

# Implementing Vulnerable Customers Policies and Processes that Work

**Date:** 2 August 2021  
**Time:** 10.00am (BST)

# Presenter

---

**Peter Wilson**



Peter has joined Complyport after 10 years holding Compliance Officer and MLRO positions within a number of FCA-regulated companies throughout the investment management, foreign exchange, CFD, e-commerce and insurance sectors. He has deep expertise undertaking and overseeing key regulatory projects including, CASS, MIFID, MiFIR, EMIR, AML, SMCR, Conduct & Culture, Vulnerable customers and Complaints.

# Agenda

---

- Vulnerable Customer Definition
- Overview of Issues
- FCA concerns
- Building a Framework
- Conclusions

# Vulnerable Customer Definition

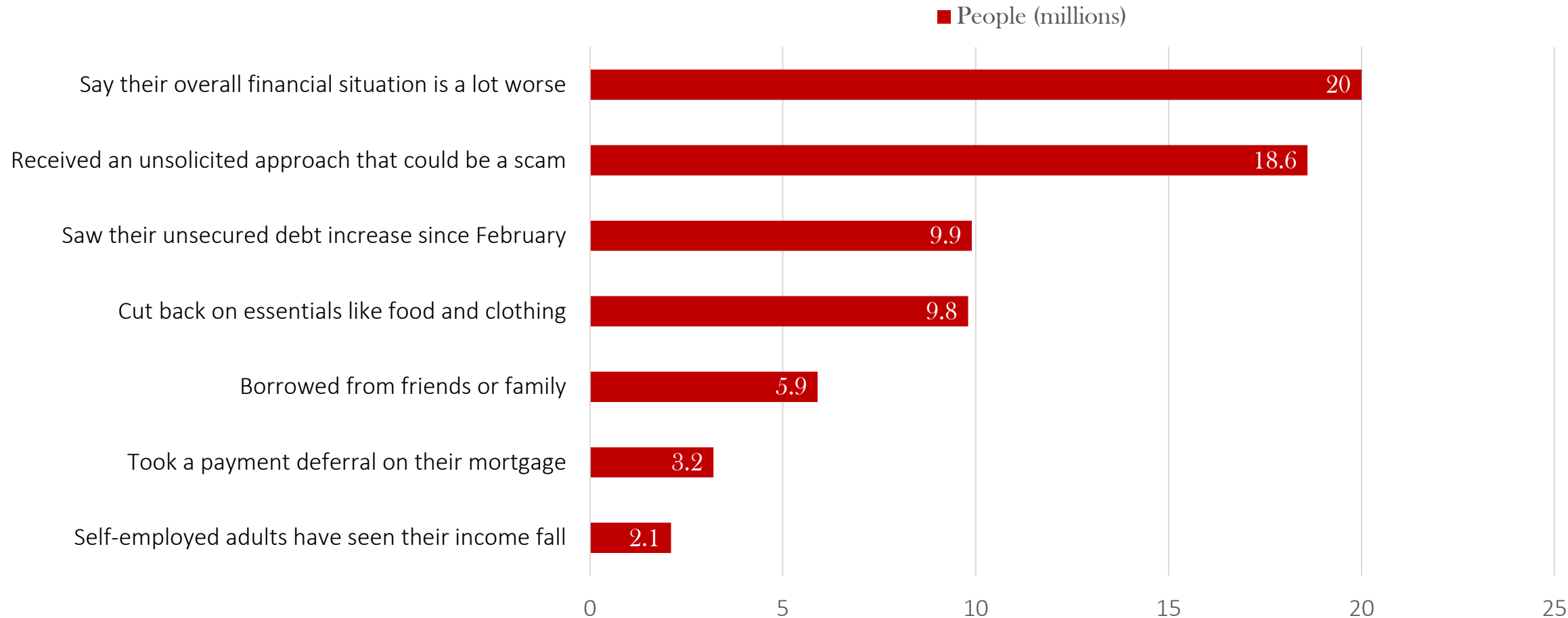
The FCA's definition of vulnerability refers to customers, who due to their personal circumstances, are especially susceptible to harm, particularly when a firm is not acting with appropriate levels of care.

Firms should think about vulnerability as a spectrum of risk.

All customers are at risk of becoming vulnerable and this risk is increased by characteristics of vulnerability related to 4 key drivers.



# Impact of Covid on Personal Finances



Source: FCA Financial Lives Survey – February 2021

# FCA Focus — Contributing Factors

---

- Uncertain economic outlook
- Young purchasers
- Ageing population
- Covid19 Pandemic – growth in number of vulnerable customers
- History of poor customer outcomes
  - PPI
  - Payday lenders – e.g. Wonga
  - Pay later providers – credit providers e.g. Klarna

# FCA: Enabling consumers to make effective investment decisions 1

---

Between March and October 2020, the number of adults with low financial resilience increased by 3.5 million to 14.2 million – 27% of UK adults

The FCA

... aim to ‘improve firms’ conduct when consumers are informed and empowered to choose the right products and services for them at the right price’

## FCA: Enabling consumers to make effective investment decisions 2

---

- Financial promotions – moves to strengthen rules and intervention powers
- Campaign to inform consumers about high-risk investments – what is and isn't protected
- Publish Consumer Investments Strategy – protecting retail investors

Source: FCA Business Plan 2021-22 (July 2021)



# Economic, Social & Political Factors

---

- Growth of Crypto currency investments
- Alternative payment models – e.g. Klarna
- London & Capital – FCA subject to Government scrutiny for failing to police ‘mini-bonds’
- Fintech’s re-engineering traditional financial services, e.g. banking, lending, borrowing, credit cards etc.

# 4 Key Drivers

---

- Health - health conditions or illnesses that affect ability to carry out day-to-day tasks
- Life events – life events such as bereavement, job loss or relationship breakdown
- Resilience – low ability to withstand financial or emotional shocks.
- Capability – low knowledge of financial matters or low confidence in managing money (financial capability.) Low capability in other relevant areas such as literacy, or digital skills.

# Characteristics associated with the 4 drivers of vulnerability

Health	Life Events	Resilience	Capability
Physical disability	Retirement	Inadequate (outgoings exceed income) or erratic income	Low knowledge or confidence in managing finances
Severe or long-term illness	Bereavement	Over-indebtedness	Poor literacy or numeracy skills
Hearing or visual impairment	Income Shock	Low Savings	Poor English language skills
Mental health condition or disability	Relationship Breakdown	Low emotional resilience	Poor or non-existent digital skills
Addiction	Domestic abuse (including economic control)		Learning difficulties
Low mental capacity or cognitive disability	Caring responsibilities		No or low access to help or support
	Other circumstances that affect people's experience of financial services, e.g. leaving care, migration or seeking asylum, human trafficking or modern slavery, convictions		

# Types of Vulnerable Clients

---

- 11 million UK adults had low financial resilience pre-covid
- Could not cope with a financial shock such as £50 a month cut in their income

Disproportionately likely to be:-

- Unemployed
- Renting
- Female and
- BAME

# Enforcement

---

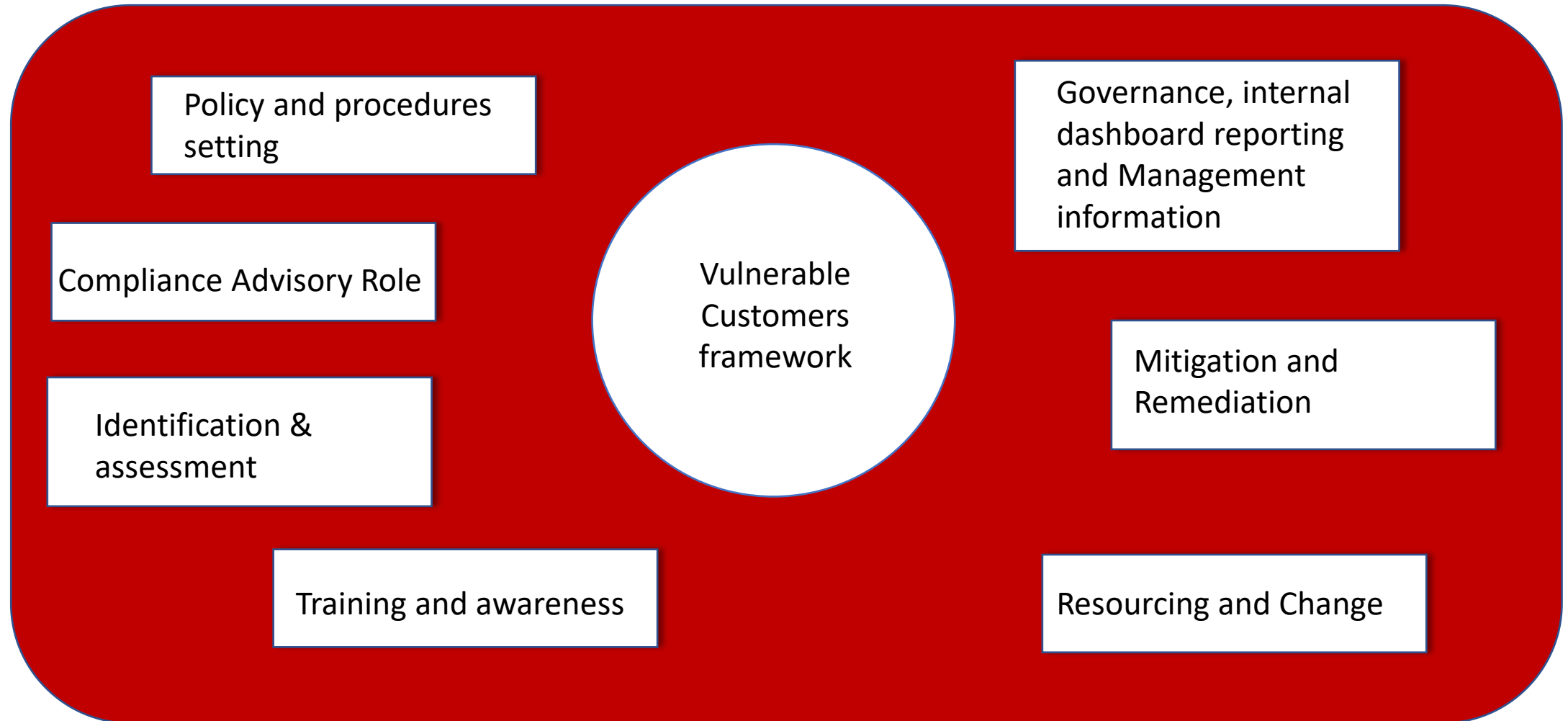
- Moneybarn - £2.7m
  - Lloyds - £64m
  - Barclays - £26m
- 
- Estimated that £600m paid out in redress to affected clients

# Referring to Vulnerable Customers

---

- Do customers want to be known as vulnerable?
- FCA research would suggest not
- So how to refer to – without causing offence
- Is there an opportunity to build bridges with communities

# Vulnerable Customer Framework



# Steps to take

---

Establish a Vulnerable Customer policy and processes unique to your organisation

- Ensure that it is known to all staff
- Staff are trained
- Staff are kept up to date
- Virtuous loopback



# Onboarding & Ongoing Monitoring

---

Review your customer onboarding processes and ongoing monitoring of clients

- Are there times during a customer's lifetime - that they maybe vulnerable?
- If so, how could you help or mitigate vulnerability?
- How do you record vulnerability on your systems?

# Positive Organisational Culture

---

- Senior Staff
  - Middle Management
  - Junior
  - Client Facing
- 
- How are vulnerable clients handled within your organisation?

# Training & Support

---

- Train your staff to identify and have the information they require to spot and support Vulnerable clients
  - E.g. life events, employment changes, issues that may may a client financially vulnerable
- Enable and empower your staff to take steps to escalate to managers or resolve the problem
- Create a feedback loop of success/failures of dealing with vulnerable customers
- Support your staff – they too could be vulnerable / can you give them time/space to deal with the problems they are dealing with

# Are we catching the right metrics?

---

- Complaints
- Forebearance decisions
- Credit repayment holidays
- Declinatures
- Covid payment deferral

# Management Information

---

Is the firm collecting the correct information?

- Complaints
  - Defaulters
  - Debtors
  - Vulnerable customer numbers
- 
- How are the Board or the client service teams using this information?

# Other Considerations

---

- Audit
- Competitors
- Product Governance
  - Target Market
  - Negative Target Market

# Conclusions

Financial Service firms have a choice

- Implement a vulnerable customer policy and procedures
- Recognise that the FCA has issued warnings on its vulnerable customer focus
- Take steps to become compliant





# The warning signs are out there ...

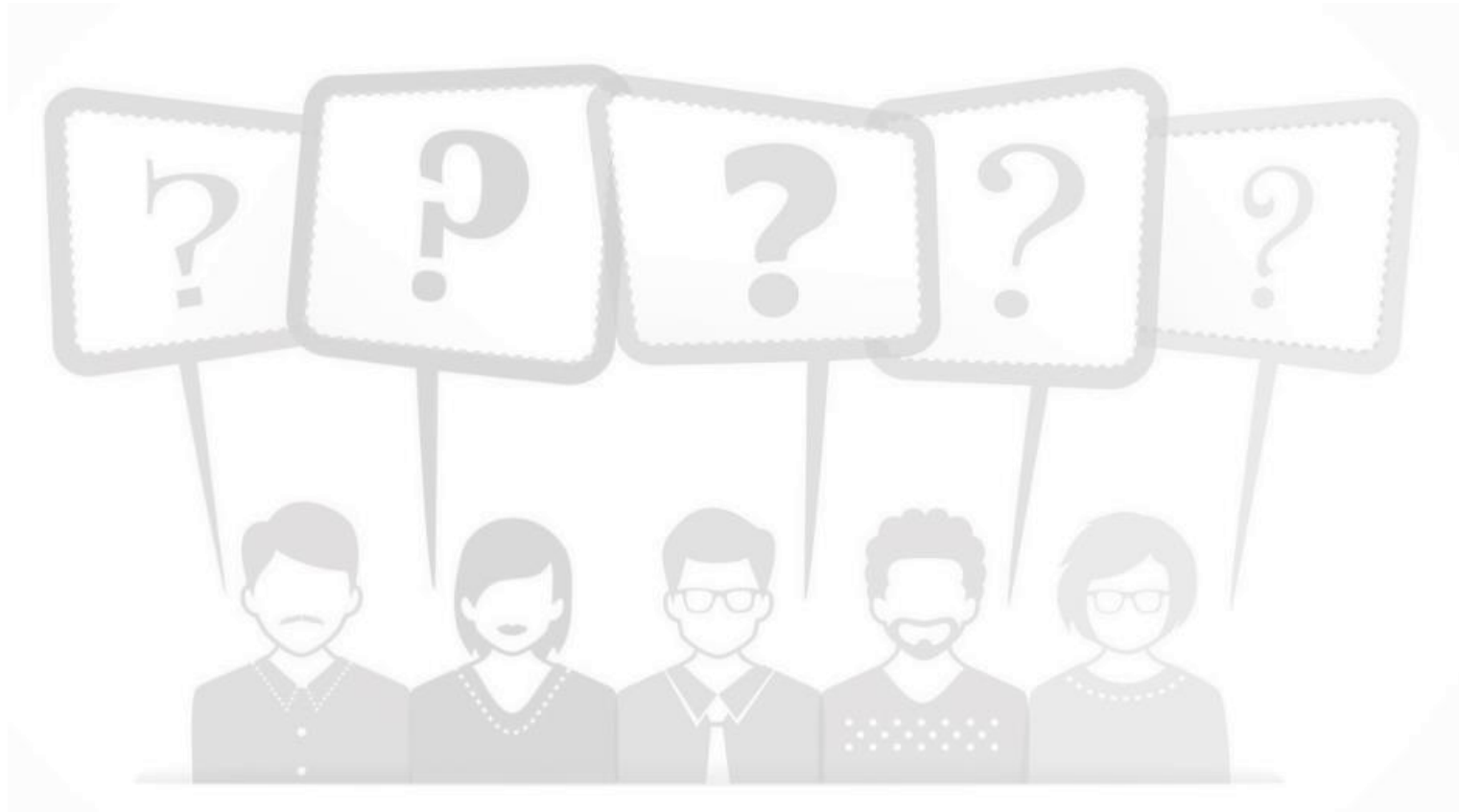
- Young people are in debt
- The Covid pandemic's impact is yet to be fully felt
  - Savings have been used up
  - Credit maxed out
  - Food banks
  - Nearly 130,000 deaths so far
  - 700,000 Pings
  - Uncertain jobs market
  - 2020 - Free school meals campaign by Marcus Rashford





# Any Questions?

---



# About Complyport

---

- Complyport is a market leading consulting firm supporting the UK financial services industry for over 20 years. We specialise in providing Governance, Risk and Compliance services **to support the regulated financial services industry to raise standards and thrive.**
- Complyport advises and assists firms to become authorised and to comply with the rules and requirements of regulators on an ongoing basis. **Our vision is to be there for our clients every step of the way, helping them change, grow and excel through expertise, insight and innovation, and in so doing to become our clients' most valued supplier and trusted advisor.**
- We have successfully assisted over **1000 firms to become authorised** with the FCA and EU and are providing **regulatory support to over 600 regulated firms** on an ongoing basis globally. With presence in the UK and EU, as well as via our Associates Network, Complyport can assist firms across multiple jurisdictions.
- Complyport's multidisciplinary consultants possess deep expertise in their field, having acted in FCA skilled person reviews, as expert witnesses in legal cases and as expert investigators for firms or their legal advisers.
- Day to day, we conduct audits and reviews of a firm's products, processes, policies and procedures to identify scope for business, to determine the impact of regulatory developments and to verify compliance with local regulations. Our clients tell us we live our values; **we are driven, agile and collaborative.**
- Complyport offers full support across the regulatory landscape including advisory, assurance, financial reporting, capital adequacy assessments and compliance training as well as a suite of online RegTech and fully electronic KYC solutions to enable continued compliance with regulatory obligations.
- We love working with our clients although we realise there is life outside of financial services. Our Corporate Social Responsibility programme ensures we give back. A commitment that is more important now than ever.