

Occasional Paper No.8

Consumer Vulnerability

February 2015



Financial Conduct Authority





Executive summary

Many consumers in vulnerable circumstances are not receiving fair treatment from their financial services providers. Whilst there are examples of good practice in some firms, some people find communicating with providers or accessing products difficult. They may find that they are unable to obtain a flexible, tailored service that meets their needs from firms. We want to help firms identify consumers in potentially vulnerable circumstances, and to attempt to describe what 'good' looks like in serving those consumers.

This paper aims:

- to broaden understanding and stimulate interest and debate around vulnerability and
- to provide practical help and resources to firms in developing and implementing a vulnerability strategy

During the course of this project the authors were constantly on the lookout for examples of good practice in identifying and interacting with vulnerable customers. These have been collated and presented in a Practitioners' Pack, which may support firms to understand what they could be doing to generate better outcomes for consumers in vulnerable circumstances (see Appendix 4). This resource consolidates a range of good practice guides, tips from industry and consumer organisations, together with case studies.

Why this matters

Much consumer protection legislation is underpinned by the notion of the average or typical consumer, and what that typical consumer might expect, understand or how they might behave. However, consumers in vulnerable circumstances may be significantly less able to represent their own interests, and more likely to suffer harm than the average consumer. Regulators and firms need to ensure these consumers are adequately protected.

Financial services have become more important as consumers are expected to take greater responsibility for their financial wellbeing. Services including payment systems are essential for full participation in society and are a key gateway to other services; therefore it's vitally important that these services and the customer support that goes along with them are designed in an inclusive way.¹ This is a particular challenge as services are increasingly offered remotely and online – which does not meet the needs of all customers.

Financial services need to be able to adapt to the changing circumstances that real life throws at people, rather than being designed for the mythical perfect customer who never experiences difficulty. Vulnerability can affect people's interaction with any consumer market, but it is particularly challenging in the context of financial services due in part to the long-term nature of commitments, and the complexity of products and information.

Increasingly, policy-makers both in the UK and internationally are realising that a flexible approach is necessary to meet the needs of a diverse customer base.

The FCA has developed the following definition to guide its work in this area:

¹ We use the definition of *inclusive* in the British Standards Institution publication BS 18477:2010 which is "the availability, usability and accessibility of a service to all consumers equally, regardless of their personal circumstances".

A vulnerable consumer is someone who, due to their personal circumstances, is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care.





Types of vulnerability

Vulnerability can come in a range of guises, and can be temporary, sporadic or permanent in nature. It is a fluid state that needs a flexible, tailored response from firms. Many people in vulnerable situations would not diagnose themselves as 'vulnerable'. The clear message from the research carried out for this paper is that we can all become vulnerable. To enable firms to identify potential vulnerability and prioritise their efforts, one option is for firms to use a risk factor approach (for example, bereavement, or illness diagnosis, could be considered risk factors – see p.23 for more details). Multi-layered vulnerability, and sudden changes in circumstances, are particular indicators of high risk.

Vulnerability is not just to do with the situation of the consumer. It can be caused or exacerbated by the actions or processes of firms. The impact of vulnerability is strong and many people are trying to cope with difficult situations and limited resources, energy and time. Stress can affect state of mind and the ability to manage effectively. In such conditions, being confronted by a complex telephone menu system that gives no option of talking to a person; a 'computer says no' response; a call handler without time or inclination to listen, or a system that fails to record what may be distressing circumstances and forces the customer to repeat themselves at every point of contact, can all create a spiral of stress and difficulty, resulting in detriment.

Case studies

A mortgage customer who was diagnosed with terminal lung cancer made a claim on a critical illness policy. The customer decided to repay the outstanding mortgage with the proceeds. The customer subsequently received a letter from the lender to say that an early repayment charge was payable. Despite contact being made by the family to explain the situation, it was only with the intervention of a third party that the lender waived the charge.

A registered blind person was asked to go into his branch with photographic identification to withdraw funds from his account as his card had been blocked following fraud on his account. He didn't possess a driving licence or passport, and was told by the bank that his blind person's bus pass with a photo on it was not adequate. He was unable to obtain money from his account while awaiting new cards.

When Adnan's mother died, he travelled home to Turkey for a month to organise her funeral. As he would need time off work, he was worried about his mortgage payments. He called his bank to explain the situation and asked if it would be possible to have a four month 'holiday' from his payments. After valuing the house, Adnan and his wife were told they were short of £1,000 in equity in the house to be granted a holiday. Instead, they were offered two months on a reduced payment schedule. Since this time, Adnan and his wife have seen their debt levels rise from £1,000 on credit cards to £13,000 to make bill and mortgage payments, and cover expenses related to the death.

A woman in her eighties had an arrangement with her local bank branch whereby they helped her pay her credit card bill over the counter. Following suspicious activity on her account, she moved to a new bank. The new bank told her she couldn't pay her credit card bill at the counter and she would have to pay over the phone with a debit card. She had never done this before, and it took her some time to manage it. As a result she had a late payment charge.



A customer awaiting surgery for cancer was expected to make a full recovery, but would miss work for three months because of the surgery. Holding a current account, overdraft and unsecured loan with the same bank and anticipating a problem meeting repayments during this period, the customer contacted the bank to discuss options to manage the temporary loss of income. The bank refused to consider any options as no payments had yet been missed and told her to call back when in arrears.

The scale of consumer vulnerability in the UK

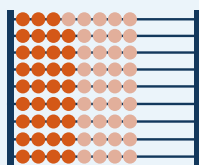


Literacy and numeracy

One in seven adults has literacy skills that are expected of a child aged 11 or below.

And...

Just under half of UK adults have a numeracy attainment age of 11 or below
(Department for Business, Innovation and Skills, 2012)



Internet

Of the **7.1m** adults in the UK that had never used the internet in May 2013, over half were disabled (**3.7m**) and nearly half were over 75 years of age (**3.1m**).
(Department for Business, Innovation and Skills, 2013)



Savings

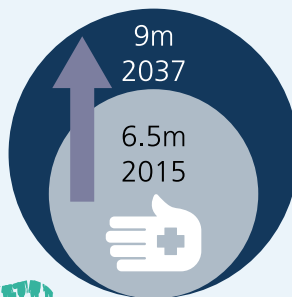
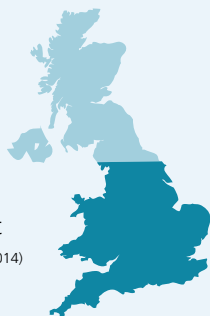
Almost half of adults do not have enough savings to cover an unexpected bill of **£300** (Money Advice Service)

Cancer

Every two minutes someone in the UK is diagnosed with cancer (Cancer Research UK 2014)

02:00

By 2020 half of the UK population can expect to be diagnosed with cancer at some point in their lives (Macmillan 2014)



Caring responsibilities

6.5m people in the UK have significant caring responsibilities. Carers UK project this will reach **9m** by 2037.



1 in 8 adults care, unpaid, for family and friends (Carers UK website, 2014)

Living with dementia



There are 800,000 people in the UK living with varying degrees of dementia, and this is expected to double over the next 40 years



Dementia affects 1 person in 6 over 80 (Age UK, 2013)



Disability

16% of working age adults have a disability (Family Resources Survey, 2011/12).

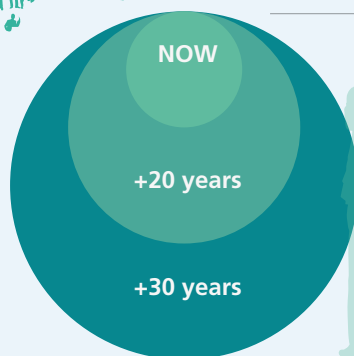
Mental illness

In any given year, one in four adults experiences at least one mental disorder (NHS, 2007)



Old age

Over 1.4m people in the UK are aged 85 or over. The number of people over 85 in the UK is predicted to double in the next 20 years and nearly treble in the next 30 years (Age UK, 2013)



Fair treatment of all customers is central to core conduct










Who is this relevant to?

Vulnerability can affect consumers across all financial products and services. The issues raised in this paper are relevant to all financial services firms that engage with consumers.

The FCA's research

To reach a broader understanding of the role of vulnerability in consumers' interactions with financial services, the FCA commissioned research amongst a range of consumers in potentially vulnerable circumstances (Rowe, Holland, Hann, & Brown, 2015 – this is referenced throughout this paper as *Vulnerability Exposed Report*). This was combined with a review of available evidence and literature, engagement with consumer and advice groups, collection of examples of good practice and analysis of information provided by firms, to build up a picture of the market.

This research found that:

						
<p>Financial services, products and systems often 'streamline' consumers and are not designed to meet non-standard needs of those who don't fit into a set mould.</p>	<p>The response of frontline staff – whether it's in a branch or on the phone – is crucial to the customer's experience. The firm may have great specialist teams or policies, but if frontline staff don't deal with the situation appropriately, access to a good outcome may be missed.</p>	<p>Staff on the frontline do not need to be experts, but they need sufficient training to facilitate a proper conversation, to know where internal expertise lies, and know how and when to refer on.</p>	<p>Most problems relate to poor interactions, or systems that don't flex to meet needs, therefore making people's situations more difficult.</p>	<p>Some consumers are overwhelmed by complex information and can find it hard to distinguish between promotional material and important messages about their products.</p>	<p>In some areas, an inaccurate interpretation or overzealous implementation of rules (such as those around data protection or affordability) is preventing firms from meeting the needs of vulnerable customers.</p>	<p>Many vulnerable consumers may be valuable customers if firms respond to their needs and treat them flexibly. However, these consumers may withdraw from the mainstream market and their problems may spiral if their needs are not met.</p>



Problem areas

Our review of all the evidence collected for this project showed that there are problems at every stage, from high-level policy, through system design, to the products that are available and ways that staff implement policies and sell products.



Policy

- Many firms lack an overarching strategy or policy on consumer vulnerability.
- Policies designed to prevent financial abuse and fraud can inhibit staff empowerment to use discretion, particularly regarding legitimate access by third parties.²



Systems

- Failure of internal systems, where firms fail to communicate and connect information internally. For example, this can lead to customers having to tell firms multiple times about bereavement, resulting in numerous duplicate letters from different areas of the business being sent.
- Interfaces or channels of communication that are not inclusive.
- Increasing automation and use of call centres may create challenges in spotting potential vulnerability and ensuring customers are referred on to specialist teams where necessary.



Products

- Inflexible products and services that are designed for a standardised perfect customer and do not factor real-life events into their design. Some customers who face a change in circumstances are therefore not able to receive a flexible, tailored response.
- Product and information complexity and confusing communications.
- Lack of suitable affordable products for people in some non-standard situations.
- Lack of solutions for temporary delegation (enabling a family member or carer to manage your affairs for a short time) which retain privacy and safety.



Implementation

- Policy/practice gap at firms, where frontline staff are not aware of or do not implement head office policies. Frontline staff may not refer people on to specialist teams.
- Consumer time is not valued highly and many people give up if the process is too time-consuming, especially if they are in a stressful situation with other demands on their time.
- Inconsistent approach around flexible temporary forbearance.
- Arrangements around temporary delegation (enabling a family member or carer to manage your affairs for a short time) and accompaniment (sitting in or helping with a phone call or interview) not sufficiently developed and flexible to enable family and carers to help.
- Inappropriate selling and sales practices which exploit behavioural biases.
- Issues around disclosure³ of a vulnerability and data protection – inaccurate or overzealous application creates unnecessary problems.

² For example problems faced by those with power of attorney or third party mandates.

³ Throughout this paper we use the term 'disclosure' to describe the voluntary communication or divulgence of personal circumstances by the consumer to the firm. References to disclosure in this paper are **not** related to the Market Abuse Directive (Disclosure Rules) Instrument 2005.



What can firms do?

We believe this is an area where firms can take action and have the power and capacity to create good outcomes for the customer if they develop effective strategies and manage interactions well. This can have beneficial commercial outcomes. Products and services that are designed in an inclusive way will also work better for the majority of customers, increasing levels of customer satisfaction. Plenty of resources exist to

assist firms in developing strategies and putting them into practice (see Appendix 4). We outline in this paper what we believe 'good' looks like for the customer, and provide some tips and examples that result from discussions with firms and advice organisations (see *From the firms' perspective: what has been reported to work well*, p85). It is up to firms to decide how to achieve good outcomes.

Key areas for firms to explore

- To ensure a **consistent approach that is embedded across all operations**, it is important to have a high-level policy on consumer vulnerability in place.
- It is important that **all relevant staff are aware of the policy**.
- Firms could **begin by auditing current practice**.
- **Ongoing evaluation** of the effectiveness of a vulnerability strategy plays a significant role.
- Research demonstrates that it is important for **staff on the front line to have sufficient training to facilitate a proper conversation** and that they know where internal expertise lies.
- **Flexibility in the application of terms and conditions** of products and services plays a significant role in ensuring the needs of consumers in vulnerable circumstances are met.
- **An efficient process for referring consumers on to specialist teams** who have authority to make flexible decisions is important.
- **Good policies and practice in handling disclosure or communication needs** of consumers and recording of that information effectively play a key role for consumers and are helpful to staff. Actively encouraging disclosure, by staff able to have proper conversations, has been shown to be helpful here.
- **Clear, simple information and explanation** throughout the product life cycle is important to all consumers.
- **Policies around data protection in particular, but also safeguarding and affordability, need to be implemented based on a correct understanding**. If staff are well trained they are less likely to apply such policies in an overzealous manner which can create problems for customers. For example, proper affordability is vital to the wider protection of consumers, but firms should have systems in place to allow for appropriate discretion.



What does ‘good’ look like to consumers?

Based on the FCA’s research, we believe consumers in vulnerable circumstances need to trust that they will experience the following outcomes when they approach financial services providers. Many of these would also be beneficial to all consumers:

- **Having financial products that are clear and easy to understand.**
- A **choice of ways of communicating** to be available whenever you need to make contact and for **these to be designed in an inclusive way** so that they are clear, easy to understand and meet your needs. This could relate to the **method** of communication (e.g. audio/braille/face-to-face) or the **service delivery** (e.g. agreement to talk at a particular time of day depending on carers and medication).
- Feeling that firms will **treat you as an individual** and you won’t face the ‘computer says no’ response just because your personal circumstances do not fit the standard mould.
- Knowing that, should you experience a sudden change in circumstances, you will be offered a **flexible and tailored response** from your financial services provider.
- Being able to **talk to someone who will take the time to listen**, who is flexible enough to let the conversation take its natural course, and who is sufficiently trained to spot signs of vulnerability and refer on to specialists where necessary.
- Being referred on to someone who has the authority and discretion to take a tailored approach to your situation and offer **flexible solutions, including use of specialist sources of help and advice** if necessary.
- Feeling confident that **your firm encourages disclosure**, that they will work with you in your best interests.
- Knowing that if you do disclose information about your needs, that **information will be recorded properly** so that you do not have to repeat it every time you make contact with all departments of a particular firm.
- Knowing firms will **proactively contact** you if they suspect you may be having financial difficulties.
- Knowing appropriate **action will be taken if a firm spots suspicious activity** that may signal abuse or fraud.
- If you are trying to speak to a firm in a **caring capacity, finding that the firm listens** and makes a note of your concerns even though it may not be able to divulge any information to you.
- If you are recently bereaved, have a power of attorney or a third party mandate, receiving **consistent advice and treatment**.



Case studies: what ‘good’ can look like

Although vulnerability is a complex area and there are no quick fixes, there are firms that are already implementing positive policies. During the course of our research we talked to a number of firms that put fair treatment of vulnerable customers high on their agenda. For more details, see Chapter 7.

Approach embedded throughout organisation

A relatively new bank told us that its approach is embedded throughout all aspects of the organisation. It reports that it educates staff to see customers as people rather than statistics. Staff are encouraged to understand the reasons behind debt, and take on board the longer term implications of not resolving the situation for the customer (such as an impaired credit record).

Training and feedback

A firm in the credit sector told us it uses speech analytics software to help with auditing performance. This analyses all calls and picks up on specific key words that may be triggers or clues to vulnerability, such as mention of illness, treatment, diagnosis, depression etc. Managers can then assess how these calls have been handled, and give feedback where improvements are needed. Performance assessment includes managers listening to a sample of calls, and assessing how potentially vulnerable people are handled.

Excellent links with charities

Close collaboration with the advice and charity sector has been instrumental in developing another firm’s approach to vulnerability. It uses the Money Advice Trust and Royal College of Psychiatrists tools such as TEXAS and COMPASS to assist with implementation and finds these very effective (for more information on these see Appendix 4). It has different levels of training for mainstream collectors and the specialist unit, and has worked extensively with charities such as StepChange, Macmillan Cancer Support, the Samaritans and Christians Against Poverty to develop this area. It points out that signposting is most effective

if a firm puts time and effort into building relationships with the advice sector, knowing what parts of which charities can offer specialist help, and ensuring customers are passed to the most relevant person. It believes that handling vulnerable customers in the right way leads to better job satisfaction.

Creditors are not rescuers

Another firm told us that one element of its approach to vulnerability is to recognise that creditors are not rescuers. Staff need to know where they can get help and signpost people appropriately, rather than rescuing people themselves. In its view, obtaining help and support so that people can get back in control of their financial situation is vital to its vision. The firm told us that it values emotional intelligence highly, both for frontline staff and their specialist team. Frontline staff use the TEXAS model (see Appendix 4) and pass on to the specialist team where necessary. It told us that staff are encouraged to listen and look out for a wide range of clues, some of which can be subtle. This includes signs of agitation such as pitch, tone of voice and breathing, as well as indicators such as “I’ve not taken my tablets”. Staff are empowered to move away from scripts where they have a gut feeling that something isn’t right. Training for staff in the specialist team involves lots of role play around emotionally difficult situations so that staff feel confident in handling these sorts of calls.

Banking accessibility

We also came across examples of creative approaches in the banking sector, including roadshows that demonstrate a bank’s accessible services (such as high visibility debit cards and talking ATMs), and highlight partnerships with key charities.

