DESKTOP REVIEW OF VULNERABLE CUSTOMERS

November 2014

Vulnerable Customers

1. Background

Customer vulnerability is a major issue affecting the consumer credit industry and has emerged as one of the key areas of focus for regulators, consumer groups, debt charities, trade bodies and providers of consumer credit products.

The issues that the industry is wrestling with include:

- How to define vulnerability;
- What conditions constitute vulnerability (for example, specific illnesses, disabilities, age, employment status);
- How do front line staff identify vulnerable customers;
- Where front line staff suspect a customer to be 'vulnerable' how does that staff member discuss the matter with the customer;
- How to record vulnerability on customer files;
- How do you treat customers once vulnerability has been identified; and
- How do you monitor the effectiveness of policies and processes?

The Lending Code (the Code) requires that all customers in financial difficulties should be treated sympathetically and positively. However, it is currently silent on how vulnerable customers should be managed beyond the general requirements to provide assistance to those with specialist needs (paragraphs 239/240) and those provisions relating to customers with mental health problems.

The LSB published a report in January 2014 following a desk-top exercise, which included a review of the policies and procedures employed at 15 subscribers for the identification and subsequent management of customers with mental health problems and those classed more widely as vulnerable. It also included evaluation of a subscriber-completed questionnaire requesting details of controls and monitoring in place, training provided to front-line staff, how sensitive data is recorded, the management information that is produced relating to both categories of customers, and copies of any compliance and audit reports completed following reviews in both areas.

The report made recommendations about extending the provisions of the Code beyond mental health. The response of the LSB board was positive and the decision was taken to work with the sponsors and the industry in formulating a co-ordinated approach and solution to consumer vulnerability. The outcome of these discussions was to ensure that any findings on vulnerable customers are incorporated in the forthcoming Code review.

Since the January paper we have engaged with our subscribers, the sponsors and the FCA on this issue and have been invited to the next industry roundtable, chaired by the FCA, currently planned for early 2015 following publication of their Occasional Paper on Consumer Vulnerability in February 2015. In addition several of our subscribers are developing their thinking with some, in particular, being particularly proactive in this field.

In order to inform the debate and to crystallise our thoughts on how vulnerability should be reflected in the Code we have undertaken, or are planning to undertake, the following:

- Further desktop research using the information received from subscribers last December for the vulnerable customers desktop review and the recent financial difficulties review to identify any areas of good practice;
- A themed review of pre-arrears, which includes in its scope how customers are identified before they enter financial difficulty (currently under way); and
- A full on-site themed review at a sample of subscribers following up on the output from the desktop review of vulnerable customers to assess the effectiveness of the policies and procedures that firms have in place (likely to take place between January and April).

We have also explored the possibility of supplementing the on-site themed review with some focused mystery shopping on this subject but we are still developing our thoughts on the practicality of doing this.

This paper sets out the results of our further desktop research as referred to above. For completeness it incorporates the key findings of our previous desktop review.

2. Findings

Definitions

The FCA in its paper published in April on consumer vulnerability states that "We consider a vulnerable consumer to be someone who, due to their personal circumstances, is especially susceptible to detriment." This is a very broad definition and recognises the fact that a customer may move in and out of vulnerability depending on matters such as life events.

Appendix 1 summarises the different categories recognised by subscribers as constituting vulnerability and demonstrates the difficulty that subscribers have in defining vulnerability, with the risk that customers are treated inconsistently, depending on which firm they deal with. A further risk is where a customer has more than one product with a subscriber and that firm does not have a consolidated view of the customer.

A notable feature is the number of categories identified by firms ranging from one subscriber, which identifies 21 different types of vulnerability to another one, which has just 3, although one of these – "Life changing event impacting the customers ability to manage their finances" – is quite broad. Across subscribers the list of definitions is wide ranging and not all vulnerabilities relate to the ability to repay borrowings – for instance some relate to susceptibility to potential fraud.

Identification

- Very few subscribers have vulnerability triggers in place at the application and fulfilment stage of the product. For most, the focus on identifying vulnerability tends to be at the servicing and, most commonly, at recovery stage, with the responsibility for identification of vulnerability triggers resting with subscribers' internal collections teams.

- Some of the firms that encouraged early identification of customer vulnerability during the pre-application stages focused primarily on ensuring they meet their obligations under the Equality Act (2010) to make reasonable adjustments such as the provision of verbal information or larger printed documents. Where attempts are made to identify vulnerability pre-application, one firm indicated that the focus remains on ensuring that the product being applied for meets the customer's financial needs and that they have a clear understanding of the product terms and conditions and their obligations under the contract. Another firm had a dedicated on-boarding process in place for applications where the customer is known or identified as having mental health issues, prompting a referral to a specialist team.

- Where vulnerability is identified post on-boarding, one firm stated that this would trigger a review of the suitability and appropriateness of the customer's existing suite of products and services in light of the customer's current circumstances. One subscriber had a dedicated elderly workstream that triggered once a customer reached the age of 70, resulting in the implementation of a softer dialling strategy, bespoke core letters and options for breathing space.

- Although subscribers are making progress with vulnerability, the vast majority of policy and process documentation reviewed does not set out how firms would pro-actively identify vulnerability during the pre-application and post on-boarding stages. At one firm, identification tended to be restricted to information volunteered by the customer, a third party, the customer sales representative or through existing notes on the system, with little or no system based triggers in place.

Post identification and Monitoring

- Vulnerability and mental capacity are not always captured as part of the collections call monitoring score cards or quality assurance checks, making it difficult to establish a link between the training that has been given to advisors and the quality of inbound and outbound calls. Very few firms captured vulnerable customers as a specific section on their call listening forms.

- Where vulnerability is captured as part of the call monitoring assessments, this is often as part of the 'discovery' and 'negotiation' section of the call, where advisors are assessed on their ability to understand the customer's situation through questioning and discussions. However, these assessments do not provide specific prompts to vulnerability and mental health triggers or checks to ensure that where vulnerability is identified that the referral process has been followed. There is also no clear indication of the weighting this carries in the overall call assessment and the link back to remuneration schemes. While quality assurance activity is generally limited to call listening at most subscribing firms, one maintained a separate QA framework to measure actual and potential detriment resulting from a customer having not been correctly identified.

- Where vulnerability has not featured as part of advisor call assessments, there is little incentive for advisors to use the training they have received to identify and deal appropriately with customer vulnerability. This measure could also be a useful way of generating management information and ensuring that agents pay close attention to vulnerability where a customer is identified as such.

Referral to specialist units

- Following notification of vulnerability accounts are typically moved from active collections for a period of 30 days to enable the collation of medical evidence (typically by way of the Debt and Mental Health Evidence Form). Firms will occasionally extend this time to enable the customer to supply the information relevant to their assessment of their individual financial circumstance.

- Interest and fees are typically suspended on receipt of medical evidence and a completed income, asset and expenditure review where these indicate that the customer cannot afford the contractual minimum due. Customers are also sign-posted to free debt advice.

Training

- Across all subscribers reviewed there is a clear emphasis on identifying vulnerable customers and treating them sympathetically and positively with a clear link to the objective of ensuring fair customer outcomes. This is achieved through the delivery of staff training to ensure that the correct questions and triggers are in place to help identify vulnerability and to enable greater discussion with the customer around their individual financial circumstances. All subscribers stated that this enables the advisor to gain a better understanding of the customer's condition and the impact this has on their ability to meet and sustain their current debts.

- Across the majority of subscribers training programmes are delivered in conjunction with charities and voluntary organisations such as MIND, Samaritans and the Money Advice Trust. Training typically focuses on educating employees on the different types of mental illness and vulnerability, including the triggers that may aid identification and the impact this may have on the customer's ability to manage their financial affairs appropriately. Training programmes are designed to encourage an empathetic approach to dealing with such customers to encourage rapport. The TEXAS approach[1] was widely evidenced within the contact strategies used throughout the subscriber population, as a framework to enable more informative discussions around mental illness and vulnerability.

[1] Thank the customer, Explain how the information will be used, eXplicit consent should be obtained, Ask the customer questions, Signpost.

Management information (MI)

- There is little or no MI produced on mental health and vulnerability. Where subscribers have arrangements in place to generate MI on mental health and vulnerability the information tends to be restricted to quantitative data on daily referrals, write off volumes, value and payment plans, rather than qualitative information on calls quality and outcomes-link to conduct agenda.

3. Conclusions

There is clearly a lot of work required to ensure that workable provisions on vulnerability can be included in the Code with the key areas of development being:

- A consistent definition of vulnerability that can be practically applied;
- Identification of customers who may be vulnerable at an earlier stage in the customer journey and then engaging with the customer notwithstanding the limitations placed on the recording of personal data by the data protection regulations; and
- The development of usable management information to assist in the identification and monitoring of vulnerable customers.

We will continue to report on progress, with the next milestone being delivery of the themed review in early 2015.

Appendix 1 Categories of Vulnerability by Subscriber

Vulnerability	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
Customers with debt and mental health problems (neurotic and psychotic)	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Recently bereaved	x		x			x	x				x		x	x	x
Retired	x										x				
Long Standing Illness	x	x			x	x		x		x	x				x
Blind	x								x				x		
Deaf	x												x		
Dyslexic	x														
Low income	x									x					
English not first language	x				x								x		
Young person	x		x		x				x	x	x				
Threatening suicide/self harm	x				x		x	x							x
Disability learning and physical		x	x		x	x			x	x	x			x	
Terminal Illness					x	x		x		x	x	x			
Age related difficulties		x	x		x		x		x	x	x		x	x	x
Limited numeracy/literacy skills		x							x	x					
Customers in arrears				x											
Unemployed					x					x			x		
Limited financial literacy					x						x				
Neuro disability/brain injury						x									
Alcohol/drug induced intoxication						x					x			x	
Speech problems						x									
Relationship breakdown						x					x		x	x	
Insolvency								x							
Domestic violence								x							
Natural disaster								x			x				
Family illness								x							
Nil offers								x							
Member of an ethnic minority										x					
Appointment of public guardian/power of attorney											x				
Appointment of an informal third party											x				
Victim of financial crime/fraud											x				
Duress/coercion										x	x				
Financial hardship including arrears and/or homelessness											x				x
Redundancy											x				
Ex prisoners											x				
Exposure to war/conflict zones											x				
Physical isolation											x				
Life changing event impacting the customer's ability to manage their finances												x	x		
Student													x		
Newly self reliant/independent/newly self employed													x		
Beneficiary of a trust													x		
Donors of a registered/enduring/lasting power of attorney													x		
Significant inheritance													x		
Lottery win													x		
In care															x
Unable to pay more than £5.00															x
Single Parent in receipt of benefits															x
Depression															x
Stress															x