

Time to act on vulnerable customers as FCA finalises guidance

AT A GLANCE

February 2021

What's new?

- The FCA published [FG21/1: Finalised guidance on the fair treatment of vulnerable customers](#) on 23 February 2021.
- It also issued a [feedback statement](#) summarising feedback to the draft guidance (issued in July 2020) and the FCA's response. The final guidance remains broadly unchanged from the draft version, with some minor clarifications.
- The guidance brings clarity for firms and is effective immediately. It will require firms to take action across a number of areas to demonstrate they are meeting the FCA's expectations.

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What does this mean?

- The FCA expects firms to embed the fair treatment of vulnerable consumers into their culture, policies and processes throughout the whole consumer journey.
- Firms should ensure the four drivers of vulnerability (health, life events, financial resilience and financial capability) are well understood, particularly by staff expected to identify individual needs and respond to them.
- The FCA has continued to illustrate vulnerability as a spectrum of risk, which should allow firms to design proportionate approaches. This does not mean customers lower on the spectrum of risk should be ignored.
- Demonstrating actions taken as a result of the guidance, and being able to evidence good outcomes for vulnerable customers, are key elements of the FCA's guidance.
- The FCA sets out its expectations across six key areas: understanding customers' needs, skills and capability, product and service design, customer service, communications, and monitoring and evaluation.
- The regulator says it will integrate the treatment of vulnerable customers into its supervision of firms. Firms should be prepared to demonstrate to the FCA how their business model, actions and culture ensure the fair treatment of all customers, and to evidence the monitoring of outcomes for vulnerable customers - which should be 'as good as the outcomes received by other customers'.
- It's clear from the feedback statement that many firms would like more clarity and examples from the FCA, but the regulator stresses that firms need to use their own judgment to determine what the guidance means for them.

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What do firms need to do?

- Firms should identify actions needed to meet expectations across the FCA's six priority areas.
- *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:* Firms should ensure all relevant staff understand how their role impacts on the fair treatment of vulnerable customers - this should include staff beyond the frontline such as those involved in product design or pricing. They also need to ensure frontline staff are well equipped to identify and respond to customer needs.
- *Product and service design:* Firms should consider the needs of customers displaying vulnerability through all stages of the product design process and identify where a product or feature can have a negative impact. Consider developing products that are inclusive in their design.
- *Customer service:* Firms should set up processes that enable customers 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:* Businesses must consider whether communications are appropriate for the needs of all customers and how to offer flexible communication channels.
- *Monitoring and evaluation:* Firms must implement processes to evaluate and monitor vulnerable customer outcomes in order to provide evidence to the FCA.

Next steps

The guidance is effective immediately, and firms will be challenged about their response through their supervisory interactions over the coming months.

The FCA plans a wider evaluation of firms' actions, and the outcomes experienced by customers identified as vulnerable, by 2023/24. The FCA will also specifically review how firms are meeting the needs of older customers.

Separately, the FCA is due to consult on options to strengthen firms' duty of care to their customers by the end of March 2021.

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