

VULNERABLE CUSTOMERS

WHAT HAPPENS WHEN
THE MONEY RUNS OUT?

OCTOBER 2020

Ipsos MORI



THE PERFECT STORM THAT MIGHT SPELL DISASTER FOR UNPREPARED LENDERS



One of the big questions banks and other lenders are asking right now is how many customers will default on their loans when repayment deferral agreements come to an end in October. While conventional market research surveys can go a long way to understand this, we would also argue that a complementary approach is needed to help lenders really understand the magnitude of potential vulnerability and anticipate the needs of newly vulnerable customer.

THE UK BANKING SYSTEM AND THE BRITISH GOVERNMENT HAVE PROVIDED UNPRECEDENTED FINANCIAL SUPPORT TO CONSUMERS DURING THE COVID-19 PANDEMIC.

At the beginning of July, more than 1 million consumers had agreed payment deferrals on credit card debt, 707,000 had agreed deferrals on personal loans and 1.9 million on mortgage repayments.¹ In addition, 9.6 million UK workers have been furloughed.²

The banks' actions and interventions have undoubtedly contributed to an uplift in Net Promoter Score (NPS) and brand equity scores for many. However, as loan payment deferrals and furlough support come to an end, lenders face a reputational cliff edge.

If they get their response right, they are likely to continue to win hearts and minds. But if they get it wrong, their actions – or inaction – could define how their brand is perceived for years to come. The elephant in the room is the looming recession and the amplifying effect it may have on this developing situation. Latest figures from the Institute for Employment Studies (IES) suggest that completed redundancies could reach 735,000 this autumn.³

This time of reckoning for firms occurs when there is increasing regulatory pressure from the Financial Conduct Authority (FCA) on financial services firms to follow guidance provided for them to meet the needs of vulnerable customers. There is also bite in this guidance with a warning that if firms do not treat vulnerable customer fairly, they will intercede.⁴

In short, the remaining months of 2020 could see a reputational tipping point for lenders.



THE ELEPHANT IN THE ROOM IS THE LOOMING RECESSION AND THE AMPLIFYING EFFECT IT MAY HAVE ON THIS DEVELOPING SITUATION.

MEETING FCA EXPECTATIONS

THE FCA REQUIRES FIRMS TO IDENTIFY AND UNDERSTAND VULNERABLE CUSTOMERS' NEEDS, SHARE THIS KNOWLEDGE ACROSS THE BUSINESS AND THEN ENSURE COMMUNICATIONS, PRODUCT PROPOSITIONS AND CUSTOMER INTERACTIONS MEET THESE NEEDS.

Further clarification issued in July this year builds on the 2019 guidance by identifying **four** key themes for firms to focus on:

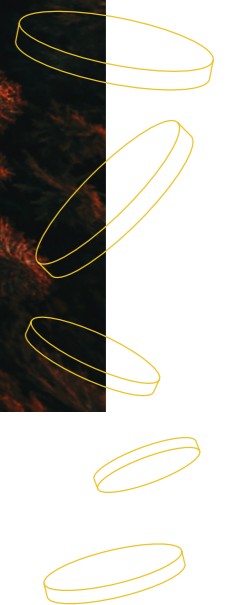
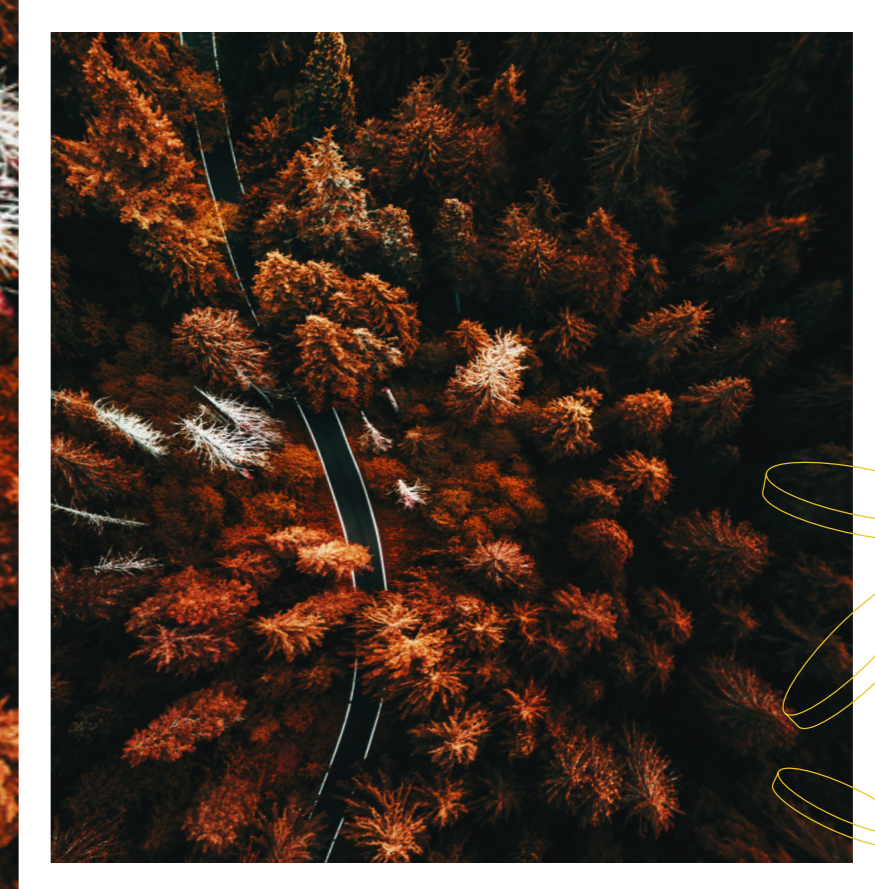
Recognising vulnerability and understanding customers' needs

The value of sympathy

The importance of empowered and knowledgeable staff

Meeting vulnerable consumers' communication needs

One of the key challenges firms face is fulfilling the first FCA requirement of identifying vulnerability and determining the needs of vulnerable customers. Arguably, once this is known, the remaining requirements become that little bit easier. However, in many cases vulnerability is not apparent from the way in which customers behave or the questions they ask customer-facing staff, their physical appearance or through the wealth of transactional data held on the bank's database. This difficult question is further complicated by the FCA's inclusion of potential vulnerability within its definition.



INCIDENCE OF VULNERABILITY HASN'T GROWN, YET



AT IPSOS WE HAVE BEEN WORKING CLOSELY WITH BOTH THE REGULATOR AND FIRMS TO UNDERSTAND VULNERABILITY, BOTH BEFORE AND DURING THE PANDEMIC.

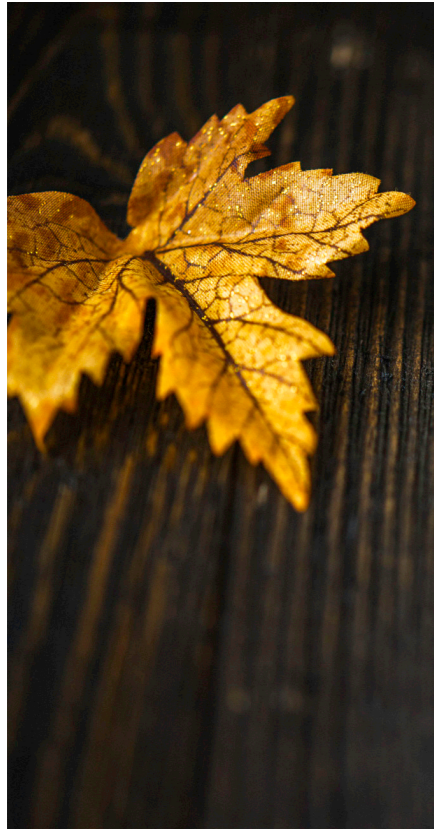
Ipsos' Financial Research Survey (FRS) data identifies that 43 per cent of the adult population in Great Britain are currently vulnerable or potentially vulnerable as defined by the FCA.⁵ Recent analysis of the FRS Vulnerability module shows that, at an aggregated level, the proportion of vulnerable customers has remained relatively unchanged throughout the pandemic.⁶ Indeed, Ipsos found only minor spikes immediately after lockdown when the proportion of adults experiencing negative life events jumped, driven by predominantly work-related factors,

i.e. redundancy/loss of job, or unwanted reduction in working hours.⁷

However, the proportion struggling financially (classified by the FCA as having low financial resilience) has remain unchanged. Research conducted by Ipsos during the pandemic suggests that many of this group are keeping their heads above water through short-term coping strategies (eating into savings, taking out additional debt products) and through short-term Government and industry support measures (furlough and payment deferrals).

While conventional surveys have informed lenders of the numbers of vulnerable customers, they do not answer the question of what happens when the majority of COVID-19 loan deferrals come to an end and when state-funded furloughs are withdrawn. What effect will this have on the proportion of UK adults classed as having low financial resilience and what support will these customers be looking for from banks?

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SEARCH ENGINE DATA REVEALS EARLY DIRECTIONS AND POSSIBLE ACTIONS

SOMETIMES DESCRIBED AS THE GUARDIAN OF OUR SECRETS, SEARCH DATA PROVIDES A WINDOW INTO THE SHIFTING PRESSURES, CONCERNS AND ASPIRATIONS THAT FINANCIAL SERVICES CUSTOMERS HAVE.

Analysis of historical and real-time search data can provide an early indication into the direction of financial decisions and suggest actions to shape desired outcomes.

With 1.9m agreed deferrals of mortgage repayments in July, we analysed the most commonly asked questions on Google relating to 'mortgage holiday'. While the volume of searches has declined since the initial flurry at the announcement of the scheme, comparing snapshots of the underlying questions between August and September 2020

reveals key shifts in concerns that may shape customer decisions at the end of October.

Many hope banks will extend the scheme

The prevalence of questions such as 'can I extend my mortgage holiday Halifax', 'are Santander extending mortgage holiday' and 'mortgage holiday for a year' suggest genuine concern about the ending of the scheme and a hope that specific banks will extend it.

Many participants in the scheme have distinct circumstances

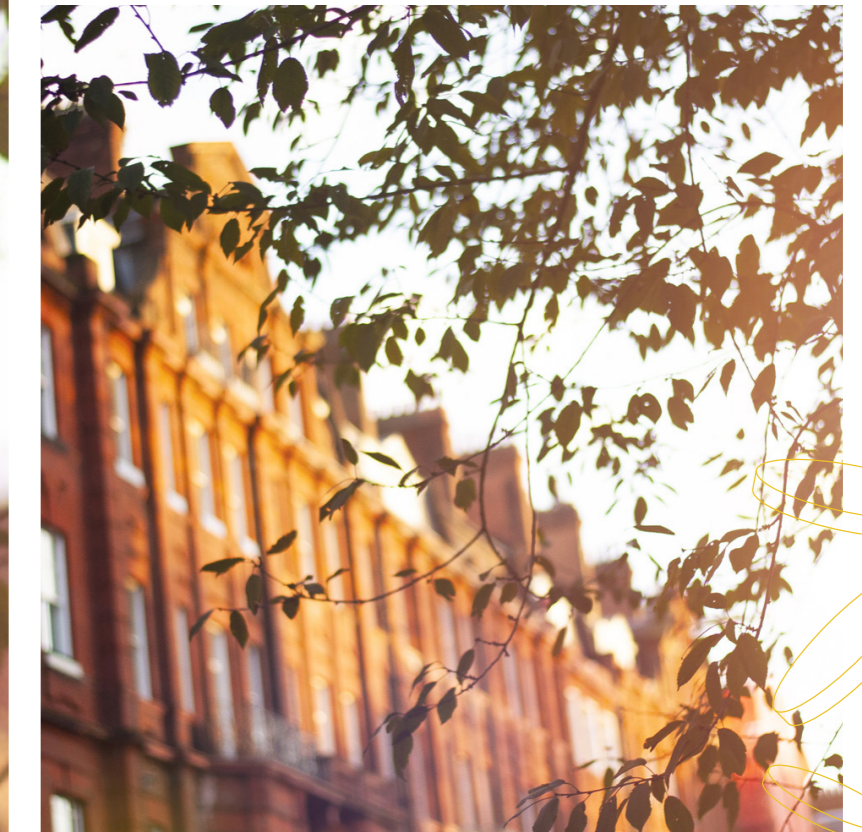
The more recent appearance of additional queries such as 'mortgage holiday maternity leave' and 'mortgage holiday for buy-to-let property' reveals the specific circumstances of concern about the scheme ending.

Many people question the impact of joining the scheme on their long-term finances

Search queries such as 'will mortgage holiday affect my credit rating', 'will mortgage holiday affect future lending' and 'will mortgage holiday affect re-mortgage' indicate some are increasingly looking towards the future and assessing the longer-term impact on their financial status.

Many people are weighing up alternative options

Analysis of searches relating to 'mortgage holiday' reveals questions such as 'mortgage holiday or interest only', 'is mortgage holiday a good idea', 'mortgage holiday risks' and 'mortgage holiday calculator' indicate a need for information and advice on whether a mortgage holiday is right for them, and concern about the long-term impact on their finances.



STRAWS IN THE WIND FOR OCTOBER



A KEY BENEFIT OF SEARCH DATA IS THAT IT CAPTURES THE OFTEN VERY SUDDEN PATTERNS IN CONSUMER THINKING.

While the scheme's expiry is some weeks away from this analysis, search data gives some tangible considerations for banks to manage the potential reputational and financial impact from November.

1. The Government schemes have been a lifeline for millions of consumers. Search queries around whether banks will extend the scheme reveal a vital need for banks to set clear and consistent expectations as soon as they can.
2. While general searches around 'mortgage holidays' has tapered,

the many detailed search queries reveal the need for banks to provide guidance to the many who have specific financial circumstances: buy-to-let, maternity leave etc.

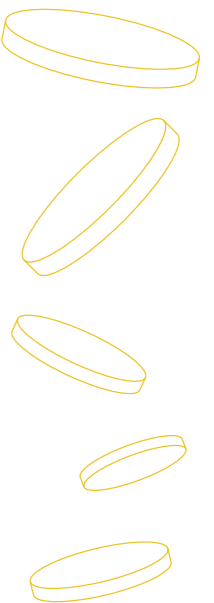
3. Equally, searches about the wider and longer-term impact of participating in the scheme underlines the need for clear and consistent communication on this.
4. In support of increased transparency, the need to provide tools for consumers to make their own informed decisions on their finances following the end of the scheme.



With the volume of potentially vulnerable customers likely to increase over the next few months, lenders would do well to understand what their customers are thinking. We believe this can be achieved through analysing unstructured search engine data. Insights from this analysis will help lenders develop targeted, proactive communications to potentially vulnerable customers and help

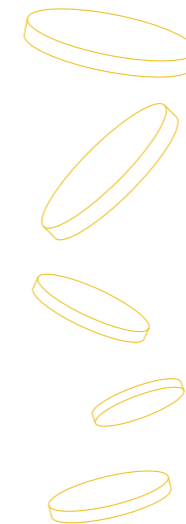
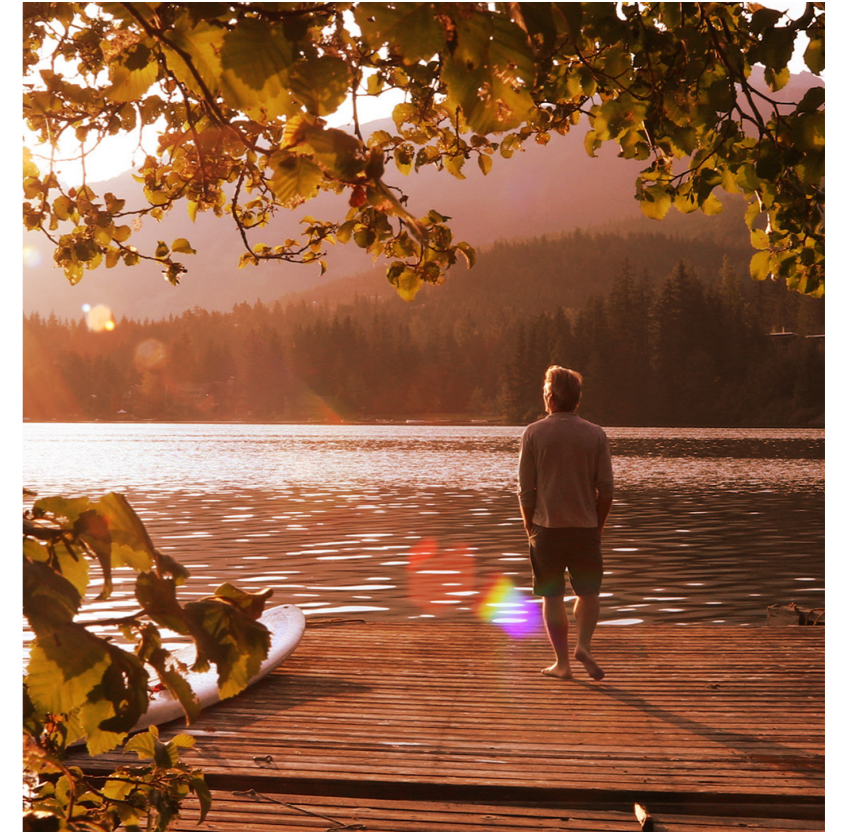
frontline staff prepare for the inevitable barrage of queries that will come from customers who find themselves in financial difficulty.

We are all faced with an unpredictable winter, in many ways. However, financial institutions can look to their customers' online behaviour to gauge how best to provide what's needed and invest in their future brand reputation.



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2. <https://www.gov.uk/government/collections/hmrc-coronavirus-covid-19-statistics>
3. <https://www.bbc.co.uk/news/business-54125690>
4. <https://www.fca.org.uk/news/press-releases/new-guidance-help-firms-do-more-vulnerable-consumers>
5. <https://www.ipsos.com/ipsos-mori/en-uk/financial-research-survey-frs-43%-of-GB-adults-are-considered-potentially-vulnerable>. Base: n=4,528 GB adults. Time Period: Monthly data July 2020
6. The FRS team have worked closely with the FCA to use their definition of vulnerability to ensure we are able to track the four vulnerability drivers highlighted in the FCA Vulnerability Guidance and analyse vulnerability across firms
7. <https://www.fca.org.uk/publication/guidance-consultation/gc19-03.pdf>



**If you would like to hear more about
the work we are doing in this field
please do not hesitate to contact:
Duncan.Fergusson@ipsos.com
Martin.Grimwood@ipsos.com**

FOR MORE INFORMATION
PLEASE VISIT:
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