



“The FCA is giving firms 12 months to implement the new rules for all new and existing products and services that are currently on sale.” – Consumer Duty

Response to the Financial Conduct Authority’s Dear Chief Executive letter – **The rising cost of living – acting now to support customers**

Introduction

In light of the FCA’s *Dear CEO* letter and the announcement of Consumer Duty, we hope the attached collective response from organisations, which are working independently and collaboratively, to help provide solutions to authorised firms in managing the challenges of vulnerability, is helpful.

We appreciate that the complexity of consumers’ needs and circumstances mean that there is no straightforward solution to meeting the FCA’s expectations or customers’ needs. Consideration needs to be given to data privacy and security, technology, product design and resource and training – changes in approach will permeate through customer acquisition, customer service and management to retention and collections. The contributors to this response provide building blocks to enable the support of vulnerable customers – these are tools that are immediately available to begin to break down the challenges in adjusting customer journeys but also to work with firms to meet long-term, strategic goals in customer management.

The FCA state that there is requirement for firms to “focus on the real and diverse needs of their customers, including those in vulnerable circumstances, at every stage and in every interaction.” The timescales are extremely tight in terms of compliance. The contributors to this response can help meet these expectations.

Helen Lord – CEO – Vulnerability Registration Service

“As consumers across the country are affected by the rising cost of living it is critical that lenders meet the standards of their borrowers, including those in financial difficulty.

“We need to engage and work effectively as an industry to understand the changing pressures on consumers – now and in the uncertain months ahead. We must ensure that the financial services sector serves customers – especially those who might struggle with their financial during this time.”



Vulnerability Registration Service (VRS)



There is no lack of appetite to support customers and there is a wealth of talented people focused on meeting customers' needs particularly in relation to vulnerability. However, addressing treatment of vulnerable customers has not yet been escalated to Board agendas and the recent CEO letter and imminent Consumer Duty must do this – now is the time to act because, apart from it being the right thing to do, accountability is round the corner.

The FCA has now been transparent in terms of what it expects of firms. Making available the right level of customer support is now a top priority – there are technical and compliance challenges, there will be a need to reengineer customer journeys, to invest in staff training and really get to grips with how to manage customers once their circumstances have been established.

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None of this is insurmountable – there are tools waiting to be deployed to assist in the process and now is the time to embrace them and evolve our customer management strategies.

The Vulnerability Registration Service (VRS) has been developed to help short-cut the identification of vulnerable customers. It is a simple data-sharing model and hosts unique insight into individual's circumstances – it is a tool to help organisations identify customer's circumstances and needs and therefore deliver the right outcomes.

Using VRS can enable organisations to identify if somebody should not be given access to credit facilities (perhaps because a Court of Protection Order is in place); where somebody is in severe financial difficulty, sometimes when this is coupled with mental or physical illness or coercion; if a Power of Attorney is in place. This information can be used now – ignorance is no longer an excuse.

Helen Lord – CEO – Vulnerability Registration Service

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For more information on the Vulnerability Registration Service, a not-for-profit company providing the UK's first central vulnerability database, and how we can help you to identify and ensure the fair treatment of vulnerable customers, please contact Helen.Lord@the-vrs.com and feel free to connect with me on [LinkedIn](#).

The problem

The cost of living is increasing. Income, whether from employment, or benefits, or both is not keeping up. It is likely that a large proportion of existing customers have seen a significant change in circumstances which you are not aware of.

In addition to change of circumstances for existing customers there is also an increase in demand for credit. This increased demand comes with increased risk with many applicants displaying clear characteristics of vulnerability which you are not seeing via your existing data partners.

The FCA (along with pretty much everyone else you ask) expects consumers experiencing characteristics and drivers of vulnerability to increase significantly, and to continue to increase for an extended period of time.

Consumers least able to bear these increases are likely to be hit the hardest. These consumers are likely to have most experience in dealing with this situation. It is also important to consider that change of circumstances will likely mean that many previously stable customers will be experiencing this situation for the first time. Both will need your support and to support them you need to know who they are.

Some specific asks from the regulator & how Data On Demand can help:

- **Understand the guidance on the drivers & characteristics of vulnerability –**
The FCA have highlighted 3 classifications of consumer vulnerability – Highly Vulnerable, Currently Vulnerable & Historically Vulnerable. They have further identified 4 key Drivers of Vulnerability – Health, Life Events, Resilience & Capability and finally the Characteristics aligned to these Drivers.

FG21/1:

[Guidance for firms on the fair treatment of vulnerable customers \(fca.org.uk\)](https://www.fca.org.uk/guidance/fg21-1)

ID.VU is a fluid Consumer database updated daily providing a holistic view of customer circumstances, directly related to regulatory guidance. Taking into account that there is no one size fits all approach and the acknowledgment of proportionality, our offering does the same with the flexibility to just take high level classifications or take any / all of 100+ granular variables and trends such as recent High-Cost Short Term Loan applications to cover Utility Bills.

Having progressed our partnership with the **Vulnerability Registration Service**, fully onboarding them a new data source and adding their declared vulnerability insights to our existing predictive insights, we are now able to offer Customer insights aligned to every Driver and Characteristic identified by the regulator.

Relevant extracts from Dear CEO:

“Considering and taking account of both current and expected financial and personal circumstances including any characteristics of vulnerability.”

“Inability to meet repayments out of disposable income or at all, for example, where there is evidence of non-payment of essential bills (such as, utility bills), the customer having to borrow further to repay existing debts.”

- **Monitor Existing Customers** – Identifying consumer circumstances at the point of application has rightly been highlighted as demand increases alongside risk. However, the guidance from the FCA has specifically identified and re-iterated that firms need to be more pro-active in understanding changing circumstances within their existing customer base. Given the increased strain on consumers driven by the Cost-of-Living increase there are likely significant changes within your customer base you are yet to identify.

Using **ID.VU** businesses are able to easily and pro-actively monitor existing portfolios for trends and changes in circumstance. Having run retrospective analysis with partners like the Vulnerability Registration Service and also directly with the CRAs we can see how these insights allow Financial Services businesses to identify and take action on consumers displaying characteristics well before they go onto miss payments or self-declare as vulnerable.

ID.VU & the VRS – An opportunity to better serve financially vulnerable customers – Data on Demand

Relevant extracts from Dear CEO:

“Firms need to remain alert to the changing situation of their customers and target their efforts in response.”

“A firm must establish, implement and maintain an adequate policy for identifying and dealing with customers showing signs of actual or possible financial difficulties, even though they may have not missed a payment.”

- **Don't wait!** Clear and simple instruction to act now. Our typical onboarding process takes a matter of weeks, and we are actively engaged in partnerships and evaluations with your peers today.

Relevant extracts from Dear CEO:

“Later this year, we will finalise any rules in relation to the Consumer Duty, but we are not waiting for the Duty to come in before we act to improve consumer outcomes.”

For more information on how Data On Demand can help you align with regulatory requirements and better serve your customers please reach out to us -

simon.gregory@dataondemand.co.uk

www.vulnerabilityregistrationservice.co.uk

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“You should ensure your firm ensures any forbearance agreed is appropriate taking account of customer’s individual circumstances by considering and taking account of both current and expected financial and personal circumstances including any characteristics of vulnerability.”



elanev



The FCA letter is aimed at individual business, but it is the collective that has to respond. Whilst different companies will have different risk-based pricing and risk appetites, customers may be harmed if one or two entities are ineffective at identifying and caring for vulnerable customers and this includes the central and local government departments.

Customer behavioural data may show a trend towards financial stress, but customer vulnerability can be measured across several lenses, and behavioural data will not show life changing events, or physical or mental health issues. Where a company doesn’t have all the behavioural and transactional data associated with their customers, then they need to enrich their customer data.

When the customer consents for their data to be used then their income and expenditure, the predicted near future household income, levels of savings, equity and assets can be provided in real-time through the open banking service provided by DirectID and elanev. The customers’ eligibility for additional or new benefits can also be quantified with the customer signposted for making the claim.

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To proactively identify customers that might not know they could qualify for support or additional services, (so haven't given their consent for data access) then like several councils the elanev DEEAR datasets could be used to identify the households most likely to be financially vulnerable now and in the near future (incorporating the velocity of change caused by the cost-of-living crises).

To identify those customers already dealing with a financial or health challenge (VRS, Morgan Ash or VRX) data should be sourced and shared with as many sources as possible, and companies (including the government departments) need to work together to agree on an appropriate approach for each customer if the customer is to be properly protected from harm.

Steve Preston – elanev

www.elanev.co.uk

elanev provide customer propensities, risk models and portfolio pricing tools. Our highly predictive propensities apply to all UK customers and are updated daily.

The cost-of-living crisis remains in the headlines and is likely to do so for many months as economic commentators and industry experts warn of further affordability pressures towards the end of the year.

Such is the concern, that the FCA felt compelled to issue the 'Dear CEO letter' at the end of June setting out what it expects from the industry. This included the fact that they don't expect firms to wait for the Consumer Duty rules to be finalised or the full findings of the Borrowers in Financial Difficulty review to be published before acting to improve customer outcomes.

Key messages include:

- **Exploring and understanding** the Consumers circumstances fully to enable tailored and sustainable outcomes
- **Identify the specific needs and circumstances** of Consumers with Vulnerable characteristics to provide help and support that takes account of these
- **Help Consumers with Financial Difficulty** access money guidance or free debt advice.

IE Hub, along with partners, are fully aligned with the FCA and are helping creditors to meet expectations. Key to this is the capture of a detailed Income and Expenditure (I&E) from the Consumer, as only by doing this can you fully understand their position and agree on the most appropriate outcome.

We have built and are growing an industry response to the collection of Income and Expenditure information which is very different from traditional approaches on the market.

Our solution moves the current one-to-one relationship between a Consumer and a Creditor to a one-to-many relationship. This means the Consumer owns their I&E and can share its affordability position with **all Creditors** (typically 5-7).

This reduces stress on the Consumer as they can complete the journey in their own time and are not being contacted by multiple Creditors all requiring the same information. Creditors benefit also from lower operational costs and more sustainable payment plans.

Only by understanding Consumers commitments, can you enable tailored and sustainable outcomes. Our research shows that **88% of our Consumers who set up a payment plan have been able to stick to it.**

The feedback we get from Consumers using the service is humbling and we can see we are making a positive impact in helping Consumers during a difficult period of their lives. **83% of our Consumers find that IE Hub reduced their financial anxiety.**

We continue to innovate to assist Vulnerable / Consumers with Financial Difficulty and I am pleased to announce several key initiatives going live on the platform over the next 3 months.

- **Vulnerability Registration Service** – We have for some time signposted Consumers to the service, but this will be extended to allow for the identification of Consumers already registered. The next step will then be a Creditor using IE Hub being able to flag a Consumer as Vulnerable to the VRS.
- **Predictive Vulnerability modelling** – In partnership with ARM, we have developed a process within IE Hub that analyses the returned I&E and flags to the Creditor the likelihood of a Consumer being classified as Vulnerable and what characteristics are displayed (as per the FCA guidelines).
- **Committed to Supporting Free Debt Advice** – We provide our tool and services free of charge to the advice sector, which enables a wider service and more ongoing support for customers in financial difficulty.

I hope you also see the value in what we are building at IE Hub and if you or any members of your team would like to discuss anything further, please don't hesitate to contact me.

Dylan Jones – CEO- IE Hub
www.iehub.co.uk

IE Hub makes managing income and expenditure easier for both the customer and the creditor. Visit www.iehub.co.uk to find out how IE Hub can support you.

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The FCA has raised the level of urgency on Consumer Duty with their recent 'Dear CEO' letter, making it clear firms must act now to provide evidence of good outcomes for their vulnerable customers.

The regulator explicitly called out the quality of regular reporting and MI, covering customers and their outcomes by taking into account consumer feedback, behavioural insights and data that go beyond standard complaints reporting. What is not clear is how firms are to achieve this given the aggressive deadline.

I see the 'Dear CEO' letter as a deliberate shot across the bows by the FCA to lending firms that historically have had a poor reputation when it comes to customer vulnerability. For these firms, telling the regulator that you have processes in place to address vulnerability risks won't cut it anymore. The FCA will want to see clear, quantitative data at an individual and population level to ensure firms are not just identifying vulnerable customers but are ensuring their staff are trained to handle them appropriately, that products and services meet their needs now and when circumstances change, and that ultimately, they are receiving, not just fair outcomes, but good outcomes.

For firms to be able to monitor, capture and analyse the data required to provide the regulator with these assurances, they'll have little choice but to turn to innovations in areas like AI and machine learning to digitise processes, automate for efficiency and achieve much greater QA coverage than before. Given the macro-economic factors at play here and the FCA's insistence for firms to take customer vulnerability more seriously, its imperative firms act now to identify and implement the technologies they'll need in time for the April 2023 deadline when Consumer Duty will be codified into enforceable rules to support not just the vulnerable, but all consumers."

Joseph Twigg – CEO – Aveni

www.aveni.ai

Aveni use cutting-edge AI to analyse your conversational data to help understand your customers and agents better but also to use speech analytics to provide actionable outcomes and automate processes for greater efficiency.

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The FCA has introduced two new pieces of regulations on vulnerability and Consumer Duty. This is creating major challenges for firms, notably the Audit and Risk Committees (ARC's) and recent Dear CEO letters have increased their priority.

There are several aspects to Consumer Duty – simplistically this can be broken down into two major issues – at a macro product level of fair value of products and an individual level of looking after individual customers.

For firms to understand the issues they need good management information. But to receive good management information there needs to be good data. There are some fundamental issues with the way vulnerability data is presently being collected; it is too subjective, inconsistent, and lacks sufficient granularity.

Unfortunately, regulations and commentary have positioned vulnerability as a yes/no binary issue. This is incorrect. Vulnerability is a range – typically of severity - just like being rich or poor. Hence, to be able to manage vulnerability we need to be able to express it as a range.

Individuals are not vulnerable. Individuals have characteristics that in certain circumstances lead to a vulnerability. A consumer may live in a floodplain and hence be classified as vulnerable to a utility company but not vulnerable to a finance company. Providing a loan may increase or reduce vulnerability.

Present assessments of consumers are typically undertaken subjectively by staff. While they may have been trained and had some training, the range of characteristics is very difficult to assess, and the training needed to deliver a consistent assessment accurately and consistently classify the severity requires extensive training. Indeed, many companies who have made great strides in training are complaining of consistency in who is determined vulnerable and who is not. This is partly due to them trying to define it as binary, and partly due to it being a totally subjective assessment.

In order to be able to manage vulnerabilities we need to understand the detail and severity of the characteristics and provide solutions that meet those characteristics. For example - there are many people with hearing issues who manage with hearing aids, and far fewer with total hearing loss. Understanding this characteristic and the level of severity enables firms to manage the consumer appropriately. There is no need to define them as vulnerable or not, indeed trying to define at what level of hearing loss triggers a vulnerability tag requires medical input and extensive training.

In order to provide good MI, we need good data. As highlighted above having a simple yes/no approach to vulnerability is inadequate and firms who have gone down this road are starting to realise the inadequacies of this approach.

To manage vulnerability adequately and firms need to have systems and process in place to meet the above data requirements. Using IT systems to do this is the obvious way for any firm of any size.

Components needed include:

- Consistent objective methodology to assess consumer characteristics.
- Systems to record each consumer assessment and record changes over time – an audit trail.
- Strict protocols on the level of personal data collected and how this is recorded to ensure compliance with GDPR.
- Methods to objectively record the vast range of characteristics and severities and how to communicate these within organisations and between departments.
- Systems to collate the above data to provide the data and hence MI for managers and audit.

FCA regulations require firms to understand and report on vulnerable customers throughout the organisation and for the board to be able to understand and report on such. This requires solid data. At present most firms are not collecting any data or poor subjective data that is not robust enough to provide meaningful MI for boards to understand.

To meet FCA regulations firms need to implement capabilities to capture objective consistent data that can be used for corporate MI. Firms may attempt to build this themselves or utilise ratings and systems provided by others.

Andrew Gething – Founder and Managing Director – Morgan Ash

www.morganash.com/MARS

The **MorganAsh Resilience System – MARS** – is an easy-to-use, online system that enables firms to accurately assess consumers' vulnerability in a consistent, structured way. It helps firms meet and demonstrate compliance with most of the FCA's requirements.

VCX –

VCX

Vulnerable Customer eXperience

The cost-of-living crisis is the magnifying glass through which firms lagging behind the regulators expectations of treating vulnerable customers fairly will be viewed and held to account. Every day I hear worsening forecasts and anecdotal evidence of consumer hardship and suffering, and this emphasises the immediate need for companies to provide personalised customer communications that embrace compassion and trust.

There are two quotes from the FCA's Dear CEO letter that stand out to me:

“Firms’ frontline services will have to deal with more customers presenting with a complex range of vulnerable circumstances and non-financial knock-on effects of the rising cost of living.”

“Our review identified that most firms did not consistently explore customers’ circumstances fully to provide help and support that was appropriate and tailored to their specific individual circumstances.”

The first quote highlights the increasing volume of UK consumers in vulnerable circumstances with complex and non-financial needs. The second shows that customer service agents are not well trained, not provided with access to the right tools, and not incentivised to have conversations with customers to identify support needs. This is not compliant with the FCA guidance, neglectful to the customer, and unfair on the customer service agent who has limited practical solutions to offer. My experience is that when staff don't feel they can help customers, they become demotivated and emotionally detached which has a negative effect on wellbeing and absenteeism.

As complex customer demand collides with lack of skills and tools, we see firms struggling to retain and recruit customer service colleagues. Financial firms cannot do anything to stop the cost-of-living crisis, but they can provide their customer service agents with the training and tools needed to assist customers. This empowers them to feel like they are part of the solution, makes them proud of their employer's commitment to help, and provides evidence to the FCA that they can identify, explore, and signpost customers to support that they need.

Yes, staff training is part of the solution, but practical tooling that puts the training into practice during live disclosures of vulnerability are where we see the biggest impact on colleague performance and customer outcome. The Signpost vulnerability toolkit provides customer service agents instant access to a database of 1100 vulnerabilities, 600 charities and 4 questioning protocols to ensure compliant and compassionate conversations. It is the tool that empowers customer service colleagues to have a positive impact and embrace the opportunity to build a relationship of trust.

Chris Jones - Co-founder & Director - VCX Ltd

www.ifa.elearn.v-cx.co.uk

Vulnerable Customer eXperience (VCX) specialises in the provision of eLearning and The Signpost vulnerability toolkit to customer service colleagues in the UK.

Using the Amazon technique of starting with the end in mind, let's work backwards from the story that you want to tell when the FCA come knocking. A story which, at least:

- demonstrates you are looking after your vulnerable customers
- deters from further investigation
- shows tangible improvements have been made

But you also have to be able to tell a compelling story to your shareholders – one of profit, success, and growth. So, between now and “the knock” you need to find the changes which deliver improvements vulnerable customers and the colleagues that support them will notice and value but will also have a tangible positive impact on your bottom line.

Step in **Inclusive Service Design**, the buzz name for:

1. listening to and understanding the needs of your vulnerable customers
2. redesigning their biggest pain points (which are often your most costly interactions)
3. rapid prototyping and deployment so everyone benefits quickly.

It's a deliberately simple method where complexity is only added later if value can be demonstrated. This means, when it comes to understanding the needs of your vulnerable customers, a collection of inputs from frontline colleagues and customers with lived experience overlaid and backed with evidence from white papers/reports and your own data is enough get started.

“Good enough, not perfect” is a mantra I use regularly.

Similar levels of simplicity are applied to the redesign, prototyping and deployment – similar to a start-up mindset. This approach often feels like a breath of fresh air.

So, my advice to you, is just get started...with vulnerable customers personas, journey maps and ideation with customers and colleagues over the biggest challenges they face.

Don't over organise it. The most effective solutions are often process or organisational changes and are rarely holistic system enhancements or replacements. You will need Board/Exec level commitment to help you shift barriers to progress and you will still need to apply due diligence to estimate benefits prior to prototyping. Once proven, this approach naturally picks up speed and organically grows in popularity. It's engaging and collaborative and delivers wins for customers, colleagues, and commercials.

Carolyn Delehanty – Vulnerable Customer Experience Expert – Delehanty Consulting

If you'd like some support to get started quickly or to understand more about the approach, please take a look at www.delehantyconsulting.co.uk or email me at carolyn@delehantyconsulting.co.uk.

“You must ensure that your firm has adequate oversight of the customer experience and customer outcomes. Quality assurance is more effective where it focuses on a customer’s journey through financial difficulty, including the quality of support they receive throughout this journey, as well as the outcomes they get. This provides a fuller picture of whether customers get fair and appropriate outcomes overall.”



The contributors to this paper are eager to work with organisations, either independently or in partnership with each other, to help meet the needs in adjusting or developing customer journeys. Please contact any of us directly or via helen.lord@the-vrs.com

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