



How to help financially vulnerable customers

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In a [2018 report](#) compiled by the Money & Mental Health Policy Institute, experts discovered that over 100,000 people in problem debt attempt suicide each year in England alone. This harrowing statistic has likely been further exacerbated by the economic turmoil and the coronavirus pandemic, which has caused record levels of redundancies and left around [1.62 million people unemployed](#).

In the wake of this financial devastation, lenders will undoubtedly be asking 'how resilient is this customer?' at the beginning of each customer journey, leaving vulnerable consumers at risk of greater financial harm now more than ever.

However, thanks to the groundbreaking technology of Open Banking, a new era of financial data could play a pivotal and pioneering role in helping vulnerable customers manage their finances. Here, we take a look at what exactly a vulnerable consumer is, how someone may become vulnerable, what practices financial institutions can put in place to protect them, and how Open Banking can help.

What is a financially vulnerable customer?

A vulnerable customer is someone who is likely to be at a financial disadvantage due to their personal circumstances. They are more exposed to risk and harm, especially when a financial institution doesn't act with the appropriate levels of care.

What makes a customer vulnerable?

The [Financial Lives Survey](#), carried out annually since 2017 by the Financial Conduct Authority (FCA), shows that 50% of UK adults display one or more characteristics of being potentially vulnerable. Some groups were also found to be more susceptible to vulnerability, such as those under 24 or over 65, unemployed people and individuals with no formal qualifications.

Vulnerability has been shown to manifest in two different forms, known as *actual* and *potential*. The difference between the two is that those deemed to be **actually** vulnerable will be officially vulnerable and will permanently need extra support, whilst those who are **potentially** vulnerable may fluctuate between the two due to transient life events.

The factors that act as drivers to actual or potential vulnerability include:

- Health: the individual may be suffering from health conditions that limit their ability to understand or inhibit their accessibility.
- Life events: a major life event such as a bereavement or the breakdown of a relationship may render a person financially vulnerable.
- Resilience: the person may have a low ability to withstand financial shocks.
- Capability: where an individual has a low knowledge or limited understanding of financial matters.

What are the consequences that poor support may have on a vulnerable consumer?

The consequences of a vulnerable consumer receiving little or no support when trying to navigate the complex field of financial services may ultimately lead to them making mistakes or poor decisions that could have long term effects.

The sort of harm that a vulnerable customer may encounter includes:

- Partial or complete financial exclusion
- Difficulty in accessing services
- Increased exposure to scams or mis-selling
- Disengagement with the market
- Inability to manage a product or service
- Over indebtedness
- The purchase of an inappropriate product or service

Therefore, an actual or potential vulnerable consumer is likely to require non-standard treatment from firms and when using apps.

Are financial services providers legally required to assist vulnerable customers?

Yes. Under the Financial Services and Markets Act 2000 (FSMA) Section 1C(2)(d), it is stipulated that customers should “**take responsibility for their choices and decisions**”, but this is supplemented with section 1C(2)(e) of the Act that states “those providing regulated financial services should be *expected to provide customers with a level of care that is appropriate*, having regard, amongst other things, to the **capabilities of the consumer in question.**”

How to identify a vulnerable customer

If a customer has already opted into Open Banking, their vulnerability may be identified via their spending patterns and other transactions. If a consumer is rendered vulnerable by a non-financial factor such as a relationship breakdown or physical impairment, this will be harder to identify. This potentially challenging identification process is exactly why it is fundamental for underwriters and in-branch staff to be readily equipped in providing adequate service, and that Open Banking providers explore all avenues for tailoring their services around actual and potential vulnerabilities.

How to treat vulnerable customers fairly

The FCA have set out extensive [guidance consultation](#) for firms to ensure the fair treatment of vulnerable customers. In brief, this covers three essential areas where additional research, training and support is needed. The basic outline of these principles is explored below:

Understand the needs of vulnerable consumers	Ensure skills & capability of staff	Take practical action
This requires firms to develop their understanding of what a vulnerable customer is and the potential risks of exposure to certain products and services.	Key components of this principle include equipping frontline staff with the appropriate skills and also offering those staff members practical and emotional support.	Taking steps to ensure that the following areas of day-to-day operations are tailored to the needs of vulnerable customers: <ul style="list-style-type: none"> • Product design • Customer services • Communications

Firms must then continue to learn, develop, monitor and analyse their procedures.

How can Open Banking help vulnerable customers?

Open Banking essentially puts the power back into the hands of customers and consumers, diminishing the need for large companies to own and store their financial data. The increased data insights combined with new, groundbreaking technology will also mean better products and enhanced support.

By controlling their finances from the comfort of their own environments, vulnerable customers are able to monitor their money from a safe space, which could make all the difference when it comes to both their financial, physical and mental wellbeing. Some apps and online services even offer a text box at the beginning of the consumer journey, where they can disclose any other information in their own time without the potential embarrassment of traditional in-branch communications.

Open Banking and APIs can include the seamless integration of debt advice and mental health resources in order to get a clear picture of the client's financial health in seconds, and in return provide tailored, appropriate advice.

Pattern recognition software will also pick up on unusual financial activity, and can simultaneously insert 'friction' or blockages into the user journey, or contact a designated friend or family member voluntarily provided by the customer at the beginning of the process.

This unprecedented access to low-cost, tailored financial advice could act as the gateway for a better, brighter financial future for everyone. To see the far-reaching potential for yourself, explore our intelligent decision block and Credit Console products that take careful steps to ensure the fair treatment of vulnerable customers.

What should financial institutions consider with regards to vulnerable customers?

When it comes to vulnerable customers, financial institutions should strive to provide honest and accessible advice about their products and the Open Banking initiative. They should also ensure that their policies and training are kept up to date and in line with government legislation and advice provided by the FCA.

With the collection and reviewing of consumer data regarding Open Banking, it is essential that financial institutions are well-versed in the requirements of the General Data Protection Regulation (GDPR) and the Data Protection Act 2018. In brief, firms should take care to ensure the accuracy of the information they record about customers and their vulnerabilities. There should also be an option for future reviews of this information, particularly in cases where vulnerability is transient.

Key articles of GDPR include Article 9, which stipulates that explicit consent is granted by the consumer, as well as Article 5(C), which details that only the necessary data can be stored and held. Firms should also consider the principle of storage limitation as personal data that is held for too long will become unnecessary.

If you'd like to find out more about Open Banking or our products, take a look at our Open Banking FAQs at www.aperidata.com or contact us at enquiries@aperidata.com



