Banking response to Covid-19

How the pandemic gives us lessons that can help people in vulnerable circumstances now

January 2023

Contents

Foreword

Sacha Romanovitch OBE, CEO of Fair4All Finance

Financial exclusion and low financial resilience are key barriers to opportunity. Yet with access to fair and affordable financial products and services, everyday life events or financial shocks can be managed.

This was starkly demonstrated during the Covid-19 pandemic, as millions more people found themselves in financially vulnerable circumstances, almost overnight.

It is clear from this report that the unprecedented support provided by regulators and mainstream banks during the pandemic significantly helped customers during a highly uncertain time. At the same time, the income statements and annual accounts of banks show that providing this support did not have a detrimental impact.

Mainstream banks really stepped forward to help customers and there are numerous examples of customers being supported above and beyond regulatory requirements. **76% of customers stated that their financial position was positively affected because of support measures.**

The pandemic shone a light on the lack of resilience that many people have and also what can be achieved when the whole financial services system works together to support people in financially vulnerable circumstances.

We know anyone can find themselves in this situation. Circumstances such as ill health, unstable incomes and a lack of savings can all cause financial vulnerability. Life events like losing a job, separation or bereavement can put a strain on finances and affect wellbeing.

And as the cost of living continues to rise sharply people are now facing a new challenge to their financial resilience. Customers increasingly need more help and support.

Banks have a real opportunity to step forward again and build on the support they provided during the pandemic. Many of the measures put in place during that time could help people weather this storm if reintroduced or modified. In particular we would encourage banks, building societies and other lenders to consider:

- Reintroducing an offer of a £500 interest-free overdraft to customers who are experiencing financial vulnerability and where it would be appropriate for their circumstances
- Providing a wide and flexible support and forbearance offer, including increased use of payment

deferrals and interest holidays to customers facing financial difficulties. Many people will need additional support to get through the winter, including those facing increased mortgage payments

- Taking further steps to communicate with customers via their preferred communication channels using clear language and to measure the impact of their work on customers. This will also complement the Consumer Duty requirements
- Widening their credit options to support customers in financially vulnerable circumstances. Many customers who are on low or flexible incomes need access to personal loans that are less than £1k and that can be repaid within 1 year.

With at least 17.5m people in the UK in financially vulnerable circumstances, it's surely too big of a need, and an opportunity, to miss?

I'd like to thank Johnston Carmichael for their diligent work on the report, the three banking institutions that participated in this research – Lloyds Banking Group, NatWest Group and Yorkshire Building Society, and in particular all of the customers who provided their own supporting evidence. Their responses provided an invaluable contribution to the findings.

Many of the recommendations in this research are opportunities for systemic change. I hope they can support financial institutions in the way they treat their customers in line with forthcoming Consumer Duty regulations.

Working together, we can make a difference to the lives of millions of people.

Ewen Fleming, Head of Consulting and Financial Services Sector Leader at Johnston Carmichael

It has been a pleasure to partner with Fair4All Finance on this important piece of research looking at the measures put in place by the FCA and the banking sector during the Covid-19 pandemic and the difference they made.

It is particularly pleasing to note the broadly positive reaction from customers who sought support during this period, helped by the speed that support measures were put in place especially given the scale of the operational challenges that banking institutions faced during the first lockdown.

We believe that the insights in this report are particularly relevant when set against the context of new Consumer Duty regulations coming into force for 'on sale' products and services from 31 July 2023, and with the current cost of living crisis.

As such we are hopeful that the report is useful for banking institutions as they seek to deliver and evidence good customer outcomes and ultimately the report's recommendations will be to the future benefit of people in financially vulnerable customers.

Executive summary

Key findings and recommendations

Context and purpose of this research

This research is complementary to the FCA's Borrowers in Financial Difficulty project, which also looks at the support and forbearance lenders gave to customers in difficulty over the pandemic.

Our research specifically focuses on major banks and building societies and looks more broadly across their whole response to Covid-19.

Our recommendations - including those on customer outreach, identifying vulnerability and referring customers to wider support services - support the FCA's findings and we welcome their calls for firms to learn lessons from the pandemic.

At the start of 2020, 11.5m people in the UK had less than £100 in savings to fall back on. During the Covid-19 pandemic, the number of people with low financial resilience increased by 30% to 14.2m. That's one in four adults in the UK.

The pandemic didn't affect people evenly – while many people on middle and higher incomes were able to save more, lots of families saw their savings eroded and 11m people built up some £25bn of debt.[1]

In the face of this crisis in financial resilience, there was an unprecedented programme of public policy support (including the Coronavirus Job Retention Scheme), regulator guidance and intervention, and lender support measures.

It is the latter which are the focus of this report, particularly the measures implemented by banking institutions to protect and support both themselves and their customers.

The financial challenges of the current cost of living crisis bear some resemblance to those challenges faced during Covid-19, where many people lost work or faced reduced pay.

This is particularly so for low income customers impacted by rises in consumer prices (which have increased by 10.1% in the last year) and by domestic gas and electricity prices (which increased by 96% and 54% between July 2021 and 2022 respectively) for example.

[1] StepChange, Covid Debt Rescue, Emergency support for renters to keep their homes

It's also worth noting that people can find themselves in financially vulnerable circumstances at any point in their lifetime – in 2018, seven in ten people who went to StepChange[2] for advice said the primary reason they fell into problem debt was because of a life event, such as illness, bereavement or job loss.

The approach taken by banks in response to a national crisis has lessons for helping people through everyday experiences.

This report considers what lessons can be learned from banks' response to Covid-19, and what measures could be sustainably reintroduced or modified to offer support to people in vulnerable circumstances both in the ongoing cost of living crisis and also in the longer term.

Scope and extent

To develop our understanding of how banking customers experienced the Covid-19 support measures, we collected primary consumer data via:

- Consumer surveys which were completed by c1,400 consumers and consisted of set questions relating to the measures and their impact
- Five consumer focus groups attended in total by 28 consumers and designed to provide further content and to elaborate on observed survey trends
- 40 individual one to one consumer interviews to further expand our understanding

We were pleased to work with three major institutions on this research - **Lloyds Banking Group (LBG)**, **NatWest Group** and **Yorkshire Building Society (YBS)**. Their responses have provided an invaluable contribution to the findings.

Their responses related to:

- the measures the institutions implemented
- any considerations or challenges faced when implementing these measures
- the sustainability of these measures
- the expected customer benefit

Beyond the primary data provided by these three institutions we also examined publicly accessible information to build a picture of the actions taken during Covid-19 and the impact on the seven banking institutions which are **Barclays UK**, **HSBC UK**, **Lloyds Banking Group**, **Nationwide Building Society**, **NatWest Group**, **Santander UK** and **Yorkshire Building Society (YBS)**.

[2] StepChange, Life happens: Understanding financial resilience in a world of uncertainty

Conclusions and findings

The swift action of the FCA and the financial services sector at the beginning of the pandemic significantly helped customers during highly uncertain financial times.

Measures put in place provided households with a much needed cushion as incomes became precarious and many people lost work. This was a seismic financial shock for household finances and the overall action was proportionate.

The FCA published initial guidance for banking institutions to support borrowing customers experiencing payment difficulties in March 2020, the same month as the Covid-19 pandemic was declared.

Guidance issued was clearly set out and explained what consumers could expect from measures (for example as in the case of payment holidays).

Banking institutions acted on this guidance quickly. Their pace was particularly impressive given the required operational and people changes to implement changes and handling the IT and security challenges of remote working.

In many cases people were redistributed across functions and provided with additional training to support customers.

Banking institutions were able to implement large volumes of support measures without a detrimental impact on income statements and financial stability. And customer outcomes were clearly helped by these actions.

76% of customer survey participants stated that their financial position was positively affected because of support measures, while 86% also expressed satisfaction with the support offered.

This is also in line with the global trustworthiness trends noted by IPSOS, their survey showed that banking industry is experiencing an increase in public trustworthiness from 20% to 28%. The industry is seeing its' highest trustworthiness ranking since before the global economic crisis, largely driven by the goodwill created through the implementation of COVID measures to support customers.

'It is clear that the behaviour of banks over the course of the pandemic has had a tangible and positive impact on trustworthiness'[3]

73% also stated that loyalty to their banking institutions increased following the support they received.

Despite this and the resilience shown by the UK public during Covid-19, financial vulnerability will always exist. The cost of living crisis, and in particular the exponential rise in energy costs, exacerbate the challenges and the number of individuals in financial difficulty.

As such, many of the conclusions of the research are opportunities for systemic change and can support financial institutions in the way they treat their customers in line with forthcoming Consumer Duty regulations.

[3] IPSOS Global Trustworthiness Monitor 2022

Detailed responses from Lloyds Banking Group, NatWest Group and Yorkshire Building Society have allowed us to better understand the good practice taking place during the pandemic.

We are keen to make these insights accessible to the wider industry to share good practice and allow for innovation and tailored support to continue.

Recommendations Part 1:

What systemic changes can we make given what we've learnt from the pandemic?

1

Maintaining key Covid-19 support measures beyond the pandemic would be viable for banks and helpful for customers

The measures banks put in place to support customers in vulnerable circumstances did not have a detrimental impact on income statements and financial stability. At the same time, the findings in this report demonstrate the benefits that early identification and support can have on customers in financially vulnerable circumstances.

For the institutions we analysed, operating expenses decreased between 2019 and 2020. This was despite the significant and wide-ranging levels of support, where the majority of customer requests were agreed to in some form.

While banks' reserve requirements went up, the government Coronavirus Job Retention Scheme helped ensure that a higher number of customers didn't default. And the potential for lost revenue from the support measures was alleviated as banking institutions continued to accrue interest during payment holiday periods.

Given this, it would be helpful to customers to maintain some key measures to support customers.

The viability of maintaining wide-ranging measures will depend on employment rates and outstanding consumer debt.

Lending support measures may be hard to sustain at large scale in the future if bad debts increase significantly. In the current cost of living crisis, it is possible there may be an increase in outstanding consumer debt and a forecast increase in loan loss provisions which may mean not all supports measures could be offered at the same scale assuming no other intervention.

However, it will remain key to engage with customers in vulnerable circumstances early to provide breathing space and to work with referral partners to support customers in greatest need and prevent levels of consumer debt rising.

2

Banks can apply their pandemic approach to support to help customers in vulnerable circumstances during the current cost of living crisis and beyond

Banking institutions have an opportunity to build on the measures they introduced during the pandemic and maintain the wide and flexible approach to support and forbearance, including specifically:

- The offer of £500 interest free overdrafts for customers displaying characteristics of vulnerability
- Broader use of payment deferrals for customers experiencing life events and temporary financial difficulties
- Wider use of interest holidays which should be tailored to customer needs as identified through Fair4All Finance's segmentation

Additionally, banks could engage further with the 17.5m customers in financially vulnerable circumstances identified by Fair4All Finance's segmentation, including those who are excluded from mainstream finance, to ensure they receive appropriate forbearance.

This would help customers during difficult periods and could lead to further increases in loyalty and interim uptick in areas such as Net Promoter Scores (NPS).

3

By widening and expanding their credit offer, banks can meet the credit needs of more customers in vulnerable circumstances

We recommend banking institutions explore alternative solutions to meet the credit needs of people in financially vulnerable circumstances.

These could include lower minimum loan amounts and terms, broader access to flexible overdrafts and easily accessible options to pay in instalments for larger one-off purchases or spread the cost of significant monthly bill payments. Of the surveyed support measures, requests for new overdrafts were the most likely to be declined – with 18% of requests declined.

We know from our work with community finance providers there is significant need for small flexible loans to cover unexpected expenses.

In Q3 2021, 86 % of new loans issued by our grantee organisations were equal to or under £1,000, yet most bank loans start at a minimum of £1,000.

Specifically, it was noted from the customers in in our focus groups that it would have been helpful for more alternative support options to be laid out by banking institutions who rejected loan requests. Banking institution could consider working with community finance partners on referral pathways to ensure those that can afford it are able to access small amounts of credit.

4

Government subsidy may be needed to enable sustainable lending to customers who are currently underserved by the credit market

It may be helpful to consider the need for wider government intervention and a form of 'guarantee' where borrowing would otherwise not be granted, as was offered in the case of business lending during the pandemic.

This may be particularly necessary given increasing issues with access to credit, made worse by the recent exits of many traditional lenders from the high-cost credit market. It's important that any such 'guarantee' is backed by incentives to encourage repayment rates and could consider a risk and reward profit share construct.

Fair4All Finance are running a consolidation loan pilot backed by a partial bad debt guarantee that tests this concept.

5

Payment holidays were a valued option for customers during the pandemic – reintroducing them would help people through similar periods of financial turbulence

Payment holidays had the highest levels of satisfaction of the surveyed support measures, with 86.9% of respondents satisfied or very satisfied with the impact on their financial situation.

Customers appreciated the simplicity of the offer and widespread promotion and understanding of the measure empowered them to engage with firms at unprecedented levels. Clear guidance from the regulator also encouraged firms to be generous in their approval of requests – our survey found that 96% of payment holiday requests were approved or partially approved.

Payment holidays can provide a valuable respite for customers experiencing similar circumstances of vulnerability in the future, where life events create temporary periods of financial difficulty. This is also supported by Bank of England data which suggests that mortgage payment holidays take up was much higher amongst household experiencing financial vulnerability versus the national average.[4]

The FCA and banks have an opportunity to coordinate a clear response to the cost-of-living crisis and beyond that encourages customers to ask for support and empowers firms to offer wide ranging and appropriate forbearance.

Recommendations Part 2:

How can we use the lessons from the pandemic to build more robust customer and measurement processes?

1

Proactively identifying customers in vulnerable circumstances and communicating in their preferred way can ensure appropriate support is offered early

Identifying and contacting customers in financially vulnerable circumstances are two of the most important steps in offering appropriate support.

We encourage banking institutions to ensure they are proactive in monitoring for early signs of financial stress or vulnerability at a customer level and not just a product level.

We found that during the pandemic customers were more than twice as likely to have contacted their banking institution (c64%) rather than being proactively contacted.

2

Evidencing outcomes at a customer level can help banks understand and improve how they serve key groups of customers in financially vulnerable circumstances

Using data to evidence customer outcomes from every interaction, both in real time and after the event, can help identify and isolate outcomes for people in financially vulnerable circumstances.

Our research found that banking institutions predominantly report at a portfolio level. We would recommend developing capability to report on customer outcomes across the organisation and be able to segment information as required.

The Fair4All Finance customer segmentation model can be a viable way for institutions to understand how they serve key groups of customers in financially vulnerable circumstances and identify opportunities to serve different customer groups.

Overall our research found that customer uptake of payment holiday measures was double (35%) amongst

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[4] 'Consumption effects off mortgage payment holidays during the Covid-19 pandemic'; bankunderground.co.uk

customers who identified themselves as having at least one characteristic of vulnerability versus the general population survey where uptake was reported at 15%.

3

Making digital channels accessible to all customers and aligning communication channels to customer preference would improve understanding of support measures

Our research found many customers struggled to understand the impact and long term consequences of certain support measures. Improved communications would increase the positive impact and reach of the measures.

In terms of communication channels, phone calls were the most popular for both banking institutions and customers. Letters are less popular. Customers also showed a preference for the use of digital channels (email and webchat) and human interaction remains a valued part of broader customer service, particularly for those who may not feel safe banking online.

Overall, communications with customers can be improved by aligning customers with their preferred method of communication and increasing efforts to make digital channels accessible to all customers.

4

Empowering customer facing teams to make decisions can improve the identification of customers in financially vulnerable circumstances

Customer facing teams should be empowered to be able to take appropriate decisions to address the needs of customers in vulnerable circumstances, without having to refer straightforward decisions 'up the chain of command.'

In complex or sensitive customer cases, customer journeys can be improved by directly routing the customer to a 'specialist' or more highly trained pool of advisors.

5

Customers valued the additional financial support banks provided during the pandemic and it will be valuable through the cost of living crisis and beyond

Our research showed customers valued support received about budgeting, mental health support and referrals for debt advice.

Banks have an opportunity to build on this good practice and consider way to provide additional support through guidance, signposting and referrals to specialist support. This could include partnerships with charities and online support tools.

Introduction

Overview: Our mission and vision

Fair4All Finance's mission is to increase the financial resilience and wellbeing of people in vulnerable circumstances through improving the availability of fair and accessible financial products and services. Our vision is of a society where the long term financial wellbeing of all people is supported by a fair and accessible financial sector.

We define vulnerability in the same terms as the Financial Conduct Authority (FCA), where a vulnerable customer is someone especially susceptible to detriment, with the four key drivers of vulnerability being: financial resilience, financial capability, life events and health.

Figure 1: The drivers of vulnerability

47% of UK adults have characteristics of vulnerability

20% of UK adults have experienced a **negative life event** in the preceding 12 months

7% of UK adults have **poor health**

24% of UK adults have **low financial resilience**

19% of UK adults have **low financial capability**

Source: Financial Conduct Authority, May 2022[5]

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[5] Financial Conduct Authority. Financial Lives 2022 survey: insights on vulnerability and financial resilience relevant to the rising cost of living

These drivers of vulnerability shape a customer's needs over the whole of their financial lives. We want to see well designed financial products and services that better respond to these needs and support people's financial wellbeing.

This report considers how mainstream banking institutions can learn from their Covid-19 customer relief measures and best serve customers who may look to their banking institution for support during life events that further impact their finances, including the current cost of living crisis.

The report: Learning from Covid-19

As a result of the first Covid-19 lockdown, real household disposable income decreased by 2.3% in Q2 2020[6]. This sudden fall in real income put immense financial pressure on UK households; 11.5 million people in the UK had less than £100 in savings to fall back on at the start of 2020[7].

Therefore, in October 2020, with the expectation of heightened financial stress, many adults reported that they were likely to: use a food bank (11% or 5.6 million), cut back on essentials (33% or 17.5 million) or take on more debt (16% or 8.1 million).[8]

However, as the pandemic unfurled and the UK moved out of lockdown, we did not witness the sharp spending cuts, by households with high levels of debt, associated with previous shocks to the economy[9]. That said it is worth noting that despite this the disparity in lower and upper income households continues to grow.

The extraordinary financial resilience of the UK public during Covid-19 was facilitated by unprecedented public policy support (including the Coronavirus Job Retention Scheme), regulator guidance and intervention, and lender support measures. It is the lender support measures which are the focus of our investigation: the measures implemented by banking institutions (of their own accord and following FCA guidance) to protect and support their customers and themselves.

As expanded upon in the next section, the financial challenges faced during the current cost of living crisis bear some resemblance to those faced during Covid-19 – particularly so for people on low incomes. Therefore, this report strives to discern which measures, implemented by banking institutions during Covid-19, could be sustainably reintroduced or modified to offer support to customers in vulnerable circumstances.

We will also evaluate how the banking measures were communicated, by analysing the relationship

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[6] Office for National Statistics. Coronavirus and its impact on the UK Institutional Sector Accounts: Quarter 2 (Apr – June) 2020, p4 2020 [cited 2022 May 17]

[7] Money and Pensions Service. The UK Strategy for Financial Wellbeing.2019/2020 [cited 2022 May 18]

[8] Financial Conduct Authority. FCA finds the Covid-19 pandemic leaves over a quarter of UK adults with low financial resilience. 2021 [cited May 15]

[9] Bank of England. Household Debt and Covid, Quarterly Bulletin – 2021 Q2. 2021 [cited 2022 May 18]

between customers and their banking institutions. The methodology of our research is outlined below:

Banking institution research

Beyond the primary data provided by NatWest Group, Lloyds Banking Group and Yorkshire Building Society, we also examined publicly accessible information (eg annual reports, analyst calls, investor updates and press releases) to build a picture of how the banking institutions acted during Covid-19. This secondary research enabled us to consider:

- The measures implemented by the banking institutions to protect customers and to protect themselves
- A timeline of when the measures were implemented and whether they were initiated by the FCA or of the institution's own accord
- The identification and selection of the customer groups who received these measures
- The number of customers who received the measures and how this impacted their future financial behaviour eg loan repayment post-forbearance
- The impact of the measures on the institution's income statement and balance sheet
- The organisational capabilities which enabled the institutions to enact these measures
- The long-term viability of specific measures going forward, in relation to risk and profit

Our original intention was to rollout a qualitative survey to seven significant banks and building societies in the UK.

The survey offered to these institutions contained questions relating to the measures the institutions implemented, the obstacles/considerations when implementing these measures, the sustainability of these measures and the expected customer benefit.

Of the seven institutions we engaged, Lloyds Banking Group, NatWest Group and Yorkshire Building Society agreed to participate in the study. Their response has provided an invaluable contribution and enabled us to nuance our research with greater detail and examples.

Consumer research

To develop our understanding of how banking customers experienced the Covid-19 support measures, we carried out primary research. We used three methods to gather primary consumer data: consumer surveys, consumer focus groups and consumer interviews.

The differences between these research methods, in terms of scale and response detail, enabled us to establish overarching trends without sacrificing the depth of our analysis.

The underlying ambition of all our primary consumer research was to discern how banking customers felt the banking measures impacted their wellbeing and responded to their personal needs. The three research methods are summarised below:

1 The quantitative consumer survey, which had 1,488 respondents who were all customers of at least one of the in-scope banking institutions, provided valuable insight into the underlying customer experience of banking during Covid-19. Indeed, the survey revealed overarching trends, such as: how well banking institutions communicated support measures, which support measures were most popular and how the support measures impacted consumers' financial situations.

In addition all 1,488 respondents identified with at least one characteristic of vulnerability (identified during pre-screening) and there was on average 2.2 vulnerability characteristics selected per customer per bank. This made for a consistent sample to enable valid comparisons to be drawn in our analysis

2 The five consumer focus groups, which had a total of 28 attendees, built on the responses from the consumer survey by adding context. For example, the focus groups revealed the methods by which the banking institutions communicated their support measures and the way in which they were treated by banking staff

3 The 40 individual one to one consumer interviews added an additional layer of depth to our understanding of the banking customer experience. By allowing the interviewees to direct the flow of conversation we learnt about ways in which consumers feel banking institutions could have done more and their underlying view of the support given

The current problem: The cost of living crisis

The 0.8% decrease in UK real wages from September to December 2021 signalled the beginning of the cost of living crisis[10]. The Office for Budget Responsibility (OBR) in its report dated 21 July 2022 confirmed the magnitude of this crisis and forecasted post-tax household income, adjusted for inflation, to fall from Q2 2022, and not recover until Q3 2024[11].

In March 2022, the Centre for Economics and Business Research (Cebr) expected a £71bn, or £2,553 per household fall in living standards in 2022[12].

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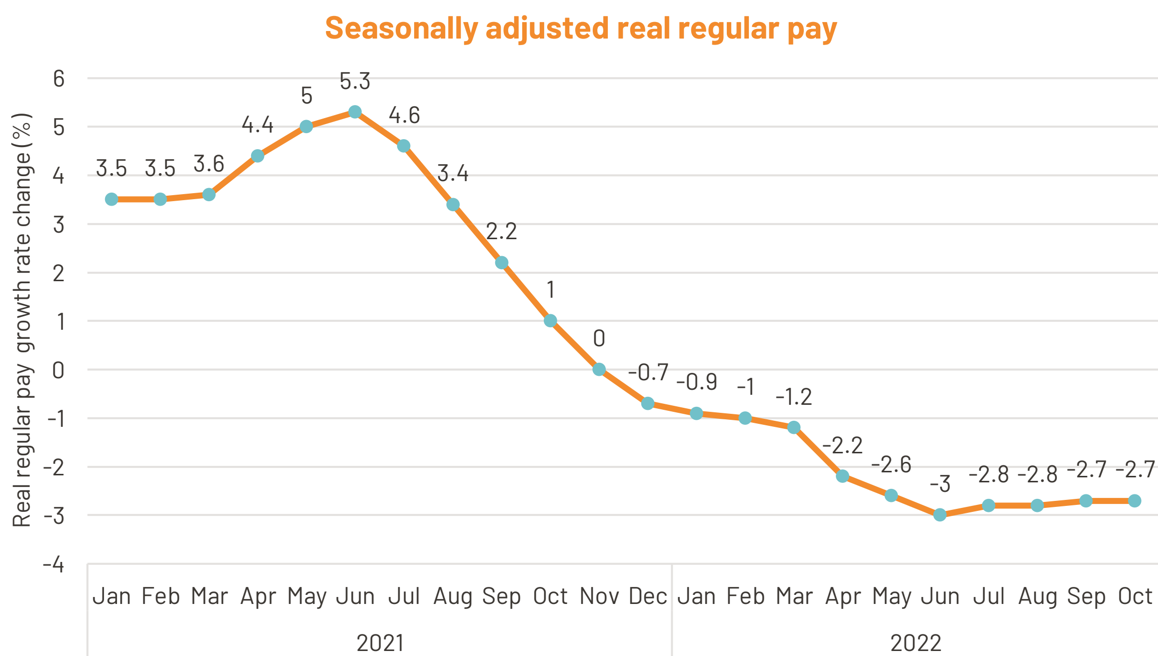
[10] Sillars, J. COVID-19: UK workers facing worst Christmas wage squeeze in almost a decade, TUC claims. Sky News. 2021 December 13

[11] House of Commons Library. Rising cost-of-living in the UK, p30. 9428. 2022 [cited 2022 May 17]

[12] Cebr. Cost to the UK Economy of the Russian Invasion of Ukraine – a scenario analysis, p4. 2022 [cited 2022 May 18]

Figure 2: Seasonally adjusted real regular pay



Source: Office for National Statistics (2022)[13]

The above graph demonstrates the dramatic fall in the rate of growth in real regular pay over the past 12 months. According to Richard Hughes, Chair of the OBR, inflation is responsible for two thirds, and tax changes one third, of this worrying contraction in real income[14].

The Bank of England warns that inflation may reach around 13% this year, which is impacting households day to day.[15.] Of particular concern is the disproportionate nature of this cost of living crisis. The New Economics Foundation estimates that the proportion of household spending on energy bills is three times higher for the poorest 10% of UK families compared to the richest 10%[16].

The rising cost of living is impacting everyone in different ways, with the rising cost of necessities including food and energy impacting and changing household budgets.

- The rise of inflation to a 40 year high of 11.1% in October has not impacted everyone in the same way, with the poorest tenth of households having higher-than-average rates of 12.5%, compared

[13] Office for National Statistics. Labour market statistics time series (LMS). 2022 [cited 2022 May 18]

[14] Treasury Committee. Oral evidence: Spring Statement 2022. HC 1226. 2022 [cited 2022 May 18]

[15] Bank of England. How high will inflation go? 2022 [cited 2022 May 17]

[16] Kumar C, Caddick D and Stirling A. The Unequal Impact of the Energy Bill Crisis. New Economics Foundation. 2022 January 24

- to 9.6% for the richest tenth[17]
- Food prices have risen by 16.4%, the highest since 1977[18]. The price of the lowest-price food items (such as pasta and bread) has risen by around 16% over the last year[19]
  - The Food Standards Agency has found that due to affordability and availability, people across the country are eating out of date food, skipping meals, eating less healthy and balanced food and turning off their fridges or freezers[20]
- Citizens Advice referrals to food banks have increased by 61% compared to the same time last year and breaking this down by demographic groups shows social tenants, single people, persons with disabilities, women and those from Black, Black African, and Caribbean backgrounds are all referred at much higher compared to the rest of the population[21]
- Private rental prices have risen by 3.8%[22] in the last year and the mortgage rates increase to 5.5% is expected to pull 400,000 people into poverty[23]
- The typical household has seen a yearly increase from £1,300 to £2,100 for their energy bills, even with government support through the Energy Price guarantee. ONS estimates predict inflation may have risen to 13.8% without the Energy Price guarantee.
  - The Energy Price Guarantee cap now stands at £2,500 and will remain beyond April 2023 but will increase to £3,000. Further support will be provided to those most in need from April, with £900 for households on mean tested benefits, £300 for pensioner households and £150 to people on certain disability benefits[24]
  - For the 4 million households on prepayment meters (who pay energy on a pay as you go basis rather than through direct debits), they are expected to pay an average of £432 more from December 2022 to February 2023, paying £1bn more overall than direct customers over winter[25]

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17 Resolution Foundation. Cost-of-living gap between rich and poor hits fresh high, as effective inflation rate for low-income households hits 12.5 per cent.2022. [cited 16 November 2022]

18 ONS, Consumer Price Index. Consumer Price Inflation. 2022. [cited 16 November 2022]

19 ONS. Tracking The Lowest Cost Grocery terms Experimental Analysis. 2022. [cited 16 November 2022]

20 Food Standards Agency. Consumer Insights Tracker Monthly Bulletin. 2022. [cited 16 November 2022]

21 Citizens Advice. CA Cost of Living Data Dashboard: November 2022. [cited 16 November 2022]

22 ONS, Index of Private Rental Housings. 2022. [cited 16 November 2022]

23 Joseph Rowntree Foundation. Additional 400,000 people pulled poverty mortgage rates. 2022. [cited 16 November 2022]

24 BBC, What is the energy price cap and what will happen to bills? 2022. [cited 17 November 2022]

25 Citizens Advice. Out of the cold? Helping people on prepayment meters stay connected this winter. 2022. [cited 16 November 2022]

- Prepayment customers are already feeling the cost increase, with 7 out of 10 prepayment customers finding it difficult to afford bills, compared to 4 in 10 standard meter customers[26]

Note: All statistics were correct at the time of writing and may have developed since.

This report investigates the measures taken by the FCA and banking institutions to protect people in vulnerable circumstances during the Covid-19 pandemic and subsequently establish the role these, or similar measures, could play going forward.

We should recognise that there are differences between the economic circumstances surrounding the pandemic and those surrounding the current cost of living crisis. For example the public now face rising interest rates with the Bank of England's base rate increasing throughout 2022 and expected to rise further in 2023.

Low income households will be disproportionately impacted as a greater percentage of their expenditure is on energy, food and fuel than higher income households, at a time when costs are increasing. Additionally, higher interest rates have reduced the affordability of borrowing for consumers.

The underlying challenge of the Covid-19 pandemic and the current cost of living crisis remain the same - people in financially vulnerable circumstances will be disproportionately impacted, especially those with debt repayments, while trying to maintain their standard of living.

[26] ONS. Impact of Increased Cost of Living on Adults across Great Britain. 2022. [cited 16 November 2022]

The measures: Responding to Covid-19

FCA expectations and guidance for banking institutions

On the front foot

When the pandemic emerged in early 2020, the FCA was ready to offer guidance to banking institutions on the measures they should implement to protect customers, and in particular those in the most vulnerable circumstances, to shocks in their income[27]. The FCA was on the front foot when they released their guidance as early as March 2020. Particularly so given the UK's first lockdown was announced on 23 March[28].

Specifically, the FCA published the Payment Deferral Guidance (PDG) and Tailored Support Guidance (TSG) in March and September 2020 respectively. These included measures designed to support borrowers experiencing payment difficulties because of the Covid-19 pandemic.

Payment Deferral Guidance (PDG)

PDG impacted mortgages and other consumer credit products such as credit cards (including retail revolving credit), personal loans, overdrafts, rent to own (RTO), buy now pay later (BNPL), pawnbroking, motor finance and high cost short term credit (HCSTC).

The guidance enabled customers in vulnerable circumstances to defer up to six monthly payments (capital and/or interest), provided that the last deferral related to payments due no later than July 2021.

Mortgage payment deferral in particular proved to be popular and based on annual reports and accounts 2020/21 published by the FCA in July 2021, it is estimated that this was taken up on c1.9 million mortgages. A panel survey conducted by the FCA in October 2020 also revealed that 4 in 10 mortgage holders would have struggled a lot more without taking a payment holiday.

UK Finance the trade body for financial service say their data showed that 27 million customer accounts

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[27] Published coronavirus (Covid-19) guidance for firms. FCA. 2020 [cited 24 May 2022]

[28] Sample I. Covid timeline: the weeks leading up to first UK lockdown. the Guardian. 2021 [cited 24 May 2022]

Parameters	Mortgages	HCSTC, RTO, BNPL, Pawnbroking and Motor finance agreements	Credit cards and personal loans	Overdrafts
Payment deferral guidance (PDG)				
Timeline	20 Mar 20 – 31 Jul 21	24 Apr 20 – 31 Jul 21	09 Apr 20 – 31 Jul 21	09 Apr 20 – 31 Jan 21
Payment holiday	• Yes, maximum six monthly payments • Last payment deferral due no later than July 2021			• No payment holiday • Measure 1 → Interest free overdraft up to £500 • Measure 2 → Standard rate above £500 (fair pricing)
Repossession	• Stay on repossession until the end of PDG period		• Not applicable	
Impact on credit file	• No negative impact on customers' credit file			

Note 1: In all of the above cases regulated firms were allowed to offer other favourable forms of assistance including a longer payment deferral if necessary

Note 2: In all of the above cases regulated firms were allowed to accrue interest for the payment holiday period as long as it was not detrimental to the customer's financial situation

were offered interest free £500 as part of their arranged overdrafts by July 2020.[29]

An overview of PDG guidance can be seen in figure 3 above

Tailored Support Guidance (TSG)

TSG was introduced in September 2020 to supplement PDG and applied to banking institutions dealing with customers facing ongoing payment difficulties due to Covid-19. It applied to customers who did not receive payment deferrals under PDG, including where the customers were not, or were no longer, eligible for payment deferrals.

[29] UK Finance, press release: Lenders provide over one million payment deferrals on credit cards

TSG was designed to enable banking institutions to continue to deliver short and long term support to customers affected by the evolving Covid-19 pandemic and the Government's response to it. An overview of TSG guidance can be seen in figure 4 below:

Tailored support guidance (TSG)

Parameters	Mortgages	Other consumer credit (ie credit cards, personal loans, HCSTC, RTO, BNPL, motor finance and pawnbroking agreements)
Timeline (updates)	14 Sep 20; 27 Jan 21; 25 Mar 21	30 Sep 20; 19 Nov 20
Measures	• Further payment deferral, where appropriate • Other measures that regulated firm deemed appropriate, without changing contractual terms	
Repossession	• Stay on repossession until 1 of April 2021 • TSG update dated 25 March 2021 allowed repossession from 1 of April 2021	• TSG update dated 19 November 2020 allowed repossession from 31 of January 2021
Impact on credit file	• Reported to the credit files of the customers	

Note 1: In all of the above cases regulated firms were allowed to offer other favourable forms of assistance including a longer payment deferral if necessary

Note 2: In all of the above cases regulated firms were allowed to accrue interest for the payment holiday period as long as it was not detrimental to the customer's financial situation

Note: For further detail and understanding of the FCA's expectations and guidance for banking institutions please refer to Appendix 1.

Banking institution measures

In addition to the FCA guidance, a range of measures were also implemented by the banking institutions themselves. These were designed not only to protect the stability of banking institutions but also to provide further support to customers in vulnerable circumstances affected by the pandemic.

Protecting banking institutions

Better capitalisation to withstand economic shocks

The global financial crisis in 2007 highlighted an insufficiency in the capital position of banking institutions which resulted in severe restrictions on credit supply. Authorities in the UK have since worked to establish much higher standards for equity capital and other loss-absorbing capacity, including specific capital requirements and individual guidance set out by the Prudential Regulation Authority (PRA).

UK banking institutions have also responded and strengthened their respective capital positions with the Bank of England now considering the UK's largest lenders no longer 'too big to fail'[30]. Therefore, coming

[30] Makortoff K. UK's largest lenders no longer 'too big to fail', says Bank of England. The Guardian. 2022 [cited 11 July 2022]

through the pandemic, banking institutions were much better capitalised to withstand economic shocks, than they were pre the global financial crisis, and more able to continue sustainable lending to customers.

Maintained strong liquidity

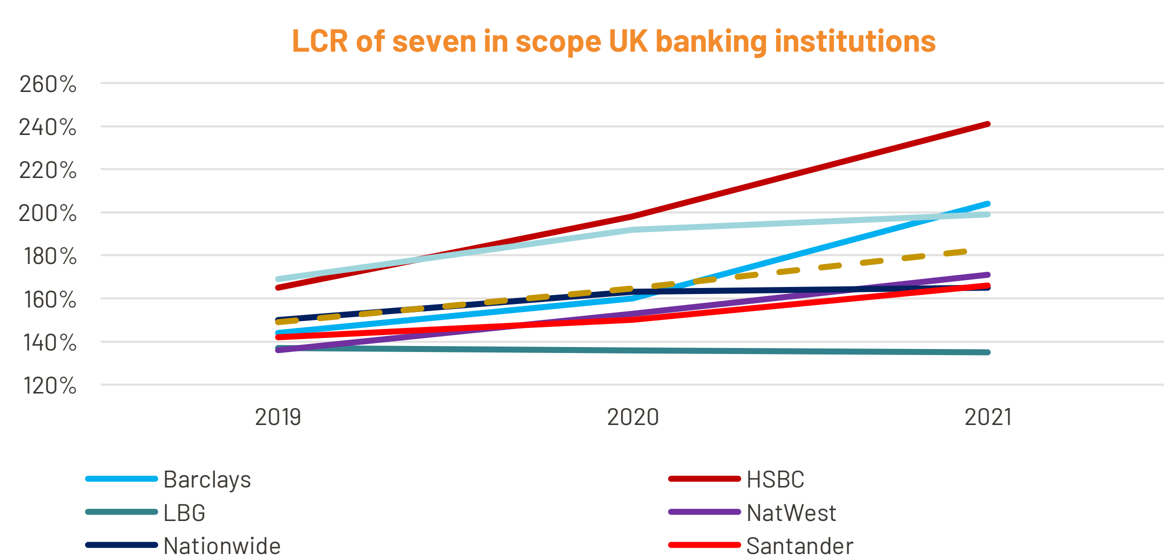
Liquidity is the ability of an organisation to meet their cash and collateral obligations. Banking institutions were able to weather the economic disruption caused by the pandemic through strong funding and liquidity positions supplemented by growth in customer deposits and savings. The quality of the liquidity pool for UK banking institutions remained high with the majority of assets held in cash, as deposits with the Bank of England and in government bonds.

Liquidity coverage ratio (LCR) refers to the proportion of highly liquid assets held by the banking institutions to ensure their ongoing ability to meet short term obligations. During the pandemic, the PRA recognised banking customers' need for funds and advised UK banking institutions to not hold back from supplying the funds even if their LCR ratio declined significantly below 100%.

However, the growth in customer deposits from the savings glut allowed banking institutions to not only meet their customer's needs for funds but also maintain their LCR. As a result LCR remained high and continued to grow over the 2019-2021 period.

This is reflected in figure 5 below which also illustrates that banking institutions had enough of a liquidity buffer to address the contingencies caused by the Covid-19 crisis.

Figure 5: Liquidity coverage ratio (LCR) of seven in scope UK banking institutions



Enhanced risk management enabled continued delivery of support to customers

Due to the deteriorating macroeconomic outlook in the UK, banking institutions reviewed their risk management practices during the pandemic, particularly with regards to modelling the impact of risk policy on credit risk.

They did this as a response to the potential impact from customer defaults and the corresponding effect on their financial results, operations, and external stakeholder expectations. The benefit of them doing this was that they were able to proactively manage risk, while continuing delivery of support to customers.

Selected examples of measures taken by banking institutions include:

- In 2020[31] and 2021[32], HSBC UK updated its risk policy to address the gaps that emerged from significant increases in adjustments and overlays that were applied to compensate for the impact of the Covid-19 pandemic
- NatWest Group[33] changed the credit score acceptance thresholds and credit policy criteria for maximum loan-to-values on new mortgage business
- Barclays[34] changed customers' minimum payment structure. From February 2021, all new credit card accounts taken out by customers were automatically put onto a new higher minimum payment calculation

Note: while banking institutions adjusted their risk management practices and ECL provisioning (see below) this was in direct response to the pandemic. The appropriateness of applying such measures in the future, and in particular the impact this would have on customers in vulnerable circumstances should be a consideration for banking institutions in conjunction with the prevailing economic environment.

Adapting product offering to the need and macroeconomic events

As Covid-19 initially derailed[35] the housing market, banking institutions began to restrict high loan-to-value (LTV) mortgage products to protect themselves from uncertainty in the mortgage market and potential deflation of asset prices.

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[31] HSBC UK Bank Plc annual reports and accounts 2020, p20

[32] HSBC UK Bank Plc annual reports and accounts 2021, p58

[33] NatWest Group plc annual reports and accounts 2020, p193

[34] Barclays bank UK Plc Strategic Report 2021, p88

[35] Wait R. Mortgage Lenders Pull High LTV Deals As Covid Clobbers Housing Market. Forbes Advisor UK. 2020 [cited 18 May 2022]

For example, Barclays reduced the maximum amount customers could borrow from 5.5 times income to 4.49 times[36], HSBC UK reserved mortgages over 85%[37] LTV for those customers switching rate, Nationwide withdrew 90% LTV (June 2020 – December 2020) and 95% LTV (June 2020 – May 2021) mortgages and NatWest Group[38] stopped offering mortgages at more than 80% LTV to new customers from April 2020.

On the contrary, YBS[39] were one of the few lenders who continued to intermittently offer high LTV mortgages, up to 90% LTV, during 2020[40]. This was a conscious decision vested around their ambition to support first time buyers, who rely on high LTV mortgages. YBS were also the first lender to re-introduce 5% deposits for mortgages in 2021.

However, in 2021 we saw restoration of higher LTV mortgages as a consequence of the pandemic, ie people seeking larger and more open space, strong UK housing market, improvement in the UK macroeconomic outlook, pent up mortgage demand, the government's mortgage guarantee scheme and the stamp duty holiday.

Increased Expected Credit Loss provisions meant banks set aside enough to cover forecast losses, even though they didn't materialise

Expected Credit Loss (ECL) is a charge to the balance sheet of a banking institution. Banking institutions are required to use ECL provisions to ensure that the value of their loan books accurately reflect anticipated future credit losses.

Banking institutions, in addition to the provision of the applicable accounting standard ie IFRS 9 on ECL provisions, applied significant management overlays to ensure that the assets held on their balance sheets were truly reflective of the realisable value.

The anticipation of future credit losses from the unprecedented nature of macroeconomic conditions due to Covid-19 led to a substantial increase in ECL provisions for banking institutions in the 2019-2020 period.

[36] Barclays bank UK plc press release, Sept 2020

[37] HSBC UK bank plc press release, Sept 2020

[38] NatWest Group plc press release, Dec 2020

[39] YBS annual reports and accounts 2020, p9 and 13

[40] YBS annual reports and accounts 2020, p9 and 13

Barclays[41], HSBC UK[42], LBG[43], NatWest Group[44] and Santander reported combined ECLs of c£12bn in 2020. LBG provisioned the most at £4.8bn followed by NatWest Group at £2.3b and HSBC UK at £2.1bn. Nationwide[45] and YBS also made provisions of £209m and £12.2m respectively.

The benefit from ECL provisioning was that banking institutions set aside an allowance to cover forecast losses based on best information available at the time of reporting.

Ultimately, these provisions were released in 2021 when it became clear that the interventions put in place by the government and the UK banking sector had dampened the adverse impact of the pandemic on the economy.

Measures to support customers

Some banks went above and beyond the FCA guidance to further support customers

The FCA put in place a suite of measures to support vulnerable customers. Some banking institutions went above and beyond this and supplemented the FCA measures with further initiatives to support their customers in the most vulnerable circumstances.

Examples of measures taken by banking institutions include (although not limited to):

Mortgages

Following FCA guidance, some banking institutions were proactive in extending payment holidays to mortgage customers. They also reduced their residential standard variable rate (SVR) following the base rate cut and extended other forms of assistance eg repayment plan solutions and capitalising arrears, to support customers in vulnerable circumstances:

- HSBC UK[46]offered relief to 6,000 mortgage customers with a drawn loan value of £1,026m (ie 0.9% of total mortgage loans and advances) and reduced the residential SVR to 3.54% (from 3.69%) and Buy to Let SVR to 4.6% (from 4.75%) following the Bank of England base rate decrease
- NatWest Group offered forbearance, repayment plan solutions and the option to capitalise arrears ahead of the FCA guidance to support customers displaying financial instability due to Covid-19. In May 2021, NatWest Group reviewed their existing Debt Respite Scheme in line with newly introduced HMT guidance for creditors which further suppressed the interest and charges levy on mortgage and other consumer credit products from July 2021

[41] Barclays bank Plc Strategic Report 2020, p45

[42] HSBC UK Bank Plc annual reports and accounts 2020, p12

[43] LBG annual reports and accounts 2020, p52

[44] NatWest Group holdings limited annual reports and accounts 2020, p7

[45] Nationwide building society annual reports and accounts 2020

[46] HSBC UK Bank Plc – Annual Report and Accounts 2020, p310

Overdrafts

Some banking institutions were proactive in increasing the interest free buffer on overdrafts ahead of the FCA guidance while others followed the guidance and increased the interest free buffer to £500.

Additionally, some banking institutions reduced their Equivalent Annual Rate (EAR) and extended the forbearance period by a further three months from the end of the initial period in the FCA guidance.

Selected examples where the banking institutions went above and beyond the FCA guidance, include:

- In March 2020, HSBC UK[47], ahead of the FCA guidance, increased its interest free buffer on their overdrafts to £300. Later, in compliance with the FCA guidance, the interest free overdraft limit was further increased to £500
- NatWest Group[48] extended the forbearance period on overdrafts by a further three months from the end of the initial forbearance period mentioned in the FCA measures
- Barclays[49] waived c£100m in overdraft interest and fees
- LBG proactively extended the £500 interest free overdraft buffer to over 9 million customer accounts[50]
- For overdrafts beyond £500, HSBC UK, Nationwide and Santander all reduced the interest rate from 39.9% to 19.9% EAR

Other product measures

- HSBC UK[51], LBG[52], Nationwide[53] and Santander[54] supported their customers in vulnerable circumstances by granting them fee-free early access to their fixed rate savings accounts

Banks continued to support customers through brick and mortar touch points

Around 3.5 million people in vulnerable circumstances in the UK rely on branch based banking for their everyday banking needs[55]. Therefore, to support these customers, banking institutions continued to operate through their branches across the UK, albeit with reductions in opening hours. Additionally, they

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[47] HSBC UK Bank Plc annual reports and accounts 2020, p7, and HSBC UK bank plc press release, March 2020

[48] NatWest Group plc banking survey

[49] Barclays bank plc analyst, and investor Call Speech Q2 2020, p1

[50] LBG Covid-19 support, 2020

[51] HSBC UK Bank Plc annual reports and accounts 2020, p7, and HSBC UK bank plc press release, March 2020

[52] LBG Covid-19 support, 2020

[53] Nationwide annual reports and accounts 2020, p8 and 18

[54] Santander UK March and April 2020, press release

[55] Tabassum N. Is the push to online banking putting older people at risk? Centre for Ageing Better. 2020 [cited 23 May 2022]

repurposed their branch assets (including staff) to promptly address customer queries and expedite the response to elevated customer demand.

Selected examples of measures taken by banking institutions include:

- Barclays[56] continued to operate face to face services using c40% of its c1,600 branches. Additionally, with its voice call centres in India under complete lockdown, Barclays turned their branch network into mini call centres
- HSBC UK[57] continued to operate face to face services using c97% of their 622 branches
- NatWest Group[31] continued to operate face to face services from c95% or 960 of its branches. They diverted employees from other functions within the bank to support customers showing early signs of financial stress, increasing headcount in their Financial Health Support (FHS) team by c80% including the reallocation of mortgage sales staff to support mortgage deferral calls. The measures meant that business as usual service levels (ie 95%+ of calls answered) were met from August 2020 (information provided by NatWest directly)
- Nationwide[43] operated from c90% of their c700 branches in the UK
- YBS continued to operate face to face services although with reduced opening hours. Additionally, after 2.30 pm on weekdays they repurposed in branch counter space, allowing customers to open savings accounts whilst observing Covid-19 social distancing safety measures
- LBG continued to offer services from multiple touch points ensuring customers could access LBG through their channel of choice. Additionally, LBG trained branch staff on vulnerability and moved c1,000 branch staff to 'branch financial assistance' increasing their capability to support people in financial difficulties[58]
- Santander trained their branch employees on addressing customer queries through live chats, replacing chatbots, and redeployed branch staff to online chat and telephone services[59]

Proactively contacted and supported customers in vulnerable circumstances

Covid-19 had an unprecedented impact on the lives and financial situation of many. To protect customers in vulnerable circumstances from falling into a debt trap and deteriorating their financial situation any further, banking institutions were proactive in reaching out.

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[56] Barclays bank UK plc Q2 2020 Analyst Call, p9

[57] HSBC UK Bank Plc annual reports and accounts 2020, p7, and HSBC UK bank plc press release, March 2020

[58] LBG annual reports and accounts 2020, p19

[59] Santander UK annual reports and accounts 2020, p4 and 10

This was to understand the root cause of their difficulties and offer treatment options, where appropriate. Additionally, banking institutions supported and prioritised the calls of those who needed extended support beyond routine banking hours, such as elderly customers, frontline workers and NHS staff.

Selected examples of measures taken by banking institutions include:

Banking institutions	Set up phonelines/ carelines	Facilitated video banking	Increased staff members at call centres	Financial assistance dept. reached out to help customers in vulnerable circumstances	Monitored customer conversations	Trained staff on vulnerability	Partnered with counselling organisations
Barclays	✓	×	✓	✓	✓	✓	✓
HSBC UK	✓	×	✓	✓	✓	✓	✓
LBG	✓	×	✓	✓	✓	✓	✓
Nationwide	✓	✓	✓	✓	✓	✓	✓
NatWest Group	✓	✓	✓	✓	✓	✓	✓
Santander	✓	×	✓	✓	✓	✓	✓
YBS	✓	×	✓	✓	✓	✓	✓

- NatWest Group trained more than 1,000 colleagues on vulnerability in partnership with the Money Advice Trust. Additionally, to ensure customer facing colleagues were fully able to support customers, NatWest Group rolled out bespoke training to all agents within Financial Health Support (FHS)
- YBS enabled customers to transfer savings account balances and open a new savings account over the telephone. They also allowed payments to be made via telephone, effective from March 2020
- LBG also made 177 million customer contacts - three times the normal level of contact. They established a financial vulnerability segmentation specific to the pandemic allowing them to better tailor their communication channel and treatment methods

Leveraged customer data and feedback to tailor products and services

The economic consequences of Covid-19 increased the need for banking institutions to improve efficiency and customer experience. Banking institutions used customer data and feedback to analyse customer behaviour and tailor their products and services accordingly.

Selected examples of measures taken by banking institutions include:

- In 2020, NatWest Group introduced 'Companion card' and financial health checks to help customers through the Covid-19 crisis. They also launched 'Banking My Way', a free service allowing customers who needed additional support or adjustments to request bespoke assistance to make banking easier for them. Additionally, they launched the 'Housemate' app to help customers in rented accommodation manage shared bills, improve credit score and build tenancy trust[60]
- HSBC UK introduced a mobile cheque deposit service in May 2020 and processed over 168,000 cheques totalling £17m in value by the end of December 2020[61]. They also launched an updated version of their mobile app allowing customers to access investment and insurance products online
- LBG leveraged customer data to proactively contact specific segments of customers eg if a customer had cancelled a direct debit but not made use of an available payment holiday, LBG proactively contacted the customer to communicate the support options available. They also made substantial investments in analytics to track customers moving between vulnerability segments and in order to better understand the reasons for the movements
- During Covid-19, YBS allowed customers to transfer products and open savings accounts over the telephone, measures that are still offered today

Delivered cash to customers in vulnerable circumstances

The FCA's Financial Lives 2020 survey indicated that around 2.4 million people aged 65 and over in the UK relied on cash to a great extent in their day to day lives. This represented around one in five or 21% of all older people. Banking institutions offered customers in vulnerable circumstances and those in extended isolation a cash delivery service direct to their door.

Selected examples of measures taken by banking institutions include:

- Barclays, LBG, Nationwide and Santander delivered cash to customers in vulnerable circumstances through third party access and the post office network. Their customers were able to place an order for a specified amount of cash (up to a maximum limit) and allow a trusted third party (with ID) to collect it for them
- NatWest Group[50] delivered £5m in cash to customers in vulnerable circumstances across the UK. They also introduced a 'Get Cash' code, which enabled a trusted third-party to withdraw up to £100 on a customer's behalf[62]

[60] NatWest Group plc annual reports and accounts 2020, p54

[61] HSBC UK Bank, HSBC UK offers digital cheque scanning for businesses to reduce trips to branches

[62] NatWest Group plc annual reports and accounts 2020, p54

Accelerating the rollout of digital capabilities massively reduced customer journey times

In response to the pandemic limiting some customers' appetite for face to face interactions and lockdown measures restricting the movement of people in the UK, most banking institutions accelerated their rollout of digital capabilities to support customers from the safety of their homes.

Selected examples of measures taken by banking institutions include:

- HSBC UK launched 'Straight Through Banking', which reduced new account onboarding time from 10 days to less than 15 minutes[63]
- NatWest Group digitised credit decisions on retail unsecured lending. In 2020, c81% of all lending decisions were delivered using a digital channel, up 11% from 2019. They also extended digital customer approval and completion across all channels in retail mortgages (the time to switch a mortgage decreased from c23 days in 2019 to c10 minutes in 2020)[64]
- Barclays digitised their product offering to offer 67% of its product and services through digital channels in 2020 (up from 59% in 2019), thereby reducing the need for branch visits. In 2021, c70% of their products were self service enabled or available via fully digital solutions[65]
- LBG digitised customer journeys allowing customers experiencing financial difficulty to complete an income expenditure assessment online and take out a selection of treatments through self selection rather than via a call with a member of staff
- In 2020, YBS launched its first mobile app and enabled new customers to apply for easy access savings products online[66]
- In 2020, Nationwide invested £360m to replace its legacy digital estate with a modular data powered platform. They also strengthened their payments platform by moving it to a modern, cloud-hosted payments hub, enabling them to deal with higher transaction volumes[67]

Engaging with local communities and making available online security tools helped customers build resilience and avoid scams

Most of the in-scope banking institutions continued to identify and respond to community needs by engaging with local communities through online social media sessions. They partnered with charitable trusts to provide access to education, work for young people and training to combat fraud. This enabled

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[63] HSBC UK Bank Plc annual reports and accounts 2020 and 2021, p7-8

[64] NatWest Group plc Management Presentation 2020, p12

[65] Barclays bank plc strategic report 2021

[66] YBS annual reports and accounts 2020, p311

[67] Nationwide annual reports and accounts 2020, p16

them to extend support to customers with specific 'money worries' and provide financial education to improve people's relationship with money.

Additionally, to protect customers in vulnerable circumstances from getting exploited online through impersonation and investment scams, banking institutions made available security tools via their online banking platform, saving c£1.6bn of losses according to UK Finance[68].

Selected examples of measures taken by banking institutions include:

- Barclays partnered with Scalable Capital to launch a digital advice service to tackle the UK's advice gap giving more customers the confidence and support to invest their savings[69]
- HSBC UK partnered with The Prince's Trust to provide access to work, education and training to 1,000 young people[70]. Additionally, in November 2020 HSBC UK announced a three year partnership with Young Money to help provide financial education to one million young people across the UK. This partnership enabled the creation of 'Money Heroes', a new programme that developed people's knowledge, skill and attitude towards money. Also, through its partnership with Shelter, HSBC made the process of opening a bank account easier for people with no fixed address, improving financial inclusion
- NatWest Group's branch staff provided online financial education during the pandemic, offering free weekly Facebook events including 'MoneySense Mondays' for young people and 'Ways to Bank Wednesdays' to help promote digital banking. They conducted over 945,000 financial health checks to understand and improve customers' financial capability. Their 'Know My Credit Score' tool helped 3.1 million customers understand and improve their credit score and they introduced the 'Digital Regular Saver' to help their customers start and maintain a long-term savings habit.[71]

  Additionally, NatWest Group introduced 'Malwarebytes' via their online banking platform to protect their customers from losing money to fraud. In 2020, Malwarebytes was downloaded c145,000 times and was able to prevent c572,665 cases of attempted fraud
- Santander continued to educate their customers about online fraud and scams through fraud alerts, showing tailored warnings and asking their customers a series of questions to determine the nature of potential scams[72]
- YBS leveraged their existing relationship with the Citizen Advice Bureau to provide necessary help to both customers and non-customers. Additionally, through savings pledges (a commitment to

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[68] Criminals exploit Covid-19 pandemic with rise in scams targeting victims online. UK Finance. 2020 [cited 23 May 2022]

[69] Barclays bank plc July 2020, Press release

[70] HSBC UK Bank Plc annual reports and accounts 2020, p8

[71] NatWest Group plc annual reports and accounts 2020, p23 and 31

[72] Santander UK annual reports and accounts 2020, p7

common sense policies and services to give customers added peace of mind), they allowed customers access to money that they would not normally have been able to access eg money tied up in a fixed rate bond

- To enhance digital inclusion, LBG, in partnership with We Are Digital, advised c8,500 people and distributed 1,300 tablets to the over 70s[73]

Extended collection and recoveries process allowed customers more time to engage

Following the measures announced by the FCA in March 2020 to support vulnerable customers, most of the in-scope banking institutions extended the periods of their collections and recoveries strategies, allowing customers additional time to engage with them.

For example, NatWest Group extended their collections and recoveries strategy by six months and amended their communication strategy to proactively engage with customers, who were coming off a payment deferral and were categorised as high risk, to agree a resolution plan or refer them to relevant debt advice organisations for additional support.

Additionally, NatWest Group's credit risk team amended their forbearance policy to allow for customers to be provided with forbearance options for up to 12 months and suppressed interest for unsecured customers. Some of these measures are still in practice today.

Supporting people in vulnerable circumstances more broadly had a positive impact on society

Banking institutions, outside of direct support extended to customers, also put in place measures to support people in vulnerable circumstances in wider society.

Selected examples of measures taken by the banking institutions include:

- HSBC's[74] everyday banking team donated £9m in aid to charities supporting Covid-19 emergency response. HSBC also made a £1m donation to the National Emergencies Trust Coronavirus appeal and British Red Cross. Moreover, through the 'Devices Dot Now' appeal, HSBC gifted 700 reconditioned laptops to the Good Things foundation[75]

  HSBC also provided paid volunteering leave to 2,712 employees for activities such as virtual mentoring and remote support for charities. Their employees contributed 19,872 hours of 'Covid-19 kindness' to support those most in need. Lastly, HSBC repurposed its Beckenham site to support NHS blood donors and surrendered the remainder of the lease on their Carlisle commercial centre allowing the landlord to grant the NHS a lease on the space to set up a Covid-19 call centre

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[73] LBG Press Releases, April 2020 and LBG annual reports and accounts 2020, p4

[74] NatWest Group plc annual reports and accounts 2020, p23 and 31

[75] HSBC UK bank Plc annual reports and accounts 2020, p8-9

- NatWest Group raised £10m by match funding customer donations to the National Emergencies Trust and established a £5m fund with the Prince's Trust to help young entrepreneurs during the crisis. Moreover, NatWest Group employees contributed 13,599 hours of their time to support those most in need[76]

  Additionally, NatWest Group transformed part of their Gogarburn HQ into a food bank distribution hub. From the start of March 2020 to December 2020 this produced over 1 million meals for those in need and became a vital distribution network for items such as 240,000 books and education packs, 250,000 items of essential clothing and over 200,000 items of toiletries, masks, hand sanitisers and snacks
- Barclays partnered with c370 charity institutions around the world and deployed £100m in distributing food, hygiene products and PPE kit to those in need
- Lloyds launched a fund offering small and local charities two year unrestricted grants of £50,000 along with organisational development support[77]. They also partnered with charity institutions such as Mental Health UK, StepChange and PayPlan and supported customers by referring them to these support institutions for additional help

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[76] NatWest Group plc annual reports and accounts 2020, p14

[77] LBG July 2020, news and blogs

Consumer impact analysis

This section discusses the types of support offered by banking institutions and the impact that measures had on customers. Overall, the support received was positive with 83.6% of participants from the customer survey stating they were satisfied or very satisfied. Furthermore, 76% felt the support received had positively impacted their financial situation.

Customer communication

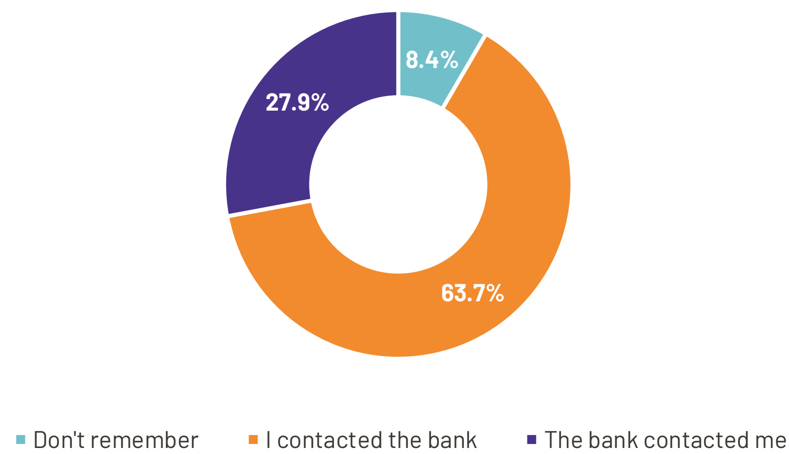
From annual reports alone, it is evident that the in-scope banking institutions increased interactions with their customers during Covid-19. LBG appears to have been especially proactive and in 2020 made over 750,000 calls to check on the wellbeing of their customers in vulnerable circumstances[78]. The consumer focus group attendees specifically cited the value of Lloyds' telephone calls, which enquired as to how customers were managing the emotional and financial strain of lockdown.

If we consider that collectively the in-scope banking institutions have approximately 107 million customer accounts and, according to the FCA's Financial Lives Survey in October 2020, 47% of UK adults have characteristics of vulnerability, it suggests that a significant increase in communication is needed to reach those displaying vulnerability characteristics. This too is supported by our consumer survey results.

Figure 6 below outlines the proportion of the consumer survey respondents who started the support conversation with their respective banking institution and reveals the consumer perception that they were more than twice as likely to have contacted their banking institution first than their banking institution was to have proactively contacted them.

[78] Lloyds Banking Group. Lloyds Banking Group Annual Report and Accounts 2020. 2021 [cited 2022 May 24]

Figure 6: Starting the support conversation



For banking institutions, identifying and then contacting their financially vulnerable customers are the first, and arguably most important, two steps in the support process. If customers in vulnerable circumstances are not identified and/or are unaware of the support available to them, then the availability of support measures becomes less meaningful and more consumers may face financial difficulties.

In the focus groups, the respondents frequently cited their preference for being proactively offered support rather than having to independently seek it out. One attendee of the focus groups stated:

'**They rang me three times in the first year to see how I was**. She said this was just a courtesy call to see how I am **which I thought was really nice**'
Focus group attendee

The focus groups and one to ones highlighted a few examples of exceptional circumstances where the banking institutions were proactive and responsive. For example:

- A woman, who had recently had a baby, spoke about her mental health challenges and a significant loss of income during pregnancy. She said that LBG have often 'refunded charges to help me' and 'have sent me cheques for £70 and £130 to say 'we know you have got some troubles and here's some money to help you'
- A respondent who used her credit card to move away from the area in which she had been living in order to protect herself and her child from her violent partner was treated as a special case with some debt cancelled and compassion shown in respect of repayment targets
- A respondent awaiting a kidney transplant who was fearful of the electricity bills she would incur

due to her need to use a kidney dialysis machine was put in touch with a charity which could help, and subsequently has helped her

- A respondent who spoke openly about the mental health challenges she faced and her ongoing battle with alcoholism had some debts cancelled and feels that her bank is supportive of her and her circumstances

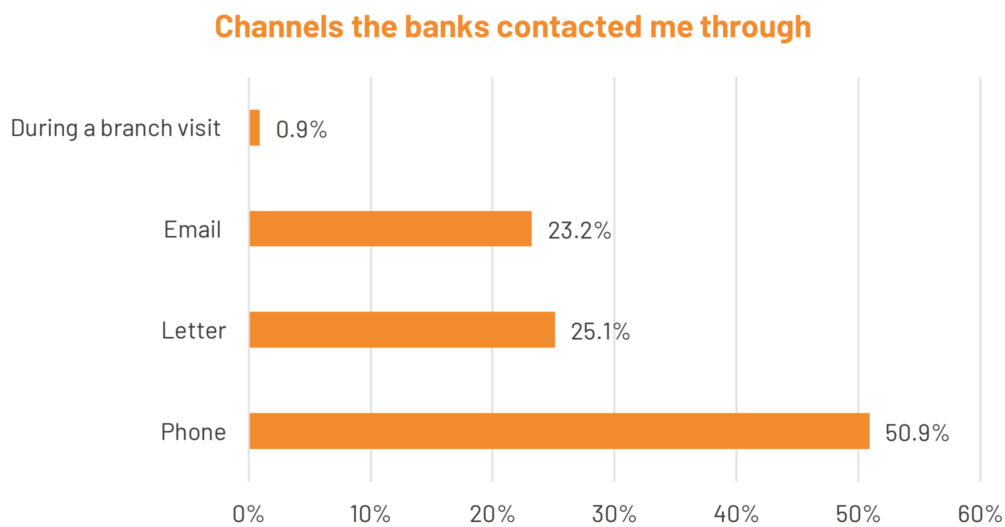
Despite the focus group feedback, the survey demonstrated that many customers had to contact their bank first. It should be accepted that the Covid-19 crisis caused all banking institutions to make major adjustments to their ways of working and any initial lag in customer contact is understandable.

The extent of the banking institutions' customer base and their product offerings must be considered in this analysis, along with the marketing to set out support publicly. However, the consumer survey data does highlight that, in the future, there is a want and need for more comprehensive proactive contact from banking institutions, to ensure support reaches their customers in the most vulnerable circumstances.

Mixed methods of consumer contact

To assess how banking institutions could improve their communication of support measures, it is essential to understand their main methods of contacting their customers. Figure 7 below summarises how the consumer survey respondents were contacted by their banking institutions during Covid-19 (note: this data only includes respondents who were contacted by their banking institution first).

Figure 7: Banking institutions' proactive contact methods



Evidently, most consumers were contacted by phone, which can be an effective method of communication. However, there was general agreement in the focus groups that banking institutions, in cases where the customer made initial contact, failed to adequately manage phone calls during Covid-19.

The focus group attendees noted the following issues:

- The wait time on phone calls
- The inability of staff to take decisions without referring to a superior
- The frequency of disconnection (especially when being transferred)

These are common themes for this type of consumer research, including prior to Covid-19. Importantly, the attendees did not view this as a fault of the individual staff member, but rather a fault of the system or organisation as a whole. When talking to staff they found them to be pleasant, helpful and interested in what they had to say.

Few people felt able to comment on whether staff would handle the situation sensitively if the caller was in significant distress about their financial or other circumstances. For many, the ability to do this would not be a reasonable expectation of bank staff.

If phone calls are to be the primary method of communicating with banking customers going forward, then it would be beneficial if banking institutions improved their operational efficiency. For example, one respondent to the consumer survey stated:

‘It’s almost impossible to get through and talk to someone. When I call up, I don’t need to go through so many ‘options’ **and I absolutely don’t want to hear a recorded message telling me that I can go to their website! If I am calling – then I am doing so for a reason**.’
Consumer survey respondent

Another consumer survey respondent suggested there should be more phone operators to reduce wait times. However, it should be acknowledged that during Covid-19 many banking institutions had to set employees up to work from home, with infrastructure and security issues to contend with.

There has also been evidence of dedicated phone lines being created to support the over 70’s. For example, a consumer responded:

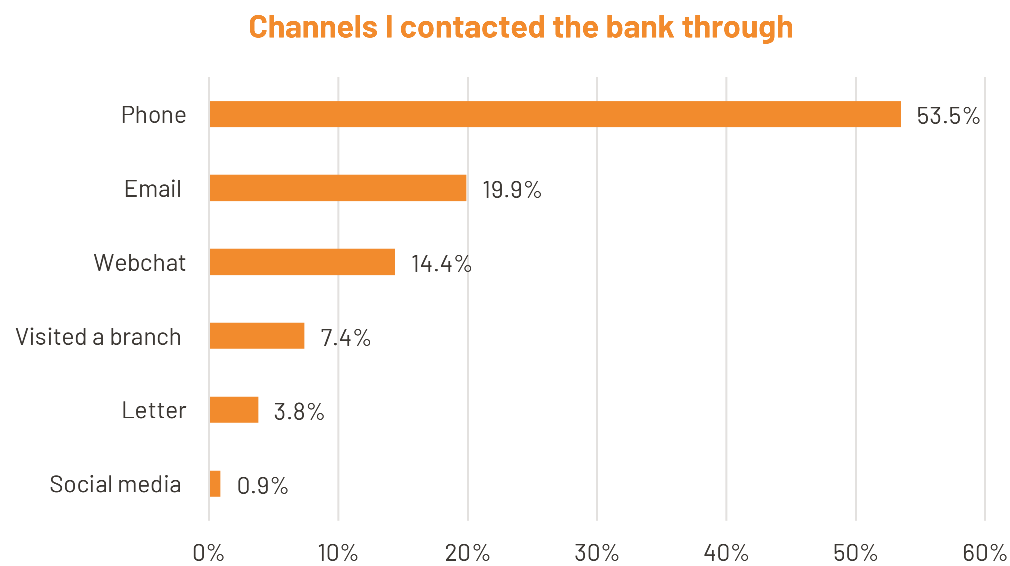
‘Rapid answering of call. Very patient and thorough understanding of my requirements. Helpful advice. A trustful warm feeling of someone caring during this frightening pandemic. Thank you. In the past I have been very disappointed by their [banking institutions] obsession with online banking and making customers use machines. **This special phone line is fantastic, and I cannot thank you enough for this very kind customer service for the senior members of our society**. I have passed on the number to others.’
Consumer survey respondent

Figure 7 above also shows us that the second most used method of contacting consumers was via letter, closely followed by email as the third most used method. As a comparison of letters and emails as desirable forms of communication, it is useful to consider consumers’ methods of communication as a benchmark.

Figure 8 below uses the consumer survey data to show how consumers contacted their banking institutions during Covid-19. While on average across different age demographics there was a preference for using the phone, digital methods were also popular. Ultimately customers will have individual preferences and banking institutions should aim to engage with them using their preferred method.

Note: this data only includes respondents who contacted their banking institution first. Alongside this, our research shows that consumers like to have human interaction with their bank and value this as part of broader customer service provided by the banking institutions.

Figure 8: Consumers' contact methods



87.8% of the respondents contacted their banking institution using phone, email or webchat. This could be as a result of branches being closed or consumers being vulnerable to Covid-19 and therefore travelling to and from a branch was not an option.

As this type of contact is likely to remain high, banking institutions could potentially enhance their service by focussing on digital communication, along with telecommunication.

It is important to note that the pandemic brought financial worries to many people who had not previously had money concerns. For these people, seeking financial support from a banking institution is new territory and can be distressing and intimidating.

Consideration should be given to other methods of communicating with customers. Webchat, for example, accounted for 14.4% of contact made by customers. The feedback for Webchat highlighted that speaking with a member of the team is the desired outcome but there are areas for improvement regarding responsiveness rates and fewer redirections to web links.

'**It's incredibly slow and just directs you to an online page**. However, speaking with a member of the team was a real pleasure. My advisor was helpful, polite, and calm.'
Consumer survey respondent

The younger attendees (in the 18-30 age bracket) of the focus groups showed enthusiasm for greater digital engagement from their banking institutions and suggested that banking institutions could reach out and offer online dialogue if, for example, there is a consistent pattern of more money going out than coming in and monthly average balances are indicating negative trends.

Reference was made to digital banks' online accounts (Monzo, Starling etc) and their ability to show detailed analysis of a person's finances. Based of the feedback we received from this group it could be a good idea to approach customers who are in pre-arrears or whose reserves are dwindling, to offer a conversation and a review of their financial options. None of our respondents raised data protection concerns about this, though there were some who would see it as unwelcome interference. Clearly, any move down this road would need to be sensitively handled, perhaps with an opportunity to opt in or out of potential follow-up of this kind.

'I'm with Monzo, and I love them. **I love the fact that you can email at any time of the day. And they'll pretty much reply within an hour**. And everyone's always like friendly when speaking to them because it's like a chat thing on the app. And they're always interested in what you're up to and like how you might go in whilst trying to solve any issues or problems or things that you've got, so **I've got quite trust in them**.'
Consumer survey respondent

It should be noted that some attendees (in the 46 – 60 age bracket) of the focus groups held alternative viewpoints on banking institutions' methods of communication. Some attendees cited the impersonal nature of consumer contact during Covid-19, and a concern that banking institutions are becoming less approachable. Even if the decision making has been automated with the use of technology, some consumers would still prefer to interact with a staff member face-to-face. While this does not necessarily represent the attitude of the majority, it does illustrate the challenge banking institutions face when balancing digitisation and customer choice.

'When it comes to big decisions **you want to sit down face-to-face with someone**.'
Consumer survey respondent

The importance of support flexibility to customers in vulnerable circumstances was emphasised in the focus groups where attendees spoke about the lack of alternative solutions being offered by banking institutions.

'**the 'computer says no' to a request there is no one following up to ask 'can we help you in any other way?**'
Focus group attendee

To cater to the needs of all consumer demographics, it seems that banking institutions should try to avoid becoming overly transactional in their interactions with consumers. Banking institutions need to spend more time understanding them.

It seemed to be agreed across the focus groups that some automated processes like online chatbots prolong the process of seeking support, as they are unable to fully understand individual problems. The process of digitisation should not mean banking institutions stop offering personalised support or understanding individual needs, particularly when needs are complex or material.

It would also seem that this should be of particular relevance given Consumer Duty regulation and the need for banking institutions to ensure good outcomes across the entire customer journey, along with having the data to evidence this.

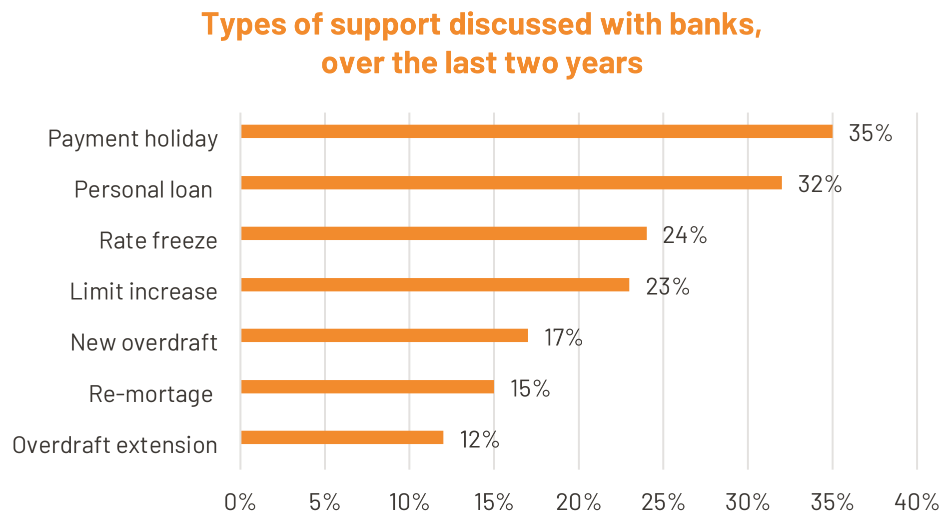
Indeed, customers in the one to one interviews described their banking relationship as transactional and stated that they have no emotional connection with the brand. This as a result may impact how likely customers are to recommend their banking institution to others, and in turn impact Net Promoter Scores which score more highly those brands or organisations that create an emotional connection with their customers.

Regulatory guidance can influence customer requests

As detailed in the 'FCA Measures' section of this report, the FCA published guidance which defined their minimum expectations of how banking institutions should support their customers during Covid-19. The primary method of support in the FCA guidance was payment holidays/deferrals. Both the PDG and TSG guidance included instructions about the implementation of payment holidays.

To assess the relative importance of the FCA guidance, it is useful to analyse which measures were discussed with, and agreed by, banking institutions during Covid-19. Figure 9 below outlines the percentage of consumer survey respondents who discussed each support measure with their respective banking institutions.

Figure 9: Support measures discussed



The support measure discussed by the largest proportion of respondents was payment holidays. Beyond the short term financial relief they offer to customers, the relative popularity of payment holidays is also linked to them being given high profile on national news platforms. For example, in March 2020, 'The Guardian' wrote an article discussing how banks will meet their payment holiday promises[79].

Such national coverage increased the likelihood of consumers asking for payment holidays. Indeed, one focus group attendee said they asked for a payment holiday because:

> 'I heard it on the news and other people talking about it – **'did you know you could get a payment holiday because you're off on furlough?'**'
> Focus group attendee

There were also a significant proportion of requests for other support measures, such as a lending limit increase (23%) or a new personal loan (32%). The variety of the support measures discussed during Covid-19 demonstrates the importance of the banking institutions' flexibility. The needs of customers in vulnerable circumstances are not uniform and clearly individual circumstances dictate the requirement for different types of support.

It worth noting that for this research all consumers identified as having at least one characteristic of vulnerability. In a national representative survey completed in partnership with CACI, 15% of respondents said they applied for a payment holiday versus the 35% of respondents for this research. This suggests that these measures are being utilised in greater volumes by existing customers (identified themselves as

[79] Collinson P. UK banks set out details of Covid-19 mortgage holidays. The Guardian 2022 [cited 1 May 2022]

having at least one characteristic of vulnerability) versus the nationally representative sample.

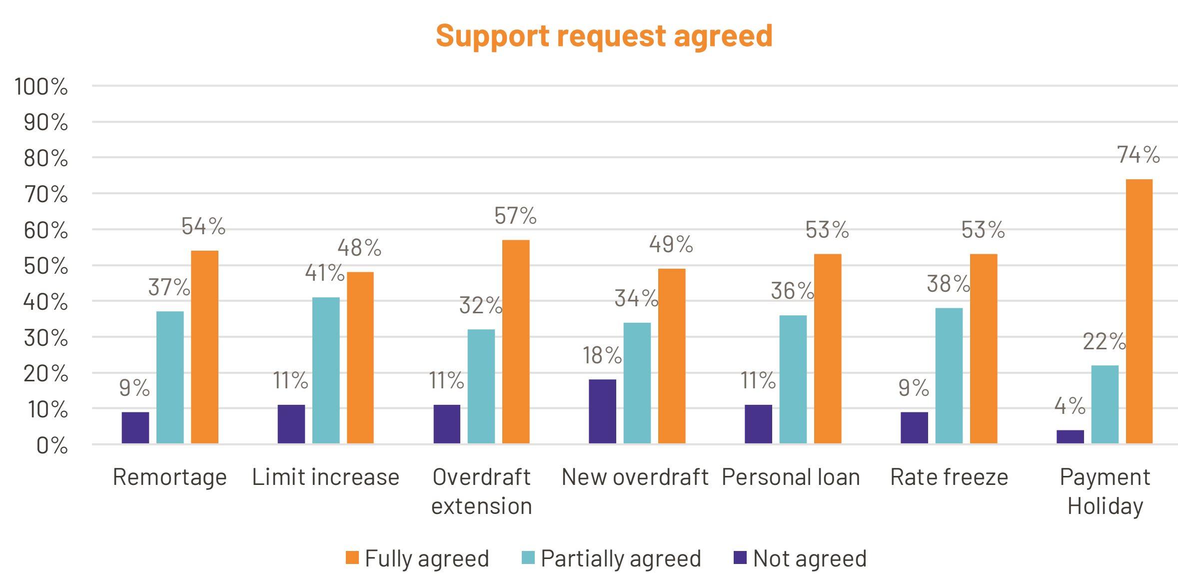
The one to one research also highlighted that the approach to requests for help appear to have been heavily focused on following standard procedure to assess suitability to borrow. The extent of the customer's financial difficulties and degree of stress was not felt to have been factored in.

As noted previously, more customers contacted their banking institution than the other way around and our survey, focus groups and one to one interviews highlighted that in most cases banking institutions made a decision on the requested support, rather than providing options. Therefore, the support discussions were based on what customers thought to ask for, rather than what may have been the best support for their circumstances.

Potentially an optimal solution to meet a customer's financial problems posed by Covid-19 may not have been offered by their banking institutions due to their predominantly reactive stance and standardised approach.

Following on from our analysis of the support measures discussed, it is important to understand how frequently these discussions culminated in support being implemented. The graphs in figure 10 below use the consumer survey data to compare the extent to which requests for support were agreed and whether they were fully or partially agreed to:

Figure 10: Support requests agreed



As illustrated above, a range of support options were discussed by respondents with their banking institutions. Out of all the support measures, respondents were most likely to receive full agreement to a payment holiday request (74%), with the second highest being an overdraft extension (57%).

It is important to acknowledge that, most of the time, the consumer support requests were at least partially agreed to by the banking institutions.

Of the support measures included in our consumer survey, the worst performers (in terms of agreed support) were new overdrafts and an increase in credit card limit. That said even these measures were at least partially agreed to 83% and 89% of the time, respectively. This demonstrates the strength of the support provided to people in vulnerable circumstances from banking institutions during Covid-19.

The one to one interviews validated that the most commonly mentioned form of assistance sought was a payment holiday, usually relating to a mortgage. These payment holidays were largely granted for a period of three months and the process was felt to be simple and straightforward. Extending a payment holiday beyond three months however tended to involve considerably more questioning and form filling and, in some cases, an extension was not granted.

Success of simple support measures

To establish which or how support should/could be offered in the future, it is beneficial to consider the relative impact of the relief that measures offered during Covid-19.

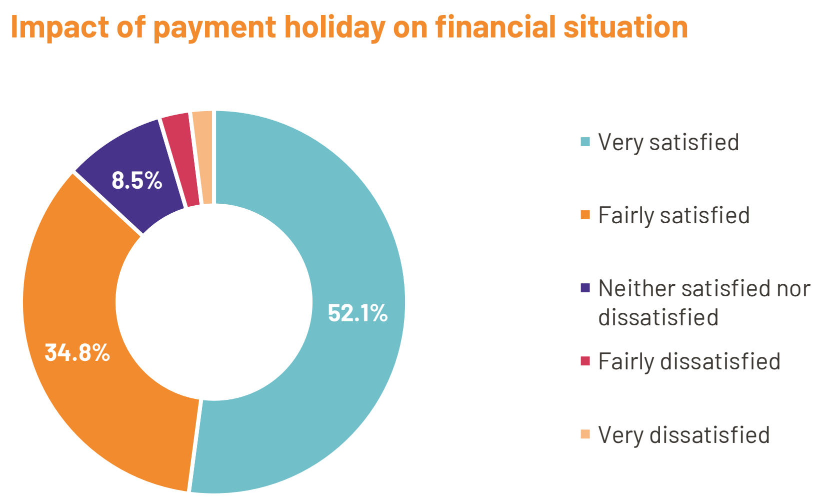
The consumer survey respondents were asked how satisfied they were with the impact of the support they received on their financial situation. The majority responded favourably and overall 76% of participants were either satisfied or very satisfied, demonstrating that in general the support measures positively impacted consumers' financial positions.

To quote a response from a banking institution in our survey:

> **'A number of banking institutions allowed consumers to take a break from loan and credit card payments, resulting in no impact on their credit file reporting during the break, and post break consumer payments were not higher on a monthly basis than before the break. In addition to this, to help customers, fees and charges were suspended during the break period and some went further to extend the break period by a further three months.'**
> Banking institution

Payment holidays generated the highest levels of satisfaction. Figure 11 below outlines how those surveyed responded when they were asked how satisfied or dissatisfied they were with the impact payment holidays had on their financial situation:

Figure 11: Impact of payment holidays



As shown above, 86.9% of the consumer survey respondents confirmed being satisfied or very satisfied with the impact of payment holidays on their financial situation whilst only 4.6% reported being dissatisfied or very dissatisfied.

Beyond the positive impact on customers' financial situation and well-being, the provision of payment holidays to customers in financially vulnerable circumstances helped sustain spending during the pandemic, positively contributing to the recovery of the economy.

Bank of England analysis shows that temporary payment holidays allowed customers in financially vulnerable circumstances to sustain spending compared to those not eligible for payment holidays. Conversely, more financially stable households that accessed payment holiday, increased saving but not consumption.

The effects of the pandemic had a bigger imminent impact on spending than the Global Financial Crisis. During a period of low consumption the fact that households in financially vulnerable circumstance were able to keep up spending as a result of being able to access mortgage payment holiday appears to be a significant societal and economic benefit.

In contrast to payment holidays, new overdrafts and overdraft extensions generated lower levels of satisfaction. The charts below outline how consumers responded when they were asked how satisfied or dissatisfied they were with the impact new overdrafts or overdraft extensions had on their financial situation:

Figure 12: Impact of new overdrafts and overdraft extensions

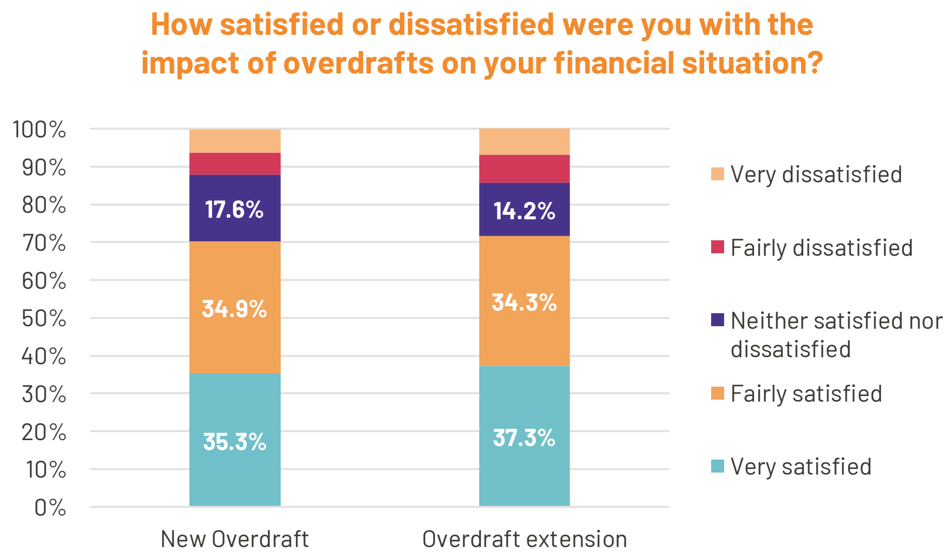


Figure 12 above also shows that 70.2% of respondents reported being satisfied or very satisfied with new overdrafts and 71.6% of respondents reported being satisfied or very satisfied with overdraft extensions.

Note: by way of reference, 18% of customer requests for a new overdraft and 11% of customer requests for an overdraft extension were not agreed.

Our survey highlights the importance of simplicity in banking support measures. As outlined in the measures section of this report, payment holidays/deferrals were clearly set out and communicated by banking institutions – it is easy for customers to understand that they will not make any loan payment for three months. Given the simplicity of the measure, there is little apparent ambiguity or uncertainty on the customer side as to the impact payment holidays have on their immediate outgoings.

In comparison, the eligibility and terms of a new overdraft or an overdraft extension are more complex and likely of lower value, which arguably results in more customers being less satisfied with the impact of the support they receive.

This relates to a broader sentiment in the focus groups that banking institutions did not always transparently explain the long-term financial consequences of using a support measure.

One attendee of the focus groups spoke about applying for an overdraft online and their desire for a concise summary of what could essentially 'go wrong' rather than this being lost in lengthy terms and conditions. One of the consumer survey respondents stated that banking institutions should:

'Simplify their terms and conditions so they are easier to fully understand'
Consumer survey respondent

Our survey underlines the importance of the regulator's role in ensuring the effective implementation of support. The simplicity and transparency of payment holidays was down to the clear guidance set out by the FCA. The FCA guidance provided consumers with a definite expectation of the support they could get and therefore there was less uncertainty about what a payment holiday would ultimately entail.

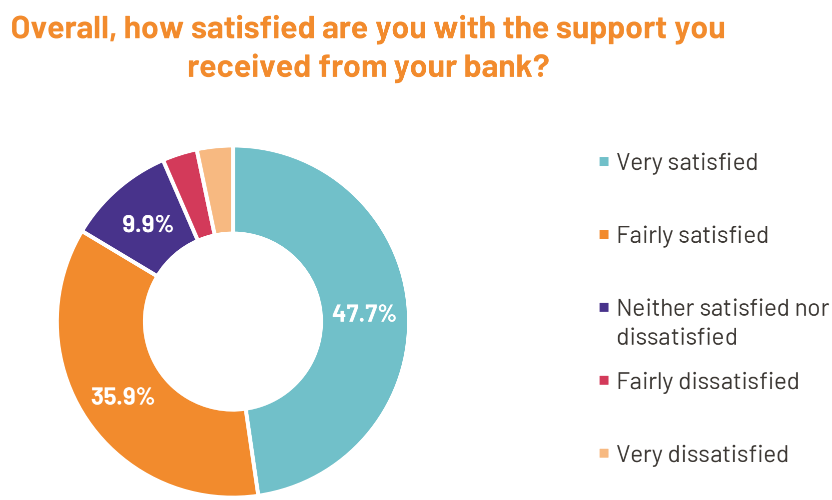
Nonetheless, it should be noted that despite the relative differences in satisfaction, all the support measures positively impacted the respondents' immediate financial position most of the time and anecdotally prevented consumers from requiring debt management services.

Consumers satisfied with support received

The research brought us into contact with people who had clearly struggled both emotionally and psychologically and who sought financial support.

Figure 13 below outlines how satisfied customer survey respondents were with the support they received from their banking institution with 83.6% stating they were either satisfied or very satisfied. From this it is evident that banking institutions offered robust support to their customers during Covid-19.

Figure 13: Overall consumer satisfaction



To gain an insight into what was driving consumer satisfaction, we also asked the consumer survey respondents why they gave their rating.

YBS performed the strongest in overall satisfaction, with 88.6% of their respondents either satisfied or very satisfied with the support they received. The prevailing reason given for this was the efficiency and proactiveness of YBS's customer service. Even in instances where YBS respondents did not receive all the support they required, respondents still positively reflected on the speed and professionalism of available customer service.

Again, the strong relative performance of YBS must be balanced with the knowledge that they have a smaller customer base and have a much more restricted product offering that other in scope banking institutions.

While a minority of respondents were dissatisfied or very dissatisfied with the support they received from their banking institution, it is still beneficial to look at the reasons motivating these negative ratings.

From the survey responses, the primary causes of dissatisfaction were a lack of support from banking institutions, their unwillingness to provide alternative options and/or their lack of responsiveness to requests.

Throughout the negative responses there was a clear feeling that banking institutions had failed to be sympathetic towards individual circumstances and did not show a sufficient level of understanding. In addition to these themes, the negative responses often referred to poor customer service and the inability to reach the 'right' staff member.

Attendees of the focus groups echoed similar reasons for their dissatisfaction with the support received during Covid-19. One attendee expressed their unhappiness with the unfair terms of the support offered to them, and they referred to the financial crisis when asking rhetorically:

'Do they really bail us [the customers] out, or do we bail them [the banking institutions] out?'
Focus group attendee

This links to strong feelings of negativity, or at least cynicism, among many of our attendees. The feelings expressed were that banking institutions are not interested in the needs and aspirations of their customers and are simply looking to maximise the money they make from their customers.

It was inferred that customer loyalty is low, although changing bank is an inconvenience that many won't take on. Most would not expect a competitor to be significantly better either, though several attendees spoke of a possible switch to LBG after what they heard in the small focus groups.

The idea that banking institutions do not act in the interests of their customers was echoed in one of the focus groups where attendees specifically discussed payment holidays. One attendee, who decided not to accept a payment holiday, stated that:

'**If I look deeply into it [payment holidays] it's not really a help. You give a freeze or holiday, why keep on charging interest if you want to help people in a difficult situation or your customers?** For me there is a hidden agenda from the bank, making profit out of this or exploiting the situation.'
Focus group attendee

Similarly, another attendee of the same group described how payment holidays were framed saying that:

'There was a sense that it was almost like free money, even though it isn't free money. **It made it so simple and easy, it seemed logical to take it**'
Focus group attendee

This perhaps highlights the importance of banking institutions emphasising the consequences of customers accepting their support measures. Our research indicated that within our consumer groups some took payment holidays when they could have met repayments and avoided the consequences of accumulated interest.

There were a number of positive examples from the one to one interviews and focus groups which demonstrate the banking institutions were showing an interest and duty of care to customer wellbeing. This is clear from the quotes below:

'When I made a phone call to them [banking institution] one day, **the first thing the advisor asked me was about my mental health**. Was I coping? Was there anything that he could do? **I was so impressed. I actually put it on Twitter**'
Focus group one to one interviewee

'They didn't even ask what my issue was, **the first thing they wanted to know was how I was doing? How was I coping?** Did I have any issues? Were there any mental health problems?
Focus group one to one interviewee

The majority of respondents agreed that the early weeks and months during COVID were a particularly stressful time and the uncertainty increased anxiety. There were stand out examples provided during the focus groups and interviews where banks were proactive when hearing about difficult circumstances. The flexibility and empathy demonstrated in individual cases allowed those customers the breathing space whilst they had complex personal situations unfolding.

'My wife lost her job because of COVID. And we had to borrow some money. **In normal times where they might have looked at me more negatively, they were really good about it**. **So all of a sudden, from being stressed out and worried about what's going to happen, I was relaxed now**'
Consumer survey respondent

'**I rang them in a panic basically to say, what are we going to do? I don't know I'm going to be able to pay my mortgage this month.** Thinking to myself, I don't know what I am going to do here and don't know how I'm going to put food on the table for my kids. **They gave a three month mortgage break in payments. They were great**.
Consumer survey respondent

'in the beginning, I kind of bury my head in the sand. I suffered a bit of mental illness and things like that from stress. **[Banking institution] put me on a payment holiday but haven't gone taking it to court or going to CCJ. They've been okay, actually, in terms of not kicking my door**.'
Consumer survey respondent

There is strong social benefit to supporting customers through financial measures as it can have significant impact on individuals' ability to then manage other aspects of mental health, stress and family situations.

There was a degree of reluctance in the focus groups to share information about mental health with banking institutions. For example, one respondent said:

'I think it would be very odd to give the bank information like that, for the bank to use that. He's got mental health issues; he's going have problems working in the future.'
Consumer survey respondent

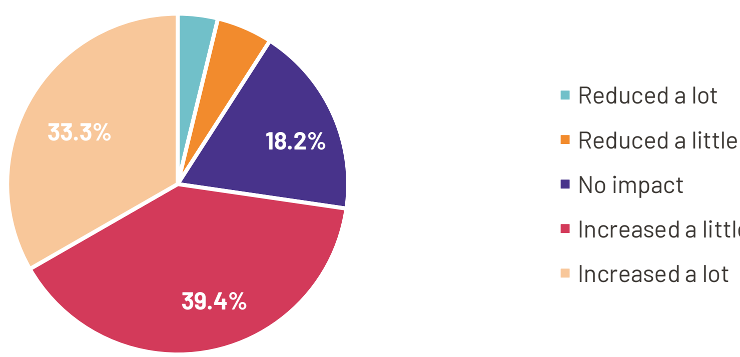
Mental and physical health impacts will be sensitive topics for customers and it is important that customer facing teams are equipped to appropriately identify and direct such cases to trained advisors who are empowered to make decisions efficiently and proactively.

Improved consumer loyalty but low NPS

To maintain and grow their customer base and balance sheet, banking institutions must keep their customers satisfied with their banking experience. In 2018, an empirical study of Scandinavian banks confirmed that customer satisfaction and loyalty have a significant positive influence on a bank's profitability[80]. It is therefore worthwhile examining how the banking support measures implemented during Covid-19 impacted customers' loyalty. Figure 14 uses the consumer survey data to illustrate this:

Figure 14: Banking support and customer loyalty

What impact has your overall experience when seeking support, had on your loyalty to the bank?



From the chart above, it is evident that most of the respondents became more loyal to their banking institution following the support they received during Covid-19. Indeed 72.7% of the respondents stated that their loyalty increased. This illustrates the value of supporting customers in vulnerable circumstances and increasing the likelihood of customers staying with their banking institution during and beyond Covid-19.

Individually, YBS was the top performer, with 80.6% of the respondents stating that their loyalty increased. Even more impressively, only 3.5% of YBS respondents stated that their experience of support during Covid-19 reduced their loyalty.

Interestingly, of all the banking institutions included in our study, YBS was also perceived to be the most proactive in contacting its customers (see section 4.1). As noted frequently in the focus groups,

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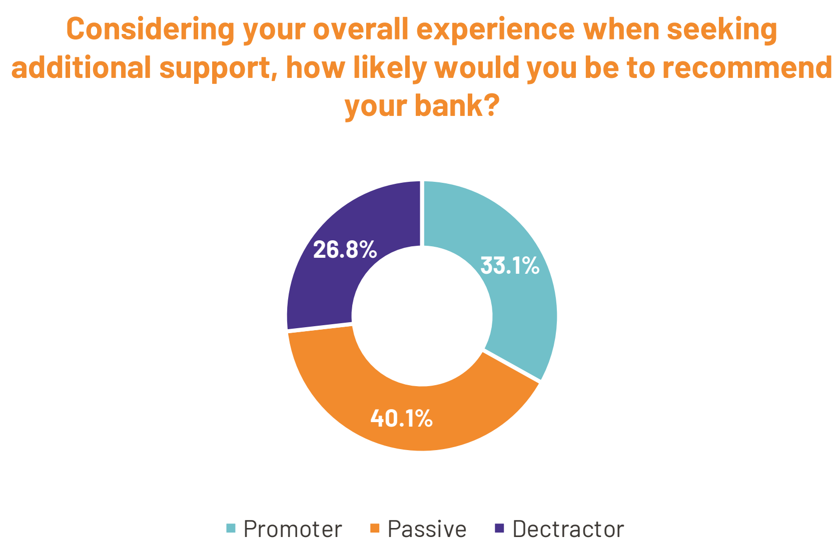
[80] Eklof J, Podkorytova O, Malova A. Linking customer satisfaction with financial performance: an empirical study of Scandinavian banks. Total Quality Management & Business Excellence. 2018 [cited 5 May 2022];31(15-16):1684-1702

customers appreciate when their banking institution reaches out and engages them with personal support/advice.

While loyalty is the key to keeping customers, personal recommendations drive the attainment of new customers. The results of our consumer survey show that the Covid-19 support measures did not track through to high Net Promoter Scores (NPS). Figure 15 below shows the average Net Promoter Score across the seven banking institutions:

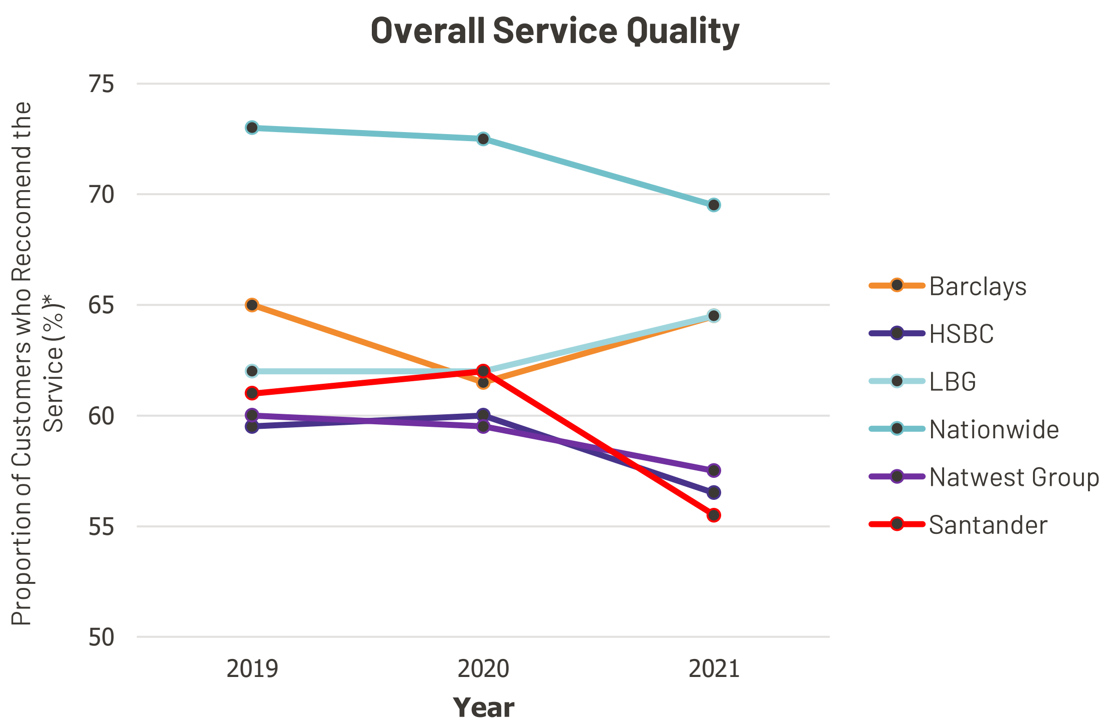
Figure 15: Net Promoter Score



The low average NPS of 6, despite the general satisfaction with the measures offered by banks during the pandemic, demonstrates that NPS captures long term sentiment not occasional high points. Ongoing sources of friction (consumers surveyed referenced long call waiting, some staff lacking empathy and poor communication, inflexible decisions, etc) are in all likelihood depressing Net Promoter Scores even after an overall positive Covid-19 experience.

These survey results also reflect the independent service quality survey conducted by IPSOS. Figure 16 below shows how likely customers would be to recommend their personal current account provider to friends and family. This shows minimal uplift in overall service quality NPS score versus the pre-covid data. The graph demonstrates the sentiment from customers that overall service quality, with the exception of two banks, has diminished since the beginning of Covid-19 (2021 figure is surveyed from July 2020 to June 2021).

Figure 16: Overall service quality (IPSOS)



While banking institutions may have offered helpful support measures during Covid-19, the sentiment from the focus groups was that they could do better in their role of offering proactive advice to help customers.

> 'For them [the banking institution] **it just comes down to do you tick the boxes and pass the checks and that's it, they don't consider anything else**.'
> Focus group attendee

The focus group attendees acknowledged that banking regulations are tighter than ever before, but they still felt there was a lack of flexibility and personalised service which enables consideration of an individual's needs. Some focus group attendees spoke about how they would value more financial education from their banking institutions such as videos on managing money during times of uncertainty.

The in-depth interviews revealed a perception that banks prioritise their profits before concern for customers. Some feel this represents a negative change from banking in the past.

Another potential reason for the low NPS is the customer outreach and communication by banking institutions. As highlighted previously, the communication from banking institutions was perceived to be reactive rather than targeted and proactive during Covid-19 and was often carried out using communication channels that were not the customers preferred. This is an opportunity for banking institutions to ensure they are proactive in monitoring for early signs of financial stress or vulnerability at a customer level and to proactively reach out customers.

For further details on methodology used in the Customer research please refer to Appendix 2.

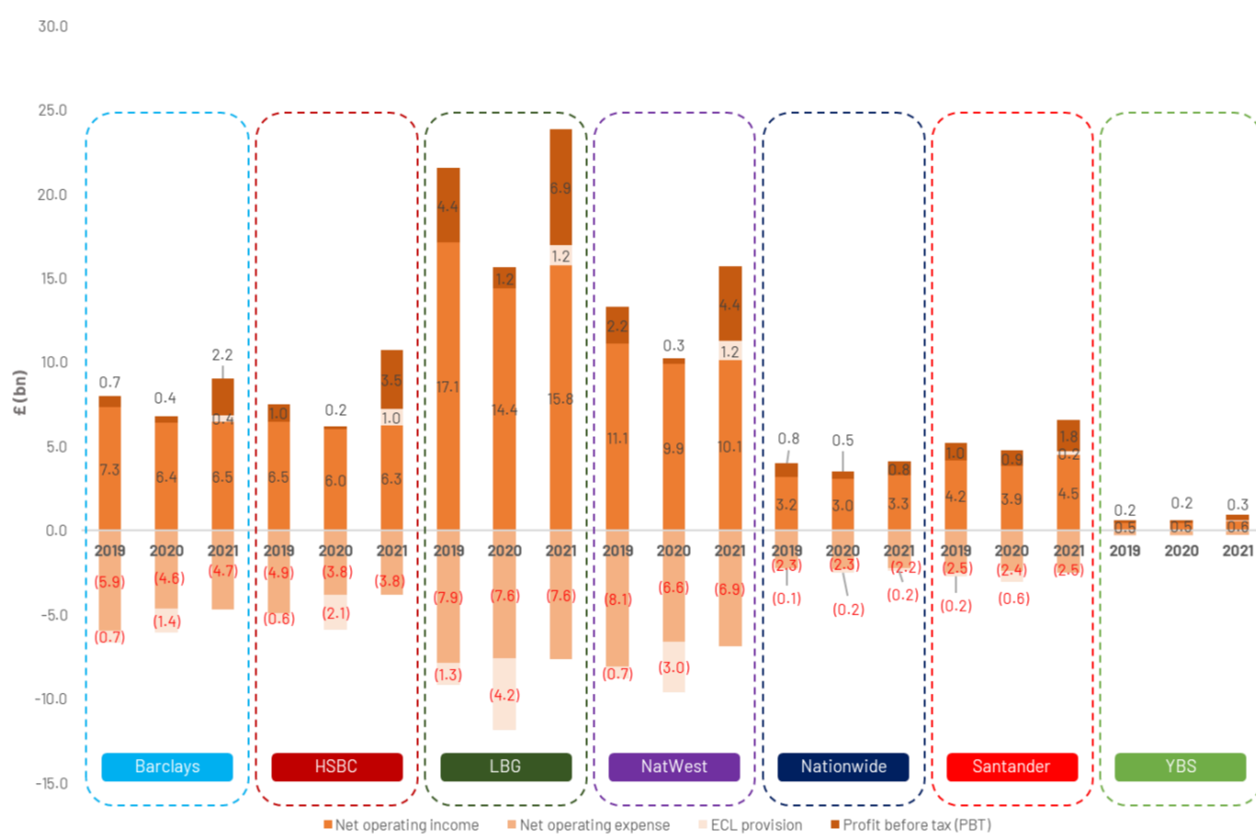
Impact of the measures on the banking institutions

In section 3 we outlined how banking institutions responded to the FCA guidance and enacted their own measures to both support customers and maintain their own stability. By analysing the financial statements of the seven in scope banking institutions it is clear that many of the measures put in place to support customers did not have a detrimental effect on their three year average profit and loss account and financial stability.

The ECL provisioning that banking institutions put in place to maintain their own stability directly impacted their balance sheet. Revenue and profitability were affected by low rates, less consumer credit, alongside the environmental, economic and behavioural changes caused by the pandemic.

Profitability of the seven in scope banking institutions improved in 2021 as a result of ECL provision release, savings growth and ability to lend back out due to strong mortgage demand. Additionally, the continuous hike in BoE base rate means the improved profitability trend for the seven in scope banking institutions has continued in H1 2022.

Figure 17: Annual statement analysis (2019-2021)



Measures to support customers have no detrimental impact on financials

The customer support measures implemented by the seven banking institutions to date did not have a detrimental impact on their financials. None of the banks reported having huge operating costs attributed to Covid measures and overall operating expenses decreased between 2019 and 2020 due to decreased spending on other operating expenses such as advertising and travel and entertainment.

While banks' reserve requirements went up, the government Coronavirus Job Retention Scheme helped ensure that a higher number of customers didn't default. And the potential for lost revenue from payment holidays was alleviated as banking institutions continued to accrue interest during the deferral period. There was therefore no significant additional cost to the banking institutions from implementing support measures.

The banking institutions were able to repurpose sales staff to support customer queries and prioritise initiatives which may not otherwise have had the most compelling financial business case. An example of this, highlighted in our research, was to divert employees from sales activity to support payment deferral calls and more general customer service telephony.

We also saw one of the in-scope banking institutions prioritise specific Covid-19 customer journey development for their retail customers, to ensure that support offered was in line with government scheme rules and was offered consistently across products.

The operating expense of implementing the measures did not significantly impact the cost to income ratio of the seven banking institutions. In fact these declined by an average of c2% from 2019 levels. The exceptions to this were LBG, Nationwide and Santander who experienced a marginal uplift in cost to income ratio due to the resources they deployed to build their future capabilities.

Figure 18: Example of a banking institutions' commentary on costs between 2019 and 2020

'From a Retail perspective we supported customers with payment holidays, but in doing so this has not impacted our earnings as interest continued to accrue during payment holidays. No material impact on costs. Impairment provisions taken in 2020, were followed by good book provision releases in 2021 associated with improved economic outlook. Government support measures, lower customer spend, low unemployment have all led to continued low levels of stage 3 defaults' – **David Lindberg, CEO Retail Banking, NatWest Group**

'In 2020, the administrative expense increased by c2.6% due to costs incurred on in-year development'

Nationwide annual reports and accounts, 2020

'In 2020, management expenses decreased because of the successful delivery of a number of initiatives. Cost reduction would have been greater if not for unanticipated costs incurred on making branches Covid-19 safe and investments in IT resilience to be future ready'

YBS annual reports and accounts, 2020

fair4all finance

Prudence and the environment impact on banking institution financials

There are many factors impacting the annual statements of the seven banking institutions, however, it is possible to observe that many of the measures put in place by these institutions to protect their own stability had a direct impact on their core financials. The main drivers appear to be:

1 The increase in ECL provisions in 2020 and their subsequent release in 2021 had a significant impact on profit levels across all institutions

2 Revenue dropped in almost all cases in 2020 and although this has recovered in 2021 it is not yet at pre-pandemic levels

ECL provisions impacting profit levels

In the wake of the pandemic, banking institutions provisioned for high credit losses which were the expected outcome of a change in underlying economic assumptions arising from the pandemic. This led to 2020 ECL provisions, on average, increasing by 3.2 times their 2019 levels. This had a direct impact on the profit levels of all institutions, which reduced by 65% in 2020.

As we entered the pandemic, many industries were placed on hold and with the prospect of potential mass unemployment there was uncertainty relating to customers' ability to repay debt. The provisions banks made were therefore driven by expectation of high levels of default and retrospectively may appear to be overly conservative. Government intervention in the form of the Coronavirus Job Retention Scheme and the Self-Employed Income Support Scheme likely had a significant impact on protecting incomes and curtailing the scale of negative economic impact of the pandemic.[81]

However, the UK Government's Covid-19 support measures alongside the FCA guidance and individual banking institution measures mitigated much of the expected losses which led to an average c33% release in the total provision in 2021 for the seven in-scope banking institutions. The exceptions were Nationwide and Yorkshire Building Society who maintained small charges of £0.2m and £0.02m respectively.

This release in provisions had a material impact on the 2021 profit levels for most institutions, causing a bounce back to c. two times the pre-pandemic profit level in 2021 as the UK economy then normalised.

[81] 'Covid-19 and its effects on household consumption in the UK'; Office for National Statistics

Product restrictions and environmental factors reduced revenue

Revenue for the seven banking institutions reduced on average by c12% between 2019 and 2020, recovering slightly in 2021. The 2020 reduction was due to:

1 A low interest rate environment (ie BoE base rate movement in 2020: 0.75% to 0.25% to 0.10%) restricted opportunity for interest spreads

2 Actions taken by the banking institutions to restrict their higher risk products

3 The impact from the economic environment which caused deposit levels to boom. Household savings in the UK increased to c22.8% in the second quarter of 2020[82] (by way of reference the average savings ratio between 1955 – 2021 was c8.35%) and customers were repaying consumer credit that had previously generated revenue for banks. Overall customers made net repayments of consumer credit between August 2020 and May 2021 meaning they were paying off more than they were borrowing.

The Net Interest Margin (NIM) for the seven in-scope banking institutions decreased by an average of c30 bps from their 2019 levels. This was due to the impact of lower UK interest rates from March 2020 and lower consumer credit balances.

Moreover, some of the restrictions put in place by banking institutions to protect their balance sheet, including restricting access to high LTV products and increasing the minimum repayment requirements on other consumer credit products, adversely impacted revenue. Gross mortgage advances and new mortgage commitments were down c10% and c5% respectively from their 2019 levels but overall mortgage still contributed positively to the overall revenue due to the existing outstanding mortgage stock and the increase in mortgage spreads due the low interest environment.

The savings glut further boosted the banking institutions already considerable liquidity buffers to weather the economic disruption caused by the pandemic. Prior to the pandemic, the seven in scope banking institutions were lending out more than they had in deposits by 6% (106% average Loan: Deposit Ratio).

With the build up of savings caused by constrained consumption in the economy due to the Covid-19 lockdowns, these institutions ended up having on average 7% more deposits than loans (99% average Loan: Deposit Ratio), the constrained consumption also limited the revenue generated from credit products and increased the cost of interest paid on savings balances (though this effect was subdued as a result of the low interest rate environment).

Additionally, some customers used their savings to pay off unsecured debts and part of their mortgage which also reduced the banking institutions' potential to generate income from debt interest.

82 United Kingdom Household Saving Ratio - 2022 Data - 2023 Forecast. Tradingeconomics.com. 2021 [cited 8 June 2022]

Improved profitability in 2021 and 2022

Profitability of the seven in scope banking institutions improved in 2021 as a result of ECL provision release, savings growth and the ability to lend back out due to strong mortgage demand.

Other than YBS, who did not withdraw their high LTV mortgage offerings, the other six in scope banking institutions reintroduced higher LTV mortgages to capitalise on a favourable UK housing market following the improvement in the economic environment in 2021, pent up demand post pandemic and further stimulation due to stamp duty relaxation by the Government.

Furthermore, the continuous hike in BoE base rate means the improved profitability trend for the seven in scope banking institutions has continued in H1 2022. Net Interest Income (NII) also increased by an average of c12% in H1 2022 compared to the same time last year.

Impact summary

In summary, whilst the measures that banking institutions put in place to maintain their stability had an impact on their profitability, namely through increased ECL provisions and the impact on product revenue, this does not appear to have been material. Also, profitability of the seven in scope banking institutions improved in 2021 and with the ongoing hike in BoE base rate the trend has persisted in H1 2022.

This does not necessarily mean that lending support measures are sustainable in the future if bad debts ultimately increase significantly. In the current cost of living crisis, a progressive increase in outstanding consumer debt and a forecast increase in loan loss provisions is probable.

We consider this and the evaluation of measures based in the following conclusions and recommendations section of the report.

Conclusions and recommendations

In this report we have discussed how, following the Covid-19 pandemic, banking institutions responded to FCA guidance and implemented measures to support customers and to ensure stability across the broader financial system whilst simultaneously seeking to ensure continuity in their own operations. We have also looked at the impact the pandemic response has had on customers and on banking institutions themselves.

Based on bank research, and input received from consumers we have drawn some conclusions in relation to the steps taken by banking institutions and lessons learned.

Findings

Responsiveness and mobilisation

- Given the pandemic was only officially declared on 11 March 2020, the FCA should be praised for the speed with which they acted, as they published initial guidance for banking institutions within the same month
- Given the required urgency of a response to the pandemic and, despite the disruption that remote working caused, including the need to overcome IT issues and security challenges, banking institutions were quick to respond and mobilise support measures
- Banking institutions should also be commended for their responsiveness to the crisis whilst redistributing their own staff between teams and providing additional training to staff on the identification and treatment of people in vulnerable circumstances

Effectiveness

- The support offered by banking institutions during the pandemic was robust and in general seen to be very effective. It also had a positive impact on the financial situation of customers, with over 80% of survey respondents acknowledging this. We also found that customer loyalty increased by over 70% as a result
- A high number of customers were able to access measures implemented by banking institutions. Overall half of customers requests received full agreement to the support measure they requested and at least 80% of requests received a partial agreement

Communication

- Whilst the overall level of communication during the pandemic increased, proactive communication by banking institutions was seen as lacking with more customers (c64%) making initial contact with their banking institution than the other way round
- Findings from the survey and focus groups showcases the importance of offering a range of channels to ensure customers with different needs get good outcomes which is in line with customer support outcome of Consumer Duty. This applies both to how banking institutions contact customers and also the channels available for customers to contact their banking institution
- Prompt and clear guidance from the FCA helped play a key part in the success of measures. This was reflected in customer feedback on the popularity of payment holidays

In this report we also consider lessons to be learned from the Covid-19 pandemic and whether similar measures could in future be applied by banking institutions to support people in financially vulnerable circumstances, especially given the current cost of living crisis. In addition, banking institutions may wish to consider how support measures align with their ongoing response to regulatory developments and, in particular, forthcoming Consumer Duty regulations.

The practices and measures we feel would be most helpful in supporting consumers are outlined below. These relate to either products, operational measures or specific customer needs and consider findings from customer feedback including vulnerability, demonstrable good customer outcomes and customer support and experience.

Recommendations

1 **Identification of vulnerability** As seen with Covid-19, times of hardship creates newly financially vulnerable people while also having a strong impact on those that are already in vulnerable circumstances. Banking institutions should be aware of this and place the identification and treatment of vulnerability at the forefront of their operations. Their ability to provide substantive supporting evidence around their identification of people in vulnerable circumstances and subsequent treatment of them at an individual customer/cohort level and not just at a product level will be integral to their response to forthcoming Consumer Duty regulations

2 Banking institutions should continue to improve their technology and data capability (eg using transactions data as a means to identify vulnerability) and equip their staff and teams through ongoing training. This will not only increase awareness of vulnerability throughout the customer journey but also enable staff to take appropriate decisions to address the needs of customers in vulnerable circumstances and alleviate the need to refer decisions 'up the chain of command'

Whilst a wide variety of support measures were introduced by banking institutions during the Covid-19 pandemic, some eg payment holidays were clearly more popular with consumers than others. Whilst a wide variety of support measures were introduced by banking institutions during the Covid-19 pandemic, some eg payment holidays were clearly more popular with consumers than others.

Moreover, the economic cost of the measures for banking institutions has not been harmful as their operating expenses decreased between 2019 and 2020 and they continued to accrue interest during payment holiday periods and bad debts have remained low.

Based on findings in this report, banking institutions should look at ways to extend these measures to support consumers through the current cost of living crisis or as a means to providing longer term support.

Systemic changes in support measures

3 **Payment holidays** should be used more widely for those experiencing life events and temporary financial difficulties. This should be supported by improved communication and better explanations as to the full consequences of measures, particularly around ongoing interest accrual and the resulting long-term increase in future repayment amounts and/or repayment term. A more tailored approach to payment holidays would also allow improve access and flexibility. Offering tailored variations on the traditional three month payment holiday

4 **New personal loans and lending limit increases**, including requests on a case by case basis where specific customer circumstances and potential increased risk to the banking institutions is considered.

5 **New or extended overdrafts**, offering short term relief to customers experiencing a squeeze in disposable income. Reintroduce an offer of £500 interest-free overdraft to customers in a tailored manner and if appropriate to their circumstances

6 **Alternative solutions** to meet the credit needs of people in vulnerable circumstances including, but not limited to, offering lower quantum loans that are less than £1k. Smaller, more flexible loans would provide more people to access tailored support when they need it.

7 **Subsidy** it may be helpful to consider the need for wider government intervention and a form of 'guarantee', as was offered in the case of business lending during the pandemic, where borrowing would not otherwise be granted. This may be particularly necessary given increasing issues with access to credit given the recent exits from the high-cost credit market

Tailored customer approach

8 In addition to the measures themselves we would also encourage banking institutions to **maintain a proactive approach** and contact customers via their preferred method of communication in the first instance to offer support and advice. Pre-emptive identification of signs of vulnerability would also allow banking institutions to be more proactive and able to offer early support and intervention, for example, before debt had the opportunity to build up

9 Consider ways to provide additional **financial support, education or advice**. This may, for example, be achievable through the creation of a bespoke online 'cost of living support tool' or through partnerships with charities and other suitable organisations, offering extended support in relation to debt management, mental health, relationship support etc. Partnerships could also extend to organisation that support customers in vulnerable circumstances to make the process of opening a bank account easier for people who no fixed address, are new to the country or have limited credit history. Examples of this is the successful partnership between Shelter and HSBC which has contributed to improving financial inclusion of customers.

10 Consider ways to revise or improve customer journeys by enabling complex or sensitive customer cases to be routed directly to a 'specialist' or more highly trained pool of advisors

11 Consider the **flexibility of measures** offered and, in particular where the ability of customers to repay money is not strongly evidenced and lending may present a greater risk to the banking institution themself

12 Continue to focus on **clear and concise communication** via a range of both digital and traditional channels, paying particular attention to customer preferences. This will be critical to ensure that messages reach customers across a wide demographic spread.

13 Consider the nature of **online relationships** and ways to avoid these becoming overly transactional or siloed without access to 'human help'. Different channels should allow for customers to access a member of staff that can discuss individual situations where needed

14 Address the divide in understanding and use of digital, particularly amongst customer groupings with less confidence in this channel whilst providing necessary training to uplift digital skills and ensuring that anyone who wants to use the internet can feel both safe and confident in doing so

Evidencing outcomes

15 Banking institutions should be prepared to make better use of insights that can be derived from data. Earlier and more thorough identification of potential customer harm is required, backed up by appropriate metrics and key performance indicators to evidence outcomes. This is especially relevant given specific requirements under forthcoming Consumer Duty regulations.

16 Banking institutions should be able to report on outcomes across the organisation and be able to 'slice and dice' information as required (eg by individual customer, cohort, tranche, segment or by portfolio)

17 Traditional use of Net Promotor Score (NPS) may be acceptable as a high level measure but more granular measures are required for banking institutions to evidence good customer outcomes

Given the unprecedented nature of the Covid-19 pandemic, the support measures that were introduced and the subsequent response by banking institutions we trust this report is insightful whilst also presenting opportunities for banking institutions to build on lessons learned from the pandemic and to continue to provide support to the complex and often challenging needs of their customers and those in the most vulnerable circumstances in society.

The lessons are particularly pertinent as during the current cost of living crisis, and the exponential rise in energy costs, many individuals and families will face similar financial and emotional challenges as came to the fore during the Covid-19 crisis.

Glossary of terms and definitions

Absolute poverty (absolute low income) – a UK household is said to be in absolute low income (absolute poverty) if their net equivalised disposable income is below 60% of the financial year end 2011 median income adjusted for inflation.

ARA – refers to a company's annual reports and accounts. This is a corporate document issued to shareholders that outlines a company's financial condition and operations over the last year.

Arrears – money that is owed and should have already been paid.

BOE – Bank of England.

Buy now pay later (BNPL) – a method of purchasing goods which involves paying for them now using credit and repaying this debt later.

Capital - the 'net worth' of a bank, which is equal to the difference between its assets and liabilities. This absorbs losses (for example on loans) and protects customer deposits.

Capitalisation – the provision of capital for an organisation, or the conversion of assets/income into capital.

Cost of living crisis – the fall in real disposable income since the end of 2021, a product of Asia's increased demand for gas, Europe's depleted gas stores, global supply chain disruptions and Russia's invasion of Ukraine.

EEA firm – a firm that has its head office in a European Economic Area state other than the UK.

Equivalent Annual Rate (EAR) – the actual rate of interest that an investment, loan, overdraft or savings account will yield over the course of the year (after accounting for compounding).

Expected credit loss (ECL) – the probability-weighted estimate of credit losses (ie the present value of all cash shortfalls) over the expected life of a Financial Instrument.

Financial capability – a measure of the financial literacy and numerical skills of a person.

Financial resilience – a measure of the ability of a person to withstand financial and emotional shocks.

High cost short term credit (HCSTC) – an unsecured loan which has an APR equal to or exceeding 100% and is usually repaid within 12 months.

KPI's – key performance indicators often used in management reporting.

Liquidity – the amount of cash or liquid assets an organisation has easily available.

Liquidity coverage ratio (LCR) – the amount of liquid assets banks are required to keep as coverage in order to have sufficient reserves to cope with a financial crisis.

Loan to value (LTV) – the amount a person is loaned relative to the value of the asset this loan is secured against.

NII - net interest income is a measure of financial performance reflecting the difference between revenue generated and expense incurred form interest bearing assets/liabilities.

NIM – net income margin, also known as net profit margin or net margin, is a measure of how much net income or profit is generated as a percentage of revenue.

Net promoter score (NPS) – a measure of customer satisfaction and loyalty which involves asking customers how likely they are to recommend a product or service or organisation.

Pawnbroking agreement – this is an agreement whereby a pawnbroker (an individual or business) offers a secured loan to another individual with items of personal property used as collateral. The property can be sold if the money is not repaid. Pawnbroking is governed by the Consumer Credit Act 1974.

Payday loan – a relatively small amount of money lent at a high rate of interest on the agreement that it will be repaid when the borrower receives their next wages.

Payment deferral – an agreement to miss certain monthly payments on a loan.

Payment Deferral Guidance (PDG) - FCA guidance on how banking institutions should support their customers with payment deferrals.

Rent to own (RTO) – an agreement to rent a property for a specific period of time with the option to purchase the property before the lease runs out.

Standard Variable Rate (SVR) – is the default interest rate, set by a lender, that you will be charged once an initial deal period on a fixed or tracker rate mortgage comes to an end.

Warrant of restitution – enables bailiffs to evict a person in unlawful occupation of a premises.

Retail revolving credit – a form of retail credit where a borrower makes payments in instalments to an account where their purchases/service charges have been debited.

Ringfenced banks - as of 1 January 2019 the largest UK banks are required by UK law to separate core retail banking services from their investment and international banking activities, this activity is referred to as ringfencing.

Tailored Support Guidance (TSG) – FCA guidance which applies in the exceptional circumstances arising out of the coronavirus pandemic and its impact on the financial situation of consumer credit customers.

People in financially vulnerable circumstances – people who, due to their personal circumstances, are especially susceptible to harm.

Appendix 1

Further information on FCA expectations and guidance for banking institutions

In support of 'The measures: Responding to Covid-19' section of this report here we provide further detail and understanding of the expectations and guidance, specifically relating to those measures set out under Payment Deferral Guidance (PDG) and Tailored Support Guidance (TSG) which the FCA published during 2020. This was designed to support borrowers experiencing payment difficulties because of the Covid-19 pandemic and included the following:

Mortgages

PDG guidance on mortgage was first published on 20 March 2020 and applied to mortgage lenders, mortgage administrators, home purchase providers and home purchase administrators.

The guidance advised banking institutions to support customers in vulnerable circumstances by offering:

- Payment holidays for an initial period of three months, applicable where there was a reduction in the household income
- Other forms of assistance where appropriate and in the best interest of the customer. For example, an interest freeze, capitalising arrears to the outstanding balances, extending payment deferral period and/or restructuring the terms of the agreement
- A 'stay' on repossession proceedings against customers until after an initial period of three months

The guidance also advised banking institutions against recording the use of these support measures on the customer's credit file to avoid negatively impacting credit scores.

The guidance was updated on 2 June 2020, providing an extension on the initial expiry until the end of October 2020. The update built on the original guidance and provided provisions for dealing with customers who did not have a payment deferral until the updated guidance came into force. Additionally, for customers already on a payment holiday and unable to resume full payments, the update advised banking institutions to offer full or partial payment deferral for an additional three month period.

The guidance was further updated on 17 November 2020 extending the support for those impacted by Covid-19 until 31 July 2021. However, customers had to apply by 31 March 2021.

The PDG guidance on mortgages was supplemented by TSG dated 14 September 2020. The support under this guidance included the provision of further appropriate payment deferrals, where banking institutions agreed to accept reduced or no payments for further periods without changing the contractual terms.

The payment deferrals provided under TSG were not subject to PDG but were offered as a form of tailored support. The support extended under TSG was therefore reported to customer's credit files in accordance with the usual reporting process. Banking institutions were also advised not to commence or continue repossession proceedings until the end of October 2020.

The update on TSG guidance, on 27 January 2021, advised banking institutions, except in exceptional circumstances, not to enforce repossessions and seek or enforce a warrant for possession or warrant of restitution before 1 April 2021.

TSG guidance was further amended on 25 March 2021, allowing banking institutions to enforce repossessions from 1 April 2021 in accordance with the relevant regulatory and legislative requirements.

Credit cards (including retail revolving credit) and personal loans

Credit card and personal loan guidance was first published on 9 April 2020 for banking institutions to provide support to customers facing payment difficulties due to a reduction in household income. It also advised banking institutions to communicate the availability of payment deferral arrangements to customers.

The guidance allowed for:

- Payment deferral for an initial period of three months without the customer considered to be in arrears
- Banking institutions to provide more favourable forms of assistance including a longer payment deferral if deemed appropriate
- Necessary rectifications to customer's credit files to ensure no worsening arrears status was recorded during the payment deferral period

Banking institutions were not prevented from continuing to charge interest during the deferral period.

The guidance was updated on 1 July 2020, providing an extension on the initial expiry until the end of October 2020. It also made provisions for dealing with customers who did not have a payment deferral until the updated guidance came into force.

Additionally, for customers already on a payment holiday and unable to resume full payments, the update advised banking institutions to offer forbearance or further payment deferral for an additional three-month period. The guidance also suspended the 'persistent debt' provisions for customers who were granted initial or further deferral under the PDG.

The guidance was further amended on 19 November 2020 extending the support for those impacted by Covid-19 until 31 July 2021. However, customers had to apply by 31 March 2021.

PDG guidance on credit cards and personal loans was supplemented by consumer credit TSG dated September 2020.

Overdrafts

Overdraft guidance was first published on 9 April 2020 (and came into force on 14 April 2020) and applied to:

- A firm with permission to accept deposits and providing a current account with an overdraft facility
- Primary personal current accounts ie an account into which a customer would usually receive, or would have received, their main source of income
- EEA firms with a regulatory passport to operate in the UK

Guidance did not apply to private banks and credit unions.

The guidance, set out for an initial period of three months, allowed for the following two measures:

Measure 1 – Interest free overdrafts for those in financial difficulty

Arranged overdraft limit	Interest rate
Up to and including £500	Interest free
Above £500	First £500 will be interest free. Standard pricing rate for borrowing above £500 (see Measure 2)
Arranged increases to limits below £500	Interest free
New overdrafts	First £500 will be interest free. Standard pricing rate for borrowing above £500 (see Measure 2)

Measure 2 – Overdraft interest rate pricing

Banking institutions were advised to review their overdraft pricing structure and ensure that the prices were consistent with the obligation to treat customers fairly in the circumstances arising out of Covid-19.

Banking institutions had the flexibility to achieve this through a combination of the following means:

- Not introducing any increase in price
- Reducing its published interest rates
- By making manual adjustments to customer accounts

The guidance was updated on 1 July 2020 (with effect from 3 July 2020), providing an extension on the initial expiry until the end of October 2020. The guidance allowed customers, with no previous overdraft support, assistance for an initial period of three months.

Additionally, a further three months support on top of the initial three months was provided. An interest free overdraft buffer until 31 January 2021 was also introduced for customers.

Rent to own, buy now pay later and pawnbroking agreements

Guidance was first issued on 24 April 2020 for an initial period of three months and applied to regulated firms that entered rent to own (RTO), buy now pay later (BNPL) or pawnbroking agreements. In addition, it also applied to firms that had acquired such loans. Furthermore, the guidance only applied to the customer balance in relation to the promotional period. For other balances not subject to the promotional period guidance on credit cards applied.

The guidance set out expectations for firms to provide support to customers in vulnerable circumstances facing payment difficulties due to a loss of or reduction in their income and allowed for:

- 'Payment deferral' for an initial period of three months without the customer considered to be in arrears
- In the case of pawnbroking agreements, firms were advised to extend the redemption period for three months or, if the redemption period had ended, firms were advised not to give notice of intention to sell. If the notice had already been given, firms were advised to suspend the sale for three months
- In the case of BNPL, firms were advised to extend the promotional period by three months
- Firms to provide more favourable forms of assistance including a longer payment deferral if deemed appropriate
- Necessary rectifications to customer's credit files to ensure no worsening arrears status was recorded during the payment deferral period

The guidance was updated on 15 July 2020 (and came into force on 17 July 2020), providing an extension on the initial expiry until the end of October 2020. The update built on the original guidance and provided provisions for dealing with customers who did not have a payment deferral until the updated guidance came into force.

Additionally, for customers already on payment holiday and unable to resume full payments, the update advised firms to offer forbearance or payment deferral for a further period of three months.

The guidance was further updated on 19 November 2020 extending the support for those impacted by Covid-19 until 31 July 2021. However, customers had to apply by 31 March 2021.

The PDG guidance on rent to own, buy now pay later and pawnbroking agreements was supplemented by consumer credit TSG dated 30 September 2020.

Motor finance agreements

Guidance was first issued on 24 April 2020 for an initial period of three months and applied to regulated firms that issued motor finance agreements. This included hire purchase agreements (such as personal contract purchase (PCP) agreements), conditional sale agreements or other debtor-creditor-supplier agreements or restricted use debtor-creditor agreements used to purchase a vehicle. It also applied to personal contract hire (PCH) agreements and to firms that acquired such agreements.

The guidance set out expectations for firms to provide support to customers in vulnerable circumstances facing payment difficulties due to a loss of or reduction in their income and allowed for:

- ‘Payment deferral’ for an initial period of three months without customers considered to be in arrears
- Firms to provide more favourable forms of assistance including a longer payment deferral if deemed appropriate
- Necessary rectifications to customer’s credit files to ensure no worsening arrears status was recorded during the payment deferral period
- A ‘stay’ on repossession of the vehicle during the period of the guidance

The firms were advised to find an appropriate solution ensuring that it did not lead to unfair outcomes.

The guidance was updated on 15 July 2020 (and came into force on 17 July 2020), providing an extension on the initial expiry until the end of October 2020. The update built on the original guidance and provided provisions for dealing with customers who did not have a payment deferral until the updated guidance came into force.

Additionally, for customers already on a payment holiday and unable to resume full payments, the update advised firms to offer forbearance or further payment deferral for another three month period.

The guidance was further updated on 19 November 2020 extending the support for those impacted by Covid-19 until 31 July 2021. However, customers had to apply by 31 March 2021.

The PDG guidance on motor finance agreements was supplemented by consumer credit TSG dated 30 September 2020.

High cost short term credit (HCSTC)

HCSTC guidance was first issued on 24 April 2020 for an initial period of three months and applied to firms that entered into HCSTC loans, a type of loan which is unsecured, has an APR equal to or more than 100% and is usually repaid in full within twelve months eg payday loans. It applied to both outstanding loans and loans entered into after the guidance came into force.

The guidance set out expectations for firms to provide support to customers in vulnerable circumstances facing payment difficulties due to a loss of or reduction in their income and allowed for:

- ‘Payment deferral’ for an initial period of three months without the customer considered to be in arrears
- Firms to provide more favourable forms of assistance including a longer payment deferral if deemed appropriate
- Necessary rectifications to customer’s credit files to ensure no worsening arrears status was recorded during the payment deferral period

The guidance was updated on 15 July 2020 (and came into force on 17 July 2020), providing an extension on the initial expiry until the end of October 2020. The update built on the original guidance and provided provisions for dealing with customers who did not have a payment deferral until the updated guidance came into force.

Additionally, for customers already on a payment holiday and unable to resume full payments, the update advised firms to offer forbearance or further payment deferral for an additional three month period.

The guidance was further updated on 19 November 2020 extending the support for those impacted by Covid-19 until 31 July 2021. However, customers had to apply by 31 March 2021.

The PDG guidance on high cost short term credit agreements was supplemented by consumer credit TSG dated 30 September 2020.

Note: The FCA guidance on HCSTC had limited application on the products and services offered by the seven in-scope banking institutions.

Other consumer credit tailored support guidance

TSG guidance from 30 September 2020 on other consumer credits supplemented the below PDG guidance on:

- Credit cards (including retail revolving credit)
- Personal loans
- Rent to own, buy now pay later and pawnbroking agreements
- Motor finance agreements
- High cost short term credit

The guidance was for customers who were granted payment deferrals under PDG but remained in financial difficulties. Additionally, the guidance set out expectations of how the firms should support customers affected by the Covid-19 crisis after the expiry of the period mentioned in the PDG, irrespective of whether they were granted a payment deferral.

Banking institutions were advised to:

- Put in place clear, effective, and appropriate policies and procedures for dealing with customers in vulnerable circumstances
- Treat customers fairly and work with customers to resolve difficulties in advance of payments being missed, in accordance with the TSG
- Not start possession action until the option of forbearance had been considered

The support extended under TSG was reported to a customer's credit file in accordance with the usual reporting process.

The guidance was updated on 19 November 2020 and came into effect on 25 November 2020. The update allowed banking institutions to commence or recommence proceedings to recover possessions of goods or vehicles from 31 January 2021 in accordance with the relevant regulatory and legislative requirements.

Appendix 2

Consumer impact methodology

In support the 'Consumer impact analysis' section of this report here we provide further detail and understanding of the methodology used in our research on how customers experienced the Covid-19 support measures and the impact these had on them.

Screening

To gain insight into the underlying customer experience of banking measures during Covid-19, we conducted a consumer survey, consumer focus groups and consumer one to one interviews. The respondents were pre-screened to ensure that:

- They held a debt product with one of the relevant banking institutions included in our survey
- An important or difficult life event, such as bereavement, job loss or relationship breakdown, had a significant negative effect on their financial position during Covid-19
- They had looked for or were offered financial help from one of the relevant banking institutions included in our original banking survey

Consumer Survey

To avoid incomplete surveys, the survey was restricted to 28 questions which took a maximum of 10 minutes to complete. The questions were worded simply, the majority were multiple choice and only a few questions were open ended. The questions which comprised the main body of the survey sought to reveal:

- How proactive banking institutions were in communicating support measures
- Which support measures were sought after the most
- How many respondents felt that their request for support was met
- How the support offered impacted the respondent's financial situation
- How the support offered impacted the respondent's perspective of their banking institution
- How satisfied the respondent was with their bank's staff and approach
- The demographics of the respondents

Post screening and dropouts, the survey was completed by 1,488 banking customers and the breakdown of the respondents' respective banking institutions is detailed below:

Figure 19: Breakdown of the survey respondents

Completions by bank	Number of responses
YBS Group	229
Lloyds Group	224
NatWest Group	210
Barclays	209
HSBC	207
Santander	206
Nationwide	203
Grand total	**1,488**

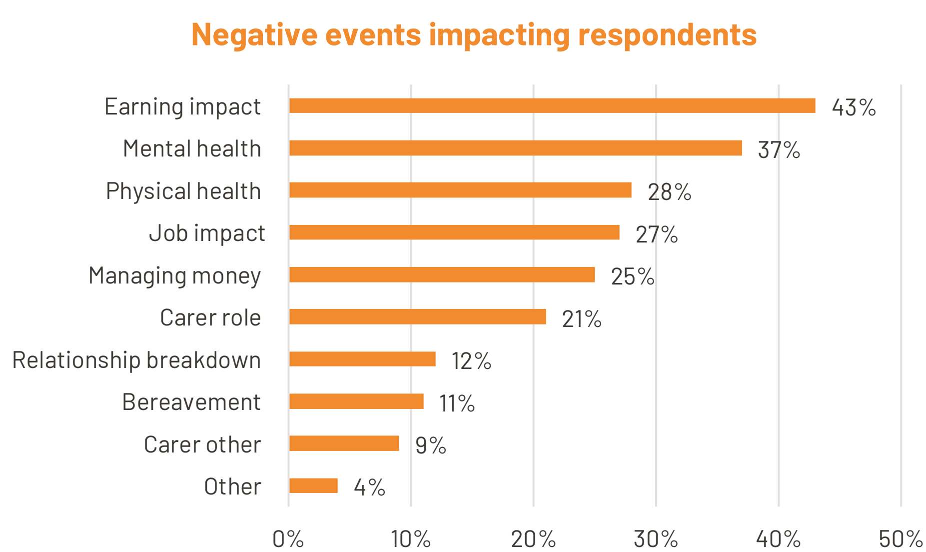
As shown in the table above, we ensured that the number of respondents per banking institution was consistent to enable valid comparisons to be drawn in our analysis.

Through the pre-screening questions, we established which events had negatively impacted the respondents' financial positions during Covid-19. The respondents were asked:

'Which of the following events had an impact on your financial position? (Please select all that apply)'

The results are outlined below:

Figure 20: Negative events impacting respondents



From the table above, we can see that the negative events which affected the most significant proportion of respondents were 'earning impact' and 'mental health' – these are also undoubtedly factors likely to come to the fore again as a result of the current cost of living crisis. As highlighted in the introduction, the current crisis has resulted in a significant reduction in real income (earning impact) and an increase in anxiety over personal finances (mental health)[83].

The clear parallels between the negative events consumers experienced during Covid-19, and are facing now, make the findings of our primary research even more relevant. Indeed, when consumers face the same negative events in the current crisis, they may look for similar financial support to that offered by banking institutions during Covid-19.

Consumer Focus Groups

In addition to the consumer survey, we ran five focus groups. These consumer focus groups aimed to provide us with greater context and to elaborate on the trends observed in the consumer survey. It was not the intention of the focus groups to expose specific individual circumstances given these were likely to be private or psychologically challenging to discuss.

One respondent spoke openly about the mental health challenges they faced, which seems to have been a longer term issue, not one caused by the stresses of the pandemic.

However, generally our respondents were not at the most extreme end of finding the consequences of the pandemic difficult to handle and most people were granted the help they sought. Those who were not granted the support they requested, did seem to have significant borrowing, relative to income.

Post screening and dropouts, a total of 28 consumers attended the five focus groups. These were separated by age profile and is broken down as below:

Figure 21: Focus groups breakdown

<table>
<tr><th>Group</th><th>Age Profile</th><th>Attendees</th><th>Institutions</th></tr>
<tr><td>1</td><td>18-30</td><td>6</td><td rowspan="6">All participants in the focus groups held accounts with, and asked for support from the in-scope banking institutions</td></tr>
<tr><td>2</td><td>31-45</td><td>4</td></tr>
<tr><td>3</td><td>31-45</td><td>6</td></tr>
<tr><td>4</td><td>46-60</td><td>6</td></tr>
<tr><td>5</td><td>46-60</td><td>6</td></tr>
<tr><td>5</td><td>46-60</td><td>6</td></tr>
</table>

The focus groups had a breadth of regional representation and gender mix and were facilitated by an experienced Market Research professional. The primary discussion topics in the focus groups aimed to uncover:

[83] University College London. Covid-19 Social Study. 2022 [cited 2022 May 19]

- How the attendees viewed their relationship with their banking institutions
- Why the attendees thought support from their banking institutions was necessary
- How the banking institutions communicated support to their customers
- How helpful banking institutions' staff were perceived when dealing with customers
- How satisfied attendees were with the outcome of their requests for support
- What areas the attendees thought could be improved on

While the above topics formed the main agenda of the focus groups the framework of each was flexible, allowing the conversation to flow and for attendees to influence the discussion based on what was important to them. This flexibility also enabled us to receive broader feedback and expanded our understanding, from a customer perspective, of the support offered by banking institutions.

Consumer Interviews

The one to one consumer interviews were designed to further expand on the knowledge gained from the survey and focus groups. Indeed, these conversations enabled us to probe more deeply into the financial, and/or emotional, difficulties experienced, the degree to which banking institutions were or were not felt to have assisted and the alternatives which people might have looked at.

As with the focus groups, the one to one interviews flowed naturally allowing interviewees to influence the discussion, to a certain extent. The 40 individual one to one interviews involved sufficient representation across all demographics and were facilitated by an experienced Market Research professional. The primary discussion topics in the one to one interviews were:

- Why and what type of assistance the consumer sought
- How the banking institutions responded to support requests
- How the consumer felt about the level of practical support offered
- Did the consumer feel that their banking institution was sensitive to the emotional difficulties of seeking financial assistance, and any stress they may have been under due to their financial circumstances and/or concerns over the pandemic or other issues
- If applicable, how, realistically, they feel they could have been better supported by their bank, both financially and emotionally

55% of our respondents had the additional support they sought fully agreed and 34% of support was partially agreed. Those who had requests rejected may have represented a greater risk for the banking institutions as they tended to already have debt products and were seeking additional borrowing.