

De-bunking some of the myths around Financial Services ('FS') efforts to maintain accurate customer data and de-bunking some of the myths around efforts by FS administration departments to locate the Executors and Next of Kin of dead customers.

This paper has been written for the benefit of Non-Executive Directors of FS or Environment, Social and Governance ('ESG') Committees or Sustainability Committees who may be interested in understanding what their organisation is doing to maintain accurate customer data, keep in contact with the potentially vulnerable customer and engaging with the Executors/ next of kin of Dead Customers.

It should help these Directors ask the right questions of their Executive teams and gain a clearer understanding of their responses.

Over recent years as the writer endeavours to get FS on-board with doing more to support customers in this area the writer has listened to many statements and questions around this issue, and he has produced this paper for the benefit of senior FS Directors to be used as an aide memoire when confronted with serious stone walling

This paper has as its primary focus the areas of Financial Services which attract retail customers. This paper excludes Banks as a utility (current accounts) but includes Banks as Asset or Investment Manager or Life assurance or Pension provider. ('FS'). General Insurance is not discussed as this business is usually renewable annually which dictates an annual customer FS interaction.

Definitions

Financial Services as defined above (**'FS'**)

Life Assurance – **-('Life')**

Pension Funds – **('Pensions')**

Asset Management, Investment Management, Trading Platforms, Private Equity, **-('IM')**

Gone Away Customers – **('GA Customers')** Customers living at a different address to that address held for them by their FS provider

Back- office administration (**'administration'**) – the administration of customer data beyond that captured at point of sale

General Remarks

There has for many years been a strong Regulatory focus on point-of-sale data capture for accurate completion of Know Your Client ('KYC') information and for the documentation of customer and client understanding of risk profiling assumptions to address any potential mis selling risk.

Costs associated with this work are by and large well embedded into the cost of sale.

This paper's focus is concerned with FS customer data processes for the maintenance of data accuracy beyond point-of-sale.

It is true to say that maintenance of customer data post sale has not attracted the same level of attention or resource. FS treat administration as the poor relation of new business development housing customer data on out-of-date administration systems staffed by under resourced employees.

The cost associated with the maintenance of accurate customer data comes out of the annual management charge ('AMC'). The AMC is also a source of Profits to FS and costs are tightly controlled.

Evidence of Poor FS Administration for the maintenance of accurate customer data

The writer's evidence that the maintenance of accurate customer data is under-resourced stems from the writer's experience with working on FS customer data. [5-10% of clients' customers on first review are recorded at wrong addresses and that 30% of the above have died.](#)

The writer's client base is largely IM but there is evidence that Life and Pensions would follow a similar profile.

[Indeed, the Pensions Policy Institute talks of £31bn in +2m pension pots tied up with bad data issues for DC Schemes alone. It would be fair to say that £100bn might be a best guess for the entirety of FS including banks, asset managers, life assurance and pension DB schemes. This was the number cited by a recent BBC Radio 4 documentary.](#)

[It is telling that no accurate assessment is available.](#)

At a minimum Fees are being earned and charged without authorisation.

[The vulnerable beneficiary spouse in a care home is not being supported financially and at the other end of the financial scale the Exchequer misses out on the Inheritance tax take and the country is not getting the benefit that would accrue by pumping these funds into the economy via payments to legal beneficiaries.](#)

The Australian Securities and Investment Commission supported by Professor Elise Bant of the University of Western Australia in April 2022 fined Westpac Bank A\$40m for taking fees from Dead Customers. This followed a previous fine on AMP and the writer encourages the reader to read Professor Bant's earlier article 'Charging Dead Clients is Dishonest really? Who Knew?' The ASIC is currently clearly taking this matter more seriously than our own FCA but one should not be complacent and rely on the continuation of benign regulation.

On a more positive note the author's 'caring' clients www.vestigium-services.com are starting to make progress in this area albeit for some the work tends to be siloed into project based work competing against other projects for resources rather than holistic and part of Business as usual ('BAU'). Indeed the FCA's own guidelines only follow the project based approach requiring certain actions after certain time periods (see further on).

About the Customer

The customer of FS is of certain wealth and has been or is in employment. The customer profile is aging as more wealth is tied up in the older generation. As the customer ages there is more chance that the customer might be considered temporarily or for the long term vulnerable.

There is scant evidence of FS tracking customers from point of sale to various lifestyle changes (i.e., house moves) to care homes to death. Without this communication it is difficult to understand how compliance with 'FCA Guidance on the Fair Treatment of Vulnerable Customers' is being met albeit

much of the Guidance is centred around when a customer contacts the FS and little on the other way around.

FS Actions and Myths around the Maintenance of Accurate Customer Data

Why Does It matter?

The Life salesman sells 'piece of mind'. 'Your loved ones will be taken care of if you die'. He doesn't qualify this by saying 'only if your loved ones know about it'.

The customer often has these savings for 'end of life care'. Not communicating to them at end of life is unethical.

The Aged and Vulnerable deserve our care.

We never did this in the past?

Agreed but the world moves on. Technology has enabled cost effective solutions now available

ESG is also new. The S and G is applicable to this paper.

We use Experian, Equiniti etc and they couldn't find these customers?

Most FS now adopt a form of 'batch tracing' on their known Gone Away Customers.

It is generally called Batch 'Tracing'. It is not tracing at all but simply applying some company's customer file against a FS file and seeing if there is an address match.

This is usually to an accuracy level of <40% ,40-60%,>60% which says it all. It is totally inaccurate as the computer digital match may well be to a different person with standard surnames.

Going to a credit agency is senseless as no dead person ever applied for a credit card

Why do it if it doesn't work?

It is used because it is cheap circa £1 a customer and it fools Non-executive Directors and the Regulator that 'things are being done'. '

The whole process of locating new addresses is not cost effective due to poor response rates

The myth goes on to say that writing out to customers at a new address and asking them to reply elicits reply rates of < 30% hence why bother.

Firstly, the low reply rate will be low if half the new addresses are wrong (see further above).

Secondly by Tracing properly (Right First Time) and working to a 99% success rate on new addresses no mailing confirmation is required. FS can just mail the new address as and when they need to. New addresses take precedence, but old addresses are not deleted in case of the odd (,1% mistake) and also a trail of addresses will greatly assist re-engagement and proof of identity when pay-outs

are due at a later date usually on death. Without these accurate new addresses FS has little chance of knowing when a customer has died.

We regularly contact the families of known Deceased.

This is a small part of the issue being dressed up as adequate Governance. This applies to the families of customers that have proactively been in touch when a customer has died. One would expect FS to follow up and they do.

Few companies however proactively carry out maintenance of their customer data, confirming death and then writing to the Executor/Next of Kin. Proactive contact here is sensitive. Mistakes might be made. FS are not addressing this issue in their BAU process. Right first time Forensic proof is required, and this is generally not being done.

First Time Forensic Tracing and the prevalence of batch tracing (discussed above) with its inaccuracy no one wants to write out condolences to many customers who are still alive! So best to do nothing is the standard approach.

Keeping the address current doesn't matter and Gone Away work is unnecessary.

It matters greatly. On Death of the customer the Government Death Register ('DDRI') might say 'Died Norfolk and Norwich Hospital, last known address Norwich' but if the FS has the customer living in London (at an old address) then FS Mortality Testing will not pick this up. Hence Charging the Dead goes on. Mortality testing is a blunt instrument. This matters not to FS holding bad data reserves, but bad data reserves do not help the individual customer.

'We haven't stolen the asset; all our customers Executor or Next of Kin needs to do is contact us.'

FS should know that the Executor may not be aware as wills generally say 'and all other assets to be divided ... without naming each and every FS company and product.

FS should also know that Next of Kin may well not be aware of assets held by parents.

FS should also know that Spouses of the dead may be incapacitated (dementia) or in Care Homes.

Losing AUM will be the inevitable result in this exercise.

This may be true for late adopters of proper Governance but the first to engage might find particularly in IM a 'dividend' from improved Brand and Reputation.

'Thank you for tracking me down and informing me of this windfall. I didn't know. What would you suggest I do with this asset? I trust you'.

For Pension Companies improving mortality testing (see earlier) would potentially release liabilities. [For Pension Funds relieving deficits by releasing Reserves would be to the advantage of the Shareholders of the Sponsor company and the Pension Protection Scheme.](#)

Life Companies should be reserved.

For Pension Annuity Companies notification comes from the Banking Industry closing Bank accounts.

We agree but not for joint lives.

Seen on a Life and Pensions company website. 'Last quarter we found the beneficial owner of £1m in unclaimed assets.

For retail customers perusing the website this is magnificent! FS practitioners know that this is 'self-serving propaganda' and at an average Life policy of £18k this equates to finding 56 customers. They have >30000 Gone Aways.

1-3% Dead customers on the book are a low number.

For a trillion £ industry the writer disagrees.

The cost of this work is very expensive.

On a current file of active customers having carried out a Digital Health Check on that file the results empirically will be that circa 3% might require Forensic work to locate and 1% might be Dead and require Forensic work to locate Executors and Next of Kin.

This might incur costs of circa £2 when spread over the whole file. Targeted Forensic and Holistic non-project-based solutions can work.

Doing nothing for 3 years after 2 exercises of Batch Tracing in the first 6 months) and hence technically following FCA Guidelines is cost ineffective as it doesn't achieve the results, if it did, we wouldn't have this issue!

Charging all customers because some are Gone Away is unfair on the others

The essence of Insurance is spreading cost and risk!

The Overstatement of liabilities (in a Pension Fund) is also a secondary issue to Pension staff as it is a shareholder problem, and everyone likes the comfort of over-reserving.

The consumer and shareholders and Pension Protection Fund and the economy are the loser. Over-Reserving by 1% on Deferred members would potentially release hundreds of millions from the liabilities for the largest 50 DB Schemes.

The Pension Dashboard and other equivalents will solve this issue so we will do nothing until then.'

How embarrassing this argument has been trumpeted for years. The Pension Dashboard will only be a 'yellow pages' of where one might look for Pension pots. It is not a proactive help at all to those who don't know to ask.

The dashboard will 'shine a light' on bad data issues and result in a tsunami of queries (partial matches) and complaints and will damage the Pensions industry reputationally

The Unclaimed Asset Register UAR is de-commissioned as it didn't work. Other Customer help yourself portals will suffer the same fate. FS has to take a more proactive lead,

The BBA My Lost Accounts is a manual post box which some consumers use to contact the Banks but only tells the consumer about dormant assets held (>14 years dormant) and the consumer will get a negative search if their account is 13 years and 11 months old.

Consumers are nervous about supplying personal data to a Repository (as the author knows as he tried). All of these solutions are used to trumpet the message from FS that 'they are doing 'things.

There is a possibility that new active business could be administered better than historically i.e. email addresses but Legacy requires remedial action.

What is wrong with not finding the customers Next of Kin and just giving the assets to Charity?

Simple answer- [It's not FS Money to give to Charity](#). The Banks got away with this argument during Gordon Brown's term as Chancellor (2008 Banking Act) The argument shouldn't hold up.

The Dormant Asset Commission now accepts (see Consultation to Expanding Dormant Asset Scheme Feb 2020 Executive summary) that charitable donations should only follow serious tracing efforts.

Closed Life and Pensions Companies have a significant Issue.

Because of the large Legacy customer base in run off bad customer data is a significant issue.

Yes, it will cost to solve the Legacy Issue of the Closed L&P industry and this the author fully accepts and has sympathy with the industry. To clear this issue out will require a small change in Regulatory approach to allow the L&P Industry to charge reasonable costs of tracing to the customer as happens in Share Registry for example.

In the 1990s and 2000s outsourcing of this function became prevalent where Finance Directors took re-engineering savings up front without doing the work themselves by negotiating tight contracts with Outsource Administrators ('OA') The OA applied a growth strategy akin to a Ponzi Scheme relying on volume to create value and the required profit margin. BAU processes and business practices were engrained in contracts which are in many cases more than 30 years old. The result has been little process improvement and reduced levels of customer service and the OA charging high fees for 'add on' work which is in turn resisted by FS.

Indeed, the cost associated with Tracing is only part of the picture as OA charge heavily for producing data extracts, retyping new addresses and of course mailing everyone (see earlier for why this isn't necessary following right first-time tracing activity. All the above work is not seen as BAU but a one-off project which is abandoned if resource is required for other more urgent activity.

Added to this Historic Data collection could not include before the internet email addresses and not until recently, mobile numbers.

Customers are more mobile since the days of Industrial door to door pensions and now would move home 3 times in the life span of a 25-year Life policy.

The government Death register the Ddri has only been in operation since late 2006 and is only updated for UK citizens dying within the UK. A wrong address held by FS would not activate a Ddri match. Mortality testing as it is called within Life and Pensions is a blunt instrument indeed.

Prior to 2006 there is no digital solution to unravelling the number of Dead customers on the FS books apart from employing tracing agencies. This is slowly happening, but FS priorities remain maintaining Income. Looking after customers or their next of kin is often a secondary consideration. Non-contact with customers saves time and cost.

Thoughts To Finish

Know Your Client ('KYC') what does it mean in practice if not maintaining adequate records is acceptable practice?

The FCA will be focussing on how FS ensure 'Good Outcomes for Retail customers. How is this possible with such high rates of Gone Away customers?

Looking after the 'Vulnerable Customer'. How do we know who is vulnerable beyond point of sale if we are not maintaining good customer data?

How many Dead customers are on FS books? Can we ask? How will the Executive team know how to answer if the question is asked?

Why should FS pay? Share registry firms are charging the customer for tracing work. This seems reasonable when the customer has been out of contact. It would be churlish of the customer to complain about small costs being netted off notified windfalls belonging to dead family members.

Can we have a result based FCA Guideline which asks for reporting on the volume of dead customers held on the FS books and which expects no long-term dead customers being uncontacted (say >1 Year)

Questions to ask your Executive Team

How many dead customers do we have?

How do you know?

How many over the age of 100/ 90/80?

Is your profile of customer ages above in line with country statistics?

How much are you spending on tracing end to end including mailouts to wrong addresses?

About the writer.

Paul Aggett is a qualified Accountant FCA with +30 years' experience in FS in Life and Pensions and Asset Management and Chartered Accountancy and FS Consultancy. Paul now is Managing Director of Vestigium Services Limited www.vestigium-services.com which is a relatively new Tracing Agency working with caring FS companies addressing the above issues.

