pandemic has provided perfect camouflage for the scammers to increase their activity as they prey on the elderly, vulnerable and financially stretched.”

Given that the pandemic has undoubtedly led to an increase in the numbers of vulnerable members of pension schemes, it is important that pension scheme members aren't left to go it alone during this difficult period, urges Wealth at work director, Jonathan Watts-Lay: “With many households surviving on a reduced income, affordability issues could make it very tempting for them to try and make ends meet by reducing or pausing their pension contributions.”

Also, he adds, the industry has seen record numbers of the over-55s accessing their defined contribution (DC) pensions since the pandemic. “It is thought that this may be due to some looking at their pension savings to supplement a shortfall in income. Coupled with this, there will

be individuals who are made redundant and decide to take retirement earlier than planned, with the knock-on impact of funding more years in retirement.”

So, what should the industry be doing about it, and what help is at hand?

First and foremost, says PTL client director, Richard Butcher, well-run pension schemes should already be onto this: “I'm not sure the pandemic should be changing our behaviour when it comes to vulnerable customers. All that the pandemic has done is increase their number. We have always had vulnerable customers and we should have robust systems and processes to help protect them and to help them make informed decisions.”

The pandemic does remind us, though, that we need to remain flexible in our approach, reiterates Cheseldine: “All providers have templates and protocols in place to ensure consistency and fairness, but we need to be very aware that circumstances have changed enormously over the year – who knew that ‘furlough’ or ‘shielding’ or ‘self-isolating’ would be some of the most used vocabulary of 2020/21?”

The responsibility falls on all of us – providers, employers and trustees, he argues. “In some cases, the trustees do not have resources, but they do have the power to influence providers and employers.”

To help wrap the right support around vulnerable members, Standard Life head of workplace deployment, Donna Walsh, says we need to listen and understand their circumstances, adapt our support and make things easier for them. “These are stressful times and anxiety is heightened amongst many. We have a role to play in providing that calm, guiding light and being there for members when they need us.”

It is important that we help members evaluate their options and consider their decisions within a short- and long-term context too, she argues: “We also look to protect members, and alerting them to the increase in scams is something the

industry should continue to focus on as people in vulnerable circumstances can feel desperate and be more susceptible to scammers.”

Of course, much is already being done across the industry. Structures are in place and help is at hand in the forms of various guidance, such as that published by the FCA. In January, the Personal Finance Society also launched an independent Financial Vulnerability Taskforce, with the aim of supporting the profession to better recognise and address the various forms of consumer vulnerability, improve client outcomes and increase access to financial advice.

February then saw the publication of the Altus white paper, *A Vulnerability Travelcard for the Financial Services Industry*, which reviews the vulnerable customers' challenge from a wide array of angles, from technology, impact on employees, behavioural insights to data and measurements. As the paper states, while some progress has already been made, there is much more to be done, and going forward, data (GDPR), systems (integration) and technology will be key to identifying and supporting vulnerable customers and delivering mass personalisation at scale.

One area of focus in the white paper is vulnerability in later life. Altus head of retirement strategy, Jon Dean, writes: “The FCA's *Financial Lives* survey shows most of us becoming more financially resilient with age, which perhaps goes some way to explaining why older consumers are less likely to be scam victims. However, after age 65 that resilience decreases, health deteriorates and vulnerability rises but in different ways.”

Financial services providers, he continues, must address vulnerability across all age groups and as individuals progress through life, vulnerability evolves, “meaning that each group presents different needs that the industry must fully assess as it prepares to support its vulnerable customers”.

From a pensions-specific perspective,



The Pensions Regulator (TPR) is also very much alive to the risk vulnerability poses to good pension outcomes, says executive director of regulatory policy, analysis and advice, David Fairs, which is why its impact will be reflected in the final version of TPR's *Corporate Strategy*, to be published in March. "The strategy puts savers at the heart of what we do. Its core aim is to protect and enhance the retirement incomes of millions of people," says Fairs.

Sadly, he acknowledges, the coronavirus pandemic is likely to have increased the risks for many vulnerable savers, as well as putting more savers into vulnerable positions. TPR has already worked hand-in-hand with industry to produce the pledge to combat pensions scams, asking schemes and providers to do all they can to protect savers including vulnerable customers. "As members of the UK Regulators Network, we are also interested in supporting a consistent approach to improving outcomes for vulnerable customers across the regulatory family," he confirms.

TPR has also issued new guidance urging trustees to prepare now for the possibility that their sponsoring employer faces difficulties. "As part of our clearer, quicker and tougher approach, we expect schemes to be treated fairly by employers. So, trustees must be ready to engage with a sponsor's management team regularly and quickly when they spot any risks. The faster they act, the more options and greater time they'll have to protect members' retirements," says Fairs.

Many employers and trustees are also leading the way by providing financial education and guidance and facilitating access to regulated financial advice, to ensure members receive the right support at the right time, says Watts-Lay.

"Implementing financial education initiatives is especially important right now – it can help the workforce explore ways in which their daily finances can be supported and prevent them from falling into financial hardship, or even from making decisions that they may

regret in the future, such as stopping pension contributions or accessing their pension early when they may not need to."

Wealth at work also recently launched a new online platform called the Financial Healthcheck. This helps employees build their knowledge on a range of financial matters based on an interactive diagnostic tool covering four key areas: debt and money management, managing savings, retirement and health, and financial protection. Having completed a few simple questions around their chosen area, the Financial Healthcheck produces their personal dashboard, providing access to a range of resources such as watching a webcast or animation, completing a budgeting tool or booking an online seminar.

The firm also provides support for those who need help at retirement by delivering virtual one-on-one guidance sessions via a video call or telephone.

Employers, trustees and providers all have a role to play when it comes to supporting vulnerable members through communications and conversations, says Walsh. "Additional support can range from signposting to third-party support offered by charities and other specialist organisations, to offering flexibility in standard processes and taking a personalised approach to members' circumstances," she adds.

### Keeping it simple

As an industry, one way we can help vulnerable customers is by simplifying the complexity of pensions and talking to members in a language they understand, says Gallagher director, retirement communications, Karen Bolan.

"A lot of members fear pensions as they are complex. This is the main reason many people use default options. They presume that the trustees know what

is best and are fearful of making a wrong decision themselves. Scammers prey on this fear. They prey on insecurity and the complex nature of pensions makes pension scheme members the ideal target. Added to this is the fact that pension pots built over many years mean there are attractively large sums available."

Unlike many in the industry, continues Bolan, scammers use simple language: "They position themselves as the member's friend. Increased communication, however, can help. We should be openly talking about scams and how to spot them. If it sounds too good to be true, it probably is. We need to raise awareness of scams by mentioning them in ongoing communications."

A further difficulty is that there still exists a level of mistrust about pensions, adds Bolan. "This is largely due to misleading and unhelpful stories in the press together with 'characters' like Philip Green who help keep a negative message around pensions appearing as headline news. Attention-grabbing headlines live long in members' memories."

Looking ahead, it's clear that the topic of vulnerability is not going anywhere. In fact, it is likely to become even more acute over time, says Butcher: "We have an aging society with a chronic pension saving adequacy problem. This means more people are going to be retiring later. Add to this the impact of freedom and choice, which means members are having to make complex decisions later into life and the persistence of pension scammers. In summary, schemes will have more older members, grappling with complex decisions, who are increasingly vulnerable."

➤ Written by Francesca Fabrizi