



FCA Guidance Consultation 20/3: Guidance for firms on the fair treatment of vulnerable customers IFoA Response

The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. We represent and regulate over 32,000 actuaries worldwide, and oversee their education at all stages of qualification and development throughout their careers.

Key points

The IFoA supports the FCA's updated proposed Guidance for firms on the fair treatment of vulnerable customers. We recognise the need for financial services firms to embed the FCA's proposed Guidance within their respective corporate cultures.

The FCA's analysis of the potential impact of COVID-19 on vulnerable customers is particularly helpful and pertinent. We share the FCA's view that the COVID-19 crisis makes the consideration of customer vulnerability all the more important. Given the relevance of COVID-19 to the work of many actuaries, the IFoA has also been considering the broad and wide-ranging impacts of the pandemic; this includes the impact of the pandemic on protection insurance and savings customers.

The updated FCA's proposed updated Guidance provides more clarity on the scope of the proposals, including the duties of firms, which is helpful.

Given the extent of financial exclusion, the proposed Guidance could suggest that firms assess their product design and customer service/ communication processes, to determine what changes are necessary to help increase financial inclusion.

We agree that meeting the communication needs of vulnerable customers is very important. However, this is a key point which can be generalised: product communications and policy wording is often complex and can be misinterpreted by consumers, whether or not they are vulnerable. To the extent that lack of insurance cover (through unclear policy wording) causes financial loss, this can also cause consumer vulnerability.

Beijing

Edinburgh

Hong Kong

London (registered office)

Oxford

Singapore

14F China World Office 1 · 1 Jianwai Avenue · Beijing · China 100004 · Tel: +86 (10) 6535 0248
Level 2 · Exchange Crescent · 7 Conference Square · Edinburgh · EH3 8RA · Tel: +44 (0) 131 240 1300
1803 Tower One · Lippo Centre · 89 Queensway · Hong Kong · Tel: +852 2147 9418
7th Floor · Holborn Gate · 326-330 High Holborn · London · WC1V 7PP · Tel: +44 (0) 20 7632 2100
1st Floor · Park Central · 40/41 Park End Street · Oxford · OX1 1JD · Tel: +44 (0) 1865 268 200
163 Tras Street · #07-05 Lian Huat Building · Singapore 079024 · Tel: +65 6906 0889

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the FCA's Guidance Consultation (GC, GC20/3) for firms on the fair treatment of vulnerable customers. In developing our response to the GC paper (and corresponding feedback statement), we have drawn upon input from members working in the life and general insurance sectors.
2. It is important to note that, as for any IFoA response, we have considered the FCA's proposed Guidance from the perspective of the public interest.
3. The IFoA supports the FCA's updated proposed Guidance for firms on the fair treatment of vulnerable customers. As we mentioned in our response to the earlier consultation GC19/3, we recognise the need for financial services firms to embed the FCA's proposed Guidance within their respective corporate cultures.
4. The FCA's analysis of the potential impact of COVID-19 on vulnerable customers is particularly helpful and pertinent. We share the FCA's view that the COVID-19 crisis makes the consideration of customer vulnerability all the more important. As the FCA note, COVID-19 is exacerbating current vulnerabilities, but also deepening and widening them; many consumers will be newly vulnerable as a result of the pandemic, and its still unfolding impacts.
5. Given the relevance of COVID-19 to the work of many actuaries, the IFoA has also been considering the broad and wide-ranging impacts of the pandemic. To this end we have set up the IFoA COVID-19 Action Taskforce (ICAT) to understand the impact of the pandemic on both actuarial work and wider society. Amongst other outputs, ICAT has published a paper *Supporting protection insurance and savings customers*¹, which is highly relevant to the COVID-19 issues considered in the GC20/3 paper.
6. As we mentioned in our response to GC19/3, we believe there is a role for industry bodies to help promote the FCA's (updated) Guidance. Given our expertise in insurance and our public interest perspective, together with developing insights on COVID-19, we would be happy to play a role in the promotion of this Guidance.

Guidance Consultation: Feedback Questions

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

7. In our view the FCA's assessment of equality and diversity considerations is helpful: it distinguishes between protected characteristics and unprotected ones. In particular, we support the aim of the Guidance to have a positive impact both on groups with protected characteristics, and wider groups (not with protected characteristics) who nonetheless have characteristics of vulnerability.

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

8. As noted in our comments above, the IFoA supports the FCA's updated proposed Guidance. We note from the feedback statement that a number of enhancements have been made to the proposals, including some points we had raised in the IFoA response to GC19/3. The updated Guidance provides more clarity on the scope of the proposals, including the duties of firms. We also note from the feedback statement that some firms wanted to improve outcomes for vulnerable customers but were unsure how to do so; greater clarity (and removal of repetition) will hopefully be helpful in this regard. As above, it is also useful that the Guidance has been re-assessed from a COVID-19 perspective.

¹ See: <https://www.actuaries.org.uk/news-and-insights/news/supporting-protection-insurance-and-savings-customers>

9. As GC20/3 notes, many people suffer from financial exclusion, and corporate and social responsibility is relevant here. The Guidance could suggest that firms assess their product design and customer service/ communication processes from the perspective of financially excluded vulnerable customers. In particular, what changes could be made to product design and support processes to increase financial inclusion? These themes are explored in the IFoA ICAT paper *Supporting protection insurance and savings customers* referred to above.
10. The proposed Guidance notes the importance of meeting the communication needs of vulnerable customers. This is a key point which can be generalised: product communications and policy wording is often complex and can be misinterpreted by consumers, whether or not they are vulnerable. For example, this is particularly true for products such as critical illness that contain numerous medical definitions. To the extent that unanticipated lack of insurance cover (through unclear policy wording) causes financial loss, this can also cause consumer vulnerability.
11. We note that the FCA's separate work on General Insurance Pricing Remedies (which we understand is now concluding) is relevant to the fair treatment of vulnerable customers. We presume that the pricing remedies – when finalised – will have a bearing on the FCA's Guidance.

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

12. The IFoA is not best-placed to provide a quantitative answer to this question; individual firms may be able to answer from their perspective.
13. We note that the costs firms incur will depend on the extent to which adjustments need to be made for new and existing products; this would depend on scope and implementation timescales. Application to long-standing customers will also impact costs. The cost of implementation would also vary by the types of action needed: customer service process changes may more straightforward than system or contractual changes.

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

14. As the FCA explain in GC20/3, it is important that all relevant (financial service firm) staff should understand how their role can impact vulnerable customers. To that end, we suggest that the FCA could focus on monitoring the understanding and training of staff first of all, before moving onto firms' actions and communications.
15. We also suggest that the FCA target supervision in specific sectors where vulnerable consumers are considered to be most at risk of harm.

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?

16. Firms will need to explain to customers why they are collecting sensitive information, including whether the customer is vulnerable. Firms will need to take care in such engagement, as some customers may be reticent at being labelled as vulnerable. As we mentioned in our response to GC19/3, firms will need to avoid appearing overly-intrusive, as this could lead to customers disengaging, particularly if they are reticent over discussing their vulnerability.
17. We agree that training and empowering staff is vital to help businesses address the needs of vulnerable customers. Front-line staff may be best placed to identify new emerging needs. Businesses should use existing mechanisms such as improvement logs, process reviews and speaking out policies to collect data on how their policies address the needs of vulnerable customers and how they can be improved to better meet those needs.

18. **Q6: Do you have any other feedback on our proposals?**

We have no further points to raise.

Should you want to discuss any of the points raised please contact Steven Graham, Technical Policy Manager (steven.graham@actuaries.org.uk) in the first instance.

Yours Sincerely,

Tan Suee Chieh

President, Institute and Faculty of Actuaries