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Building Resilient Households

Low financially resilient households report

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Contents

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Executive summary

Over the last seven years the Building Resilient Households Group (BRHG) has explored the problem of low financial resilience amongst UK households of working age.

Chapter 1 gives a brief overview of the work to date which has highlighted the need for a national measure of resilience and has put forward a number of detailed proposals which could help build resilience in specific areas. In this report we review recent developments and – most importantly – report on the outcome from a series of interviews we've undertaken with stakeholders from a wide range of sectors.

Chapter 2 surveys recent developments. Worryingly, the number of people lacking financial resilience continues to grow. Latest data from the FCA puts this figure at 12.9 million adults – an increase of 1 million over a two year period. And ONS data shows that almost a third of adults could not meet an unexpected bill of £850. Financial shocks come in many forms. One example is loss of earnings through sickness – we show how employer sick pay is fading (with just 28% paying above the minimum statutory sick pay which is just £109pw).

On a more encouraging note, the problem of low resilience is now attracting more attention and we report on positive steps to create more systematic and regular measurement. Welcome as this is, we continue to argue that an official national measure is still needed to allow progress to be benchmarked.

Chapter 3 reports on the outcome of our interviews with stakeholders. There was widespread agreement that low resilience is a major problem which can lead to misery, instability and unfulfilled potential. We were encouraged by the view of many we spoke to that it doesn't need to be like this. A wide range of actions – by a wide range of parties – could make a significant difference. The ideas we heard can be broadly categorised within the following groups:

- Promoting savings
- Promoting employment related benefits and services
- Creating more fairness in key services
- Better financial education
- Improving access to help for people in financial difficulty – including affordable credit
- Tackling low pay
- Reforms to State benefits and Housing policy

Each of these is explored more fully in Chapter 3 as is the range of parties who have a role to play including:

- Government – national and local
- Employers
- Financial Services – including the Financial Conduct Authority
- Independent bodies such as Citizens Advice, StepChange and Fair4All Finance and other charities
- Social landlords
- Schools and other educational bodies

Our conclusions and recommendations, set out in **Chapter 4**, draw heavily on what we heard in the interviews. A lot can be done to improve the situation, many players can help and – recognising the huge pressures on the public finances – much can be done without adding significantly to public spending. Indeed a more financially resilient population can lead to fewer demands on the public purse.

But this will not all come about of its own accord. A strategic approach based on evidence and engaging all the key parties is needed. Government can play a central role in bringing this about. But it is not realistic to rely on Government alone. We see a parallel with the problem of inadequate financial provision for retirement which was addressed by the Pensions Commission in the mid-noughties. That Commission set up by the Government and chaired by Lord Turner worked with all interested parties and its work has formed the basis of a lasting pensions settlement. Twenty years on we believe a similar approach is now needed to tackle the problem of low financial resilience in the working age population.

Our central recommendation is therefore:

"We recommend the establishment of an independent Commission on Household Financial Security. We suggest this follows a similar model to the Pensions Commission and:

- Comprises three or four Commissioners who are highly respected in their fields and between them bring experience and professional expertise relating to household finances, employer and employee perspectives, financial services and consumers.
- Is supported by a small but strong team with strong analytical and stakeholder engagement skills."

We also make two further recommendations covering actions that could usefully be taken in the shorter term without prejudice to the Commission and without affecting public spending totals:

- Businesses should include in their annual reports details of employee benefits such as sickness and maternity pay – including a breakdown of how different groups of employees are treated. We believe this sort of transparency to be important for shareholders, employees and the wider public and will help to drive good practice; and
- Regulation 66 of the Universal Credit Regulations should be amended to allow renters (and especially private renters) to insure against their inability to pay rent in the same way that is already available to mortgage holders.

Finally, we'd like to express our thanks to our interviewees, sponsors and the many other people who have helped us with our work over the last seven years.

Richard Walsh and Alan Woods

Joint Chairs of the Building Resilient Households Group
September 2023

1 Introduction

The Building Resilient Households Group (BRHG) was established in 2016. Its aim was to shine a light on the financial resilience of UK households and encourage action to bring about improvements. Its first report "The future of financial provision for those too ill to work"[1] highlighted the growing problem of people being unable to work through ill health and explored the effect of this on household finances. It made a set of recommendations including that a Financial Resilience Task Force should be established.

Baroness Drake agreed to chair the Task Force which reported in November 2019[2]. The Task Force drew together evidence from many sources about the frequency and impact of financial shocks in UK households. It explored the wide range of resources/factors which can make a household resilient to financial shocks and recommended that the ONS should work toward creating a Resilience Index to give a regular assessment of households' abilities to weather financial shocks.

Other work by the BRHG includes:

- Work with the New Policy Institute to analyse the interaction between protection insurance and Universal Credit
- Work with DWP to clarify the treatment of protection products for mortgage holders claiming Universal Credit
- Developing a policy proposal to allow renters on Universal Credit to benefit from insurance protection payouts – working with the Faculty & Institute of Actuaries to independently assess the financial implications[3]
- Running workshops with stakeholders to promote better understanding and measurement of financial resilience.

In this 2023 Report we:

- Review developments in financial resilience over recent years (Chapter 2)
- Report on interviews we have undertaken this summer with a range of stakeholders (Chapter 3); and
- Draw on these to make recommendations about improving financial resilience (Chapter 4).

Details of BRHG members and sponsors are at Annex 1.

2 Recent developments in financial resilience

Background

The Financial Resilience Task Force report highlighted the widespread problem of low financial resilience amongst the working age population. It recommended that the ONS establish a regular Resilience Index so that progress in addressing this problem could be tracked authoritatively. The Task Force defined financial resilience as:

"The ability to cope financially when faced with a sudden fall in income or unavoidable rise in expenditure."

The report identified a range of factors that can contribute to resilience including:

- **Having savings** or other financial assets that can be drawn upon
- Access to **State benefits**
- **Employment-based benefits** such as occupational sick pay, redundancy pay and bereavement benefits
- **Insurance payouts** such as Income Protection, Critical Illness, Life insurance (which help with income shocks) and general insurance products like household insurance (which help with specific expenditure shocks)
- **Support from family and friends**
- **Access to affordable credit**

It suggested that the Resilience Index should aim to pick up on all these sources – particularly since the long-term decline in some, like employment-based benefits and State benefits, has contributed significantly to lower resilience.

Developments in measuring resilience

The ONS continues to produce important and authoritative statistics and analysis which provides insights into resilience but this has not yet come together in the shape of a comprehensive resilience index.

Meanwhile, Hargreaves Lansdown (working with Oxford Economics) has helped to fill this space with their new Savings and Resilience Barometer[4]. Now in its fourth edition this is a very welcome development. It provides an overall headline resilience score for the UK and provides insightful segmentations which help focus on key problem areas.

The FCA's Financial Lives Survey[5] is also now becoming well established as a useful and regular source of information on financial resilience – its most recent (July 2023) publication provides very useful insights.

Even so, some significant limitations remain. For example, employment-based benefits are a very important source of resilience but data on them remains patchy:

- DWP undertakes periodic research covering employer sick pay[6] but the data tells us about employer behaviour rather than how many employees could receive sick pay from their employer
- Swiss Re's annual Group Watch report provides good data on the number of employees covered by group insurance schemes. But it cannot cover the substantial employer segment where

2 Recent developments in financial resilience

benefits are provided directly by the employer rather than through an insurance policy.

And some important sources that can help people through a financial shock - such as access to affordable credit and the contribution made by State benefits - are not captured directly in either the FCA measure or the HL Barometer.

There is also a tension between precision and speed. The authoritative ONS Wealth & Assets Survey occurs every two years and takes many months to process. The same is true of the FCA's Financial Lives Survey. It is helpful that these key sources are now complemented by much more up-to-date snapshot surveys such as the ONS fortnightly Public Opinions and Social Trends survey.

We welcome these developments and hope they will improve the focus on low financial resilience and its causes, and help spur action to tackle this problem. We continue to believe there should be an official comprehensive measure of resilience as recommended by the Task Force.

The Changing Picture of Resilience

The Task Force report in November 2019 highlighted the harm that low resilience can cause to individuals, families, businesses and communities and public services. It found that 4 - 6 million people each year suffer one of four key life events (ill-health, relationship breakdown or death of a partner, job loss, caring responsibilities) that can cause a sudden loss of income. And a further sizeable group experience other life events which can disrupt household finances. It noted extensive evidence that many households were ill-prepared for financial shocks and that some traditional sources of support were diminishing.

Since then, the Covid pandemic and the Cost of Living crisis have created further challenges to the finances of both the nation and individual households. For some households – such as those working from home on full pay – the pandemic period may have actually improved their financial position. Others lost out during that period and have been hard hit by cost-of-living increases. The latest edition of the HL Barometer concludes that viewed as a whole the overall financial resilience of the nation is little changed compared to 2019. But it goes on to point out:

"This overall stability masked a very uneven pattern across the nation with lower income households, again, faring far worse-than-average, a trend that will have exacerbated inequality in long-term financial resilience. The driver of this shift has been the variation in changes in savings rates since 2019 with low income households less likely to work remotely during the pandemic and, as described in this note, disproportionately affected by the recent bout of inflation."

The FCA reported last October[7] that the number of people lacking financial resilience was 12.9 million in May 2022 – an increase of a million on the February 2020 figure. Its further report this July[8] based on January 2023 data found 18.9 million (36% of adults) were not coping.

The less pessimistic picture painted by the HL barometer may reflect key methodological differences – such as the inclusion of retirement saving in their measure.

Underlying these two systematic measures of resilience, there are some stark facts:

- In July 2023 almost a third (30%) of adults could not meet an unexpected expense of £850 – up from 27% in November 2021[9]
- Only 54% of those aged under 45 could cope with their household income being halved for a 3 month period, and 62% of those aged 45-64[10]
- Amongst renters, the numbers able to cope with this temporary income reduction are lower at just 38% and 41% respectively[11]
- Most employees (73%) with a steady job see notable fluctuations in their monthly pay. The average variation was found to exceed the average household spend on groceries[12].

And traditional forms of support are in decline:

- Only 28% of employers pay sick pay greater than the minimum statutory sick pay (SSP) of £109.40 a week[13]
- The SSP rate represents just 17% of average earnings (as at May 2023)
- Statutory Maternity Pay, at £172.48 a week is just 26% of average earnings.

While financial resilience has been under threat, the need for it has been growing. This is highlighted by the rapid growth in the number of people unable to work due to sickness – up by half a million since 2019[14].

Conclusion

The evidence continues to point to lack of financial resilience as a serious – and growing – problem. Recent developments in measuring resilience are very welcome and help to shed new light on the issue. We continue to believe that an official national measure should be created.

Against this background, the next Chapter reports on a series of qualitative interviews we have undertaken with stakeholders and thinkers.

3 Main themes emerging from our interviews

In this Chapter we set out what we heard from our interviewees and summarise the main themes that emerged. It comprises five sections:

- Current picture of resilience
- Outlook for future financial resilience
- Levers for change
- Specific changes which could help build resilience
- Conclusion

We interviewed sixteen stakeholders (listed at Annex 1) who between them bring a wide range of perspectives. Interviews were conducted on a Chatham House basis and we have drawn together below the themes which emerged.

Current picture of resilience

We asked interviewees what they thought about the current state of household financial resilience and to talk about the factors which had contributed to this.

There was widespread agreement amongst interviewees that lack of financial resilience amongst a large swathe of the population is a serious and widespread problem in the UK. The general sense was that this is a deep-seated issue which has been exacerbated by the Covid years and the recent sharp rises in the cost of living.

Some interviewees saw resilience as a spectrum. At the upstream end of the spectrum people can build resilience well ahead of any unwelcome financial contingency by building up savings/assets or taking out various forms of insurance. Employers can play a big role here by including insurance-type benefits such as sick pay and bereavement benefits in their rewards packages. At the downstream end services like social security benefits, debt advice and access to affordable credit play a key role in helping people keep the wolf from their door. At present, institutions providing support at this downstream end are facing exceptional volumes with a large – and growing – proportion of clients being in 'negative budgets' (i.e. outgoings exceeding income).

Given the poor state of resilience, there was general agreement that action is needed at all points on this spectrum.

Interviewees identified a range of factors which have contributed to low levels of resilience amongst a worrying proportion of the population. These factors fall into 3 groups:

Economic factors

- Household expenditure has been rising due to cost of living pressures while incomes have risen more slowly. People in the lower half of the income distribution have seen little or no real-terms growth for over a decade – and many on benefits have seen real-terms falls.
- Many households have now exhausted any savings they once had - often to be replaced by debt.
- For many it is now not feasible to build up assets – managing debt more effectively is the realistic aspiration.
- A long period of very low interest rates (now abruptly ended) made borrowing much more attractive than saving over the last decade.

Factors affecting 'upstream' resilience

- Businesses (including the finance sector) are driven by consumer spending with the result that spending is promoted over saving. Similarly, financial innovation tends to be focussed on ideas that support spending such as Buy now Pay Later.
- The changing nature of employment has led to greater volatility in household incomes from month to month. This may discourage people from committing to regular savings or insurance.
- The large number of younger people now renting rather than buying with a mortgage has reduced asset ownership especially amongst millennials.
- Government schemes to promote the build-up of assets (such as ISAs and Help-to-Buy) are largely taken up by the better-off. While the Help to Save scheme was welcomed, few people on benefits are in a position to save.
- Lack of financial education in schools (and at home) has left many people uncomfortable talking about money and ill-prepared for financial decisions.
- Digital exclusion acts as a barrier to take-up of savings and protection products.
- A long-term effect of the Retail Distribution Review has been to push financial advice beyond the reach of most people.

Factors affecting 'downstream' resilience

- Reforms to social security were seen as having eroded an important source of resilience for the less well-off. We were told that the basic benefit rates were now at their lowest in real terms for over 40 years – and the situation is still worse for larger families due to the 'two child' rule. The five week waiting period for Universal Credit also means that many families get further into debt during a spell on benefits. And most private rents are now significantly above the level allowed for in the benefits system.
- The value of statutory employment benefits such as Statutory Sick Pay and Statutory Maternity Pay has now dwindled to a fraction of average wages.
- Access to affordable credit is insufficient to meet demand – and rising interest rates are making credit more expensive.
- Interviewees pointed to the remarkable growth in food banks which now play a significant role in our society and demonstrate that the British people do indeed care about those less fortunate than themselves.
- We also heard that local authorities are playing a bigger role in supporting families in need, though their finances are inevitably constrained.

3 Main themes emerging from our interviews

We heard from a number of interviewees that some groups were particularly vulnerable to low financial resilience:

- Private renters
- Self-employed
- Ethnic minorities
- Single adult households (inc. lone parents)
- People with disabilities and/or poor physical or mental health. For example, we heard that people with mental health problems are 3 times more likely than the general population to be behind with bills and payments.

Outlook for future financial resilience

We asked how people saw the outlook in the next 5 to 10 years.

The overall sense of responses was that we are now reaching a turning point. The issue is becoming more prominent and if it becomes a priority for Government and regulators then significant improvements in resilience could be achieved over this period. There are already some positive developments to build upon, and with energy and commitment a lot could be achieved. But it will not happen by itself as too many structural factors currently act against it.

Particular points made by interviewees included:

- Currently housing and energy costs remain very high and are pushing families further into debt. But over time, the Cost of Living crisis will abate and incomes may catch up to cover the current shortfalls. (Some felt that labour shortages and Brexit would serve to drive up real pay, while others were less optimistic on this point.) Even so, without major change, many/most families will continue to live from hand to mouth.
- Action to boost digital inclusion could make a big difference: at present too many people of all generations are disadvantaged in this respect creating a barrier between individuals and the financial services that could help them.
- While the Government takes an interest in financial inclusion and capability, it has yet to appreciate fully the importance – both social and political – of financial resilience. The time has come for it to take this further step and set an objective based on financial resilience.
- A new balance needs to be struck within financial services between individualism and social solidarity – the drive to minimise cross-subsidy in areas like insurance should not be assumed to be a universal good.
- The lack of affordable homes is a major cause of low resilience and social division. Action to address this through mixed housing projects would make a big difference.
- Aspects of the current state benefits system push people into serious hardship and inescapable debt, but these could be addressed without wholesale reform. Non-political institutions such as the Resolution Foundation and the Poverty Commission can help shine light on these issues.

An over-arching theme from many interviewees was that the future could be very different if people in power truly began to understand that <u>security</u> is a deep-seated need amongst most ordinary people – something which understandably may not be fully appreciated by those who have been fortunate enough to reach the top of the tree.

Levers for change

We asked about how to effect change in this area – which institutions and levers could be the key to making things change for the better?

All interviewees saw the **Government** as having a central role to play. This took several forms:

- Firstly, in setting the tone and working with all relevant parties to develop a strategic approach. Clear recognition of the importance of improving household financial resilience would be central to making progress. Much of the activity would fall to other parties but Government was seen as the only place where an overall strategy could be created and overseen.
- Secondly, in ensuring that the policies across Government and the regulatory systems worked towards, and not against, the goal of more resilience.
- Thirdly in addressing a number of areas which are Government led and where reform is needed to improve resilience – such as housing, social security.

Most notably, several interviewees emphasised the need for a determined long term approach from Government rather than a few 'flash-in-the-pan' initiatives. This was much more than a question of which party is in power, more a point about the need for a change in the way government operates. The example of pension reform was mentioned where the work of the Pensions Commission had led to sensible and sustained reforms to pension provision which have retained support across the political spectrum.

Some interviewees spoke of the need for realism about what the government could deliver financially, both in the near future and the longer term. That being the case, its leadership role became all the more important.

Local Government was also seen as having an important role – and one that could be helpfully expanded. At the 'downstream' end of resilience, local authorities are often well placed to identify households which are struggling to get by. And through the Household Support Fund[15] and Discretionary Housing Payments[16] they are already engaged in supporting households. They also have the potential to work with families with budgeting problems to help them build more resilience in the future. More broadly, their community leadership role offers significant potential in the area of building resilience. Some interviewees highlighted the way directly-elected mayors were able to use their position to bring together and energise local

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stakeholders to build capability and resilience in their communities.

Employers were seen by most interviewees as having a significant role to play. For some this was about making more of a financial contribution e.g. through better pay and benefits packages which offered good cover for sickness, maternity and other eventualities. Others thought it was more realistic to see employers facilitating resilience – perhaps through financial education and using their buying power (and payroll mechanisms) to facilitate access to good financial products. One particular theme that came through was that today's generation of workers are increasingly likely to look to their employers for wider wellbeing support alongside fair pay. In an increasingly tight labour market those employers who provide support with health and welfare are likely to have the edge.

The Financial Services Industry was universally mentioned but no interviewee saw it as likely to make a major difference on its own. The emphasis was strongly on the need for it to work with the other parties listed as part of an overall strategy. We heard of examples of good product designs such as contents insurance for renters, basic bank accounts and the use of Fin Tech to help with budgeting. In contrast, we heard that many products still have a 'poverty premium' whereby poorer consumers end up paying more. **The Financial Conduct Authority** was also mentioned by some interviewees who hoped that it would regulate the new Consumer Duty in a fashion which would support resilience.

Other institutions mentioned included:

- Schools and Further Education – which could play a significant role in financial education
- Social landlords – who may be able to do more to promote the resilience of their tenants
- Independent bodies such as Citizens Advice, StepChange and Fair4All Finance (all of whom do good work in this area and were amongst our interviewees) and similar bodies.

Perhaps the most overwhelming message we heard was that a concerted strategy – with all of these sectors/bodies playing their role – was the one thing that could make the biggest difference.

Finally, most interviewees said that individuals themselves must of course take responsibility, but the universal view was that they needed much stronger support from the institutions mentioned above if they were to do this successfully.

Specific changes which could help build resilience

Having explored the main levers for change we asked what specific actions could make a positive difference. We encouraged interviewees to think both about things that were practical now and to contribute imaginative ideas which may not be immediately practical but which broke free of current constraints.

We received a wide range of ideas which can be broadly categorised within the following groups:

- Promoting savings
- Promoting employment-related benefits and services
- Creating more fairness in key services
- Better financial education and inclusion
- Improving access to help for people in financial difficulty – including affordable credit
- Tackling low pay
- Reforms to State benefits and Housing policy

We summarise what we heard in each area below.

Promoting savings

Two key themes stood out here. The first was that current public policy seems primarily to encourage saving (mostly long-term saving) amongst the better-off, with ISA's in particular being heavily used by that segment. Interviewees acknowledged that the Help-to-Save scheme was focussed on a lower income segment but noted that many people on benefits simply couldn't afford to save. **So the policy suggestion was a re-think of state support for saving with less of the support going to well-off ISA savers and more being channelled lower down the income spectrum**.

The second theme was that in today's society it can feel easier to spend than to save. Behavioural economics highlighted this point in relation to pension saving, leading to the successful introduction of auto-enrolment, so perhaps this should be considered for rainy day saving. **The idea of payroll saving – recently trialled by NEST Insight - was seen as a promising direction, particularly if done on an opt-out basis where early trials show encouraging results**.

These two themes could sit separately or be integrated by providing a modest State contribution to partly match payroll savings.

Promoting employment-related benefits and services

Many employers provide good benefits to their staff which may include sickness, maternity and redundancy benefits in excess of the paltry minimum levels set by legislation. But many do not – and others focus benefits primarily on senior staff. There is also a divide between employers who offer benefits on an 'opt–in' basis and those who make them automatic, or 'opt-out'. We heard from some interviewees that employee wellbeing is now a growing priority for many employers as they face greater challenges in the tightening labour market. Several interviewees suggested policy initiatives which could encourage the spread of good practice. At the less interventionist end of the spectrum we heard the suggestion that **firms should be required to disclose their policies and practices on sick pay and maternity pay in their annual reports – including tables showing entitlements by pay band and gender**.

Shining light on practices in this way could help encourage more widespread adoption of

3 Main themes emerging from our interviews

good practice. More interventionist policies – such as statutory increases in SSP and SMP – could also be considered and there was a call for employers to make more use of the flexibility allowed in SSP to facilitate a phased return to work.

There is also an issue that SME's often lack the resource or knowledge to source good benefits packages and the **question was raised about how best these businesses could be helped to do the right thing by their employees**. We include a brief case study of an SME in the box oposite.

Workplaces were also seen (along with schools and universities) as good places to deliver financial education. We heard how the mayor of Bristol had worked with a major financial firm based locally (Hargreaves Lansdown) in bringing together local employers to learn more about financial resilience and how they could help their employees build resilience. **The community leadership role of mayors and other local leaders has real potential in driving improved resilience**.

Mention was also made of the self-employed who now make up 13% of the UK workforce. They are excluded from employment-related benefits such as SSP and can therefore be particularly vulnerable to financial shocks. We heard that **consideration should be given to the creation of affinity schemes which would enable them to get good value cover**.

SME case study: Sawday's

It is often said that SMEs do not provide the same level of employee benefit support as large corporates. While on average this is probably true, due to resource and scaling issues, there is great variation in what both sectors actually do. We were able to speak to an SME, Sawday's Group, who are part of the Hargreaves Lansdown Bristol project which provides financial education for employees.

Sawday's are a small group of travel accommodation companies based in Bristol. They employ 72 people. Their employees tend to be younger generation (86% between 23 and 45 years old). They are an employee-owned company and a B Corp.

They cannot compete with the big corporates on staff benefits but they are doing the best they can. Their sick pay scheme is ultimately discretionary which allows them to offer longer cover at full pay than they already commit to – starting at 4 weeks sick pay increasing by one week after one year's service etc. After the 4+ week period sick pay reverts to SSP. The cover period for maternity leave at full pay is 10 weeks, paternity leave is 3 weeks at full pay. Their sick pay scheme is not insured and they do not offer group income protection insurance to their employees.

They carry out consultations with staff on what they should focus on in terms of employee benefits. During the cost of living crisis they increased salaries by an average of 8.4% in 2022 alone, with a flat rate element to benefit lower paid staff more proportionately. They also made a one off payment of £450.

In 2022 they also engaged a payroll provider that offers advance of pay of up to £200 and more in the case of an emergency. No interest is charged on the advance but Sawday's is prepared to pay a higher monthly fee to be able to offer this service.

They take part in forums with other companies with similar values – employee owned and/or B Corp. They were one of the first of those companies to choose to respond to the cost of living crisis by giving their employees a one off payment of £450 towards this followed by a unscheduled pay-rise.

They have found that some of their employees don't understand basic aspects of financial security such as pensions, life/health insurance, interest and even personal financial budgeting. The HL project is helping with a wide range of financial education. In their view this subject should receive proper attention at school age.

3 Main themes emerging from our interviews

Creating more fairness in key services

People on low incomes or in financial difficulties often end up paying proportionately more for key services. Fair by Design has estimated that around 14 million people have to pay extra costs for essentials such as energy, loans, and insurance. This is called the poverty premium[17]. Key areas mentioned to us as candidates for fairer pricing and/or social tariffs included:

- Insurance, where there are concerns about postcode pricing – and where in the 6 months to January 2023, 3.6 million UK adults cancelled at least one general insurance or protection policy – specifically due to the rising cost of living[18].
- Energy, where proposals for a social tariff were published last year[19].
- Broadband, where costs have been rising and there is a case for a social tariff.

Action to ensure fair pricing in essential services can make a significant contribution to building resilience.

Some interviewees also called for different sectors to adopt a more joined-up approach to dealing with vulnerable customers. Currently providers of different essential services – such as utilities, financial companies, public authorities, health and social care – each have their own approach to dealing with vulnerable customers. This can mean that a person identified by, say, a particular utility provider will not automatically be recognised as vulnerable by other key service providers. A joined-up database of vulnerable consumers could help address this. And more joining up across these sectors and their regulators could help spread best practice faster – and making links with social prescribing could also be helpful.

Action should be explored to promote a joined-up approach to vulnerable customers.

Better financial education and inclusion

Financial education was mentioned by many interviewees who feel that progress remains too slow in this area. Key points made were:

- The need for **good financial education to be prioritised in schools and higher education establishments**, enabling young people to get into good habits as soon as they start earning. This would also help them know what to ask potential employers about their benefits and services and ensure they have an understanding of what financial services products are out there to help them protect future earnings. Bringing businesses into schools to provide financial education should be considered.
- The importance of **continuing financial education in the workplace** – and the benefits this can bring to employers by having a more secure workforce.
- When people present (to a range of agencies) with financial difficulties, the service should ideally **seize the opportunity to provide education alongside helping with the immediate problem**. Those responsible for resourcing should recognise this.
- Linked to this, we heard that **financial education in the community is a vital way to reach many people**. Talking about money is really difficult for a lot of people. But the subject can be opened up by people or organisations they have come to trust in a different context. Much as banks might like to talk money with their customers, many people respond better to local community organisations. We were encouraged to hear that some banks are working to support this sort of engagement.
- **Tackling digital exclusion is a key area** where more progress is needed. We heard that the digital skills of many young people leaving school are limited to what can easily be done on a mobile phone – broader skills would leave them much better placed to manage their financial affairs. Affordable broadband connections are also vital – it was alarming to learn that a million people disconnected their broadband in the last year because they couldn't afford it[20].

While there was widespread agreement about the importance of financial education, interviewees emphasised that this was only part of the solution and had to be supported by designing services in a way that encouraged or defaulted people into behaviours that promoted resilience.

Improving access to help for people in financial difficulty - including affordable credit

We heard that services to support people in financial difficulty have seen large increases in volumes over the last year or so – with many customers presenting already in 'negative budgets' and in debt. In addition, there was a strong sense that many more people in need of help are not presenting, or being reached.

Better access to affordable credit is needed to enable people to keep their heads above water through periods of crisis. We heard that Fair for All Finance[21] is undertaking a range of initiatives in this area – funded by the Dormant Assets Scheme. Other organisations like My Community Bank[22] and other credit unions are also providing much-needed help. Even so, the sense from our interviews was that **substantial extra funding is needed to achieve the upscaling required**.

As noted above, Local authorities are now playing a larger role in supporting struggling households. We heard that **LA's are often well-placed to identify and engage with people in financial difficulty, and that there is a case for expanding their role**. **More strategically LA's may also be able to consider strategies to increase the supply of affordable credit – by standing behind debt and pooling risk**.

Tackling low pay

Further real-terms improvement in the National Living Wage was seen by many interviewees as a necessary step in improving resilience amongst lower income households.

Reforms to State benefits and Housing policy

Some interviewees saw affordable and secure housing as a cornerstone of resilience. They

3 Main themes emerging from our interviews

called for targets to be set for affordable homes and for private renters to receive fairer treatment from the benefits system.

Several interviewees also felt that **benefit rates were so low that the system no longer offered a proper safety net. This was particularly so for private sector tenants, whose UC rent allowance is often well below their actual rent, and for larger families**, who receive no benefit at all for third and subsequent children. They called for action to address these issues. There were also **calls for deductions for benefits (e.g. recoveries of advances or of DWP/HMRC debt) to be reduced or removed**.

Conclusion

In this chapter we've summarised the main messages and ideas coming out of our interviews. While this may not be an exhaustive list of issues/solutions, and not all interviewees would necessarily agree with all the points made, we think it provides a good guide to the sorts of issues that need to be considered and addressed in moving forward to build a more financially resilient Britain.

In the next chapter, we draw on what we've learned to make our own recommendations about the way forward.

4 Conclusions and recommendations

We are enormously grateful to our interviewees and to members of the BRHG who have shared their thoughts and ideas with us. We have drawn on all these, together with desk research to reach our conclusions.

Conclusions

1. Financial insecurity is endemic amongst large swathes of the working age population. It has been exacerbated in this decade by the Covid pandemic and the cost of living crisis, but an underlying lack of financial resilience was well established long before then.

2. This insecurity is a cause of misery, instability and unfulfilled potential for millions of our citizens. And – as set out in the earlier report of the Resilience Task Force – it has knock-on consequences for businesses, public services, communities, health and our economy.

3. There are no easy answers. But this is not an insoluble problem. It doesn't have to be like this. Individuals, businesses, communities, financial institutions, voluntary organisations and the government can all play a role in improving the situation. And they can benefit from the results in the form of a more secure, more productive, happier population.

4. We are very conscious that public expenditure will continue to face huge pressures over the coming years. While public spending could help alleviate some aspects of insecurity we believe a great deal could be done without demands on the public purse.

5. We see a strong parallel with the issue of financial security in retirement which loomed large at the start of this century. With people living longer and private pensions in decline the unattractive prospect was one of most people ending up relying on means-tested state benefits in retirement. The Government established the Pensions Commission, chaired by Lord Adair Turner. The Commission worked with all parties and its work has formed the basis of a lasting pensions settlement.

6. It is essential to address both 'upstream' and 'downstream' resilience. At the upstream end key goals could be to:
   - Maximise the number of households who have 'rainy day' savings sufficient to cover an emergency expense of, say, £2000. And to ensure that these savings can attract fair rates of interest.
   - Improve the health and protection cover in workplaces across the UK so that workers, including the self-employed, facing illness can get rapid help to remain at/return to work alongside financial support for the period they are unable to work.

We note here that the architecture created for pensions auto-enrolment could play a role in both these areas. The NEST Insight 'savings sidecar' shows how it can be adapted for savings. It might also be possible to use the now established connection between employee – employer – financial service provider to greatly extend health and protection support.

7. Improved upstream resilience will mean fewer people need to rely on downstream help such as credit and state benefits. But downstream improvements are also needed as not all contingencies can be covered in advance. Two key goals here could be:
   - A major expansion in affordable credit, building on the work already begun by Fair4All Finance and others
   - Reviewing how the social security system could be more responsive, and better aligned with other forms of provision.

4 Conclusions and recommendations

Key Recommendation

We recommend the establishment of an independent Commission on Household Financial Security. We suggest this follows a similar model to the Pensions Commission and:

- Comprises three or four Commissioners who are highly respected in their fields and between them bring experience and professional expertise relating to household finances, employer and employee perspectives, financial services and consumers.
- Is supported by a small but strong team with strong analytical and stakeholder engagement skills.

We recommend Terms of Reference along the following lines:

- To assess the current – and likely future – state of household financial security in the UK
- To make recommendations about how necessary improvements in financial security can be brought about
- In doing so, to consult widely and to produce a final report within two years.

Additional recommendations

We are keen not to pre-empt the work of the Commission. But our work has identified some positive steps which we believe could be taken early without prejudice to the Commission's work or significant public expenditure:

- The proposal we heard from one interviewee that businesses should include in their annual reports details of employee benefits such as sickness and maternity pay – including a breakdown of how different groups of employees are treated. We believe this sort of transparency to be important for shareholders, employees and the wider public and will help to drive good practice.
- A proposal devised by BRHG which would enable renters in receipt of Universal credit to get some benefit from any Income Protection policy they may have. This would help them keep a roof over their head where (as in most cases) UC doesn't cover their full rent, reduce pressures on local authorities, and address the current inequitable treatment between renters and mortgage holders. We are in discussions with a charity with an interest in this area to make the necessary amendment to regulation 66 of the Universal Credit Regulations to allow renters (and especially private renters) to insure against their inability to pay rent in the same way that is already available to mortgage holders. We expect the issue to be raised during the debate on the Renters (Reform) Bill.

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6 Annex 1: acnowledgements and thanks

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