Insurance

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Addressing the needs of vulnerable consumers

We are all human. It is more than likely that each one of us, as individuals, will experience some form of vulnerability at some point in our lives. This may just be temporary (for example, through short-term illness or unemployment); it could be spasmodic or more long-term.

Being in vulnerable personal circumstances can make it difficult for an individual to make sensible decisions around buying and using financial products and services. It can also make people more susceptible to scams and mis-selling.

Who is a vulnerable consumer?

Vulnerable consumers have characteristics or circumstances that can weaken their ability to use or benefit from financial products and services.

A definition

The FCA 2015 paper on consumer vulnerability defines a vulnerable consumer as 'someone who, due to their personal circumstances, is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care.' The latest FCA Business Plan uses the same description.

Clearly, this is a broad description that can cover a diverse range of personal circumstances. People may be vulnerable through mental or physical incapacity, or impairment. Individuals can also be vulnerable through a lack of financial means or because they lack literacy, numeracy or confidence and know-how to navigate their way through what can sometimes be a bewildering array of choices when dealing with financial products. Use of technology can be a barrier to some people in accessing financial services.

Vulnerable circumstances

A person may not be vulnerable at the time of entering into a contract for financial services but may become vulnerable later on, for example, when making a claim under their insurance policy for a serious health issue or following a traumatic break-in into their home. A number of insurers automatically treat policyholders who make these types of claims as being in vulnerable circumstances and provide staff with relevant training to deal with them properly.

Firms who specialise in services such as payday loans or debt collection should be especially conscious that they are dealing with vulnerable consumers, as these are most likely to be people with financial difficulties. A significant part of the FCA's work in the consumer credit sector focuses on vulnerable consumers. The FCA is also looking at mortgage sector customers with long-term arrears, and those with interest-only mortgages that are close to maturity.

An individual's vulnerable circumstances or characteristics can often be temporary rather than permanent. What causes vulnerability can vary from one person to another. For example, some people find it harder to cope than others when dealing with potentially stressful or difficult situations, such as unemployment, loss of a loved one, or being a victim of crime or other trauma.

Micro-enterprises, or owner managed businesses, can also fall into the vulnerable consumer category. A self-employed electrician whose van is stolen along with all his tools may well be in a very vulnerable financial position until his insurers have settled his claim to enable him to resume business.

Identifying vulnerability

Identifying vulnerable consumers is not always an easy task. Aside from the vast range of circumstances that make someone vulnerable, many individuals in this situation do not necessarily recognise or accept that they are vulnerable, particularly if they are suffering from mental impairment. Vulnerability may not always be obvious to an outsider and some people simply choose not to disclose their vulnerability.

Vulnerability can be complex and dynamic. It can affect individuals in all sorts of ways, emotionally, as well as impacting mental and physical capability.

Why is it important?

Consumers in vulnerable circumstances might be less able to look after their own interests than the average or typical consumer.

The way a firm treats its customers reflects its culture and ethics. Regardless of regulators' expectations, it makes good moral and commercial sense for any ethically minded business to treat all customers fairly, to recognise diversity and be flexible and inclusive in the way it deals with consumers who are in a more difficult or vulnerable position than the average customer. Maintaining a good reputation and instilling trust is crucial for firms to succeed in a challenging and competitive environment. Codes of conduct/ethics published by financial services firms typically include statements such as:

'Doing what's right'

'Honesty and fairness in all our dealings'

'A commitment to our communities'

'Passionate about delivering amazing customer service'

Interactions with consumers should reflect firms' stated values and codes of conduct.

Treatment of vulnerable consumers is an issue that the FCA cares about. Firms' culture is also one of the FCA's key priorities. We look at the regulator's expectations around vulnerability in more detail below.

Background

One of the FCA's cross-sector priorities outlined in its Business Plan 2017/18 is 'consumer vulnerability and access to financial services'.

While the FCA is placing stronger emphasis on this theme, it is not a new area of focus for the regulator.

- In 2014, the FCA published a research paper on 'Consumer credit and consumers in vulnerable circumstances'.
- 'Occasional Paper 8: Consumer Vulnerability' was released by the FCA in 2015 to stimulate debate and interest around the subject and to encourage regulated firms to improve their understanding of the issue, and to take appropriate action. This paper includes case studies, ideas and practical tips on the development of a vulnerable customer policy/strategy.
- In February 2016, the FCA published a discussion paper on the ageing population. This looked at how financial services meets the needs of older consumers. An update was issued in September 2016. Unsurprisingly, there is a significant area of overlap between the FCA's work on vulnerability and the ageing population.
- The British Bankers' Association (BBA) Vulnerability Task Force also published a paper in February 2016, on 'Improving outcomes for customers in vulnerable circumstances'.
- In June 2017, the Finance & Leasing Association and The UK Cards Association launched a new guide that helps finance providers identify and support customers in vulnerable situations during the credit application process. It focuses, in particular, on supporting customers with a mental capacity limitation that might affect their decision-making abilities.
- The FCA plans to issue its 'Ageing Population Strategy' this summer.
- As part of its ongoing work, the FCA intends to publish a further paper in 2017/18 called 'Consumer Approach'. This will set out the FCA's overarching strategy on how it considers consumer needs within the its decision-making framework. A key aspect of this paper will be consumer vulnerability and access to financial services.

In March 2017, the National Audit Office (NAO) published a report on 'Vulnerable consumers in regulated industries'. This report says that 'vulnerable consumers are those who are particularly susceptible to harm or disadvantage'. It examines what four sector regulators (Ofwat, Ofgem, Ofcom and the FCA) are doing, including working with the government, to meet their statutory duties and obligations that relate to vulnerable consumers. The overall conclusion reached by the NAO was that more can be done by the regulators and government to support vulnerable consumers.

What do the regulators expect?

The FCA looks for good customer outcomes and fair treatment of consumers whenever they interact with firms, although the regulator accepts that a market where consumers never make poor choices is not realistic. The outcomes that the FCA is seeking specifically in relation to vulnerable consumers are summarised as follows:

- firms identify when consumers are or may become vulnerable;
- firms adopt a more flexible / tailored response to vulnerable consumers;
- innovative products that are clear, easy to understand and accessible;
- costs of products and services are clear and transparent; and
- firms treat customers fairly when they take business decisions that affect the financially vulnerable or those trying to access financial services.

Striking a balance can be a challenge for firms. The vulnerable need protection and choice. Firms need controls and safety guards to meet data protection requirements, provide affordability, and to prevent people defrauding financial institutions and other financial crime.

How can firms address the issues?

Product governance

The key is to have a robust framework for the governance and oversight of products and services that aims to treat all customers fairly and actively promotes good customer outcomes. Such a framework will take account of consumer vulnerability, as well as firms' legal and regulatory obligations in relation to the handling of customers' personal data and preventing financial crime.

Vulnerability strategy

A vulnerability strategy should be developed, documented and implemented. This would include how the firm actively encourages customers to disclose vulnerabilities or special needs. An audit or gap analysis of current practices may be a good starting point to start building an effective strategy.

Key elements

Some of the key elements of an effective vulnerability strategy include:

- Product design – Products and services designed to be adaptable to the needs of the more vulnerable. This includes the design of the customer experience throughout the product lifecycle.
- Systems and processes – Appropriate internal systems and processes that cater for humans, avoiding the 'computer says no' scenario. Automation or call centres with rigid scripts can create challenges for some consumers.
- Identifying vulnerable individuals:
  - Identifying risk factors, and spotting signs and signals, that indicate potential vulnerability in an individual.
  - Good communication between front line staff and customers is crucial, and between management and front line staff.
  - Adequate training for front line staff, which includes how to actively encourage disclosure and knowing when to escalate or refer on a customer.
- Flexibility – It is good business practice to streamline processes and procedures but there needs to be flexibility to meet the needs of vulnerable consumers. 'One size' does not fit all.
- Temporary delegation – Arrangements for temporary delegation allowing a family member or carer to manage a customer's affairs.
- Management information – Good quality up to date management information on product performance and service levels that identifies issues related to consumer vulnerability.

Conclusion

Vulnerable consumers can be valuable customers if firms are flexible and respond properly to their needs. There are grey areas in identifying who falls into the vulnerable category and where to draw the line in requirements around customer due diligence processes and navigating data protection.

There is no quick and easy fix but firms should look for constructive solutions that work well for both the consumer and the firm. It is vital that firms tackle the issue of consumer vulnerability by ensuring that they have a practical vulnerability strategy that is aligned with the firm's product governance framework, and its overall business model and strategy.

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