

# FCA directs firms to improve support for customers with cost of living challenges

## AT A GLANCE

June 2022

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### What's new?

- The FCA is asking lenders to make improvements in their treatment of borrowers in financial difficulty, and asking firms across all sectors to improve the way they treat vulnerable customers.
- The regulator issued a [Dear CEO letter](#) to over 3,500 lenders on 16 June 2022, setting out its expectations for supporting customers affected by the rising cost of living. The letter details findings from ongoing work on the treatment of borrowers in financial difficulty, highlighting areas of concern.
- It also sets out the FCA's first formal [review](#) of how firms have implemented its guidance on the treatment of vulnerable customers. This flags numerous areas for improvement, particularly on data and monitoring outcomes.

### What does this mean?

- The FCA sets out its expectations that lenders must treat borrowers fairly and support those in financial difficulty, in light of the rising cost of living.
- It says its Tailored Support Guidance (TSG) for mortgages, consumer credit and overdrafts - issued in response to COVID-19 - is relevant for borrowers in financial difficulties due to other circumstances such as the rising cost of living.
- The FCA's expectations include: tailoring forbearance to individual circumstances; ensuring fees and charges levied on borrowers in financial difficulty are fair and do no more than cover firms' costs; ensuring the approach to taking on new borrowers takes account of the financial pressure they may be facing and the impact on their expenditure; providing customers with an appropriate level of care and support (taking particular care for vulnerable customers).
- The FCA shares emerging findings and expectations from its review of borrowers in financial difficulty. The review has found that most firms did not consistently:
  - Explore customers' circumstances fully to provide appropriate and tailored support
  - Identify the specific needs and circumstances of customers with vulnerable characteristics
  - Help customers in financial difficulty access money guidance or free debt advice.
- These concerns were seen across the sector, with 'more serious failings' found at 34 firms, largely in consumer credit. The FCA has asked these firms to make improvements.
- The FCA highlights a number of areas where firms are not meeting expectations under its vulnerable customers guidance, following recent engagement with retail banks. It has agreed remedial steps with a number of firms.

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- The regulator sets out examples of good practice, such as involving customers in the product and service development process through focus groups and engaging with charities. It says most firms have made some progress in ensuring customer service processes meet the needs of vulnerable customers.
- However, the FCA expects to see improvement in the following areas:
  - *Monitoring and MI* - The FCA says it has not yet seen MI that is sufficiently developed to meet its expectations. Not all firms are sharing MI with executive committees and boards, and where they are, it's not always of sufficient quality to give assurance that vulnerable customers are receiving fair outcomes, and to support governance processes.
  - Some firms are unable to produce MI of the same quality across business areas. The FCA acknowledges this may be due to legacy systems, but expects firms to address this. It also found firms are over-reliant on complaints data as an indicator of outcomes, and found ineffective capturing of data on customer needs.
  - The FCA expects firms to gather MI on the effectiveness of staff training, and to demonstrate action taken on distribution and product governance in response to MI.
  - *Product and service design* - Many firms need to do more to embed vulnerability in product design and review processes.
  - *Accountability* - Firms should ensure clear lines of accountability for senior management and SMF role holders. Almost half of the retail banks the FCA spoke to were unable to evidence they have comprehensive strategies that cut across all business units or that ensure consistently fair outcomes.

### What do firms need to do?

- Firms should ensure they're prepared to support consumers now and as the economic environment becomes more challenging, through proactive support, early engagement, and ensuring operations can withstand additional stress from rising customer contact / demand.
- It's clear that many firms have significant work to do to meet the FCA's expectations on vulnerable customers, with MI and monitoring representing the largest gap. Firms must develop and improve systems to ensure effective capture and monitoring of a broad range of outcomes data. The regulator makes clear that buy-in and direction from senior leaders is a prerequisite for success.
- Firms should address the shortcomings identified by the FCA, and use these findings to inform their preparations for the impending arrival of the new consumer duty.

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### Next steps

Final findings from the FCA's work on borrowers in financial difficulty are due later this year, as well as a consultation on the future of the TSG. The FCA is due to finalise its consumer duty proposals by the end of July 2022.

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