Fair4All Finance consultation response to FCA Guidance for firms on the fair treatment of vulnerable customers

September 2020

About Fair4All Finance

Fair4All Finance has been founded to increase the financial wellbeing of people in vulnerable circumstances by increasing access to fair, affordable and appropriate financial products and services.

Our vision is of a society where the long-term financial wellbeing of all people is supported by a fair and accessible financial sector.

Our mission is to increase the financial resilience of people in vulnerable circumstances by providing access to fair, affordable and appropriate financial products and services.

Many people on low incomes and with low financial resilience have little access to mainstream financial services, which largely focus on serving those with predictable lives and incomes. We are focussed specifically on supporting the development of a scaled and sustainable market to deliver financial products and services that enable people in vulnerable circumstances to overcome shocks, enrich their lives and enable them to pursue opportunities.

Introduction

We strongly support the aims of this guidance to improve outcomes for customers in vulnerable circumstances dealing with financial services firms, and to reduce the harms that they often can face. We welcome the FCA's clear focus on this issue and its commitment to driving forward this agenda at the same time as it responds to the huge challenges of the coronavirus pandemic. As the FCA highlights, the number of people in people vulnerable circumstances will only go up as a result of the crisis. It is right that firms, properly supported by the regulator, industry bodies and consumer organisations, work to ensure their customers experience the best possible outcomes through the pandemic and beyond.

Our response is informed by our close work with the affordable credit sector and sets out how we aim to work with the FCA and financial services firms to improve the financial wellbeing of people in vulnerable circumstances.

Please note that we consent to public disclosure of this response.

Response to individual questions

Q1: Do you have any comments on our assessment of equality and diversity considerations of our proposed Guidance?

We agree that the guidance is likely to positively affect people with protected characteristics under the Equality Act. As the FCA points out, there are overlaps between the characteristics of vulnerability and these protected characteristics. Guidance that helps firms to identify and respond to the needs of customers in vulnerable circumstances is likely to indirectly support firms to fulfil some of their obligations under the Equality Act. However, we do think that firms would benefit from more details and clarity on the interaction between this guidance and the Equality Act. The FCA could also consider collaborating with the EHRC on developing specific guidance around the Equality Act.

Q2: Do you have any feedback on the updated draft Guidance?

We welcome many aspects of the updated guidance, for example, the new spectrum of risk model that portrays the dynamic nature of vulnerability more effectively than distinguishing between 'actual' and 'potential' vulnerability. New examples throughout the text should support firms to operationalise aspects of the guidance. We are also pleased that the FCA has increased focus on the common harms that customers in vulnerable circumstances can experience, alongside their individual drivers of vulnerability, as this will help firms identify and respond these harms. Examples of these common harms are set out in the consultation document and accompanying documents, but they should also be included more in more detail in the main body of guidance.

The FCA has clearly set out its position that, given the diversity of sectors and business models that this guidance applies to, trying to set a standard approach across sectors could lead to levelling down in standards, and a 'tick-box' approach to vulnerability. The FCA will also not be introducing sector-specific guidance or implementation frameworks, as it is for firms to judge what the guidance means for them, also in order to avoid a tick-box approach. The FCA will have considered the risks that this could lead to variation in the quality of firms' responses to the guidance and has rightly identified that successfully implementing this guidance across the financial services sector will require active supervision. The FCA is also right to recognise that proactive engagement with firms, industry bodies and consumer organisations will be required to ensure that firms' vulnerability strategies are of consistent quality and provide good outcomes for customers. Fair4All Finance will continue to work closely with affordable credit providers and share best practice across the sector. We will convene consumer organisations that are experts in vulnerability to improve consumer insights, marketing and design across the financial services sector. We look forward to continuing our collaboration with the FCA across these workstreams.

Q3: Do you have any feedback on our cost benefit analysis?

The cost benefit analysis sets out well a range of benefits that customers can expect to experience as result of the guidance. To build on this, we would like to highlight the recent report on the social impact of affordable lender Fair for You, undertaken by the Centre for Responsible Credit and supported by Fair4All Finance. The report provides a detailed case study of the benefits that well-designed products, supportive policies and flexible processes can have on customers in vulnerable circumstances, who make up the majority of Fair for You's customers.

As the FCA says, there are difficulties in trying to quantify all of the impacts that fair and supportive vulnerability policies could have on customers. The impact report identifies over twenty different benefits and outcomes that were not possible to translate into monetary estimates, including better diets, improved self-esteem and educational wellbeing benefits for customers' children.

But even excluding those benefits, the report estimates that Fair for You has generated a social impact of over £50m for 33,500 customers since starting its operations in 2015. This figure is based on customers having access to an appropriate product instead of more expensive forms of credit, mitigation of the costs of furniture poverty, and cost savings to health services. We recognise that the FCA's figure of £50-£180 in benefits per customer per year in order for the guidance to break even is purely illustrative, but we believe that the example of Fair for You demonstrates that this is clearly achievable. We encourage other firms and industry bodies to adopt Fair for You's approach to measuring impact on the wellbeing of customers in this way, which would lead to a more accurate representation of the benefit of interventions.

The cost benefit analysis could also consider the benefits that will accrue to firms as a result of their greater 'investment' in customers experiencing vulnerable circumstances. For example, customers who are treated fairly and experience good outcomes will show more loyalty to firms and continue to engage with their services.

The guidance highlights that vulnerability is dynamic, not a fixed state, and that people move in and out of vulnerability throughout their lives. Supportive products, policies and processes can help people move through periods of vulnerability or mitigate the negative impacts of more permanent detrimental circumstances. Customers whose financial wellbeing, capability or resilience have been improved in this way are likely to create greater financial benefits for firms.

Additionally, firms that develop an understanding of how to properly serve people in vulnerable circumstances have the potential to bring in millions of new customers who have previously been financially excluded. For example, many of our partners in the affordable credit sector have demonstrated that it is possible to sustainably and responsibly serve customers that mainstream firms have seen as too risky or difficult.

The FCA should do all it can to make this implementation as efficient and cost-effective as possible. The FCA has clearly set out its reasons for not producing guidance specific to different sectors or firms of different sizes but should recognise that there will be additional costs associated with firms individually interpreting and implementing the guidance. Therefore, the FCA must do all it can to work with firms, trade bodies and consumer organisations to share best practice and support the development of effective vulnerability strategies. The industry should be open to collaboration and sharing research, data and good practice, in order to make implementation of the guidance as cost-effective as possible, as well as achieve the best outcomes for consumers.

Q4: Do you have feedback on what we should prioritise when monitoring firms' treatment of vulnerable consumers?

Monitoring the treatment of customers in vulnerable circumstances will be essential to ensuring that the guidance is adhered to across financial services firms. We recommend that the FCA promotes greater transparency around customer data by firms, including demographics and the numbers of customers in individual firms with particular types of vulnerabilities. Following this, firms should publish information on the interventions taken for different customer groups. This transparency would enable peer accountability of the treatment of customers in vulnerable circumstances and the strengthening of internal cultures within firms of serving vulnerable customers. Additionally, these publications would help disseminate best practice, raising general standards across the sector and reduce the administrative burden of individual firms developing and implementing measures separately.

Q5: What types of information do you envisage it would be necessary for firms to collect, to assess the effectiveness of their policies and processes in respect of vulnerable consumers?

As the FCA makes clear, it is vital that firms have a good understanding of the needs of their customer base, the types of vulnerability they display, as well as the potential harms that these customers are more susceptible to. We believe that firms should also understand the characteristics or circumstances of their customers that impact vulnerability and financial resilience, such as income, housing tenure or caring responsibilities for example. This has the added benefit of showing firms how representatively they are serving the wider population and indicates whether their policies and processes are working to exclude people with certain vulnerabilities from engaging with the firm.

To assess the effectiveness of their policies and process around vulnerability, including how well their products are designed to suit the needs of customers in vulnerable circumstances, firms should seek to measure their impact on consumers, as we have supported Fair for You to do (see response to Q3). Firms could track or survey the outcomes experienced by consumers in areas related to the drivers of vulnerability, health, resilience and capability, such as improvements in mental wellbeing, reductions in over indebtedness or increased confidence in managing money. The test of the effectiveness of policies and processes around vulnerability would be to see tangible positive impacts on the characteristics of vulnerability in customers through the intervention of a financial product or service. We will be developing a framework to support affordable credit providers in capturing their impact in this way.