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FUTURE OF BANKING

SOCIOECONOMICS

Should banks do more to help customers in the cost-of-living crisis?

British households are facing the steepest fall in living standards in 70 years. It's putting the sector under pressure to step in like it did when Covid struck

Fiona Bond

Consumers could be forgiven for thinking that the past two years have been a case of jumping out of the frying pan and into the fire. After the pandemic wrought havoc on global economies, the recent surge in inflation to a 30-year high has triggered a cost-of-living crisis in the UK.

Tax hikes, along with the soaring costs of energy, fuel and basic groceries, have meant that living standards – as measured by disposable household income – are on course to fall by 2.2% this year, according to the Office for Budget Responsibility. This represents the biggest drop in living standards the UK has seen since records began in the 1950s.

The statistics paint a bleak picture for consumers, many of whom suffered financial hardship during the pandemic as successive lockdowns led to furlough, pay cuts and redundancies. January's TSB *Money Confidence Barometer* indicated that 82% of people had already experienced an increase in their day-to-day cost of living. As a result, almost a quarter had been forced to dip into savings, while a fifth had changed their spending habits.

The landscape is equally challenging for businesses. The pandemic has left many SMEs financially fragile, with significantly more in excessive debt than before Covid. As firms battle the latest crisis, the British Chambers of Commerce reports that half of them are cutting costs, while a fifth are cutting investment and 5% are thinking about going out of business entirely.

Are high-street banks and other lenders doing enough to help their struggling customers, both business and domestic?

Andrew Hagger is the founder and director of consumer site Moneycomms.co.uk. He notes that "there hasn't been additional monetary support from banks and, unless there is some pressure from the government on them to provide it, the situation is unlikely to change. Slogans in bank advertising include phrases such as 'by your side' and 'we're on your side' but these are sounding hollow. The banks will tell you they have introduced budgeting tools in their apps to help you track your spending. But, as far as tangible things such as cutting the near-40% interest rates on agreed overdrafts go, we've not heard a whimper."

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Back in early 2020, there was an unprecedented response from the sector as the Covid crisis took hold. Banks were instrumental in implementing several government support packages, including business loans, interest-free overdrafts and repayment holidays on mortgages, credit-card debt and other loans. It marked what many called a new era for banks after the 2007-08 global financial crisis. But, as customers face hardship once again, could it be too much for banks to contend with?

"For the banks we work with, the pandemic has not had a lasting impact on their ability to lend or offer support," reports Pradeep Raman, digital director at savings software provider Finova. "It is a bank's regulatory duty to take care of its customers, so it would not make sense for lenders to take on an attitude of maximum recovery in our current environment of financial uncertainty."

But the Bank of England has warned that excessive levels of debt among businesses can present risks to the financial system. Banks could therefore suffer losses if firms struggle to repay their loans. And, in a recent message to its business customers, NatWest has advised them to "be prepared for every eventuality and aware of the risks of overextension when borrowing in an environment conducive to rising rates".

Finn Houlihan, managing director of wealth management specialist Arlo Group, believes that banks may be restricted in the help they can provide.

"While they have offered some level of flexibility through holidays on loans and extended mortgage repayments, there is a limit to the flexibility they have to recuperate the borrowed money to avoid defaults of their own," he says.

For many business leaders, it appears that the onus is on them to assess the types and levels of debt their firms can sustain and make choices accordingly.

Industry observers believe that banks are likely to focus on providing educational support and resources. Since the financial crisis, when public trust in the system evaporated, banks have worked hard to restore their reputations and win over sceptical consumers. Many have introduced online money management tools to help increase customers' financial understanding. Houlihan believes that educational initiatives will be key in helping their customers through this latest crisis.

"While banks can only be so flexible with the relief programmes they create, there has been a real shift in terms of client service during the pandemic as part of a government push for education and open discussions with clients," he says. "Financial education, when combined with technology solutions such as open banking, can offer more long-term solutions for people to navigate their finances. This can help to put more information into the hands of consumers and give them a better grasp of their financial situations."

For example, the TSB says that its Spend & Save and Spend & Save Plus current accounts include features designed to help customers manage their money better. These include savings pots that allow them to put aside money easily and a function that automatically transfers money from a pot back into the current account should its balance fall below a certain level.

Raman reports that banks are proactively contacting customers to offer advice on their current expenses and alert them to potential problems. Similarly, mortgage lenders are approaching homeowners nearing the end of their fixed-term deals to advise them of the best products available.

There is certainly greater pressure on banks to help customers who might be struggling. The Financial Conduct Authority has called for stronger protection of "vulnerable customers" after its research revealed that nearly 27.7 million UK adults are displaying characteristics of vulnerability, including low financial resilience.

"How any forbearance packages or support are designed and delivered is a matter for individual banks and lenders," says Anna Roughley, head of insight at the Lending Standards Board. "Their response will depend on the individual customer's situation. This should be done in an empathetic manner, understanding the stress and anxiety that can accompany money worries. Banks and lenders should review how they encourage contact from customers and question whether there are ways to improve this that may increase the likelihood of proactive customer contact."

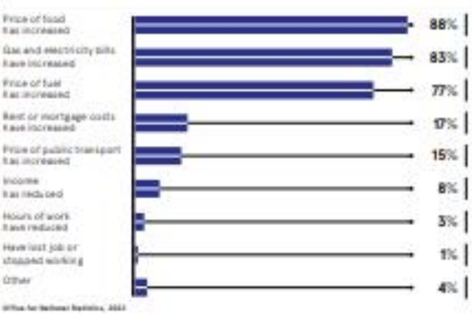
But for all the talk of a personal touch and greater financial education, there's still concern that this won't be enough.

"Although repayment holidays haven't been discussed at length yet, it would be good to see these reintroduced where necessary to avoid instances of unplanned loan defaults," Raman says.

Hagger adds: "Banks will face higher levels of missed loan repayments and bad debt when the cost-of-living crisis really takes hold. The government has so far given a £150 one-off council tax rebate and the promise of a £200 loan to pay electricity bills come October."

But he doesn't believe that these measures will be enough to help consumers cope with surging inflation. "The government will be forced to do much more," Hagger predicts. "Perhaps the banks will be roped in to help as part of a range of measures to help the country ride out this storm." ●

REASONS CITED BY UK CONSUMERS FOR INCREASES IN THEIR COST OF LIVING

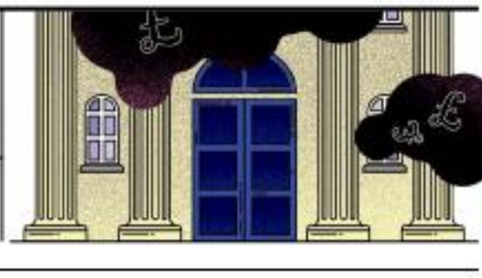


Office for National Statistics, 2022

95% increase in UK domestic gas prices from April 2021 to April 2022

87% of UK adults reported a rise in their cost of living in April 2022

House of Commons Library, 2022



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