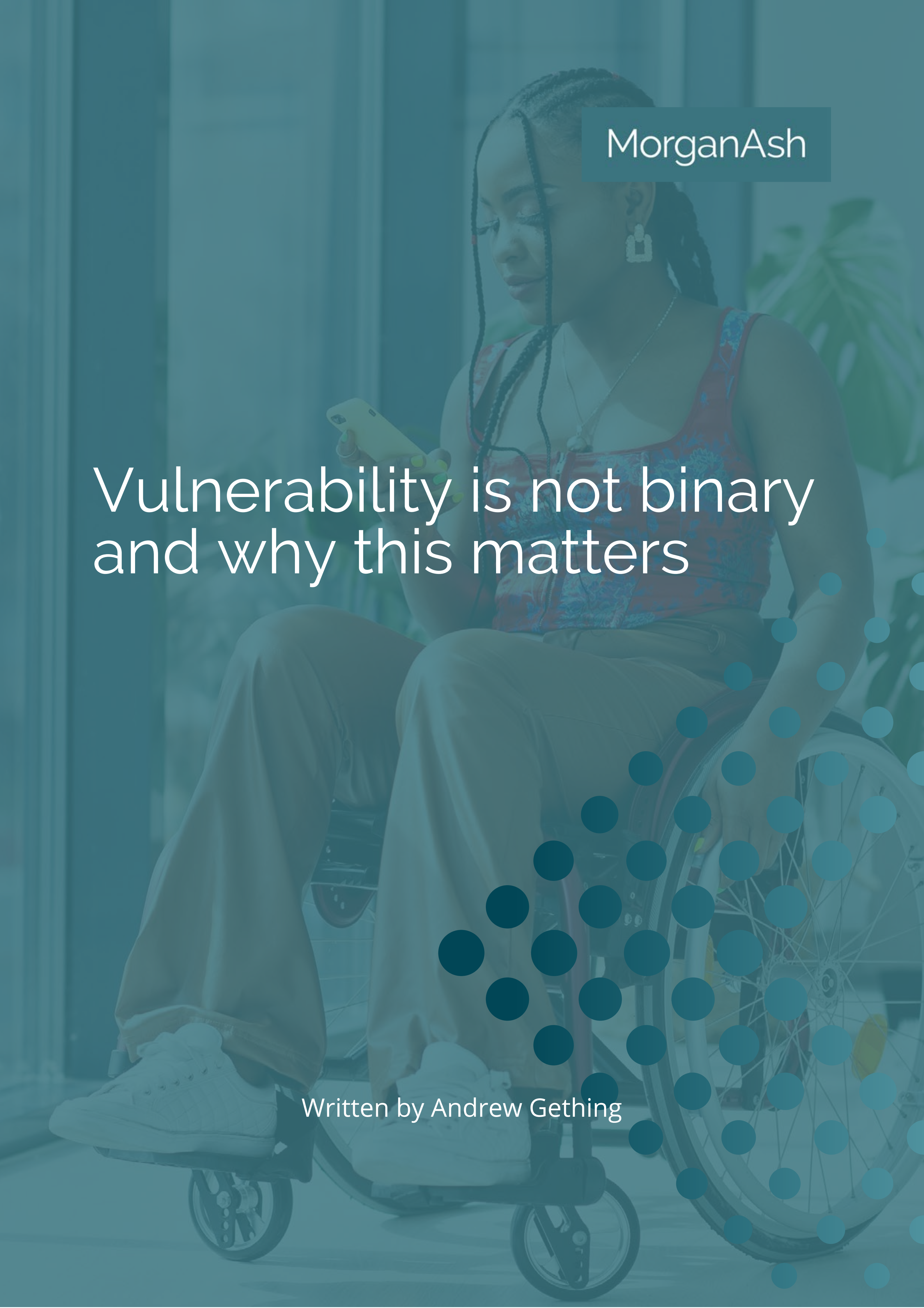

MorganAsh

Vulnerability is not binary and why this matters

Written by Andrew Gething

Vulnerability is not binary and why this matters

Over the last few years, financial services firms have started to get to grips with managing vulnerable customers. Many firms have added 'vulnerability flags' to their systems – often just a simple yes/no. There is a problem: vulnerability is not a binary issue. To ensure compliance with FCA regulations, a far greater granularity of detail needs to be collected.

The FCA's Financial Lives Survey 2020 showed that around 50% of consumers had one or more characteristics of vulnerability – or multiple characteristics contributing to vulnerability. From that group, around 14.2 million UK adults have low financial resilience. With around half of consumers potentially vulnerable, and a significant percentage financially vulnerable, it is imperative that firms do more to understand consumer vulnerability in order to comply with Consumer Duty regulations...

Currently, the assessment of vulnerability is often a subjective judgement made by an individual at the point of contact with the consumer. It is usual that a person's vulnerability is generally evaluated in proportion to the risk of consumer detriment from the products, services or situation relevant at the time. This is understandable: it is, after all, in line with FCA requirements, which is to minimise consumer detriment due to the vulnerability.

So, it may produce the appropriate outcome for the situation – although the decision is generally a blunt one, when considered as a binary issue. However, this is hugely problematic. Not only does it mean the drivers behind deciding whether someone is vulnerable or not are inconsistent, it also means that the vulnerability assessment should only be used for that situation.

Adding an across-the-board 'vulnerable or not vulnerable' flag to a system maybe unhelpful or entirely inappropriate for the next situation. It's also ethically questionable and potentially discriminatory.

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However, this is hugely problematic. Not only does it mean the drivers behind deciding whether someone is vulnerable or not are inconsistent, it also means that the vulnerability assessment should only be used for that situation. Adding an across-the-board 'vulnerable or not vulnerable' flag to a system maybe unhelpful or entirely inappropriate for the next situation. It's also ethically questionable and potentially discriminatory.

As an example, a person taking out simple life insurance may have several vulnerable characteristics that, in context, either may or may not affect the firm's risk of consumer detriment. Switch things up to, say, high-risk investments, and the previous decision/flag simply isn't a useful measure – but could be used without understanding of the vulnerability, just because the flag is there and 'to be on the safe side'.

It's just not enough to flag someone as vulnerable. Characteristics of vulnerability need to be properly understood. Deafness and loss of sight are obvious examples. These may be absolute and life-limiting, or the person may have support and technology in place to help them manage pretty much as well as someone who is sighted or who has perfect hearing. Understanding not just the vulnerability and its severity, but also how well it is managed, should have an impact on the decisions firms make. For example, a wheelchair user could be housebound and great at digital communication – and prefer to operate in this way, or mobile, with their own adapted vehicle – wanting to get out to meet or work with people. The person may or may not have a great support network. All of these factors count. We absolutely need to understand the consumer's vulnerability characteristics, their severity – and how these impact on their capabilities.

It's therefore obvious that a yes/no vulnerability flag, or registering someone on a database as vulnerable, is simply not sufficient for the needs of most financial services firms. At best, poor service is inevitable; at worst, services can be provided in a discriminatory way. Vulnerability is like wealth: describing someone as 'rich' or 'poor' may be a start – but does not get you very far. Like wealth, vulnerability is far more than a yes or a no.

We need to distinguish between consumers' vulnerability characteristics to accurately ascertain the potential for consumer detriment – which is to say, if those characteristics require a different process or action from the financial services firm.

Using MARS, financial services firms can capture all of a consumer's essential vulnerability characteristics, including health, wealth, engagement capability and support network.

Moving from a binary process to something more detailed, which can assess specific vulnerability characteristics, their severity, and how we may change our processes to accommodate them is a complex task.

At MorganAsh, we've tried to make this as simple as possible, by introducing a 'resilience rating' – a simple rating, not unlike a credit score. This can be used to quickly and easily communicate both someone's vulnerability and its severity. This scoring system is at the heart of the **MorganAsh Resilience System: MARS.**

This delivers data with the level of detail the firm needs to operate to comply with Consumer Duty requirements.. Rather than simply reporting that 50% of consumers are potentially vulnerable, we can report that we have 5% at rating 1 (very vulnerable) and 10% at rating 2 – and so on. This gives us a far better understanding of the vulnerability characteristics of consumers – and helps to manage vulnerability far more objectively. This data can then be used to help in fair value, target market and product design discussions.

Using MARS, financial services firms can capture all of a consumer's essential vulnerability characteristics, including health, wealth, engagement capability and support network. This enables firms to fully understand the vulnerability characteristics of each consumer and therefore any potential for consumer detriment – based on an objective, consistent resilience rating for each consumer.

MARS is an online system, specifically designed to enable financial services firms better assess, measure and manage consumer vulnerability – helping them to operate within the FCA's vulnerability and Consumer Duty guidelines.

Firms can trial MARS, free of charge, for a month, without limitations. Click **here** to start your free trial.