



Customer Vulnerability

Fiona Jones July 2019

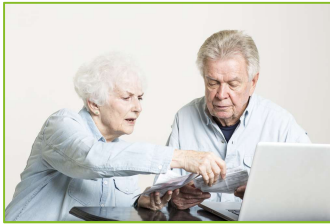
Vulnerable Customers

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Customer Vulnerability

The Journey So Far



Background

The importance the FCA places on protecting **Vulnerable Customers** has dominated publications from the original occasional paper on Vulnerability through to most recently the FCA's Business Plan (2019/2020) and references within the discussion paper on Intergenerational Differences.

In 2017 Andrew Bailey emphasised the importance that *"understanding vulnerability is central to how we make decisions. Consumers in vulnerable circumstances are more susceptible to harm and generally less able to enhance their own interests"*. Prioritising vulnerable and excluded consumers has remained one of the three key themes continuously in the FCA's strategy for ensuring fair and good outcomes for customers and delivering well-functioning markets and there is no sign of this slowing down. This remains an enduring priority for the FCA.

The Evolution of Vulnerability

From inception, the FCA committed to a more intrusive supervision model that was intended to challenge firms' business models, strategies and product development, placing consumers at the heart of decision making, and promoting consumer vulnerability as a priority. This continued strategy is further supported with the forthcoming extension of the Senior Manager and Certification Regime. The increased transparency and governance expectations placed upon firms and the most senior individuals accountable for decision making, is further intended to drive the required attention to consumer needs and avoid extreme cases of consumer detriment and the litany of regulatory fines which has defined recent past.



FCA Definition of Vulnerability - changes

The Occasional Paper on vulnerability published in February 2015, the definition of vulnerability was "someone who, due to their personal circumstance, is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care"

We've seen this definition change over time and the scope widen to *"People who can readily be identified as significantly less able to engage with the market, and/or people who would suffer disproportionately if things go wrong"*

Consumer Safeguarding

FCA Business Plan

Regulatory Focus 2019 / 2020

Since the publication of its original occasional paper, the FCA considers that firms have made progress in tackling the issues faced by vulnerable consumers. However, there is more work to be done. The 2019-2020 Business Plan set out three key areas:

- *Continue working with the Competition and Markets Authority (CMA) as we consider how to act on its recommendations.*
- *Push forward work on cash savings, mortgages and general insurance pricing practices looking at how to improve outcomes for consumers, including longstanding consumers; and*
- *Consider all options to reduce any customer harm identified, including exploring whether relevant price interventions may be appropriate.*

Insurance focus areas:

- General Insurance Pricing Practices Market Study
- Fairness in pricing and product value
- Poor governance and oversight in the distribution chain
- Access and exclusion in insurance



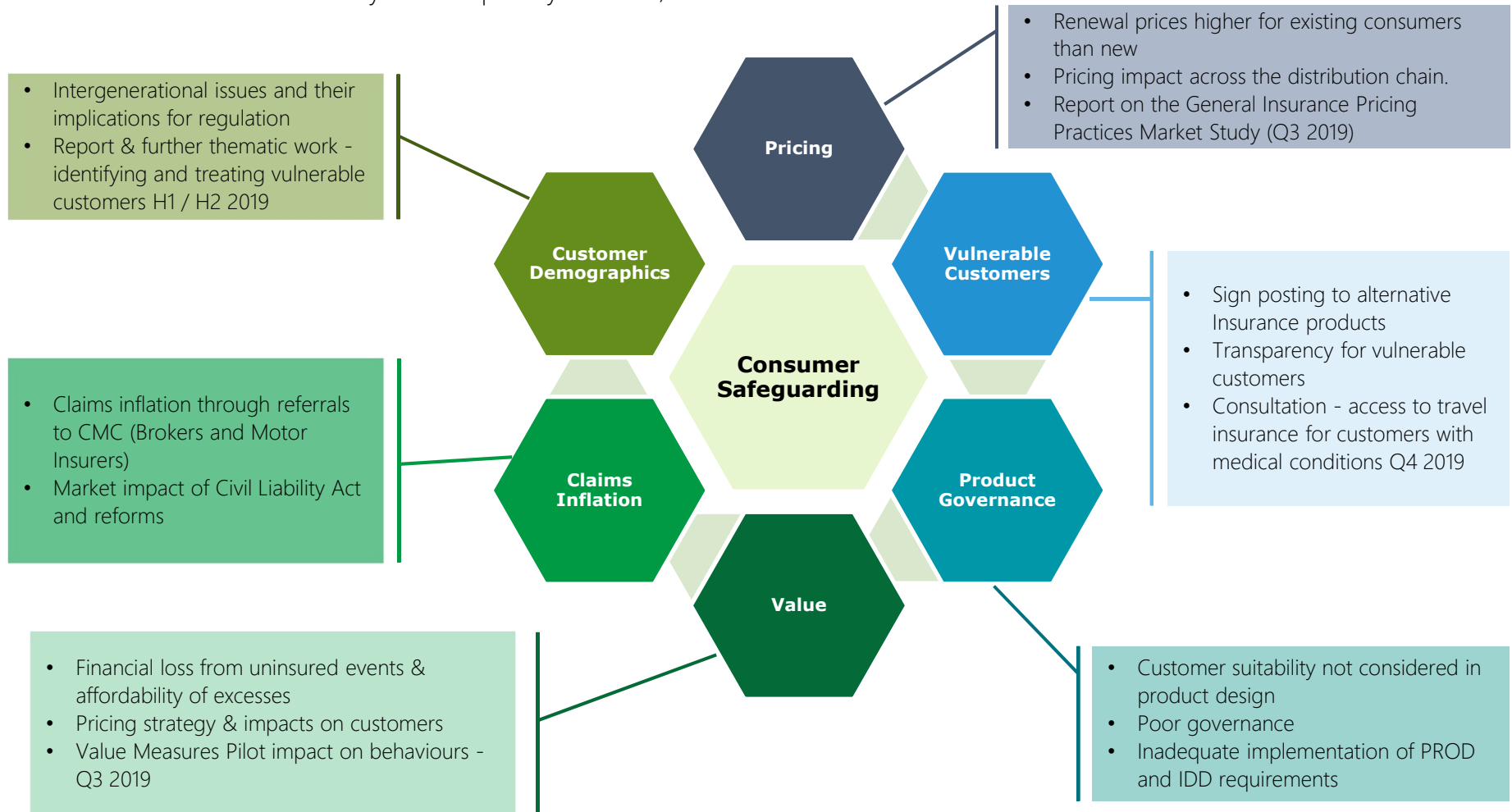
"Our aim is to identify situations where existing customers in the markets we regulate are treated differently from new customers, and address any resulting harms" FCA

Whilst the areas listed above detail the sector specific areas of focus, it's important to look to wider thematic work to understand the breadth of the consumer safeguarding agenda driving this years regulatory focus and how this links to vulnerability.

FCA Focus

Insurance Sector

FCA Business Plan drew out 6 key areas of priority for 2019 / 2020

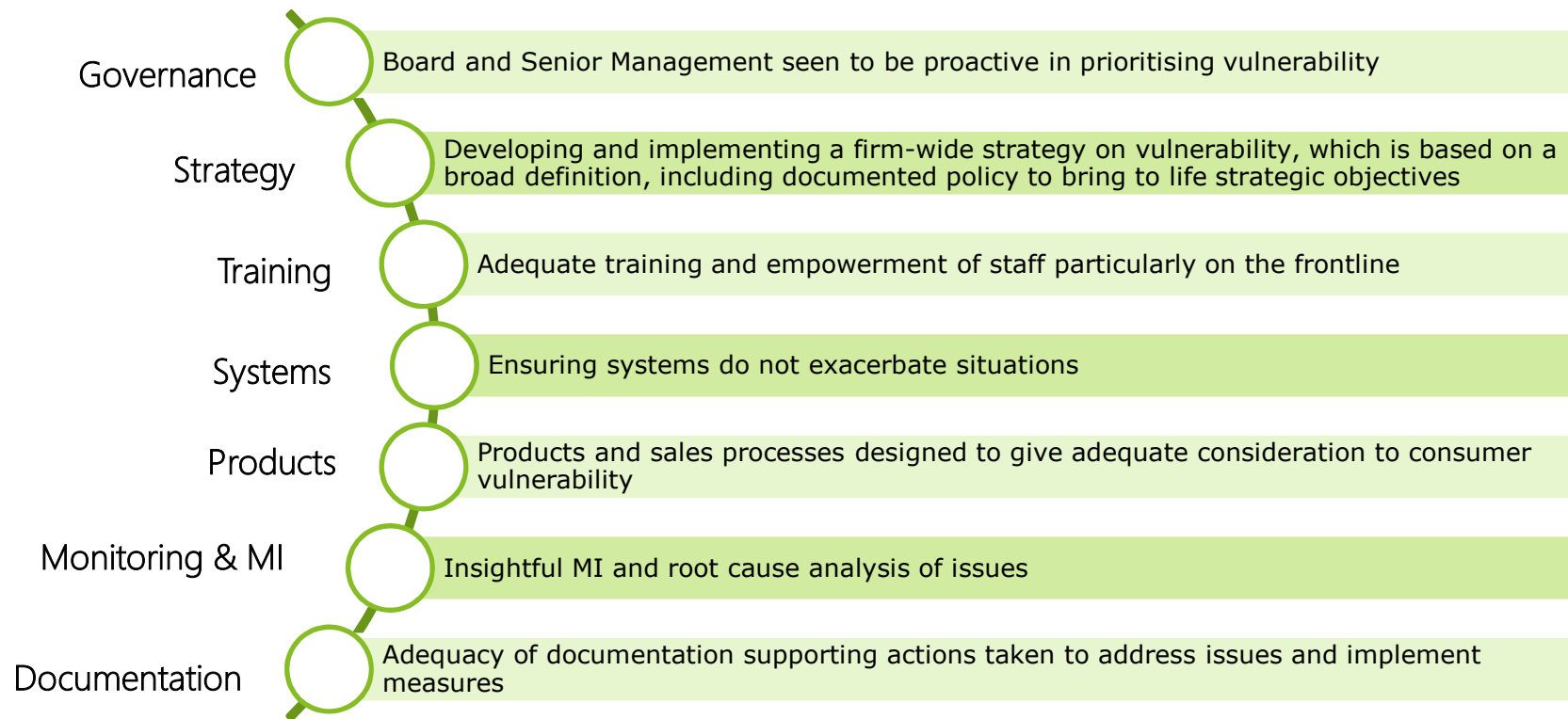


Regulatory Expectations

Regulatory Expectations

Back To Basics

The broad nature of the FCA's definition of vulnerability brings with it greater expectations on Firms to ensure adequate controls and mechanisms are in place to support customers with additional needs. Firms need to consider how they can demonstrate commitment to the protection of vulnerable customers, through MI and relevant documentation, that they are addressing vulnerability in the following areas especially;



With the emphasis on greater individual accountability under the **Senior Manager and Certification Regime (SM&CR)** firms should place greater scrutiny on controls and oversight of key customer processes and the tools available to staff to respond to vulnerability.

Consideration From The Start

Product Governance

There is a growing emphasis on governance expectations regarding product suitability, and expectations that Senior Managers ask material questions when reviewing existing and new products.

How can data be used to improve and understand customer segmentation to create better value products and more appropriate pricing?



How representative of costs and customer risk is our price?

How clearly do you adapt financial promotions, product features and performance to ensure customers that may be vulnerable understand?



Are we making our products features clear?

How comfortable are you that you are not pricing based on inertia? Particularly to recoup losses on lower priced "first" policy?



Are we being fair on price?

Do distribution methods favour a "quick sale" based on premium price? Does your firm hollow" products to appear more competitive?



How easy is it for vulnerable customers to understand coverage?

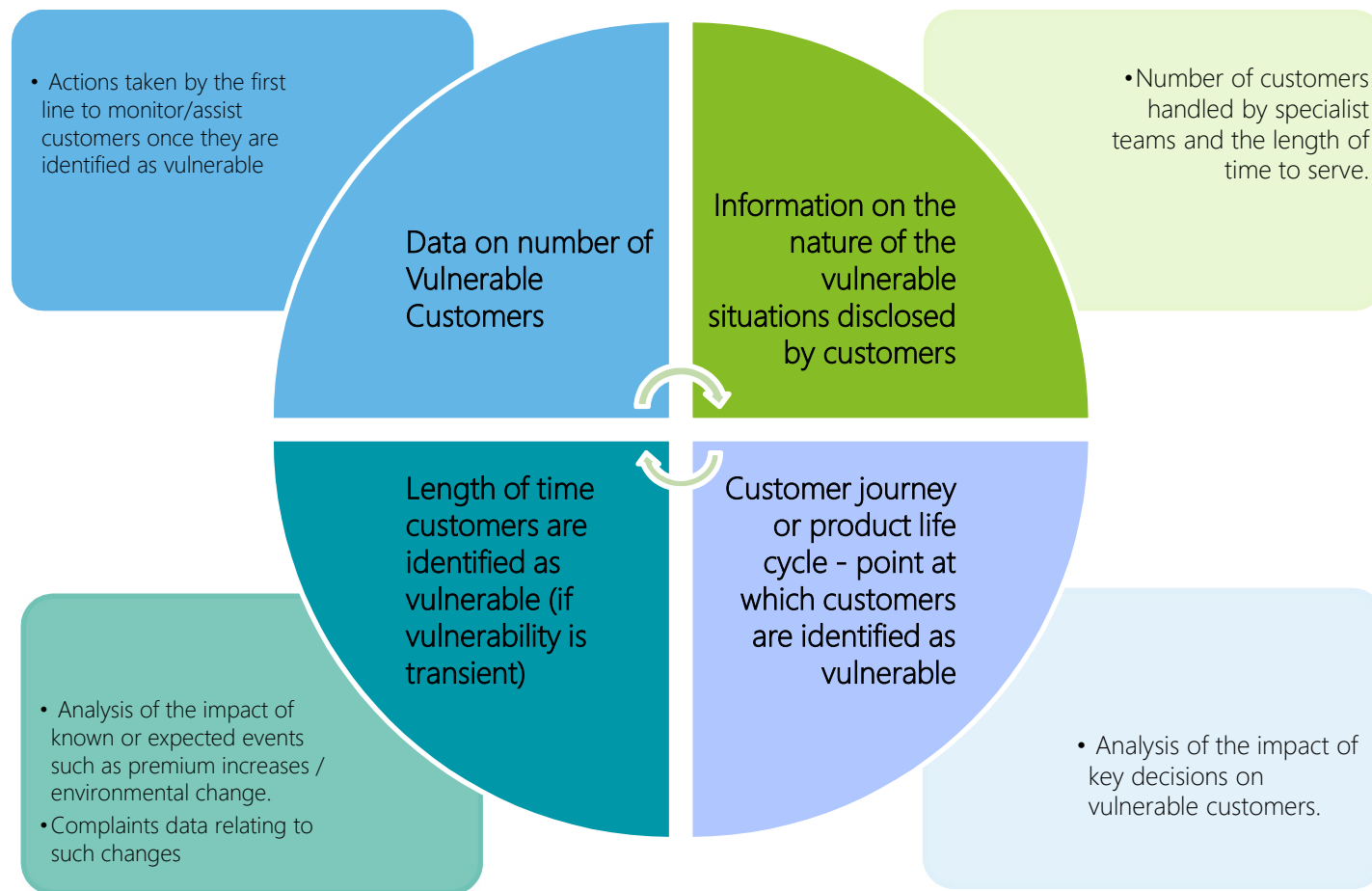
Digital solutions may not be accessible to certain customer groups and certain customers excluded from cover.



Can customers appropriately access our products?

Measuring Vulnerability

MI to Manage Vulnerability Risk

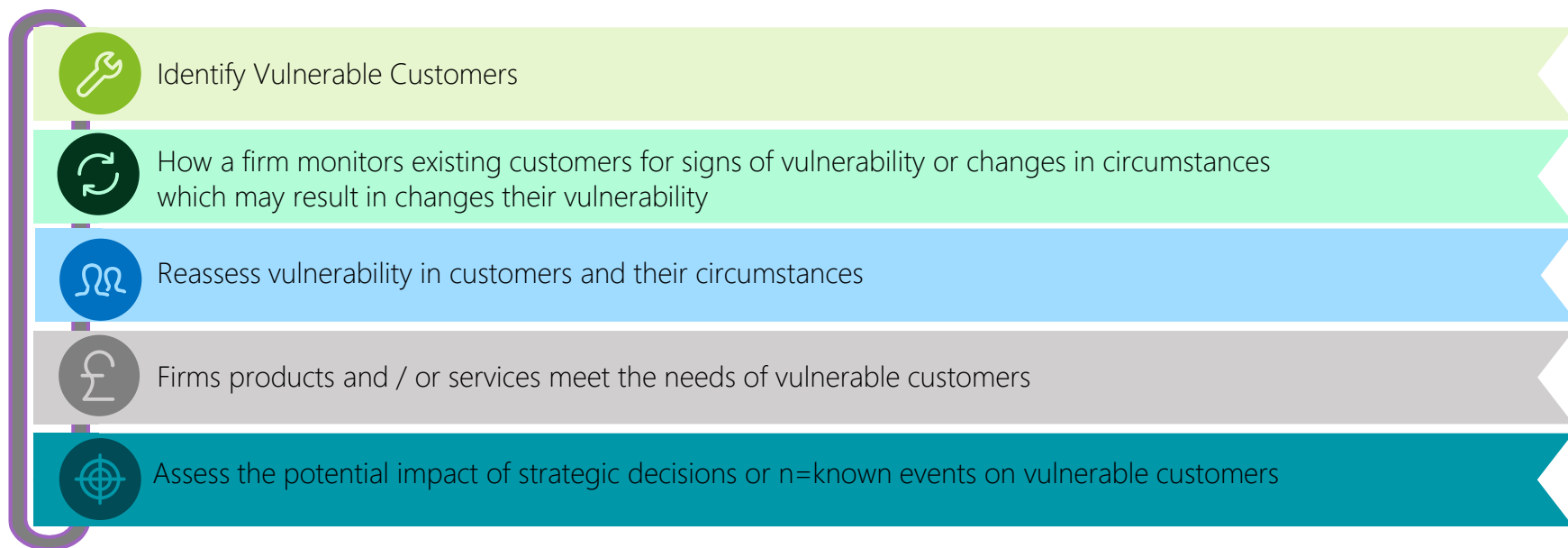


Industry Insights

Industry Insights

Areas Of Supervisory Enquiry

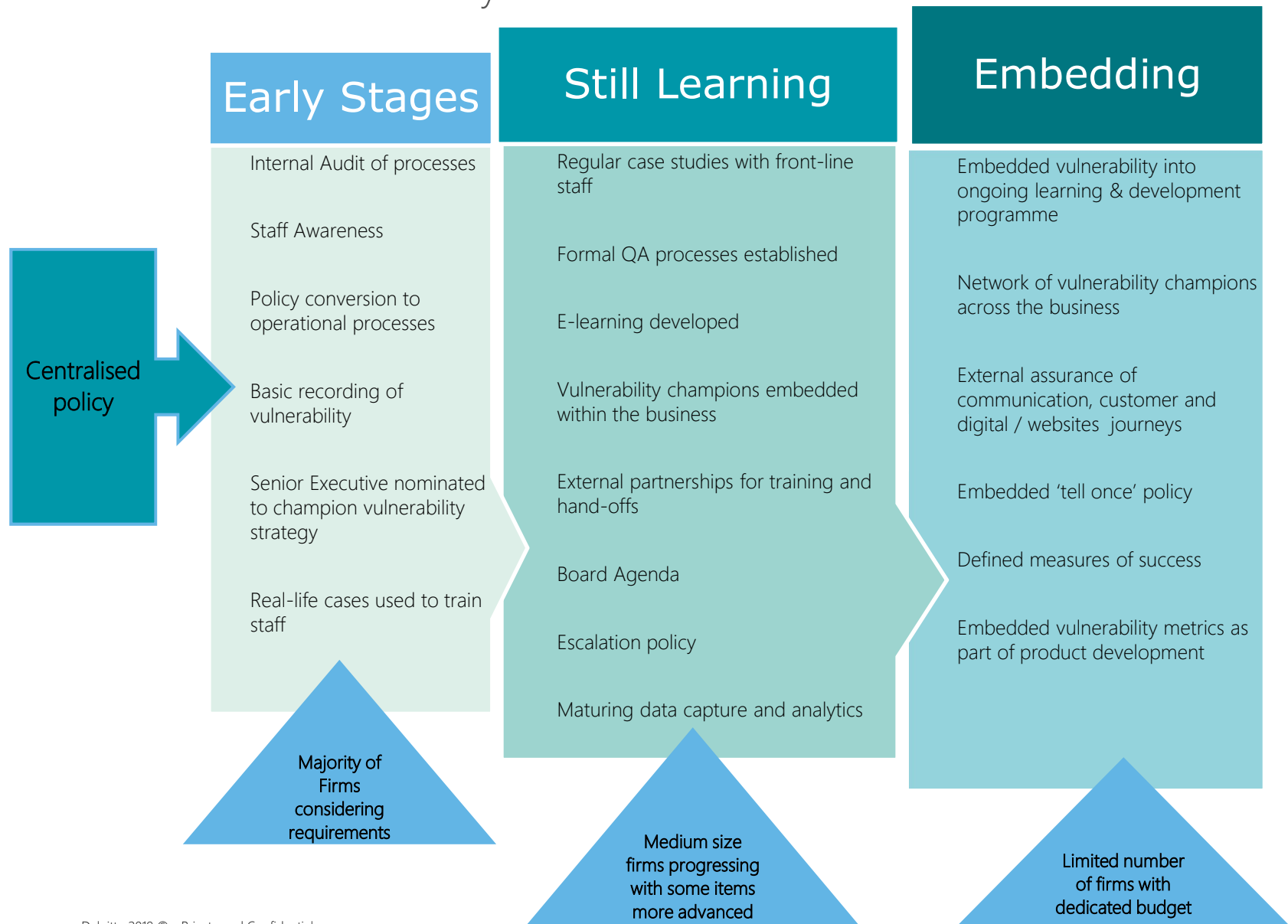
Firms are under increasing pressure to demonstrate what measures are in place to support Vulnerable Customers in both new and existing relationships. Importantly those customers that a firms identifies as vulnerable will be expected to demonstrate that they have been treated fairly. As a result, the regulator is keen to understand how firms;



Identifying and capturing data on Vulnerable Customers can be challenging especially where existing systems often require significant manual intervention to extract the necessary information. Deep dive reviews into vulnerability across organisations can assist management in analysing more qualitative MI in conjunction with system generated data.

Fair Outcomes

How Successful Is The Industry



What does the future hold?

Customer Vulnerability

Key Industry Challenges

Adoption of the FCA's definition has been helpful as a starting point for most firms but this can bring with it more complexity.

- Vulnerability treated differently by different firms
- Disclosure of vulnerability by consumers
- GDPR implications
- Internal variations or interpretations, and disparate business responses
- Operational challenges of Transient Vulnerability
- Technology limitations
- Language sensitivities; and
- Staff Training



Customer Vulnerability is undoubtedly recognised by firms as high priority, with most firms in the process of embedding a defined strategy. Whilst most have built good foundations, the degree to which this has been progressed varies considerably firm to firm dependent upon size and the available resources required to drive forward improvements. Even within individual firms, the inconsistency in application and maturity of strategy, and technology department to department, can cause issues in consistency of the customer experience.

Customer Vulnerability

What Does The Future Hold?



Intergenerational Differences

- Changing needs across diverse consumer groups
- The 'Normality' of vulnerability



Leveraging enhancements in technology

- Sentiment analysis
- Customer journey analysis and AI deployment
- Customer testing / MI development



Enhanced Training and Education

- Dedicated training and external expertise
- Embedding of ABI best practice guidelines



Organisational consistency

- Continuing challenge to embrace and embed effectively



Competition & Best Practice

- Competitive advantage
- Industry Best Practice

FCA Priorities

- Enhanced industry guidance on Vulnerable Customers anticipated in H1 2019.
- Thematic work with clear inclusion of Vulnerable Customer impacts on thematic topic
- Use of RegTech in supervision



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