LLOYDS BANKING GROUP PLC:

FINANCIAL RESILIENCE ALL PARTY PARLIAMENTARY GROUP EVIDENCE SUBMISSION

We welcome the opportunity to submit evidence to support thinking ahead of the next meeting of the Financial Resilience All Party Parliamentary Group. As the largest retail and commercial bank in the UK, Lloyds Banking Group is focused on helping Britain recover. We have a relationship with 50% of all UK adults and c.30m customers across our brands. This briefing paper provides some insight from our Scottish Widows and Retail businesses and some suggested policy changes that could support the financial resilience of our customers now and in the future.

THE IMPACT OF THE COVID-19 PANDEMIC ON FINANCIAL WELLBEING AND RESILIENCE

The pandemic has had a polarising effect with those that were already more likely to be financially vulnerable before the pandemic such as low earners, the self-employed and part-time workers having been hit disproportionately by the crisis. At the same time, high earners have benefited financially on average, saving on expenses such as work related travel costs.

While household savings balances more than doubled in 2020 and household debt reduced overall, some segments of the population struggled, dipping into retirement savings and taking on additional debt to cover living costs and replace lost income.

The Financial Conduct Authority's 2020 Financial Lives Survey found that 12m people in the UK had low financial resilience with 2m people moving into this category since February 2020. The report also revealed that the pandemic directly contributed to putting one in four UK adults at risk of financial harm.

Insight from our Scottish Widows 2021 Retirement Report and Women and Retirement Report 2020 identifies four segments of the population that were severely struggling due to the pandemic:

People in their 50s

For those in their 50s, the Covid pandemic came at a critical point in their retirement preparations with 37% of 50-59 year olds reporting that their financial situation had deteriorated as a result of the pandemic.

This age group were most likely to report losing a job or income - 23% versus the population average of 16%. Job loss in this age group could be down to the nature of their work. Almost one in five workers (17%) in their 50s are self-employed versus 12% of 25-49s and 24% are part-time versus 20% of 25-49.

What's more, this age group are also less likely to have reported decreasing living costs - 16% versus 25% of 20 yr olds.

During the pandemic, many of this age group used their savings to cover day to day living costs, using an average of £6,900. 11% took on extra debt at an average of £7,000 which is 42% higher than the average population.

Our insight suggests that 25% of this age group will come out of the pandemic in a worse financial situation than before. This is concerning given the importance of this period to retirement preparation. In fact,18% of people in their 50s said they were worrying about having enough money in retirement.

The self-employed

Over half (53%) of all self-employed people have experienced a deterioration in their financial situation during the pandemic compared to just 26% of those who are permanent employees. 23% reported that they lost over a quarter of their household income, 33% cut back on non-essential spending (10% more than rest of population) and 13% cut back on essentials such as the use of water and heating to cut costs.

While almost half (47%) of the self-employed were able to access some form of financial support during the pandemic, those with less than two years trading received a reduced level of support under the Self-Employed Income Support Scheme.

14% of the self-employed have taken on additional debt as a result of covid at an average of £8,000 which is 64% more than the amount taken by the average population, increasing their outgoings at a time when their income is significantly reduced.

32% of the self-employed do not save for retirement at all but of those that do save for the future, 18% accessed their savings to support them during the pandemic.

Just under a third (30%) of all self-employed people think their financial situation will not recover to pre-pandemic levels.

Low income earners

The financial resilience of those with lower incomes has been severely undermined. There is a clear and systematic pattern whereby the less you earn the more likely you are to experience job loss, lost income, higher expenses and are less likely to benefit from offsets such as transport expenditure due to home working.

Our insights suggest that 31% of people earning between £10,000-£20,000 have experienced deterioration in their financial position compared to 19% of those earning above £50,000.

Of this segment, 11% reported an increase in debt at an average of £3,900 which represents a significant proportion of their income and raises concerns about long term affordability.

Just under a quarter (23%) of this segment think their financial situation will not recover to pre-pandemic levels and over half (54%) are concerned about running out of money in retirement.

Women

Many women were already in a precarious situation prior to covid, representing 69% of the lowest income earners and 74% of part-time workers.

The following groups of women have been particularly vulnerable to the impacts of the pandemic.

Young women have become reliant on moving from roles in low-paid industries, such as the hospitality and retail sectors, into higher paid occupations as a source of wage growth early in their career. In fact, 36% of women under the age of 25 worked in these sectors (versus 25% of men) which were among the first to shut down. This may impact their career trajectory and income growth.

The impact of the pandemic extends further than the financial impact for all parts of the population but insight suggests that this segment was particularly affected. The Institute of Fiscal Studies reported that young women saw the largest deterioration in mental health as a result of Covid. 35% of women under 25 reported experiencing at least one mental health problem 'much more than usual' during lockdown. This may impact their ability to return to work and therefore their income.

Our insight suggests that **women in some ethnic minority** groups are less likely to be active in the labour market and tend to earn less than White British women. These include Pakistani, Bangladeshi, Black African and Black Caribbean women. Pakistani women, for example, were paid on average 12% less than White British women and 28% less than White British men. Women in these groups are likely to be less financially resilient.

According to our data, families from these ethnic minority groups are more likely to be dependent on a single income making them less resilient in the event of an employment or income shock. 58% of White British families have at least two paid workers compared to 39% of Pakistani, 38% of Bangladeshi, 40% of Black African and 41% of Black Caribbean.

Our insight shows that the majority (73%) of ethnic minority women have experienced financial difficulties and over half (60%) are concerned about running out of money in their retirement.

Self-employed women were in a far more fragile situation going into the pandemic than men for two main reasons; self-employed women are more likely to work part-time hours and typically work in lower paid industries such as health and social work. The average self-employed woman earns £6,200 less than her male peers.

Unfortunately, self-employed women were less likely to be eligible for the Covid Government support (61% v 71% of men) and were less likely to claim it.

It's also concerning that prior to the pandemic 44% of self-employed women were saving nothing for retirement versus 28% of self-employed men and only 12% of employed women.

Women are more likely to take the lead role in caring for children. **Mothers** took on an extra 3.5 hours childcare per school day during lockdowns and were 1.5 times more likely to have quit their job in favour of caring responsibilities than men. Many of these women will find it hard to re-enter the workforce and will have experienced lost income and lower pension contributions, impacting their long-term resilience.

Single mothers were particularly exposed. There were almost 1.6m single mother families with dependent children in the UK. For many, their finances were stretched before the pandemic – 50% of single parents could not survive a 20% reduction in their income for three months.

Women have historically saved less than men for the long term creating a gender retirement gap resulting in lower overall financial resilience for women.

The Scottish Widows 2021 Women and Retirement Report shows that for the first time the same percentage of women (61%) as men are contributing at least 12% of their income or are in a defined benefit pension scheme. This is significant progress which has been mostly driven by policy reform including automatic enrolment which was initiated in 2012.

While this is good news, it does not mean that women are saving at the same rate as men. In 2021, men saved an average of 16% of their income while women saved 13.5%. According to the ONS Annual

Survey of Hours and Earnings 2020, women tend to earn 35% less than men, meaning that the difference in the rate of saving is considerable. In fact, the average 25 year old woman would need to save an additional £1,400 a year to close the savings gap with the average man.

The wage gap is the main driver of this difference which is influenced by a range of aspects including career breaks and part-time working. However, our research also identified that four in 10 (40%) women aged between 22-29 said they don't save as much as they would like because they want ready access to money in case of emergencies, compared to 24% of men.

55% of women are concerned about running out of money in retirement versus 48% of men.

POLICY CHANGES THAT WOULD IMPROVE LONG TERM AND SHORT TERM FINANCIAL RESILIENCE

CHANGES TO LIFE TIME SAVINGS POLICY TO SUPPORT SHORT AND LONG TERM RESILIENCE

The pandemic has highlighted the need to build financial resilience for the short and long term. For many the competing demands of buying their first home, building an emergency pot and contributing to their retirement savings has been more difficult to balance following the pandemic. We believe it is necessary to consider these collectively, as they are interconnected.

People would like to be financially resilient in both the short term and the long term, with the ability to deal with unexpected financial shocks while avoiding problem debt. **We believe we should be able to access our long term savings for unexpected shocks, taking up to £1,000 from our lifetime savings up to a maximum of five times.** We know, from our research, that this would encourage women in particular to save more.

We also believe we should be able to access our life time savings to fund a deposit for our first home. People want somewhere to live, to call a home, to raise a family and they want the security of having somewhere to live through their retirement in the longer term. Scottish Widows worked with the Pension Policy Institute to examine the financial impacts of renting in retirement – you can read that here.

People want help from experts when faced with important or difficult decisions but often can't afford or simply are not prepared to pay thousands of pounds for a range of professional advisors. **We believe we should develop a simplified savings system that can be navigated using simple guidelines which will bring mortgage and financial advice together in one place.**

While more of us than ever are saving for our futures, we are not saving enough. This is certainly the case for women but given that people are living longer and more of us will require expensive long term care, at a time when responsibility and risk has moved from businesses to individuals, it's important that we all put more aside. **We believe that we will need to move from the current AE figure of 8% to a higher figure in order ensure that there is sufficient set aside to cater for longer life expectancy. Of course, as we recover from the pandemic and face into the current cost of living crisis this is a difficult message, but is one we shouldn't lose sight of.**

CHANGES TO DEBT FUNDING POLICY TO ENSURE THE VOLUME OF ADVICE NEEDED POST PANDEMIC IS AVAILABLE

While household debt reduced overall in 2020, many people experienced a fall in income which impacted their ability to meet day to day costs. StepChange estimates that there are 11.3m people in this situation. Some of these people will have sought additional credit as a short term solution. Compounded by the present challenges of rising fuel prices, interest rates and living costs, many will be facing into unserviceable debt. StepChange research from January 2022 ("Falling behind to keep up: the credit safety net and problem debt") estimates that 4.4m people are struggling to keep up with household bills and credit commitments.

Although savings balances increased during 2020, we expect that for some individuals these will be eroded by the increases in living costs, interest rate rises and the desire to return to 'normal life' activities as the country and world re-open. We anticipate that some segments in this situation may begin to see their credit commitments becoming unmanageable and their ability to respond to financial shocks reduced. Many in this category will never have experienced financial difficulty before.

Given this, we expect to see a greater number and a wider range of people requiring debt advice in 2022. This is supported by the Woolard Review which projected an increase in demand for debt advice, and the MaPS Financial Wellbeing Strategy which recognises the need for more customers to access debt advice.

The Woolard Review into Unsecured Credit was commissioned by the Financial Conduct Authority Board with the aim of concentrating on innovations in the unsecured credit market and asking whether more needed to be done to ensure a healthy, sustainable market. The review touched on a number of different areas including, affordable credit, better credit information and potential harms caused by market innovations such as Buy-Now-Pay-Later. The Review set out 26 recommendations to the Financial Conduct Authority Board to make the unsecured credit market fit for the future, including the need to ensure that free debt advice has 'secure, long-term funding as demand increases to as many as 1.5 million additional cases, following the pandemic.'

The Money and Pensions Service's "UK Strategy for Financial Wellbeing" is a ten-year framework to help people make the most of their money and pensions. One of the 5 key pillars of this strategy is the objective to get 2m more people accessing debt advice in by 2030 (up to 3.7m, from 1.7m in 2020).

The funding model for debt advice is complex and the Financial Services sector is the only sector compelled to fund debt advice despite consumers increasingly struggling to maintain payments with utilities, telecoms, gambling, and public debt. **We believe that in order for customers to have access to free and independent debt advice, in a way that is sustainable for the coming years, the debt advice funding model should be reviewed to ensure it is fair and transparent and requires other providers of consumer credit and financial agreements to contribute funding to the services.**

We would welcome the opportunity to talk in more detail about these policy change recommendations.

For any queries please contact Joanne.J.Johnson@Lloydsbanking.com