

FCA urges firms to take action with guidance on vulnerable customers

AT A GLANCE

July 2020

What's new?

- The FCA published [GC20/03 on Guidance on the treatment of vulnerable customers](#) (VCs) on 29 July 2020.
- The consultation incorporates feedback from a range of bodies including consumer organisations, firms and trade bodies following its previous draft guidance on the treatment of VCs published in mid 2019 (GC 19/3).
- The FCA welcomes comments until 30 September 2020.
- VCs have been a priority for the FCA for the last three years. But the pandemic is making it even more urgent for firms to act. The FCA anticipates an increase in numbers of VCs due to an increase in financial difficulties and both physical and mental health issues in the population in the months ahead.

What does this mean?

- The FCA wants firms to take the treatment of VCs seriously.
- It also expects firms to embed the fair treatment of vulnerable consumers into their culture, policies and processes throughout the whole consumer journey.
- Across financial services there is evidence of inconsistent outcomes for VCs, so the FCA wants outcomes to both improve and be more consistent.
- The FCA identifies key themes including recognising vulnerability and responding to customers' needs, the need for knowledgeable staff and communications that address the needs of customers.
- The FCA expects firms to be more proactive in anticipating the needs of VCs. This means going beyond looking at the needs of individual customers, instead also looking at the impact of product design and processes on VCs through the life cycle of the product.
- The main objective of the guidance is to ensure the fair treatment of VCs is embedded in each firm's culture, policies and processes (not just front line interactions).
- Firms will be asked to demonstrate actions taken to: understand their target market's needs, have staff with the right skills to deal with VCs, respond to consumer needs across product design, customer service, communications and have the right Management Information to monitor fair treatment of VCs and progress made in this area.

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What do firms need to do?

- While this second draft of the VC guidance has remained similar to the first in structure, it provides a more detailed description of what firms should do. The key areas for action are:
- *Understanding customers' needs:* Firms must consider the key vulnerabilities that might affect their customer base and how those vulnerabilities are likely to impact on customers' needs and therefore product, service, performance and ultimately customer outcomes. This analysis will be specific to each firm, as the impact will depend on products, distribution channels, type of processes (all digital versus phone/branch) and the target market for each product.
- *Skills and capability:* Ensure all relevant staff understand how their role impacts on the fair treatment of VCs - this should include staff beyond the frontline such as those involved in product design or pricing. Ensure frontline staff are well equipped to identify and respond to the needs of VCs.
- *Product and service design:* Firms should consider the needs of VCs through all stages of the product design process and identify where a product or feature can have a negative impact on VCs. Consider developing products that are inclusive in their design.
- *Customer service:* Firms should set up processes that enable VCs to disclose their needs where appropriate and deliver services that respond flexibly to the changing needs of customers. Lack of options and flexibility is the root cause of several bad practice examples in the draft guidance. For example, firms should consider improving options for third party representation.
- *Communications:* Consider whether communications are appropriate for the needs of VCs and how to offer flexible communication channels.
- *Monitoring and evaluation:* Implement processes to assess whether the needs of VCs are being met and develop MI to monitor VC outcomes.

Next steps

The FCA welcomes comments until 20 September 2020. Final guidance is expected later this year. Firms will be challenged about their actions to meet the guidance through their supervisory interactions over the coming months. As a starting point firms should consider carrying out a gap analysis of their VC approach and framework against the draft guidance. This will inform the development of a plan of action to meet regulatory expectations through the course of 2021.



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