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Protecting vulnerable clients:

Ethical and regulatory obligations

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While the FCA initially committed to launching a review into how vulnerable people are treated in 2017, it is only very recently that we have seen any real, tangible movement. The term "vulnerable" means different things to different people, and unfortunately, in some circles, a stigma remains. This can be a consequence of a lack of understanding around the nuances and subtleties of the topic.

At 8AM, we hold regular webinars to help and educate many of our clients on pertinent topics such as client vulnerability.. We've learnt a lot on our journey, with many elements integrated into our everyday activities and how we support your ability to provide an investment proposition which is transparent and robust enough to support your clients.

Understanding vulnerability in financial services

The reality is that the vast majority of us, if not all of us, will be vulnerable at some stage in our lives. This could be due to a wide range of issues some or all of which can be present, including:-

Life events

- Caring responsibilities
- Income shock
- Relationship breakdown
- Bereavement

Capability

- Low knowledge/ confidence in financial matters
- Poor literacy/ numeracy skills
- Poor digital skills

Resilience

- Low or erratic income
- Over indebtedness
- Low savings
- Low emotional resiliance
- Lack of support

Health

- Physical disability
- Severe/long-term disability
- Hearing/visual impairments
- Poor mental health
- Old age

As an IFA, wealth manager, financial adviser, or, as we have seen recently, someone selling car loans and lease packages, it's essential to be aware of your client' personal situation wherever possible. The stigma we touched on above suggests, to many people, that 'vulnerability' is a permanent state of affairs. In fact, as we age and add life experience, many of us will move in and out of 'vulnerable' status on numerous occasions.

You could argue that those who retain a vulnerable status are easier to identify and assist compared to those whose status may change.. When we put all the noise, subtopics and regulatory twists to one side, it boils down to one thing. Do you know your client, as in, know your client properly?

Even though some clients will be aware of their vulnerability and may take proactive steps to inform their financial adviser, many people in this situation don't consider themselves 'vulnerable' and, unfortunately, often experience a degree of denial, or a simple lack of awareness. It's highly unlikely in our experience that the client will proactively tell you of their vulnerability. Some objectively self-evident, of course, but others require subjective interpretation on the part of the adviser.

The evolution of FCA regulations

As we touched on above, the FCA stepped forward in 2017, promising a belt-and-braces review of how vulnerable people were treated in the world of finance. After failing to materialise, there was a recommitment in 2021, although in reality, it is only this year that we have seen any tangible progress. In line with recent activity, step forward the Consumer Duty Act. Once the ball starts rolling on protecting the vulnerable, action will likely be prompt, very public, and potentially involve significant fines.

However, it's essential to put this challenge into perspective. A recent wealth management survey suggests that 60% of companies believe that none of their customers are vulnerable. However, this doesn't match the fact that 50% of individuals (overall) are expected to experience a vulnerable status at some point in their lives. And not that age is everything when it comes to vulnerability - far from it, in fact - but we're living longer, so demographic changes are against us to a certain degree.

Invariably this data is skewed by the advice-gap, in theory that statistic posits that 50% of all UK adults won't enter 'vulnerable' status. To what extent that percentage is representative of the small chunk of adults who receive financial advice is unknown - but it is extremely unlikely that none of them fit the criteria.

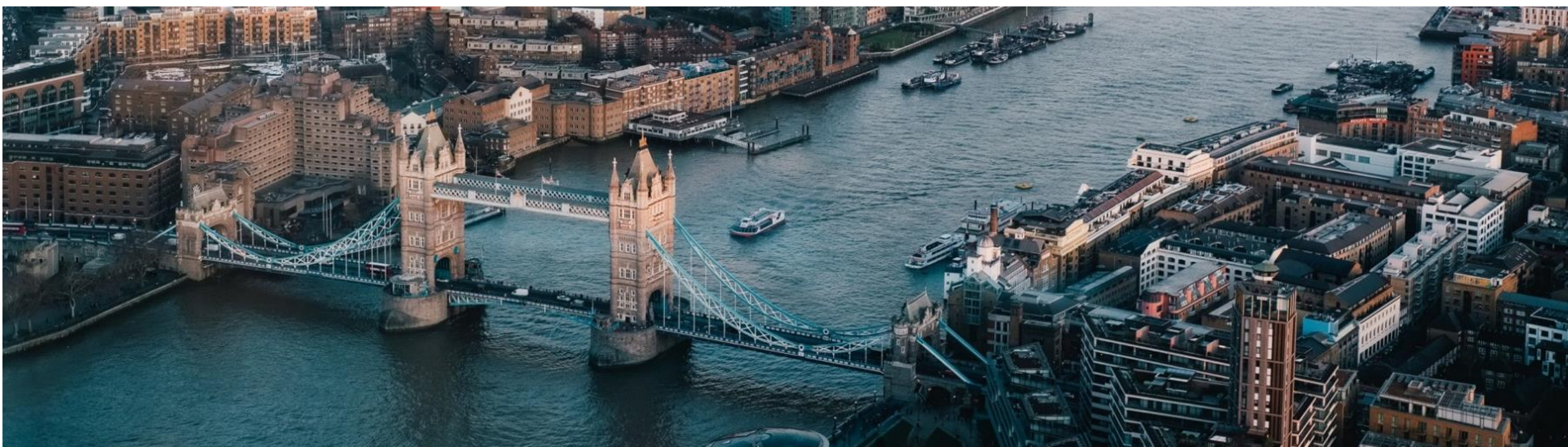
Many IFAs don't know what they're looking for, how will they know when they see it? Right or wrong, many in the financial services industry are portraying a lack of concern (urgency may be a better term), which in turn means that technology-based solutions are not top of the agenda or readily available in your average practice.

IFAs, financial advisers, and wealth managers now have a chance to express their concerns during the consultation period, but the broad guidelines and potential consequences have been available for some time.

Practical implications for IFAs

When looking at regulations for vulnerable clients, we are in danger of pigeonholing this as a regulatory issue, but it isn't. Business ethics, morals, social responsibility, call it what you may, surely it's only natural to show empathy to the struggling and the vulnerable?

To think that a client who has just lost their lifetime partner is in a position of total clarity and able to make life-changing financial decisions is quite frankly deluded. They may look calm and collected on the outside, but inside, they are facing a life-changing situation from which (statistically) their decision-making will be altered.



As an IFA, wealth manager or broader financial adviser, it's essential to protect yourself:-

- Create an in-house policy on the treatment of vulnerable clients
- Ensure your policy aligns with not just FCA guidance but thought leadership (this often points the way)

From a procedural angle, it's critical that:-

- ALL staff are trained to recognise vulnerable clients and situations, not just advisers
- Financial advice and guidance is tailored to a client's individual needs (isn't it always?)
- Record keeping is detailed and up-to-date
- There are specific customer protection measures in place to reduce exposure to fraud, mis-selling and other associated risks
- Each client situation is regularly reviewed, monitored and records updated so that all members of staff (and the regulator) have a reference point
- Technology supports a dynamic, evolving approach to identifying vulnerabilities and keeping records of action

An individual's vulnerable status can be fluid, and so should a company's approach and policies towards their wellbeing and protection. This is not just a tick-box exercise, an age-related issue, or even one revolving around health; it's much more profound and much broader than that, and requires embedding in the MO of a practice.

Protecting the vulnerable: More than just a compliance issue

As supporters of protecting vulnerable clients and delivering appropriate advice and guidance, we see this issue as not a regulatory battle but something more ethical and related to how we run our businesses as an industry.

We envisage a world where vulnerabilities - whether permanent or temporary - are identified and acted on quickly, always putting the wellbeing of clients front and centre.

This helps to nurture and create a natural trust, which in turn creates a more profound and understanding relationship. One where clients will approach us for advice and guidance on life's challenges and open up to us about their vulnerabilities, which allows us to adapt and shape our future advice and guidance around their specific needs. A win-win for all?

Overcoming challenges and seizing opportunities

What's the biggest challenge? It's putting yourself (and your colleagues) into the right mindset to be able to identify a vulnerable situation and help a vulnerable person and acknowledge that our current ways of working are limited. Obviously, there are only so many hours in the day - the solution is clearly not a 'Silver Bullet' software or a slight change to process - it's about addressing the way that we think about our clients (possibly with software and a process change as well!).

The added 'stick' of financial regulations, potential fines and penalties, not to mention reputational damage, should be enough to focus the mind of a modern-day IFA. So, what's the opportunity in this scenario? Simple, to help and assist those in a vulnerable situation, which will probably cast your company and you in a very good light - they may even name a roundabout or shopping centre after you!

Eventually, we will see the tech-based approach to identifying and assisting those in vulnerable situations permeate quite quickly (AI and API-led, low cost tech is democratising access to such functionality), but while we wait, collaborative partnerships and support networks will be critical. Show empathy, show that you care, and embed the processes to capture the outputs of this in the right way.

We genuinely believe, by the way, that most advisers *do* care, so this could come down to, in many cases, operational tweaks.

Conclusion

As with so many issues the FCA takes on today, historic impressions and unhelpful stigmas remain, which can take some time to address. Of course, as people, financial advisers, and company owners, we all want to help those in challenging situations, but we might also need a little guidance. How do you identify somebody who is vulnerable? How do you approach them and ask without offending them?

Technological solutions are emerging, especially those based in identifying behavioural triggers as well as financial red flags, and there is interest in sharing big data to benefit clients, but empathy will always be a critical part of this process. While empathy and appreciation don't always pay the bills, they will stop the fines and enhance your reputation in the longer term. Surely, this is worth more than any amount of money?

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