DYNAMIC PLANNER

Developing a financial wellbeing questionnaire

Henley Business School
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Content

Executive Summary

Considering client's vulnerability characteristics has become particularly important since the pandemic and due to the current cost of living crisis. Clients affected by external events and events in their own personal life may require a different level of care to other clients, and this is particularly influenced by their abilities to bounce back from difficulties and stay in control of their finances.

The FCA have provided guidelines for firms to support clients based on assessing four drivers of vulnerability (Health, Life events, Resilience and Capability). Firms must monitor and review their management information which may include customer feedback, complaints, and behavioural insights in order to understand potential harms. They should develop procedures to capture client's needs, such as their communication requirements and their characteristics of vulnerability. In order to ensure vulnerable customers are treated fairly, firms must take positive action and implement strategies to support their staff. It is also important that senior leaders create the right culture allowing strategies to be developed for supporting vulnerable clients and providing opportunities for training staff where the effectiveness of training can be evaluated.

Approach

Several steps were taken to create our vulnerability assessment. The financial lives survey data and algorithm provided by the FCA was analysed to examine key questions within the survey that could be adapted into an assessment as well as others that may be relevant to consider. Alongside this, research was conducted in collaboration with academics from the Henley Business School to examine the most appropriate subjective measures of vulnerability that could be introduced to support the questions included within the financial lives survey. Additional psychometric items were designed to capture

client's emotional resilience, intolerance of uncertainty, emotion regulation strategies and financial self- efficacy based on existing validated questionnaires. Further testing of the questions covering each of the four FCA drivers, the additional psychometric items, and a vulnerability classification system using a tiered approach, was conducted before making comparisons with the latest financial lives survey data and final design of the assessment.

Conclusions

The aim of our assessment is to identify client's vulnerabilities and those who are susceptible to harm so that advisers can be better equipped to understand client's needs and provide them with appropriate support. Characteristics of vulnerability can differ for each client at any point in time and it is therefore essential that advisers use tools that have been designed to gain insight into client's individual differences. This report provides evidence on the validity of our assessment and how it reflects the requirements from the FCA when assessing and understanding clients and their needs.

1 Due Diligence Summary

What does this assessment do?

The financial wellbeing assessment is a tool to help advisers understand their client's individual differences and personal needs. It is intended to be used as part of a broader advice process that has already considered risks, costs and complexity of the financial product being recommended to a client. This assessment is in line with the new consumer duty and the need to identify client's vulnerabilities and those who are susceptible to harm, in order for advisers to provide appropriate support.

The assessment was designed with academic expertise from the Henley Business School, part of The University of Reading, and in house via Dynamic Planner's fund research team.

How is the assessment scored?

The assessment consists of four drivers (Health, Life events, Resilience and Capability). For health and life events, client's indicate what conditions they have or experiences they've faced over the past 12 months, an interference question then assesses the level of severity of these characteristics between low, moderate and high. For the resilience and capability drivers, the questions and psychometric items are totalled and scored. The questions reflect different vulnerability characteristics and have an equal impact on the vulnerability level (low, moderate, high).

How has the assessment been tested?

The assessment is based on the financial lives survey that has been running since 2017 and was completed by over 22,000 respondents across the UK in 2020. The separate psychometric questions that were developed to be embedded within the assessment was tested on over 600 respondents with experience in investing, a final 500 respondents with relevant experience completed the overall assessment that incorporates all elements to support the four key drivers of vulnerability. The psychometric questions are tested on an annual basis to ensure that they remain valid as a measurement of subjective vulnerability.

What limitations does the assessment have?

- This assessment should not be used for diagnosis, a client should be sign posted to the relevant organisation should any medical or mental health issues be raised that have not already been discussed with an expert.
- The list of vulnerability characteristics is exhaustive and so some factors may not be identified from this assessment alone. We therefore encourage advisers to discuss client's health, life events, resilience and capabilities in more detail and make adjustments to the assessment results where necessary. However, it is important to note that a client may be reluctant to share their personal experiences.
- As a client can become vulnerable at any point in time, then it is important to regularly check-in with a client and update their responses to the vulnerability assessment.

2 Stage 1: Establishing a Theoretical Background

The FCA published their guidance on the fair treatment of vulnerable customers in February 2021, which clearly states that advisers will need to assess their clients against four key drivers of vulnerability – health, life events, resilience, and capability. It is then the responsibility of firms to ensure that their interactions and forms of communication with clients are appropriate, taking into account their vulnerable circumstances.

Assessing client vulnerabilities

Vulnerability is the susceptibility to experience harm due to personal circumstances, particularly when a business is not acting with appropriate levels of care (FCA, 2021). Those who are vulnerable have a greater likelihood that they will experience a state of distress in which they are unable to maintain their standard of living (Whelan, 1993; Whelan, Layte, Maître, & Nolan, 2001). Financial vulnerability is the risk of an individual falling into hardship (i.e., unable to maintain their standard of living) rather than a situation of living in a certain state of poverty or need. This means that anyone, regardless of wealth or income, can be vulnerable (O'Connor et al., 2019). All clients are at risk of becoming vulnerable and the severity of risk can differ, but this risk is increased by having characteristics of vulnerability which can relate to the four drivers within the table below (see figure 1).

Health	Life events	Resilience	Capability
Physical disability	Retirement	Inadequate (outgoings exceed income) or erratic income	Low knowledge or confidence in managing finances
Severe or long-term illness	Bereavement	Over- indebtedness	Poor literacy or numeracy skills
Hearing or visual impairment	Income Shock	Low savings	Poor English language skills
Mental health condition or disability	Relationship Breakdown	Low emotional resilience	Poor or non-existent digital skills
Addiction	Domestic abuse (including economic control)		Learning difficulties
Low mental capacity or cognitive disability	Caring responsibilities		No or low access to help or support
	Other circumstances that affect people's experience of financial services eg, leaving care, migration or seeking asylum, human trafficking or modern slavery, convictions		

Figure 1: characteristics associated with the four drivers of vulnerability.

The majority of vulnerability characteristics presented in the table above can be captured through a questionnaire or even open finance with the help of technology. However, assessing low mental capacity or cognitive disability for example, should be reserved for clinical practitioners and it not something that would be easy to identify using technology alone, nor should it be expected of a financial adviser.

Using technology to put robust questionnaires in place, collecting data that may be useful in assessing vulnerability and ensuring that they are retaken frequently, and in particular before any changes are made to a customer's financial position, is going to be vital from a compliance perspective. Nevertheless, for most advisers, and indeed the wider industry, assessing a customer as vulnerable is still a confusing area which is why it is imperative that companies put the correct governance in place to provide training and guidance to their employees to help them recognise the four drivers in real life and ensure they are taking vulnerabilities into account when interacting with customers.

The FCA state that to examine client's vulnerabilities, particularly in regard to their financial resilience, then it is important to use both objective measures, such as whether a client missed paying their bills in 3 or more of the last 6 months, and subjective measures, such as whether a client losing their main source of income for as little as a week would be a heavy burden. Academic research highlights that subjective factors of vulnerability such as a client's confidence in managing their finances and impulsive behaviours are important for assessing client's vulnerability, which we discuss later on. Therefore, innovative measures are required so that we do not rely heavily on the objective measures of vulnerability, such as a client's level of debt or their savings (Anderloni et al., 2012; O'Connor et al., 2019; Bayuk et al., 2022).

Delivering good outcomes

The consumer duty emphasises that firms must act to deliver good outcomes for all retail customers, however the guidance for vulnerable clients provides further insight to ensure good outcomes specifically for those in vulnerable circumstances or who are more susceptible to experiencing periods of adversity that impacts their finances and their financial decisions (see figure 2). In order to achieve this firms must:

- understand the needs of their target market/customer base
- make sure staff have the right skills and capability to recognise and respond to the needs of
- customers in vulnerable circumstances
- respond to customer needs throughout product design, flexible customer service provision and communications
- monitor and assess whether they're meeting and responding to the needs of customers with characteristics of vulnerability and make improvements where this is not happening

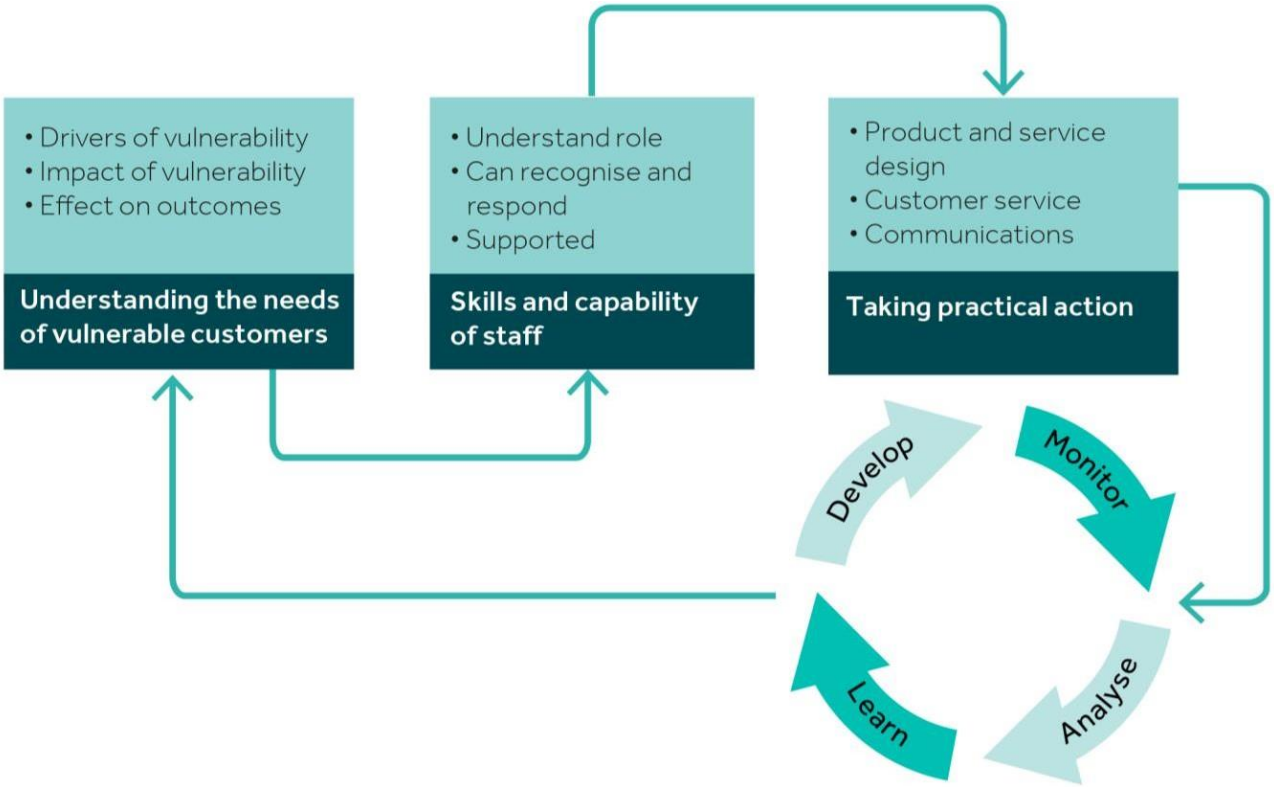

Figure 2: FCA vulnerability guidance (2022)

The following guidelines have been provided by the FCA (FCA, 2021) to achieve good outcomes for vulnerable clients:

Understanding the needs of vulnerable customers

- Understand the nature and scale of characteristics of vulnerability within the target market.
- Understand the impact of vulnerability on the needs of consumers; types of harm or disadvantage customers may be vulnerable to, and how this might affect their experience and outcomes.

Skills and capability of staff

- Ensure all relevant staff understands how their role affects the fair treatment of vulnerable consumers.
- Ensure frontline staff have the necessary skills and capability to recognise and respond to a range of characteristics of vulnerability.
- Offer practical and emotional support to frontline staff dealing with vulnerable consumers.

Taking practical action

Product and service design:

- Consider the potential positive and negative impacts of a product or service on vulnerable consumers.
- Design products and services to avoid potential harmful impacts.
- Take vulnerable consumers into account during the difference stages of development; idea generation, development, testing, launch and review.

Customer service:

- Set up systems and processes to support and enable vulnerable consumers to disclose their needs. Firms should be able to spot signs of vulnerability.
- Deliver appropriate and flexible customer service.
- Make consumers aware of support available to them, including relevant options for third party representation and specialist support services.
- Put in place systems and processes that support the delivery of good customer service, including
- systems to note and retrieve information about a customer's needs.

Communications:

- Make sure all communications and information about products and services are understandable for consumers in their target market.
- Consider how clients wish to communicate, taking into consideration their needs. Where possible, offer multiple channels so vulnerable consumers have a choice.

Monitoring and evaluation

- Implement appropriate processes to evaluate where staff have not met the needs of vulnerable consumers.
- Produce and regularly review management information, appropriate to the nature of their business, on the outcomes they are delivering for vulnerable consumers.

Vulnerability assessment approach

Ultimately, the FCA wants to drive improvements in the way firms treat vulnerable consumers in order to witness a shift in the way firms treat and support vulnerable clients. The FCA want vulnerable consumers to experience outcomes as good as other consumers and to be treated fairly.

Our assessment has been developed in-line with guidance from the FCA, approaches embedded within the financial lives survey and academic literature. The aim of our assessment is to help advisers identify clients who are vulnerable, the impact of their vulnerability characteristics and understand their needs. The assessment will continue to evolve providing tips and advice for dealing with client's vulnerabilities, however we are aware that individual firms will have their own policies and support strategies, whilst certain vulnerability characteristics will require signposting clients to experts.

3 Stage 2: Algorithm development

Based on data and the vulnerability algorithm received from the FCA's financial lives survey in 2020, several types of analysis were conducted prior to further testing to explore:

- The relevance of demographic characteristics
- The accuracy of a client's perceived vulnerability
- The need for widening the assessment of resilience

A large proportion of the questions designed for the testing phase were adopted from the financial lives survey which is deployed by the FCA to identify if a client is vulnerable or not dependent on having one or more vulnerability characteristics associated to health, life events, resilience, and capability.

The financial lives survey introduces a number of characteristics that are deemed as valid for identifying clients who are vulnerable. Within "health" these include physical disability, hearing or visual impairment, poor mental health and/or low mental capacity or cognitive difficulties and addiction. "Life events" include caring responsibilities, bereavement, income shock and relationship breakdown.

Resilience characteristics are low or erratic income, over-indebted and low savings, whereas capacity reflects low knowledge or confidence in managing finances and poor or non-existent digital skills.

We particularly felt that the characteristics reflecting resilience were lacking here, resilience questions mainly reflect the "financial" elements of financial resilience considering economic and financial resources, however the work of Salignac et al. (2019) highlights the importance of other external factors, including financial knowledge, behaviour, social capital, and personal characteristics. Therefore, we felt it was imperative to add two more variables that were included within the financial lives survey but not utilised within the algorithm for determining client's vulnerability, these were respondents *support network for financial help* and *ability to recover from negative experiences*.

Predictors of vulnerability

As the vulnerability profile is determined based on questions related to the characteristics listed above, then it is redundant to see which questions or characteristics are predictors of vulnerability, we can however determine whether any other relevant variables which were included within the financial lives survey but did not form part of the vulnerability assessment should in fact be considered.

Demographics and vulnerability

Regression analysis was conducted with the number of drivers flagged as vulnerable by the respondent as the outcome variable, a number of demographic and psychological factors were included as predictors (perceived vulnerability, age, gender, ethnicity, qualifications, children, household tenure, employment status, marital status, household income, experience due to COVID-19).

Albeit weak, the analysis found several demographic factors to be significant predictors of the number ofbut still legally in relationship (civil partnership (β = 0.51, SE = 0.15, t = 3.35, p< 0.001), married (β = 0.13, SE = 0.05, t = 2.59, p = 0.01)), and who had more children (β = 0.01, SE = 0.01, t = 2.17, p = 0.03), had more vulnerability drivers. In contrast, those with incomes above £15k (£15k-<£30k (β = -0.13, SE = 0.03, t = -4.85, p< 0.001), £30k-<£50k (β = -0.27, SE = 0.03, t = -9.65, p< 0.001), £50k-<£70k (β = -0.35, SE = 0.03, t = -11.35, p< 0.001), £70k-<£100k (β = -0.37, SE = 0.04, t = -10.33, p< 0.001), £100k-<£250k (β = - 0.39, SE = 0.04, t = -8.85, p< 0.001)), older in age (β = -0.01, SE = <0.001, t = -8.52, p< 0.001), single (β = - 0.04, SE = 0.02, t = -2.00, p= 0.04), and with larger households (β = -0.01, SE = 0.01, t = -2.78, p= 0.005), had fewer drivers flagged as vulnerable.

We would expect demographic variables to already be gathered by firms and do not believe adding extra questions would be a useful addition to a vulnerability assessment. Although our analysis shows that demographic information such as age, household income, household size, number of children, ethnicity, employment status, and marital status were significant predictors of the number of vulnerability characteristics that were reported, the effects were weak. There is little evidence that biophysical characteristics of individuals should be the sole basis on which to define consumer vulnerability. Moschis (1992) found no empirical support for identifying vulnerability on the basis of age, whereas Ringold (1995) found no support regarding sex or ethnic and racial groups.

Such information can be useful for understanding client needs, but they should not be used to assess and profile clients as vulnerable or not as all clients are different, and any client can become vulnerable at any point in time. It is important to use a detailed assessment that considers the individual and their circumstances.

Perceived vulnerability

In addition to the demographic variables reported above, the two strongest predictors were individuals' perception of being vulnerable or not, and the negative impact of covid on their emotions and behaviours. Those who perceived themselves to be vulnerable had significantly more drivers labelled as vulnerable (β = 0.66, SE = 0.02, t = 28.22, p<0.001).

Although further analysis (ANOVA) reveals that those who perceive themselves to be vulnerable (M=1.80) have significantly more vulnerability drivers than those who do not (M=0.69), $F(1, 19242)= 4245.6$, MSE = 0.7, $p<0.001$, it is apparent that only a small proportion of respondents classify themselves as vulnerable (14.8%). Of those who are found to be vulnerable according to the algorithm, 76.4% perceived themselves as not vulnerable. Similar findings were reported by the FCA without the inclusion of the additional variables that we have included (see figure 3).

Therefore, although there is a significant relationship between perceived vulnerability and results of the assessment, it is apparent that we should not rely on self-assessment. It is likely that the general public when completing such surveys are less inclined to rate themselves as being vulnerable although they have been struggling in terms of their health, life events, resilience and/or capabilities. One factor that might lead to this discrepancy is the way in which vulnerability is assessed, the FCA algorithm uses a binary approach, experiencing any of the characteristics positions a respondent as vulnerable without gaining further insight into the severity or the impact this may have on daily living (see section 3.4 more on this).

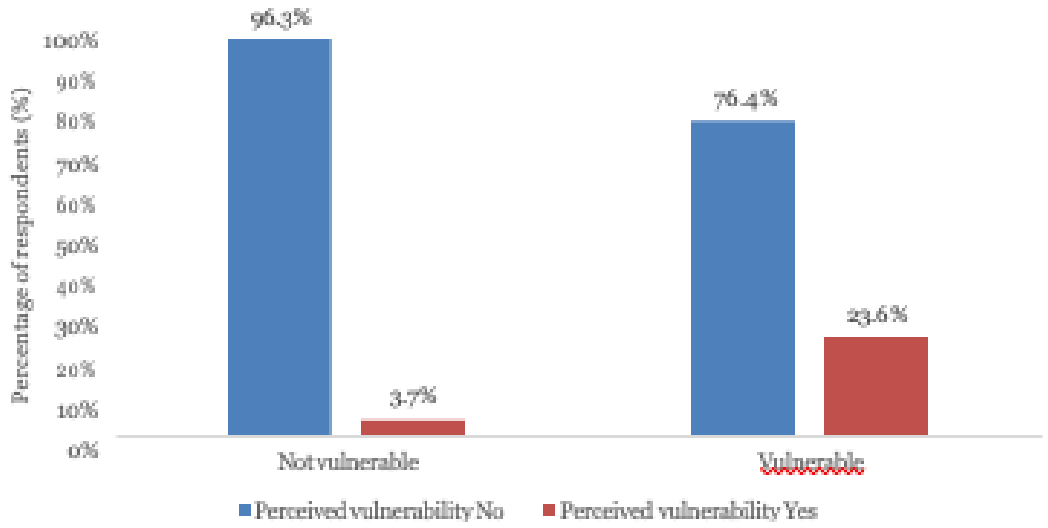

Figure 3: Comparing perceptions of vulnerabilities with that determined by an assessment.

Additional measures of resilience

As a result of COVID-19, those who felt they did not have enough time to consider their finances ($\beta = 0.57$, $SE = 0.03$, $t = 16.37$, $p<0.001$), felt less able to cope with emotional shocks ($\beta = 0.53$, $SE = 0.04$, $t = 14.99$, $p<0.001$), felt more anxious generally ($\beta = 0.21$, $SE = 0.02$, $t = 10.80$, $p<0.001$), felt more stress because their financial situation had worsened ($\beta = 0.60$, $SE = 0.03$, $t = 21.78$, $p<0.001$), or COVID-19 effected respondents in more than one of these ways ($\beta = 0.70$, $SE = 0.02$, $t = 32.09$, $p<0.001$), had a higher number of drivers flagged as vulnerable.

As previously mentioned, the FCA algorithm is lacking measures of emotional resilience, although we included the question used to understand respondents' ability to recover from negative experiences in our adapted version of the algorithm, more subjective questions may be necessary to have a greater understanding of a client's resilience. Further analysis of this question exploring the impact of COVID-19 shows that those who elicited one of more negative responses had more vulnerability drivers ($M=1.16$) than those who did not experience any ($M=0.50$), $F(1,22265)= 2954.5$, $MSE= 0.77$, $p<0.001$. As we do not want to include questions explicitly and only related to COVID-19 that relate to emotional resilience, we conducted additional research to create relevant psychometric items that would be ideal for assessing these subjective elements of the resilience drivers as well as others that fall under capability (see section 3.4 and subjective vulnerability questions due diligence document).

Adjustments and additions

In this section, we explain in more detail modifications that we have applied to the existing FCA algorithm for identifying vulnerable clients, as well as a summary of the additional research we carried out to create subjective measures of vulnerability.

Level of severity

Many of the characteristics of concern relating to the health and life event drivers can be assessed during an initial fact-finding process or when discussing life changes during the investment journey. However, it is important that the presence of a vulnerability characteristic (i.e., visual impairment) is not the only factor that we consider. The interference it causes for a client to carry out day-to-day activities and the impact it may have on life and investment challenges, is essential. When being assessed within a clinical setting, presenting symptoms of social anxiety for example, only forms part of the diagnosis, a clinician must also gather information on the severity which is influenced by the frequency, duration, and onset of symptoms, as well as the interference on daily living. Merely recording that a client has a vulnerability characteristic or not, does not allow us to understand the extent in which that impacts them, nor the level of support that would be required.

Within the financial lives survey data, an interference question for health was included to indicate whether a client is vulnerable highlighting that if this causes a lot of interference on a day-to-day basis. they would be vulnerable. However, we believe that this should be considered on a spectrum with those who may also have a health issue but not rate it as severe, being grouped appropriately. We applied this to the FLS dataset and provide the results below (see figure 4). No interference question was added within the questionnaire for life events and so although this could not be tested here, we incorporate this into our later stages of testing.

It is apparent that when we remove the binary approach applied for health events and base results on the interference question, that it provides greater insight into the impact that health issues have on client's day-to-day lives, distinguishing those who have no issues or if they do it does not affect them at all, from those who have health conditions but it only effects them a little. This can influence whether there is something important that the adviser must factor in for those classed as having "moderate" vulnerab

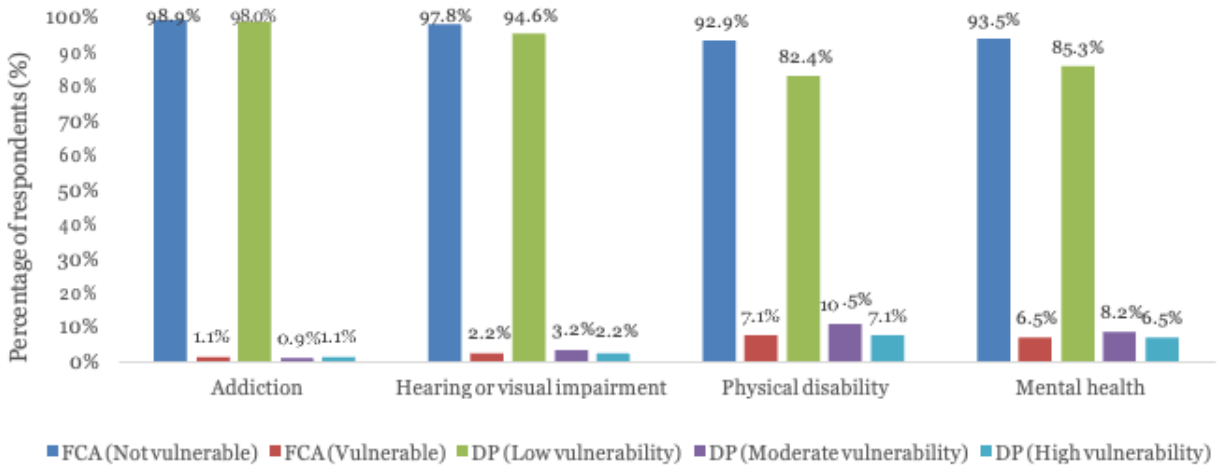

Figure 4: Health characteristics flagged as vulnerable or not using the FCA binary approach versus our levels of severity.

Approximately 1% of those who have an addiction which affects them a little (moderate), were classified as not vulnerable by the FCA, with a further 3.2% who had a hearing or visual impairment, 10.5% who were physically disabled and 8.2% who had a mental health illness potentially being misclassified. This is a significant proportion of individuals who could miss out on appropriate treatment either because they did not choose to classify their conditions as severe enough to be noticed, or because grouping those who struggle a little with those who are healthy, is not ideal. As no changes to the algorithm were made for identifying highly vulnerable respondents, then no differences were found here.

Furthermore, when considering the level of vulnerability for each characteristic and driver we believe that it is sensible to take a similar approach, allowing client's to be categorised as having low, moderate or high levels of vulnerability. This was incorporated into our testing phase (see section 4).

Subjective elements of vulnerability

We reported that respondent's feelings towards their finances and life more generally as a result of COVID-19 had a significant impact on their overall level of vulnerability. Therefore, it is importation to assess similar characteristics without relating solely to the pandemic. When considering the FCA's framework in relation to this question, it appears to relate both to the resilience and capability drivers. As stated above, the FCA framework is limited to considering resilience in terms of economic and financial resources, however the work of Salignac et al. (2019) highlights the importance of financial knowledge, behaviour, social capital, and personal characteristics. In order to fully understand these characteristics, subjective elements of vulnerability, then a psychometric approach must be developed.

Subjective factors of vulnerability such as confidence and impulsivity have been suggested by researchers to be important, in fact, such abilities or a lack of, can impact the client's capability to manage their emotions and therefore the level of distress experienced during a challenging life event. Attention should not only be placed on objective factors such as debt and savings (Anderloni et al., 2012; O'Connor et al., 2019). Subjective characteristics are broadly embedded within the FCA drivers relating to emotional resilience and self-efficacy, but these areas require a psychometric approach. Validated psychological measures reflecting emotional resilience, financial self-efficacy, intolerance of uncertainty and emotion regulation already exist, but it is necessary to design items that reflect a client's investment journey.

To view the full development of our psychometric items that provide greater insight into the subjective factors associated to financial vulnerability see the *subjective vulnerability questions due diligence document*.

In summary, a question set was designed which provides an advisor with more information about a client's personal character in terms of their resilience and capabilities. A number of steps were taken to design the question set. Interviews were held with financial advisors to understand their experience of

client behaviours and composure during the period of the COVID-19 pandemic. A large-scale test (study one) on a representative cross-section of the expected demographic was conducted using established psychometric measures to create a foundation for the questionnaire items. A focus group with financial advisors took place to capture views on the question set framework and items. A follow-up study incorporating a candidate list of modified items of those deemed to be useful predictors of selling behaviour and feelings of concern in study one was then conducted. Responses were analysed using statistical tests, which consisted of running an exploratory factor analysis (EFA) as the question set is based on a newly developed framework, internal consistency tests to explore the relationships between the proposed items and the associated domains, confirmatory factor analysis (CFA) to test the EFA model's construct validity and reliability, and finally regression analysis to examine the predictive validity of the questionnaire.

Overall, 10 items measuring resilience, financial self-efficacy, intolerance of uncertainty and emotional regulation, including 4 items from our existing ATRQ were found to be good indications of what may lead to client's concern and decisions to sell their investment). Due to the discussions held with financial advisors, results of two large-scale studies with a representative cohort of individuals, and the process we have taken to test the reliability and validity of the question set, we are confident that these questions are valuable for further addressing the subjective elements of financial vulnerability.

Figure 5: Factor structures underlying subjective measures of vulnerability.

4 Stage 3: Testing Dynamic Planner algorithm

Methodology

Following our research using data from the financial lives survey, we employed a large-scale study to test our algorithm now incorporating a new scoring methodology and additional questions which assess the subjective elements of vulnerability. This study was conducted with a representative cross-section of the expected demographic using a stratified sampling technique.

Sample

The questionnaire was completed using the Qualtrics platform and respondents were recruited using Prolific and a set of quotas (all respondents to be based in the UK and have experience investing in stocks and shares). We targeted 500 respondents and replaced those who provided incomplete questionnaires, were straight-lining and taking less than a third of the mean time to complete. 500 respondents in total were available for data analysis.

Procedure

Respondents were informed about the purpose of the questionnaires to be completed and provided relevant demographic information (gender identity, age, marital status, qualifications, employment status, wealth, household size, number of children, household tenure, household income and experience working with a financial advisor). The blocks of questions for the four drivers (Health, Life events, Resilience and Capability) were presented in the same order for all participants, as were the order of the questions within each section.

Data analysis

We provide summary results showing the percentage of respondents presenting vulnerability characteristics according to the four FCA vulnerability drivers. A detailed analysis of the psychometric questions embedded within our vulnerability assessment can be found in the *subjective vulnerability questions due diligence document*, however we also provide a summary of the descriptive statistics based on the sample within this study.

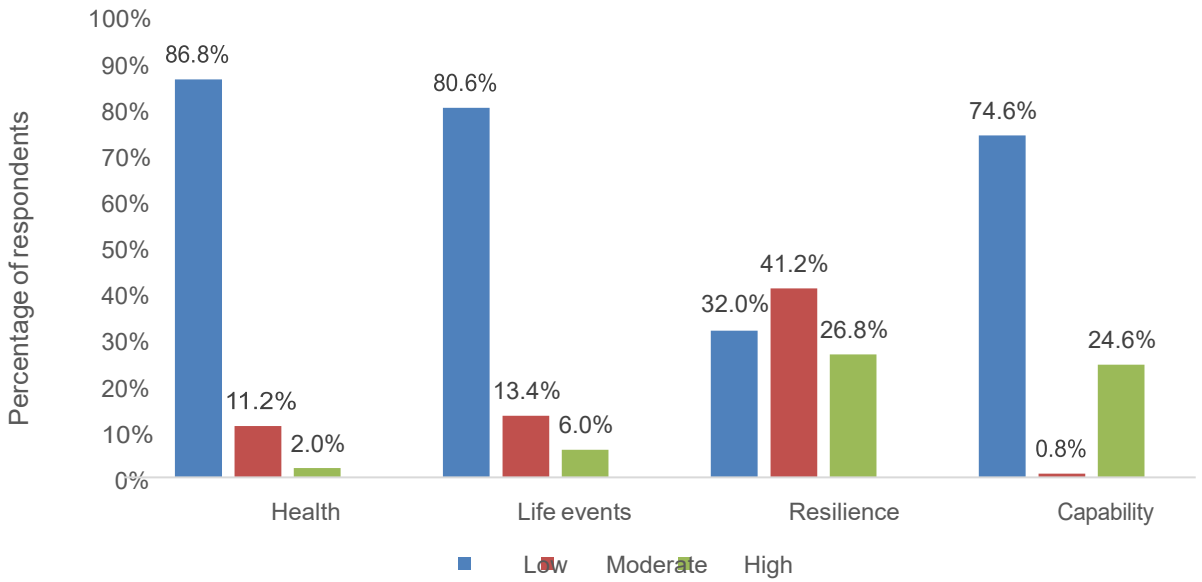

Figure 6: Percentage of respondents within three vulnerability levels (low, moderate, high) across the four drivers.

Further comparisons of findings presented in their report with our dataset are provided in section 5. From figure 6 it is apparent that although a high percentage of respondents have low levels of vulnerability in terms of their health, life

events and capabilities, more of a normal distribution can be observed regarding resilience now that we have factored emotional resilience using more subjective measures into our assessment.

Health characteristics lasting or expected to last for 12 months or more

	Percentage presenting health condition
Addiction	1%
Vision impairment	1.4%
Hearing impairment	1%
Mobility issues	5%
Dexterity issues	2.6%
Stamina, breathing or fatigue difficulties	4.4%
Learning, understanding, or concentrating challenges	1%
Memory problems	0.6%
Mental health condition	7.8%
Social or behavioural condition	1.2%
Other issues	6.6%

Table 1: Percentage of respondents presenting health characteristics that have lasted or expected to last for 12 months or more.

Life events experienced in the last 12 months

	Percentage experiencing negative life events
Losing job/being made redundant	4.6%
Reduction in working hours that you didn't want	4.8%
Bankruptcy	0%
Relationship breakdown / separation from your partner	5.2%
Divorce	1.4%
Serious accident or illness (yourself)	3.2%
Serious accident or illness of a family member	2.6%
Death of a parent	7.4%
Death of your partner	0.2%
Death of a child	0.2%
Becoming the main carer for a close family member	4.8%
Living in a one adult household and in receipt of Carer's Allowance	0.4%
Retirement	1.6%
Other experiences	n/a

Table 2: Percentage of respondents experiencing negative life events in the past 12 months

Resilience characteristics

	Vulnerability level	Percentage of respondents
Debt		
	Low	33%
	Moderate	51.2%
	High	15.8%
Savings		
	Low	45.6%
	Moderate	46.8%
	High	7.6%
Income		
	Low	71.8%
	Moderate	25.6%
	High	2.6%
Emotional resilience		
	Low	34.6%
	Moderate	57.4%
	High	8.0%
Intolerance of uncertainty		
	Low	35.8%
	Moderate	56.6%
	High	7.6%
Emotion regulation		
	Low	48%
	Moderate	49.2%
	High	2.8%

Table 3: Percentage of respondents within three levels of vulnerability for financial and emotional resilience characteristics

Capabilities

	Vulnerability level	Percentage of respondents
Knowledge and financial self-efficacy		
	Low vulnerability	39.4%
	Moderate vulnerability	57.8%
	High vulnerability	2.8%
Support network		
	Low vulnerability	51.2%
	Moderate vulnerability	29.4%
	High vulnerability	19.4%
Numeracy skills		
	Low vulnerability	96.6%
	Moderate vulnerability	3.2%
	High vulnerability	0.2%
Literacy skills		
	Low vulnerability	98.8%
	Moderate vulnerability	1.2%
	High vulnerability	0%
English language skills		
	Low vulnerability	95%
	Moderate vulnerability	1%
	High vulnerability	4%
Digital skills		
	Low vulnerability	99.8%
	Moderate vulnerability	0.2%
	High vulnerability	0%

Table 4: Percentage of respondents within three levels of vulnerability regarding personal capabilities

Psychometric items: Descriptive statistics

All possible responses (1-5) were selected for every item. Skewness and Kurtosis for each item are within the acceptable range based on a large sample size (Skewness +2 to -2 and Kurtosis +7 to -7) (Kim et al., 2013). Moreover, the means are close to 3 and standard deviations do not exceed a 2:1 ratio with any other item (Yin, 2016) (see table 5). This demonstrates that our items are ideal for examining individual differences and no item is heavily skewed in the way individuals respond.

	Means (SD)	Skewness	Kurtosis
I do not have difficulty paying for day-to-day expenses	3.78(1.09)	-0.77	2.67
I can handle whatever financial difficulty comes my way	3.05(1.10)	-0.09	2.10
I find it hard to make progress with my finances	3.12(1.16)	-0.11	1.86
I am easily disheartened if I fail to achieve my financial goals	3.03(1.11)	0.06	1.98
Rises and falls in the value of my investments would not worry me	2.95(1.13)	0.07	1.98
If the value of my investment fell, even for a short time, it would concern me	3.24(1.14)	-0.20	1.95

Taking financial risks causes me a lot of stress	2.92(1.11)	-0.02	2.01
When considering investing, I would describe myself as:	3.14(1.04)	-0.11	1.91
When it's time to make financial decisions, uncertainty stops me	3.41(0.99)	-0.68	2.60
When I am upset, I do things without thinking	3.72(1.05)	-0.16	1.96
When I am upset, I continually think about how awful my situation is	3.22(1.18)	-0.64	2.76
When I am stressed, I try to stay calm by thinking positively	3.51(0.95)	-0.48	2.51
I am someone who is usually calm and copes well with stressful situations	3.45(1.02)	-0.79	2.33
I worry about running out of money one day	2.66(1.20)	0.39	2.00

I am confident in my abilities to manage my finances	3.75(1.20)	-0.75	3.39
I am knowledgeable about financial matters	3.68(1.20)	-0.76	3.71
When it comes to financial services and products, I would consider myself to be a confident and savvy consumer	3.55 (1.20)	-0.63	3.00

Table 5: Percentage of respondents within three levels of vulnerability regarding personal capabilities

5 DP and FLS 2022 comparison

In 2022 the FCA conducted a financial lives survey examining vulnerability characteristics of 19,145 respondents from within the general population. Below we conduct further analysis exploring the differences between the results of our vulnerability assessment with those from the 2022 financial lives survey.

We make comparisons between the respondents classified as “vulnerable” within the financial lives survey and those classified as having “high vulnerability” within our dataset. Overall, our vulnerability assessment obtained similar findings to the FLS 2022 report where 47% of respondents were identified as vulnerable for at least one of the four drivers, we found 44.2% of respondents have a “high” level of vulnerability for at least one driver.

Overall classification of vulnerability

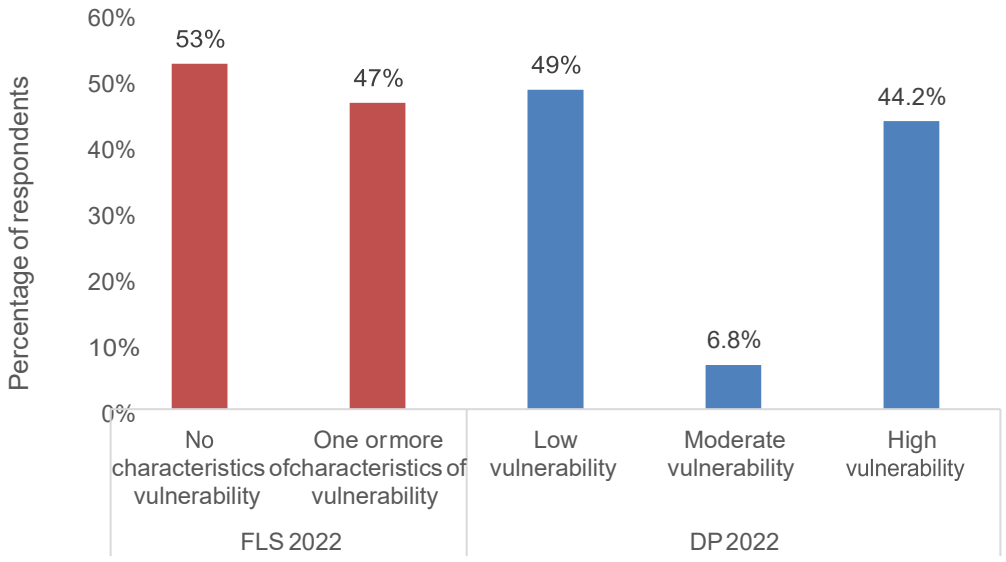

Figure 7: DP vs FCA comparison of overall levels of vulnerability

No significant difference was found between the number of clients identified by our assessment and the FCA as having one or more characteristics of vulnerability/high vulnerability χ^2 (1, N = 19645) = 1.428, p=0.232, nor as having no characteristics of vulnerability/low vulnerability χ^2 (1, N = 19645) = 2.972, p=0.085. When considering the overall level of vulnerability within our sample, we find a small percentage fall within the moderate group, this is due to the checks that we have in place that labels a client as having a high level of vulnerability if at least one driver or one of the characteristics within it flags the client as being highly vulnerable.

Vulnerability drivers

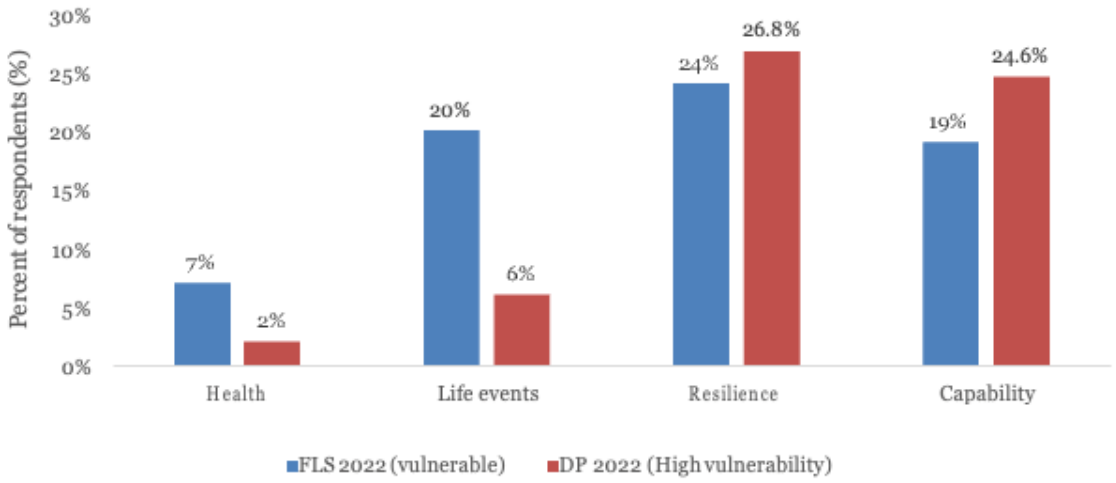

Figure 8: DP vs FCA comparison of vulnerability drivers

When we explore our findings further, it is apparent that introducing a level of severity (low, moderate, high) for health and life events based on the impact it has on day-to-day living, significantly reduces the number of respondents determined to be highly vulnerable. A significant difference between our findings and the FLS 2022 were found between the number of those who were vulnerable in terms of their health, χ^2 (1, N = 19645) = 18.282, p<0.001, and life events χ^2 (1, N = 19645) = 59.621, p<0.001, as a significantly higher percentage of those from the FLS 2022 were classed as vulnerable. For health and life events, 11.2% and 13.4% respectively of our sample were classed as having a moderate level of vulnerability which can explain the differences we have observed.

When we include psychometric questions to capture the subjective factors of resilience and capabilities, we observe an increase in the proportion who are considered vulnerable. For resilience, no significant statistical difference was observed χ^2 (1, N = 19645) = 1.938, p=0.164, but regarding capabilities we identified significantly more as vulnerable χ^2 (1, N = 19645) = 9.505, p=0.002 after the introduction of psychometric questions as well as consideration of more factors such as having a support network, numeracy, literacy, and language skills.

Resilience: Losing main source of income

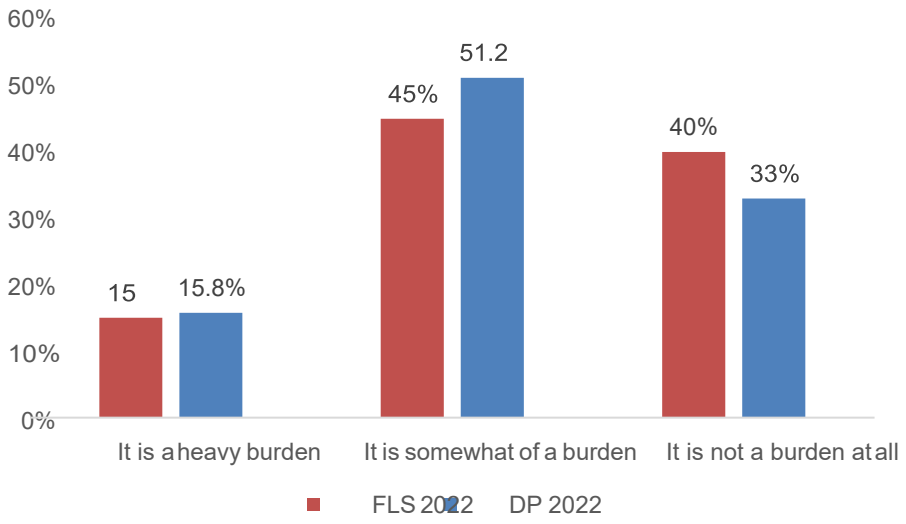

Figure 9: DP vs FCA comparison on the burden of losing main source of income

Of those classed as having low financial resilience, the FCA state that they include a subjective measure of resilience, whether a client losing their main source of income for as little as a week would be a heavy burden. Although our assessment goes beyond this and includes more subjective measures to examine financial resilience, we can explore comparisons based on this question, we find no significant difference between those respondents who find losing their source of income as a heavy burden, χ^2 (1, N = 19645) = 0.185, p=0.667. We do however find that a significantly higher percentage of those from our dataset find this somewhat of a burden, χ^2 (1, N = 19645) =7.306, p=0.007, whilst a smaller percentage report this as not a burden at all, χ^2 (1, N = 19645) =9.674, p=0.002.

Resilience: Demographic characteristics

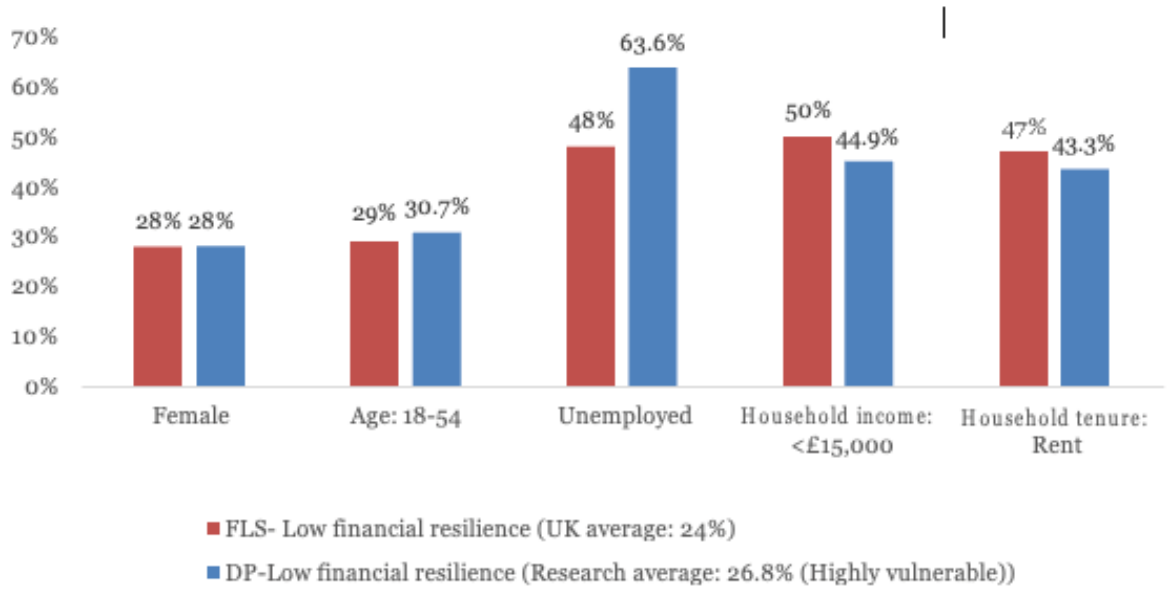

Figure 10: DP vs FCA comparison on demographic differences for those with low financial resilience

Differences in demographic characteristics for those with low financial resilience were outlined in the FLS 2022 report. We analyse differences between this report and our dataset once additional subjective measures of financial resilience have been added. No differences were found in the number of females with low resilience, χ^2 (1, N = 19645) <0.001, p=1.00, the number of adults with low resilience between 18-54, χ^2 (1, N = 19645) = 0.677, p=0.411, and those renting their home, χ^2 (1, N = 19645) =2.399, p=0.121. We did however find that a higher proportion of unemployed within our dataset had characteristics of low resilience, χ^2 (1, N = 19645) =46.847, p<0.001, whilst fewer with household incomes lower than £15,000 were vulnerable in terms of their resilience, χ^2 (1, N = 19645) =4.680, p=0.031.

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Dynamic Planner
C/O Moorcrofts LLP
Thames House
Mere Park
Dedmere Road
Marlow
Buckinghamshire
SL7 1PB

Email support@dynamicplanner.com

Phone +44 (0)333 6000 500