

CAPCO

UNDERSTANDING THE FCA'S VULNERABLE CUSTOMER GUIDANCE



INTRODUCTION

Customer vulnerability has proved an at times bewildering topic. Firms have grappled with how best to support vulnerable and potentially vulnerable customers, notably when it comes to practical considerations around data, operations and customer journeys, not to mention the challenges associated with designing effective and inclusive products.

A key complicating factor is the sheer range of customers who could potentially be deemed vulnerable. Each such individual will have their own specific needs requiring varying and often complex solutions. While the industry and the regulators have made significant progress in acknowledging and beginning to cater to these differences, there is still much work to be done.

The ongoing COVID pandemic and its consequences for customers have shone a light on our own potential fragilities, whether from a customer vulnerability or financial exclusion perspective. The government has provided support, such as the furlough scheme which was extended to at least 11.5 million employees¹ and has been highly effective at reducing hardship. Such schemes did not cover all individuals and outcomes, however, and government support is now on the path to being discontinued: for example, the furlough scheme is due to end in September 2021. Following this the current population of vulnerable customers is therefore likely to expand.

The recent guidance² published by the Financial Conduct Authority (FCA) should be welcomed as a practical step forward in addressing a number of these challenges. However, there are some clear gaps. A change transformation programme is now needed to help banks, insurers or other financial institutions apply the FCA principles to their customer bases. Below we summarise the guidance provided by the regulator and outline how firms can approach a transformation programme.

BACKGROUND

In February 2021, the FCA produced guidance on the fair treatment of vulnerable customers, describing it not as a one-off push but rather an ongoing area of focus. The regulator also stated that it would be checking firms' policies, business models and cultures. Implementing the fair treatment of vulnerable customers at a policy level is a good start, but this alone may not be enough.

It should be emphasised again that vulnerability is likely to be complex with areas of overlap: it is not one-rule-fits-all scenario. The FCA guidance is to be used at the discretion each firm and in conjunction with the Equality Act 2010³. The FCA guidance does not outline specific paths for firms to take, but firms do need to be able to demonstrate their processes and how they ensure the fair treatment of all customers. If they fail to do this, they could be perceived as guilty of discrimination for limiting required services and not making reasonable adjustments.

IDENTIFYING VULNERABLE CUSTOMERS

The FCA have looked to provide necessary clarification regarding the definition of vulnerable customers, noting that they are individuals who are especially susceptible to harm due to their personal circumstances. If firms act with appropriate levels of care, then much of this harm can be avoided. Firms

should think about vulnerability as a spectrum of risk. All customers are potentially at risk of meeting the FCA's key criteria for vulnerability, and firms therefore need to prepare accordingly (see graphic #1):

GRAPHIC #1



HEALTH

Health conditions or illnesses that affect ability to carry out day-to day tasks



LIFE EVENTS

Life events such as bereavement, job loss or relationship breakdown.



RESILIENCE

Low ability to withstand financial or emotional shocks



CAPABILITY

Low knowledge of financial matters or low confidence managing money (financial capability), low capability in other relevant areas such as literacy or digital skills.

AVOIDING CUSTOMER DETRIMENT

If firms act with an appropriate degree of care, then certain levels of harm can be avoided. The FCA has highlighted examples of such harm if firms do not act with sufficient levels of care. The examples of harm are as follows:

- **Financial exclusion**
 - 3 million people with disabilities have been turned down for insurance or been charged extra. Citizen's Advice research found that only 1 in 3 people with severe mental health problems have home insurance or a savings account.⁴
- **Difficulty accessing services**
 - The need to visit a branch in person or contact a firm by phone. Low digital capability may also prevent consumers from accessing services online.
- **Disengagement with the market/ partial exclusion**
 - Some vulnerable customers may find it hard to engage effectively with the marketplace or search products and

services, and accordingly may pay a higher price or be forced to go without those products or services.

- **Inability to manage a product or service**
 - Some vulnerable customers may be less likely to understand how to manage a product or service. They may be less sure of their rights if things go wrong e.g. redress. Alternatively, they may not be comfortable reaching out for help.
- **Over indebtedness**
- **Buying inappropriate products or services and exposure to mis-selling**
- **Scams and financial abuse**

CONSUMER OUTCOMES

The FCA highlight six main consumer outcomes that firms should aim to achieve:

1 Consumers can be confident they are dealing with firms where the fair treatment of customers is central to the corporate culture.

2 Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly.

3 Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale.

4 Where consumers receive advice, the advice is suitable and takes account of their circumstances.

5 Consumers are provided with products that perform as firms have led them to expect, and the associated service is of an acceptable standard and as they have been led to expect.

6 Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint.⁵

INCLUDING VULNERABILITY IN THE END-TO-END CUSTOMER JOURNEY

The needs of vulnerable customers should not be an afterthought, but should be considered throughout the whole product lifecycle. When designing and implementing a product, firms should apply a 'vulnerability lens', assessing on a rolling basis whether their offering is accessible to all.

Examples of how to increase accessibility include British Sign Language (BSL) videos, simplified communication, large print, easy grip pens in branch, and audio options. In recent years, firms have pushed towards transferring processes online and improving digital journeys. However, this can in itself lead to the exclusion of the customers where a digital gap exists, as is often the case for elderly customers.

No less than 1 in 7 UK adults have literacy skills at or below those expected of a 9 to 11 year old⁶, so firms need to consider ways to include those who don't have the cognitive abilities, or digital skillset, to engage with accepted mainstream forms of communication. One way to combat this is to ensure there is an availability of alternative options such as being able to pick up the phone, have a video chat and speak to an advisor. Something as simple as a comprehensive FAQ section should also not be overlooked.

Portraying vulnerable needs can be distressing to those who are vulnerable, and firms should consider carefully how they manage this. Services will need to be tailored to each customer. This is not a tick box exercise and will need to be monitored due to the spectrum of vulnerability and its dynamic nature. Those coming into contact with vulnerable customers should actively listen and – with the customer's consent – record what is disclosed.

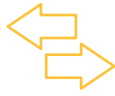
Firms should ensure that they have a CRM system that all channels can access. By logging a specific vulnerability, firms can then apply that knowledge to tailor their offering more effectively across the whole company. This serves to prevent further harm to the customer: not only does it eliminate the need for a customer to keep recapping the details of their situation (which can be distressing), it also allows products and offerings to be framed and presented in an accessible fashion best suited to that customer's specific needs. For example, if someone has a visual impairment, then presenting them with a standard letter to notify them of policy changes may lead to further harm, as they are unable to read – and hence assimilate – this information.

USING CUSTOMER DATA EFFECTIVELY

When dealing with vulnerable customers, data can be a firm's biggest asset. It allows for an understanding of the drivers of vulnerability and the consequent impacts that may arise. Data allows identification of vulnerable customers within a firm's target market and by extension allows for a deeper

understanding of the nature and scale of vulnerability within its target customer base. Tracking risk assessments of the potential to cause harm is also possible. This can be supported by Data Protection Officers, who can ensure GDPR standards are being met and that consent is given for certain uses.

WHAT DATA SHOULD FIRMS IDENTIFY AND USE:



Customer retention, claims and cancellations, why does the customer leave? This can help identify areas where a decline in the level of service leads to higher turnover of customers



Where customers are receiving lower rates than other customers and collecting fees



Where customers are dropping-off, e.g. digital forms. This can give you information on where the process is weaker and touch points needed



What products vulnerable customers tend to use



Contact rates with support services, e.g. vulnerable customer teams



Analysis of staff training records, including where staff knowledge has not been sufficient



Call monitoring, seeing whether customers are being treated fairly



Customer feedback/complaints, including: the number of complaints made by customers, (particularly when vulnerable), why complaints are made, trend analysis



Compliance reports.

HELPING STAFF ENGAGE WITH VULNERABLE CUSTOMERS

CULTURE

The FCA states that it will be examining company culture regarding the fair treatment of vulnerable customers and all customers. They are looking for inclusion and understanding across all aspects of culture, and this is further highlighted in *DP 21/2: Diversity and Inclusion in the Financial Sector*⁷.

A key element of this focus on culture involves front-line staff, those who speak directly with customers. An integral part of

their role will be Key Performance Indicators (KPIs), typically staff will be tasked with the volume of calls that they make. The FCA suggests that the focus should instead be around the quality of those calls; when staff are themselves operating under time pressures, they can push and rush a vulnerable customer, causing further harm and distress.

The distress however does not always fall solely on the customer, as staff may on occasion handle sensitive situations

that then affect them during and post call. It is therefore important that there is support available for these staff. Support can be offered through various channels: example is a secure (and GDPR compliant) forum where staff can ask openly about resolving customer situations, talk about their experiences, and request help.

Contact with the customer should not end once the phone call does: for those that are vulnerable, it may be worth building in subsequent touchpoints where staff can check in and ensure the customer is happy and understands the outcome. This could leverage the data route, tracking missed payments or usage levels as an ongoing 'health check'.

TRAINING

Poorly trained staff can cause harm if they are not properly taught how to engage with customers who have vulnerable characteristics. It is important for staff to understand that, due to the broad spectrum of vulnerability, there may be cases where an individual has vulnerable characteristics but is still able to fully access services. It is useful for staff to be trained to identify where vulnerability does not affect an individual's financial comprehension.

Self-disclosure by a customer may require specialised training to ensure they feel comfortable to share private information with staff. These staff should encourage disclosure, though be careful not to push it, or to make assumptions. Care should also be taken when noting vulnerability, as vulnerability not only exists on a spectrum but can also be temporary. Flagging someone as vulnerable may give rise to issues should their situation change. Some customers may feel more comfortable disclosing this information online, eliminating the need for in-person interactions. Providing formats such as open text boxes for comments can also make disclosing sensitive information more comfortable for some, as they do not feel their needs are being reduced to an impersonal 'checklist'. The key is to give consumers a variety of options by which they can self-disclose.

Sometimes training will not be enough, and staff may need to refer the customer to a specialist team that are better able to help. In order to do this, staff would need to be aware of a defined

escalation process. If staff do not feel adequately trained to handle the enquiry, they can pass the customer on to the relevant party. Though it can be distressing for customers to have to repeatedly restate their issues, this is where a CRM system can be particularly beneficial.

Another useful training that can take place is in the identification of vulnerable customers through awareness of phrases and signs to look out for when engaging with a customer (the FCA provides such lists in 3.14⁴). These phrases and signs can be communicated to employees and training provided to cover each situation.

A number of banks in collaboration with third parties across the spectrum have provided opportunities for customers to increase their financial awareness. This has taken a variety of forms, from supporting education initiatives to targeted marketing. However, the broader problem of financial education is one with which the UK government continues to grapple – and, indeed, often only adds to the challenge of improving levels of financial literacy.

UTILISING CUSTOMER FEEDBACK

Although it may often seem challenging to address social stereotypes head on, the best way to understand what a vulnerable customer needs is simply to ask them, and not be afraid of receiving a negative response about current practices.

There is also the very difficult question of whether a firm has the right to pre-judge or assume that a customer's behaviour is a response to their vulnerability. The focus should be on the practical adjustments, rather than the reasons why a customer may need help or act in the way they do. Financial services firms are an important part of a connected ecosystem and accordingly must be part of a multi-disciplinary response.

Another essential element from the inception of a product to post-launch is focus groups to facilitate a dialogue with either vulnerable customers themselves or the organisations that represent different groups of customers and their interests. Without hearing customer needs at first-hand, how can those needs genuinely be understood and met?

HOW CAPCO CAN HELP

Capco has a track record of supporting firms through the customer vulnerability experience. In our experience each firm is different, and the needs of their customers will vary. For us, enabling vulnerable customers should start with the customer and their personal journey. Some potential ways we can help include:

- An initial gap analysis of best practice in supporting vulnerable customers
- Structured mapping of key vulnerable customer journeys
- Assessment of the operational impacts of adopting vulnerable customer adjustments into the overarching Target Operating Model

- Customer testing and lived experience engagement
- Structured case studies and staff training
- Product design and pricing models
- Review of policy framework surrounding customer vulnerability.

If you would like to talk to us about how we can support you in the customer vulnerability journey, we would be delighted to discuss further.

REFERENCES

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Signs and phrases to actively look out for when engaging with customers (mainly from FCA Occasional Paper 8 practitioners pack)

Changes in payment behaviour such as:

- payments stopping suddenly
- late or missed payments
- regular unarranged overdrafts and charges
- unusual activity on an account

Phrases such as:

- I can't pay
- I'm having trouble paying
- mention of breathing space/debt moratorium or contacting a debt advisor
- I can't read my bill
- I can't understand the letter you sent me
- I can't hold on all day
- I hate these press buttons

Staff could also be on the lookout for:

- shortness of breath or signs of agitation
- asking for repetition (a sign that the customer is not retaining information)
- signs that the consumer has not understood or signs of confusion
- mention of medication

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ABOUT CAPCO

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