The elephant in the room

Summary
- The FCA estimates there are 27.7 million vulnerable customers in the UK.
- Identifying vulnerable scheme members is complex and individuals' circumstances change.
- Schemes can help by forming partnerships, working with employers and innovating.

Even before the Covid-19 pandemic hit, many vulnerable people were already struggling to engage with financial services. How can schemes help them for the future, asks Maggie Williams

Lockdowns, furlough, bereavement and ill-health damaged our collective mental, physical, social and financial wellbeing across 2020 and 2021. It left many individuals temporarily or permanently vulnerable, with potential long-term consequences for their pensions and other savings.

The Financial Conduct Authority (FCA) has a clear definition of vulnerability *[see boxout]* and recently issued new guidance on fair treatment of vulnerable customers. According to its October 2020 *Financial Lives Covid-19* survey, 27.7 million people in the UK showed one or more characteristics of vulnerability, making the new guidelines a crucial driver in ensuring that financial services providers offer inclusive support.

But Covid-19 isn't the only cause of vulnerability. The FCA's pre-pandemic February 2020 *Financial Lives* study found that over half (57 per cent) of adults with low financial capabilities felt nervous, overwhelmed or stressed speaking to financial services providers, or found it hard to find suitable financial products or services. Nearly a third (30 per cent) of disabled respondents found dealing with customer services on the phone confusing or difficult. And 20 per cent of adults who had a relationship breakdown in the previous 12 months had fallen into debt because they did not want to deal with difficult financial situations.

Financial Services Consumer Panel Member and Financial Inclusion Committee Commissioner, Johnny Timpson OBE, says that the next few years could prove even more challenging for people who are already struggling. "Recent events are only going to drive more vulnerability – we have a National Insurance increase, pay freezes, high inflation and rising fuel prices. There are hard times ahead."

Many of the millions of vulnerable customers identified by the FCA will also be in workplace pension schemes. However, Nest acting director of customer engagement, Eve Read, says that it can be challenging to identify vulnerable members "because while for some people vulnerability may be permanent, for others it may be temporary and subject to change". People who have previously not been vulnerable may become so due to lack of employment, injury, ill health or circumstances such as bereavement. Similarly, a vulnerable person might become less so in future, for example if someone finds new, stable work after a period of unemployment.

"Because of this complexity, we believe it is important to be conscious of the potential for vulnerability for all our members and to design services and products that cater for their varied and changing needs," adds Read.

"Engagement is difficult generally in pension schemes," says Comentis CEO and co-founder, Jonathan Barrett, "and if you overlay that with vulnerability, where people have other things on their minds, there is an even greater risk of drop-off. Schemes are often not aware of individuals' different circumstances, but still communicate with all members in the same way."

He says that, even if schemes can't identify individual vulnerable members, there are ways to find out more about the membership in general. "You could carry out a non-invasive annual questionnaire that helps to understand levels of vulnerability characteristics in the membership and give insights into challenges people are facing, for example," he says, adding that this is particularly valuable for members approaching retirement. "As you approach retirement, there is greater risk of cognitive decline and grouping of different vulnerabilities, but pension providers rarely have any idea of who might be vulnerable in their populations."

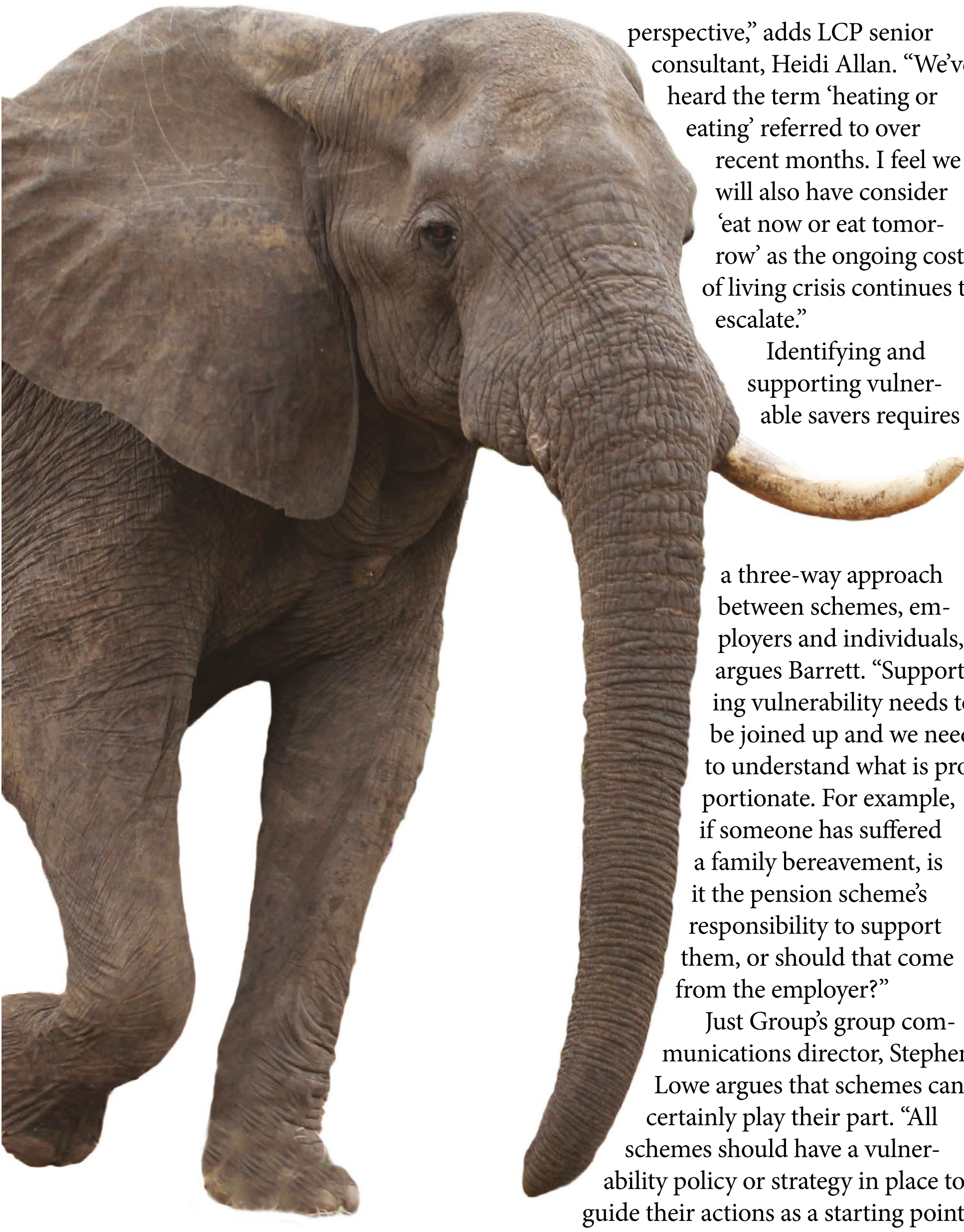
Covid-19 reduced the opportunity to meet members face-to-face and put greater reliance on digital tools – potentially making vulnerability even harder to identify and support. "But even with face-to-face advice, vulnerability can be difficult to spot," says Barrett. "People who are vulnerable are often good at masking it and putting on a brave face."

While technology can offer potential solutions, making sure that it is accessible to all scheme members and can be used at scale is also important. "We have additional support in place to help the 'digitally excluded' who are unable to access our online platform," says Read.

Read adds that Nest can better help individuals if they are willing to confidentially share some details about themselves. "Depending on the circumstances and with the consent of the customer, vulnerability or specific needs are logged within the system. For example, if a member identifies themselves as being dyslexic, with their permission we add this to their notes, so that in the future we can communicate with them in an appropriate way."

Other than hearing from members themselves, perhaps the most obvious indicator that someone is vulnerable financially is that they stop making contributions. "Where members have taken time off work and/ or have stopped contributing to their pension, this should raise a flag with the scheme or company," says Hymans Robertson head of DC engagement, Kirsty Moffat.

"You could see a cohort of scheme members that have to make the decision to reduce their contributions or cease altogether from a financial capability



perspective," adds LCP senior consultant, Heidi Allan. "We've heard the term 'heating or eating' referred to over recent months. I feel we will also have consider 'eat now or eat tomorrow' as the ongoing cost of living crisis continues to escalate."

Identifying and supporting vulnerable savers requires a three-way approach between schemes, employers and individuals, argues Barrett. "Supporting vulnerability needs to be joined up and we need to understand what is proportionate. For example, if someone has suffered a family bereavement, is it the pension scheme's responsibility to support them, or should that come from the employer?"

Just Group's group communications director, Stephen Lowe argues that schemes can certainly play their part. "All schemes should have a vulnerability policy or strategy in place to guide their actions as a starting point. Member-facing staff should be trained to look for and identify characteristics of vulnerability and should be well-versed in all circumstances that could trigger vulnerability."

Helping members with their wider wellbeing is another way that schemes can show support. Moffatt says: "In cases where members have health conditions, or are going through life events, it is very important for them to understand exactly what benefits they are entitled to and how they can access these."

Timpson adds that this can go beyond pensions – he gives the example of Scottish Widows, which has formed a partnership with cancer charity MacMillan to give support and guidance to pension customers affected by cancer.

He says that other pension schemes could consider a similar approach. "Trustees could think about looking at partnership programmes – charities can offer support with specific illnesses such as Parkinson's or Alzheimer's, and there other bodies such as Age UK and Turn2 Us that can help too."

Larger-scale changes, such as introducing savings schemes alongside pensions could also help, argues Allan: "Greater flexibility and the option to build rainy day savings alongside future savings would be a good start. This would allow members to redirect a portion of their contributions into a flexible savings pot that they can use as their buffer, providing protection should something unexpected happen."

Read concludes that it is vital that schemes look for ways to address vulnerability now, to help members. "With an accelerated shift to digital and the likelihood of a potential increase in the numbers of 'vulnerable customers,' significant consideration needs to be made in financial services to understand what serving vulnerable customers looks like in a predominantly virtual world."

Written by Maggie Williams, a freelance journalist

What is a vulnerable saver?

The FCA identifies 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."

It identifies four key categories of vulnerability:

- Health: Health conditions or illnesses that affect the ability to carry out day-to-day tasks
- Life events: Life events such as bereavement, job loss or relationship breakdown
- Resilience: Low ability to withstand financial or emotional shocks
- Capability: Low knowledge of financial matters or low confidence in managing money, and low capability in other relevant areas such as literacy or digital skills