

# Vulnerable customers

Translating expectations into actions

October 2020



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# Introduction

As the FCA prepares to finalise its guidance on the fair treatment of vulnerable customers, the impact of the coronavirus (COVID-19) pandemic on consumers' personal, health and financial circumstances has pushed the issue even higher up the regulator and firms' agendas. While the fair treatment of vulnerable customers has long been a priority for the FCA, the pandemic has further increased scrutiny from regulators, the Government and the media on how firms are treating existing and newly vulnerable customers. FCA research published before the pandemic found that 46% of adults display one or more characteristics of vulnerability at any given time. More recent FCA research (October 2020) shows that 31% of adults have experienced a decrease in income during the pandemic, with 12 million adults now having low financial resilience (up from ten million since February). This shows that the impact of COVID-19 has increased both the incidence and complexity of vulnerabilities, as do the statistics below.

**3.4 million** people have taken payment deferrals on mortgages and other credit products (FCA Perimeter Report, 2020)

**22%** of people who said they were shielding due to the pandemic have fallen behind on household bills, compared to 6% of people who are not shielding ([Citizens Advice](#))

**8.9 million** jobs were furloughed at the peak of the furlough scheme in May 2020. Of those who were furloughed, 41% expect to be placed on a Government job support scheme again in the next six months ([HMRC](#), PwC research [QuantiBus](#) survey of 1,000 UK consumers)

Although a number of policy developments were put on hold due to the pandemic, the FCA still published its second [guidance consultation](#) on vulnerable customers in July 2020, and is expected to issue final guidance in the coming months. This regulatory imperative, coupled with customers needing far greater support from providers, means the importance of firms 'doing the right thing' has never been greater. The way firms respond will have significant implications for reputation and consumer trust, and firms risk creating future redress and remediation issues if they don't take action now.

The latest iteration of the FCA's guidance marks an evolution of the regulator's thinking, introduces a refreshed concept and provides additional detail about how firms can meet their obligations under Principle 6. Compared to the previous iteration of the guidance, the FCA has repositioned customer vulnerability as a spectrum of risk, moving away from the concepts of 'potential' and 'actual' vulnerability. This promotes the idea that we are all at risk of harm if our individual needs are not met.

The FCA guidance is structured around six key topics:

- understanding the needs of vulnerable customers
- skills and capability of staff
- product and service design
- customer service
- communications
- monitoring and evaluation.

**FCA Principle 6 – “A firm must pay due regard to the interests of its customers and treat them fairly”**

Firms face a range of challenges in meeting the FCA's expectations. In this report, we examine those challenges and the ways that firms can overcome them to ensure they are delivering for the regulator, their customers and their business. To do this, we believe firms should structure their response around four elements. Read on for our analysis of how firms can deliver against each of these four elements, including a range of practical suggestions for action.



# Section 1: Challenges

From our engagement with firms and regulators it is clear a range of challenges exist when trying to meet the FCA's expectations on vulnerability. Some of these are part of implementing any regulatory change project, while a number are unique to customer vulnerability – plus the impact of the COVID-19 pandemic creates additional complications. We detail a number of these challenges below, including some unique to each sector:

## Starting out:



- Gaining firm-wide buy-in for action, including board-level engagement and support.
- Designing an appropriate programme to implement a refreshed approach to vulnerable customers.
- Defining a governance framework that can meet the needs of a number of business areas and holds the right individuals to account.
- Staying alert to the evolving regulatory framework.

## Implementation:



- The definition of a 'vulnerable customer' – deciding which characteristics to include and which customer types e.g. retail, sole traders, partnerships, micro enterprises and/or larger firms.
- Responding to the impacts of COVID-19 on customer base, product values, resourcing and budgets.
- Leveraging third-party expertise (e.g. charities) and knowledge to improve approach.
- Developing tools and technology to support both staff and customers.
- Embedding the right firm-wide culture, including any outsourced functions.

## Operations:



- How to operationalise the spectrum of risk concept to ensure those at a greater risk of harm are treated fairly.
- An anticipated rise in customer contact times, complaints and service activity, coupled with increased instances of vulnerability, puts pressure on the front-line and second-line defence.
- Identifying and managing the experience for a wide range of customer needs, especially when not directly disclosed.
- Maintaining oversight of, and delivering effective training to, a remote workforce.
- Gathering quality management information from a number of (legacy) systems and maintaining accuracy of data for regulatory reporting.

### Sector specific:



- Banking
  - The end of payment holidays and alterations to the furlough scheme will put additional pressure on collections teams to identify and manage customer needs.
  - Operational challenges of different practices (e.g. repossessions) applying depending on whether or not a customer is in local lockdown.
- Insurance
  - Material legacy portfolios with long standing customers where data is of low quality and with significant gaps to allow robust monitoring of outcomes.
  - Issues with fair access when certain products and services have significant restrictions on how they can be used, for example: all digital contact with no phone lines available.
- Wealth management
  - Assessing appropriateness of distribution channels against customer needs, especially with regards to accessibility.
  - Establishing oversight processes over third parties and appointed representatives to ensure that customers are treated fairly.

# Section 2: Meeting expectations

We believe there are four key elements to overcoming the challenges detailed in the previous section, and to meeting regulatory expectations. These are: knowing your customer base; empowering staff; tech-enabled identification and monitoring; and cultural change.

## 1. Knowing your customer base

This means knowing the drivers, nature and scale of vulnerability in your target market – and using that to understand how the needs of your customers may affect the customer experience or outcomes. From our interactions we know that approaches to this vary. Often firms will try to design ways to address specific vulnerabilities, when in fact a needs-based approach is required as two customers with the same vulnerability may have very different needs.

Ways for firms to better understand their customers' needs include:

- Speaking to them – conducting in depth interviewing or group discussions to identify their needs. Firms might also consider consumer representation on the board, or other forums such as 'meet the customer' events.
- Using information published by the FCA, charities and trade bodies on the drivers and impact of vulnerability, and on how COVID-19 has impacted consumers' circumstances.
- Working with third party organisations to gain insights into the experiences of customers – for example, simulated experiences which show how it feels to live with certain conditions.
- Analysing internal data which may include customer transactions, recorded vulnerabilities and needs, product utilisation and complaints.
- Using external data sources such as ONS data, economic forecasts and credit bureau data to help position groups of customers on a spectrum of risk.

Once firms have this understanding, they can better integrate identification, monitoring and treatment strategies into their business. Knowing your customer base also allows firms to design products and the customer journey in a way that takes customers' needs into account. They can do this by:

- Ensuring digital customer journeys include ways of recognising and responding to vulnerability e.g. a text function allowing customers to notify firms easily and quickly of a change in circumstances.
- Testing the impact a product or service may have on vulnerable customers, and adapting it based on this testing (this could be done in conjunction with charitable organisations).
- Consulting with consumers or representative groups when seeking to alter or withdraw a product or service.
- Including features in product design that help to prevent harm among vulnerable customers and that potentially benefit all customers – for example, encouraging customers to provide a designated second contact at the start of the customer journey.

## 2. Empowering staff

Both front and back office staff play a critical role in meeting the needs of vulnerable customers. Staff need the skills and capability to recognise and respond to the needs of vulnerable customers – and crucially, they need to be empowered to make the right decisions. That empowerment is achieved when staff feel confident in their role, are able to make suitable adjustments for customers and understand their purpose.

To help empower staff, firms can employ a range of measures:

- Make clear the forbearance or payment options particular grades of staff are allowed to autonomously grant, and promote the ability for staff to move away from scripts where needed.
- Incentivise staff based on the provision of positive customer outcomes. Ensure staff are not discouraged from taking extra time or flexible steps to respond to vulnerable customers' needs, particularly when demand for services is high.
- Provide bespoke training so staff feel comfortable handling a range of situations e.g. role playing emotionally difficult situations. Update training as customer needs change – for example, to ensure staff understand the burden the impact of COVID-19 is placing on many consumers' mental health.
- Devise clear policies and processes for the handling of customers who have faced financial difficulty as a result of COVID-19, including how deferred amounts from payment holidays should be treated and appropriate timeframes for customers to get back on track.

## 3. Tech-enabled identification and monitoring

Technology can help to proactively identify vulnerable customers, enhance customer experiences and automate tasks to drive operational efficiencies. In other words, technology can allow staff to spend more time meeting customer needs. The FCA has highlighted how firms can use technology to enable identification and monitoring in a [speech](#) by Jonathan Davidson, FCA Executive Director of Supervision, and in [Occasional Paper 58](#). We know from our work with firms that there are significant opportunities to use technology to improve both the efficiency and the effectiveness of identifying customer vulnerabilities, and monitoring how they are treated.

Some areas where we have seen technology making a significant impact are:

- Using voice analytical software to monitor customer interactions over the phone for signs of potential vulnerability and to provide real-time guidance to staff on appropriate policies and procedures. Such analytics can also help to reduce some instances of fraud.
- Making chatbots available throughout an online customer journey to facilitate the disclosure of any needs, aiding identification. Targeted online questions, FAQs and open text boxes can also help encourage customers to volunteer relevant additional information.
- Using tools that build a tailored online environment based on a customer's interaction with web pages e.g. flagging a human adviser is available for customers displaying apprehension or confusion.
- Reducing the resource burden of monitoring customers and oversight of remote workers.
- Making governance and accountability arrangements clear for certain decisions and workflows.
- Streamlining and enhancing the accuracy of reporting, both internally and to regulators.
- Creating tools that empower customers to turn off/on spending with certain merchant types e.g. gambling firms.

**46%**

of consumers would not feel comfortable disclosing their vulnerability to their household or financial provider (PwC Research). We believe this indicates that Chatbots could help to remove awkward interchanges for customers. However, consideration needs to be given to where and when in the journey this could be prompted, as one of the largest barriers to disclosure our work has identified is consumers' perceived lack of relevance in supplying this information to providers.



## 4. Cultural change

The FCA stresses in its July guidance consultation that firms should embed the fair treatment of vulnerable customers into their culture, policies and processes throughout the whole consumer journey (including areas such as product design). The commitment to create and maintain a healthy culture needs to come from the top, and permeate throughout the organisation.

We believe senior leaders should create and champion a culture in which all staff take responsibility for reducing the potential for harm to vulnerable customers. Firms should allocate senior accountability for the delivery and reinforcement of this. While there isn't a prescribed responsibility for treating vulnerable customers fairly under the SM&CR, the PRA rulebook explicitly states that responsibility for overseeing culture should be prescribed typically to a firm's CEO or Managing Director. For all other firms, the FCA's Conduct Rules ask staff, including senior managers, to take responsibility for treating customers fairly.

Some considerations to enact cultural change include:

- To ensure a firm's culture is understood and acted upon by all staff, firms might consider: appointing vulnerability 'champions' to help promote messages on culture throughout the organisation, updating existing training for all staff to reflect how the fair treatment of vulnerable customers is relevant to their role, working with middle management to ensure they promote the right culture within their teams.
- Firms should consider the four 'drivers' of culture which the FCA focuses on in its supervision of firms: leadership, purpose, approach to rewarding and managing people, and governance. For example, are staff rewards aligned to positive customer outcomes? Do governance, processes and systems support staff to meet the needs of vulnerable customers?
- Find ways to share real life experiences from customers and/or frontline staff with senior leadership and staff who work away from the front line, such as product development.
- Firms should be alive to the challenges that a remote working environment creates for maintaining a healthy culture. They should consider how managers can provide motivation and purpose for staff in such an environment, and whether additional or different means of monitoring staff behaviours are needed.

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### Benefits for all

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Delivering across these four areas will put firms in a good position to meet the FCA's expectations. The suggestions we have outlined are just some of the ways that firms can improve their approach – the right approach will vary depending on the size, nature and complexity of the business.

Treating all customers fairly, especially those most at risk of harm, not only meets regulatory expectations but is also good business. Taking customer needs into account is shown to provide more positive consumer experiences and outcomes – increasing retention periods, reducing complaints and enhancing reputation. As we enter what looks set to be a difficult period for many consumers, acting now is crucial to ensure customers who are at a higher risk of harm are treated fairly.

**3,500**

complaints relating to COVID-19 were received by the Financial Ombudsman Service, between the start of the pandemic and 25 August 2020 – the most complained about products were travel insurance (23%), business protection insurance (20%) and credit cards (9%).

Common issues included consumers who had been declined a payment deferral arrangement or had problems setting one up, and small businesses who had experienced delays with or had applications declined for Government support scheme loans.

# Section 3: How can we help?

## **Customer resilience and vulnerability**

Using analytics we are able to assess customer resilience levels and identify those who are potentially vulnerable. We also work with financial services providers, regulators and other bodies to provide consumer insight into the needs, attitudes and behaviours of those in more vulnerable situations. Using this insight, our team of specialists can inform strategy, processes and communications to help identify and support these audiences.

## **Technology experience**

We can stand up our own hosted technology and customise it for a specific approach or leverage an existing platform you may already have. We also use a range of technology accelerators to drive efficiencies in the collections process and ensure a consistent application of the methodology.

## **Conduct risk management, customer journeys and operating model**

We can review product design and customer behaviours, assess conduct risk, regulatory gaps and gaps with industry practice. We can also review and test the conduct and information security control framework, and assist with design/revisions to products, customer management and control framework.

## **Conduct outcomes and governance reviews**

We can carry out a desktop review of firm activity regarding products sold to customers during the COVID-19 period. In addition, we can review the contractual arrangements and monitoring in place with counterparties, and conduct a review of the efficacy of conduct governance and reporting arrangements to SM&CR functions.

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