

Strength in meeting the needs of vulnerable customers

In this short paper Vulnerable Customer eXperience (VCX) and AKG Financial Analytics Ltd (AKG) connect their expertise in vulnerability and financial/operational resilience respectively, to jointly consider the importance of companies meeting the needs of vulnerable customers and the benefit of this.



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- Vulnerability can be expressed as a spectrum where those with differentiated needs are at increased risk of harm
- Vulnerability affected 46% of UK adults in February 2020, this had risen to 53% by October as a result of Covid-19
- 7.7m UK adults have seen their financial situation worsen significantly as a result of Covid-19
- Firms can take many approaches to serving vulnerable customers

Source: FCA Financial Lives Survey & VCX

It seems obvious and one might assume it has always explicitly been the case, but businesses, including financial services companies, benefit over the long term from being centred on their customers.

Allied to this can, and more often than not, should, also be a wider social purpose (beyond as well as including the customer base) and in creating value in line with the reasonable requirements of owners and funders. Achievement in these areas is not, nor should it be seen as, a zero-sum game.

But back to customers.

The real long-term health of a business should benefit from a positive and often progressive (as things do change) approach to its customers and in looking at the financial strength and ongoing ability to continue to deliver operational capability, AKG adopts a long-term lens (solely from a customer perspective).

This lens, or the criteria that compose it, increasingly place emphasis on the customer-centricity and purpose of an organisation. Given that, quite logically and rightly, this positions a business better for ongoing success and where it can be discerned, is a positive indicator of underlying strategic health, itself a part of financial strength.

How a business is focused on customers takes a number of forms,

including proposition design and its delivery and support services. The importance of these aspects is underlined by the evolving regulatory focus on Consumer Duty.

Something which is already firmly manifest in both the regulatory requirements for and broader best practice activity in, is in meeting of the needs of vulnerable customers. This is itself a substantive area.

In AKG's recent paper on [Advancing Intergenerational Planning Opportunities](#) (October 2021) vulnerability came through as an important consideration for advisory firms. And it is worth underlining at outset that vulnerability is a key consideration right along the distribution chain (advisers - providers – outsourcers and other partners).

To drill down in terms of explanation of vulnerability and beyond, for this overview paper, AKG is pleased to partner with VCX, a specialist training consultancy, specifically focused on delivering tools and training to empower business in their objectives in this area.

VCX considers what vulnerability means to financial services firms noting that organisations in all sectors need to understand how well they treat vulnerable customers and employees.

The FCA has been considering vulnerability since it commissioned the report 'Vulnerability exposed: The consumer experience of vulnerability in financial services' in December 2014. The findings were that vulnerability has a disproportionate impact on detrimental outcomes encountered by consumers in their dealings with financial services firms, and that in some instances, firm behaviour had either directly caused or exacerbated an issue or problem. An Occasional Paper followed in 2015 and then a formal consultation in 2018. The finalised guidance published in February 2021 states that:

"Firms can expect to be asked to demonstrate how their business model, the actions they have taken, and their culture ensure the fair treatment of all customers, including vulnerable customers."

“We will also seek to understand consumers’ experiences of their treatment, for example whether they are experiencing difficulties effectively engaging with firms and accessing appropriate products.”

FCA FG21/1

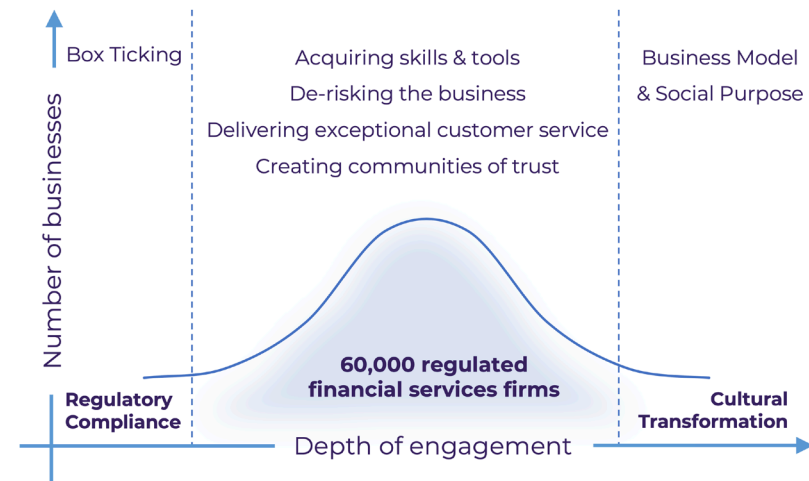
Three common failings of firms responding to disclosures of vulnerability can be identified:

1. Not recognising the characteristics of vulnerability
2. Lack of confidence and skills to ask about a customer’s circumstances that may make them potentially vulnerable and how this means they have additional support needs
3. Lack of knowledge that support services exist both internally and externally and how to ‘signpost’ customers to them

Rightly the question is then posed as to how can firms respond to the call to protect vulnerable customers and VCX comment on this to state that:

- To fully embrace vulnerability regulation is to redefine the customer/ supplier relationship to one of human to human compassion and service
- To deliver exceptional service we need a deep understanding of how a customer experiences our products
- To really understand that experience we need to sensitively ask about any influencing factors and circumstances that are impacting the customer
- Purposeful organisations recognise that this is the right thing to do and will establish long-term customer relationships built on a foundation of trust and loyalty. Evidence shows that employees who feel this level of purpose, demonstrate and deliver higher levels of customer care

To date, anecdotal evidence suggests the industry response is lagging behind the expected spectrum of engagement shown below, and this is an area where AKG intends to focus further attention.



The FCA has specified that its assessment of the treatment of vulnerable customers will be integrated into its supervisory approach – it will not be a one-off exercise. It confirmed it will formally evaluate firms’ progress and the effectiveness of the finalised guidance and actions in 2023/24. The complexity, sensitivity, and GDPR implications of identifying and working with vulnerability data combined with a new approach to product design, and a cultural shift in customer service from short term KPIs to building long-term relationships of trust is not a quick transition. Businesses that have not already instigated a vulnerability strategy will need to have this high on their agenda in 2022.

In conclusion, attention on vulnerable customers will be an increasingly scrutinised area in the coming years. Getting ahead of this with consideration and provision for this group, as part of an overall customer strategy, should be embraced. Improving customer satisfaction, brand loyalty, societal purpose as well as de-risking are just some of the benefits for a business, as it invests in its long-term underlying strength.



AKG

ABOUT VCX

VCX is a training, compliance and cultural change consultancy. Specialising in meeting the regulatory guidance on fair treatment of vulnerable customers

www.v-cx.co.uk

ABOUT AKG

AKG is an independent organisation, which has specialised in the provision of assessment, ratings, information and market assistance to the financial services industry for over 25 years.

A core focus is financial strength. In this AKG takes a specific and distinct customer perspective – that of the customer with ratings and reports designed and delivered for use by financial advisers.

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