AKG

Research Paper 2023

Protecting the Vulnerable: Navigating the Evolving Regulatory Landscape in a Post-Pandemic World

IN ASSOCIATION WITH:

Fidelity INTERNATIONAL

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CONTENTS

INTRODUCTION

1.1 // BACKGROUND

Welcome to AKG's latest industry research paper which explores key issues relating to vulnerable customers and financial wellbeing.

As a key part of this project, we have again carried out market research exercises with adviser and consumer samples to ensure the paper is informed by fresh research findings and themes.

The scene is set by forming a picture of consumer sentiment and feelings, seeking to understand the impact of the past two years on them and ascertaining their confidence levels and concerns when it comes to managing finances and associated decisions.

The paper appraises adviser understanding of, and readiness for, the vulnerable customers framework introduced by the FCA, as well as gauging awareness of this element as it falls under the broader remit of the FCA's Consumer Duty body of work.

It looks at adviser definitions and perceptions of vulnerability given the impact of COVID-19 and the ensuing period of economic challenge brought about by inflationary pressures.

It also seeks to establish what the industry is doing to better identify, understand and serve vulnerable customers in future in its attempts to ensure both compassionate service experiences and positive customer outcomes.

1.2 // MARKET RESEARCH EXERCISES

Consumer research – quantitative

The consumer research element of this project work was facilitated on AKG's behalf by Opinium Research. The field work, in the form of an online survey, was carried out between 14 February and 17 February 2023 with a research sample of 2000 UK adults. Results weighted to be nationally representative.

Most findings in this paper are referenced at a headline (total respondent) level, although further interrogation of findings can be done by gender (M/F), age group (18-34; 35-54; 55+) and region (multi).

A list of the questions posed in the consumer survey is provided in the Appendix.

Adviser research – quantitative

The quantitative adviser research element of this project work was facilitated on AKG's behalf by Pureprofile. The field work, in the form of an online survey, was carried out in February 2023 with a research sample of 100 advisers. A list of the questions posed in the adviser survey is provided in the Appendix.

Adviser research – qualitative

Across December and early January 2023, a series of qualitative interviews were carried out with participation from 22 individuals representing 19 advice firms using telephone or teleconferencing resources.

Interview participants worked in a variety of roles within their firms ranging from the most senior CEO/strategy directors through to compliance and business development staff as well as some client facing advisers.

These interviews were facilitated on AKG's behalf by Frank Fletcher of Widewater Consulting and were conducted in compliance with Market Research Society guidelines. All interviews were done on a confidential basis. Interviews lasted approximately 30 minutes.

AKG sought to achieve a balance of advice firm types in this qualitative research sample, including national and mainstream advisory, consolidator, disruptor/technology, network and service provider and corporate/workplace specialist advisers.

But when it comes to labelling advice firm types we are again reminded of the evolution of businesses and the overlap which now exists in many in terms of business model and breadth of proposition/service. Indeed quite a few could be categorised across multiple firm types.

The mix of firms from which participants were interviewed is simply categorised as follows:

- 4 interviews with regional and other mainstream financial advisory firms (identified as '**M**' in verbatim quotes)
- 5 interviews with representatives of National/financial advisory firms (including IFAs and restricted/vertically integrated firms (identified as '**Nat**' in verbatim quotes)
- 5 interviews with Network/service provider firms (identified as '**Net**' in verbatim quotes)
- 5 interviews with Corporate Advisers/Employee Benefits Consultants and others with a strong Workplace proposition (marked '**W**' in the verbatim quotes)

Where verbatim quotes are used in this paper, they are all anonymised and referred to only by broad description of respondent firm type.

1.3 // SPONSORS

This industry research paper has been sponsored by Fidelity, RBC Brewin Dolphin and Standard Life.

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AKG would like to extend its thanks to each of these sponsors for their support with this valuable project work.

1.4 // VULNERABLE CUSTOMER DEFINITION

"A vulnerable customer is someone who, due to their personal circumstances, is especially susceptible to harm, particularly when a firm is not acting with appropriate levels of care." Source: FCA, FG21/1 - Guidance for firms on the fair treatment of vulnerable customers

Financial wellbeing definition

"For us at the Money and Pensions Service (MaPS), financial wellbeing is about feeling secure and in control. It's about making the most of your money from day to day, dealing with the unexpected, and being on track for a healthy financial future. In short: financially resilient, confident and empowered.

People who experience financial wellbeing are less stressed about money. This, in turn, has positive effects on their overall mental and physical health, and on their relationships." Source: MaPS

1.5 // CONSUMER DUTY OVERVIEW

Highlights from a speech delivered by Sheldon Mills - Executive Director, Consumers and Competition, FCA - at the Consumer Protection in Financial Services Summit on 29 September 2022:

- *"Consumer Duty is a significant shift, both for firms and for us at the FCA. It is also an opportunity. The Duty provides a fairer basis for competition and the flexibility of an outcomes-focused, rather than prescriptive, approach. It will provide a boost to growth and innovation"*
- *"The Consumer Duty comes at a challenging time for consumers and the wider economy. While the duty is not yet in force, firms should be stepping up now to support customers in these straitened times and ensure customers get good outcomes"*
- *"Boards and senior management have a critical role in overseeing firms' implementation of the Duty. We are committed to working closely with industry during the implementation period and beyond to get this right"*

Source: FCA

EXECUTIVE SUMMARY

2.1 // CONCLUSIONS

Two long-standing items for the industry to address are yet again highlighted in this latest AKG research paper – the requirement for better financial education and bridging 'the advice gap' - along with important messaging around the evolution of vulnerability.

Improved financial education

We need to cultivate better levels of financial awareness and education amongst UK consumers, across age groups, gender and ethnicity. This will in turn help to build knowledge and resilience in consumers and also help to smooth their engagement with different financial services industry touchpoints.

Whilst this is of vast concern to the industry, it is not always seen as their role to address it. Providers and advice firms can complement and build on strategic government/education initiatives, because it is harder to try to build them independently. There will be huge pressure on MaPS budget and resources to fulfil all their requirements for consumers.

Filling 'the advice gap'

We know from this body of research and many others that a wide range of consumers need more help when it comes to understanding and making financial decisions. Access to affordable financial advice remains challenging for the majority of consumers and so outside of the mainstream advice market financial services needs to continue to widen the availability and access to useful information, guidance and advice (and 'yes' the definitions of each still matter and need further clarification to boost development opportunities).

Acknowledging evolution of vulnerability

Beyond these two, the industry needs to acknowledge that the rising cost of living has changed consumer behaviour – with the consumer research highlighting the three most notable behavioural changes as being a more cautious nature, affordability to save and a focus on short term needs.

The past two years has also seen heightened anxiety around financial decision-making considerations for consumers and an associated impact on financial confidence.

The definition of and scope for vulnerable customers has evolved and broadened as a result of the pandemic and subsequent cost of living crisis, as well as via the FCA framework. Advisers are realising that this might range from physical or mental health related issues to circumstantial/situational life events, such as bereavement, separation/divorce or job loss/redundancy.

Perhaps the biggest shift has been in the growing awareness of mental health issues in the past couple of years.

2.2 // SUMMARY OF KEY FINDINGS

- Whilst vulnerability can occur across age groups there is still an association with retirement and later life planning decisions being a vulnerable event/time for those involved
- Advice firms are concerned that the servicing of vulnerable customers will push costs and resource requirements higher. Ditto for Consumer Duty
- Awareness of and interaction with the development of financial wellbeing as a concept appears more widespread amongst those workplace advice firms interacting with employers. The challenge here is trying to track exactly what use is made of such services by employees
- Whilst financial advisers do recognise it to a degree, their main focus is typically at a financial planning level with clients. But it may be the case that financial advisers wish to also give the development of a client's financial wellbeing more prominence given the focus on delivering value via the Consumer Duty requirements
- And there are signs that advisers are developing financial wellbeing as the bedrock of what they do and seeking to articulate this more – as suggested by growing perception of the future role of financial coaching
- However, and as previously outlined concerns linger that there are very large parts of the population who do not engage with advice and guidance and therefore are beyond the scope of financial wellbeing approaches
- The fact that financial wellbeing and vulnerability apply enormously to the debt side of the financial balance sheet should also be acknowledged
- General levels of preparedness for the FCA's vulnerable customer regime amongst those advice firms interviewed by AKG were decent and they were in lockstep with the FCA's good intentions with this area of regulatory development and focus (and had generally found the FCA supportive throughout), but there is a feeling that this is a case of successfully reaching the 'start line' with much still to play out from here and plenty of challenges still to come
- Some advisers do therefore have concerns about implementing their vulnerable customers strategies effectively in the field beyond the preparation and planning phase of the work. From here on there will still be plenty of areas where providers and other specialists, be they compliance or specifically vulnerable customer focused, can help advice firms meet the challenges of servicing vulnerable customers
- In particular further support and training around the identification of vulnerable customers and associated servicing requirements will be needed. There will also be requirements around monitoring, recording and reporting on service interaction with vulnerable customers in terms of building robust proof points and audit trails
- Sentiment around the building momentum of preparatory requirements for Consumer Duty adherence feels different. Those advice firms interviewed by AKG recognise this as being something of 'a beast' and acknowledge the time/resource drain involved in getting ready. And only half of those surveyed feel they are well prepared for Consumer Duty with the remainder admitting they are unprepared and could do better. Again, help will inevitably be required from providers and other specialists to support advice firms with preparation for and adherence to the Consumer Duty
- It is difficult to argue with the key tenets and intentions of the vulnerable customer and Consumer Duty initiatives and their impact on the industry can already start to be seen. These key regulatory developments will dominate adviser and provider worlds during 2023 and 2024 and beyond, but it is vital that the impact of this focus and these energies is felt outside of the financial services vacuum in terms of improved perception by consumers
- To some extent the direction feels quite positive, in terms of the aligned objectives of advisers and the regulator in particular and the way they chime with needs of customers. But this is not to understate the challenge though, given a context of a lack of understanding by customers and the circumstances that consumers find themselves in
- The recently announced intention by the FCA to review advice in the retirement income market might also carry a sting in the tale during 2023 when findings are revealed and also carries relevance to the outcomes based intentions of Consumer Duty and of course will consider retirement income choices made by vulnerable customers

SCENE SETTING, PT. 1 - UNDERSTANDING THE IMPACT OF THE PAST TWO YEARS ON CONSUMERS

We simply cannot get away from the conversation about the seismic impact of the past two years on UK consumers, nor should we. What has been experienced needs to be acknowledged and understood by the financial services industry so that a positive future can be built upon from here. And whilst not all of this will make such positive reading it should help to plot a path through vulnerable customer and Consumer Duty development strategies.

> *"The past few years have been tough, with the loneliness of Covid lockdowns followed immediately by inflation and double-digit price rises. It's concerning but unsurprising that the number of UK adults experiencing moderate to severe depression has increased sharply from 10% between July 2019 and March 2020 to 16% in Autumn 2022. Through our conversations with customers we know that people feeling low or depressed tend to lack motivation to manage their money. Many tell us they no longer feel like trying to plan for the future. Often, people struggling with their mental health make impulsive decisions, and short-term worries can overwhelm the need to take a longer-term view."*
>
> **Riffat Tufail, Head of Customer Vulnerability at Standard Life**

3.1 // HAS THE RISING COST OF LIVING CHANGED YOUR FINANCIAL BEHAVIOUR?

AKG's consumer survey sought to gauge changes in behaviour brought about by the rising cost of living. Just under one-third (30%) of those surveyed reported no change in their behaviour around financial decisions, but there were behavioural changes for many others.

Has the rising cost of living and the impact of inflation changed your behaviour when it comes to financial decisions?

- 37% are more cautious now
- 28% can't afford to save money at the moment
- 23% are more focused on short term needs
- 8% are planning on delaying retirement
- 7% are worried about being able to make mortgage payments
- 6% are considering equity release to meet cashflow needs

Source: Consumer survey findings

These provide some early pointers towards vulnerable customer and Consumer Duty situations and considerations.

3.2 // CHANGES IN CLIENT BEHAVIOUR/ VULNERABILITY DUE TO PANDEMIC AND COST OF LIVING CRISIS

The impact of the pandemic and the subsequent cost of living crisis on client behaviour is also backed up by adviser survey findings and this comes through in a multitude of ways.

From an income squeeze perspective, 46% of those advisers surveyed have noticed clients taking more money out to pay bills/meet immediate income shortfall requirements.

Recognising the need for an accessible savings pot, 36% have noticed clients taking more money out to build 'rainy day funds'.

Other 'alterations to the plan' seen by those surveyed were 35% of advisers noticing clients withdrawing money that deviates from previously stated plans and 28% of advisers witnessing clients seeking pauses to policies and premiums.

A balance was seen on the impact of clients seeking advice – 30% of those advisers surveyed felt clients are seeking advice more often than before; 29% felt clients seeking advice less often than before.

The element of caution in the consumer survey also played out here with 29% of advisers experiencing clients changing investment to lower risk types.

Have you noticed any changes in client behaviour/vulnerability following the pandemic and subsequent cost of living crisis?

Seeking advice more often than before - 30%

Seeking advice less often than before - 29%

Taking more money out to build 'rainy day fund' - 36%

Taking more money out to pay bills/meet immediate income shortfall requirements - 46%

Withdrawing money that deviates from previously stated plans - 35%

Changing investment to lower risk types - 29%

Seeking pauses to policy and premiums - 28%

Cancelling policies or advice - 7%

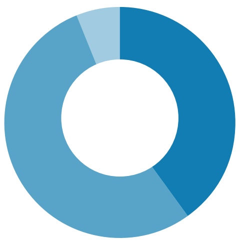
No changes observed - 3%

Source: Adviser survey findings

3.3 // HAVE YOU FELT STRESSED WHEN MAKING FINANCIAL DECISIONS IN PAST TWO YEARS?

Somewhat inevitably a significant number of those consumers surveyed by AKG have felt stressed when trying to make financial decisions in the past two years.

Have you felt stressed when trying to make financial decisions in the past two years?



Yes - 40%

No - 54%

Prefer not to say - 6%

Source: Consumer survey findings

3.4 // HAVE YOU MADE POOR FINANCIAL DECISIONS IN PAST TWO YEARS?

Fortunately, over half, 55%, didn't feel they had made poor financial decisions in the past two years.

But one-third of those responding to this question did feel they had made poor financial decisions in the past two years.

13% felt they had made poor decisions on savings. 10% on debt matters, 8% on investments, 7% on their pension, 6% on other financial services policies (e.g. on insurance) and 4% on their mortgage.

Do you feel you have made poor financial decisions in the past two years?

Yes - on investments - 8%

Yes – on my pension - 7%

Yes - on savings - 13%

Yes – on my mortgage - 4%

Yes - on debt - 10%

Yes - on other financial services policies (e.g. on insurance) - 6%

No - 55%

Don't know - 8%

Prefer not to say - 4%

NET: Yes - 33%

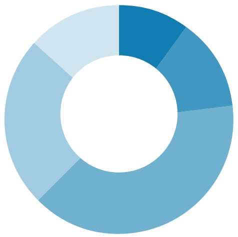
Source: Consumer survey findings

3.5 // HAVE OLDER OR VULNERABLE RELATIVES MADE POOR FINANCIAL DECISIONS IN PAST TWO YEARS?

24% of those consumers surveyed don't have any older or vulnerable relatives and 39% say their older or vulnerable relatives have not made poor financial decisions in the past two years.

But 10% say their older or vulnerable relatives have made poor decisions and lost out financially, while 13% say they have made poor decisions, but not lost out financially.

Do you believe your older or vulnerable relatives have made poor financial decisions in the past two years?



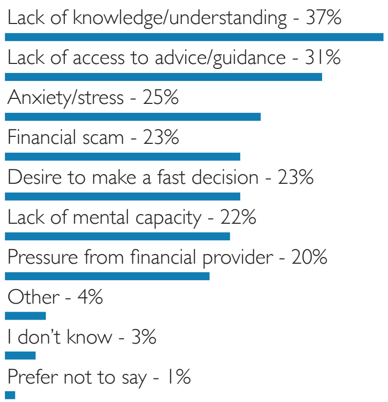
- Yes – they have made poor decisions and lost out financially - 10%
- Yes – they have made poor decisions but not lost out financially - 13%
- No - 39%
- N/A – I don't have any older or vulnerable relatives - 24%
- I don't know - 13%

Source: Consumer survey findings

3.6 // CAUSES & REASONS BEHIND POOR DECISIONS MADE BY OLDER/VULNERABLE RELATIVES

Those who felt that poor decisions had been made by older or vulnerable relatives were subsequently asked to select what caused this to occur.

You mentioned your older or vulnerable relatives have made poor financial decisions, what caused this?



Source: Consumer survey findings

SCENE SETTING, PT. 2 - UNDERSTANDING CURRENT CONSUMER CONFIDENCE LEVELS & CONCERNS

4.1 // LEVELS OF FINANCIAL CONFIDENCE IN THE FACE OF RISING COST OF LIVING

Consumers were asked via the survey about their current level of financial confidence in the face of inflation.

17%
of those consumers surveyed by AKG are very anxious about money matters at present, especially the impact of the rising cost of living, and could do with some support.

29%
are anxious about money matters at present, but are taking steps to manage finances through the rising cost of living.

27%
are coping with their money matters though will struggle if costs continue to rise.

23%
are confident about money matters at present despite the rising cost of living as their finances are in a good place.

Source: Consumer survey findings

4.2 // CURRENT FEELINGS AROUND FINANCES

Subsequently consumers were asked about their feelings when it comes to thinking about their finances, selecting from some descriptive words/terms.

On the negative side...

- 32% feel anxious – noticeably more so for females (38%) than males (26%)
- 13% feel alone
- 12% feel unsure of where to go for support
- 11% feel priced out

On the positive side...

- 28% feel confident – noticeably more so for males (34%) than females (22%)
- 11% feel reassured
- 10% supported

Source: Consumer survey findings

4.3 // LEVELS OF CONCERN AROUND FINANCIAL DECISION-MAKING CAPABILITY AS PEOPLE GET OLDER

AKG's survey sought to appraise levels of concern (for themselves or for older or more vulnerable relatives) for financial decision-making capability as people get older.

- Overall, 49% of those surveyed expressed a degree of concern – 14% were very concerned and 35% were somewhat concerned - about their own financial decision-making as they get older
- Overall, 45% of those surveyed expressed a degree of concern – 15% were very concerned and 30% were somewhat concerned – about older or vulnerable relatives financial decision-making

Q. Are you concerned about your or any vulnerable or older relatives financial decision-making as you / they get older?

ANSWER CHOICES	MY DECISION MAKING	DECISION MAKING OF OLDER/VULNERABLE RELATIVES
Yes – very concerned	14%	15%
Yes – somewhat concerned	35%	30%
No - not very concerned	29%	22%
No – not concerned at all	13%	11%
N/A	5%	19%
Prefer not to say	3%	3%
NET: Concerned	49%	45%
NET: Not concerned	43%	33%

Source: Consumer survey findings

4.4 // CONCERNS ABOUT YOUR FINANCIAL DECISION-MAKING CAPABILITY IN CERTAIN SITUATIONS?

Without specifically mentioning the 'V-word', AKG wanted to find out via the consumer survey in which situations/scenarios consumers would be concerned about their financial decision-making capability.

Deteriorating mental health was the most selected, by 36% of those surveyed, followed by illness (30%) and deteriorating physical health (28%).

Bereavement (19%), redundancy (16%) and separation/divorce (15%) all came through.

Interestingly, approaching retirement was selected by 14%.

Q. Would you be concerned about your financial decision-making capability in any of the following situations?

ANSWER CHOICES	RESPONSES
Deteriorating mental health	36%
Illness	30%
Deteriorating physical health	28%
Bereavement	19%
Redundancy	16%
Separation/divorce	15%
Approaching retirement	14%
None of the above	21%
I don't know	12%
Prefer not to say	4%

Source: Consumer survey findings

WHO ARE VULNERABLE CUSTOMERS?

5.1 // EVOLVING DEFINITION OF VULNERABILITY

AKG's survey of advisers sought to appraise whether definitions of what might constitute vulnerability in clients has changed over the past couple of years. Overwhelmingly, 91%, of those advisers surveyed felt that their vulnerability definition has changed to some degree.

- 47% said it had evolved in response to the COVID-19 pandemic and 43% in response to (the backdrop of) economic uncertainty
- 39% of those surveyed said their vulnerability definition had evolved to consider mental health
- 30% said it had evolved to include FCA definitions

Q. Has your definition of what constitutes vulnerability in a client changed over the past couple of years?

ANSWER CHOICES	RESPONSES
We do not have a formal definition of vulnerability	2%
No, it has stayed the same	7%
Yes, it has evolved to consider mental health	39%
Yes, it has evolved to include FCA definitions	30%
Yes, it has evolved in response to economic uncertainty	43%
Yes, it has evolved in response to the COVID 19 pandemic	47%
All "yes"	91%

Source: Adviser survey findings

5.2 // WHICH CLIENTS WOULD BE REGARDED AS VULNERABLE?

The survey also sought to ascertain in which situations/scenarios clients would automatically be regarded as vulnerable by those advisers surveyed. As might be expected, those clients who have suffered a bereavement were most likely to be considered as automatically vulnerable by advisers (44%).

Those suffering a relationship breakdown (33%) and those who have been made redundant or lost a job (33%) were equally deemed to be automatically regarded as vulnerable clients.

27% of those advisers surveyed flagged clients suffering ill health as another group/segment which would be automatically regarded as vulnerable.

Q. What groups/segments of your clients would you automatically regard as vulnerable?

ANSWER CHOICES	RESPONSES
Clients who have suffered a bereavement	44%
Clients who have suffered a relationship breakdown	33%
Clients who have been made redundant/lost their job	33%
Clients suffering ill health	27%
We rate clients as vulnerable based on their circumstances	26%
All retired clients	18%
Over 70s	15%
Clients suffering poor mental health	9%
Over 50s	6%
Don't know	4%

Source: Adviser survey findings

5.3 // HOW MANY VULNERABLE CLIENTS MIGHT YOU HAVE?

AKG's survey also asked advisers to estimate what percentage of their firm's clients could be classified as vulnerable customers. The highest proportion of respondents, 43%, estimated between 31-40%.

Q. What percentage of your firm's clients do you believe could be classified as vulnerable customers?

ANSWER CHOICES	RESPONSES
5-10%	1%
11-20%	13%
21-30%	18%
31-40%	43%
41-50%	16%
51-60%	6%
61% plus	3%
Average	34.5%

Source: Adviser survey findings

5.4 // WHO ARE VULNERABLE CUSTOMERS?

Those advice firms interviewed by AKG appear to have strong and coherent views on what constitutes a vulnerable customer. These views extend from strict adherence to the FCA grid and final guidance to the far from unique view that, at least as far as new or prospective clients are concerned, they should be treated as potentially vulnerable until proved otherwise.

Even among existing clients, advisers are increasingly being coached to be aware of signs of potential temporary vulnerability from factors such as major life events.

One interview participant, very helpfully shared a comprehensive list of 11 possible sources of potential vulnerability and how they might be countered:

- Difficulties with travel/accessibility – offer home visits, as most advisers do
- Lack of available free time, for example clients with full time care responsibilities – give advisers guidance to allow for this
- Difficulty in communication, for example because of physical or mental incapacity – advisers are trained to look for and adapt
- Mortgage advice clients = need to make reasonable forecasts relating to income, health/addiction issues – if they are likely to deteriorate, then we would look to make different recommendations than those for non-vulnerable clients
- Clients with difficulties comprehending - it does not come up often, but we would recommend having a solicitor present
- Those with mental capacity, literacy or learning difficulties – we give advisers guidance on how to proceed
- Temporary vulnerability for example because of divorce, bereavement, a recent diagnosis or retirement, leading to reduced concentration is very common – advisers need to be aware and respond appropriately
- Client able to comprehend but unable to evaluate = for example through addiction, mental health – advisers have instructions on how to proceed
- Drugs, alcohol and affordability issues – advisers coached on how to identify
- Undue, improper behaviour, controlling, threat of violence – adviser would report to the financial client team; they would not be allowed to engage
- Financial difficulties, insufficient income, unmanageable debt – advisers would refer to debt counselling

Definitions and focus have definitely shifted and increased in recent times- healthwise because of the pandemic and on financial metrics since the cost of living crisis began to have its effects. Firms are therefore generally providing more training and monitoring of client interactions.

5.5 // PRODUCT & SERVICE AREAS SUSCEPTIBLE TO VULNERABLE CUSTOMER SITUATIONS

All business areas/types could theoretically be liable to vulnerable customer situations, but several stand out – in some cases to the extent that advisers might decline to handle them or pass them on to other expert advisers:

- Mortgage and debt (especially mortgages around or into retirement)
- Equity release
- Other later life business (including care fees planning)
- DB transfers

5.6 // IDENTIFYING & SERVICING VULNERABLE CLIENTS

From the interviews, the key tools being used by advice firms are:

- Enhanced adviser training in terms of subject matter and frequency
- Monitoring and compliance oversight

And the majority of advice firms strive hard to accommodate clients of all types, but the vulnerable customer regime has caused an increase in compliance and training burdens.

Interview participants referred to the fact that FCA quotes figures suggesting half or more of all clients are potentially vulnerable at any one time. Some firms say they regard all new clients as being potentially vulnerable (until proven otherwise), but the 'median' suggestion is that perhaps 15-20% of all clients fall under one or more definitions of potential vulnerability.

There are areas of business where firms might decline to engage with potentially vulnerable clients and these may limit choice of options for clients with real needs.

5.7 // FLAGS & SIGNALS

Quotes from interview participants give many examples of how flags and signals work in the field, but virtually all firms have a second line of defence in business quality checking – even in some cases 100% for all new clients and new advisers. Many flags and signals would be picked up routinely in the fact finding process (physical or mental impairment or communication difficulties for example) but advisers are generally encouraged to seek guidance from training, compliance or even as a first port of call other experienced colleagues. And for all firms training and competence is there as a backstop.

5.8 // IDENTIFYING & SERVICING VULNERABLE CUSTOMERS - IN THEIR WORDS

"A vulnerable customer is anyone not able to fully engage in financial matters without support. Some are permanently vulnerable; for other vulnerability might be temporary." N

"What worries advisers is the potential need for expert inputs and assessments. A lot of what we do is geared to call centres rather than individual advisers. We have built a framework to point to firms that are experts. We use Comentis, for example on equity release." N

"Our fact finding process has a lot of specific questions aimed at surfacing vulnerabilities We coach some relevant conversation techniques aimed at ensuring the client understands. There may be clear red flags around understanding and irrational behaviour for example around pensions." N

"Equity release, debt consolidation, principals in divorce proceedings, later life lending are all areas where we would look at resilience, capabilities and health." N

"All customers are potentially exposed to harm and there is harm inherent in some products and services because of what they are and the needs they address." N

"We have 11 client profile descriptions where one or more possible vulnerabilities may exist." N

"We look for things like changes in behaviour, memory failing, continually taking more income, life events. We arm advisers with examples to help them. We give the Comentis questionnaire to clients. We need to have vulnerable customer conversations every time we interact with clients." N

"Vulnerability can often show itself in connection with drawing income in retirement, in equity release cases, due to age and the nature of the product, mortgage business post-retirement age, for example. Fixed rate deals may actually be increasing vulnerability issues." N

"Long term care and any age-related market is a potential source of vulnerability. Things like sudden wealth combined with lack of experience can also give rise to vulnerability." Nat

"Definitions became much wider in the context of COVID and we definitely use expert inputs more often." Nat

"We have a standard approach across the firm; we have developed additional questions for the fact find process. All fact finds are checked by the business quality team." Nat

"The area of new investment business especially for inheritance/settlement purposes, power of attorney matters and so on. We refer LTC and equity release business to specialist advisers." Nat

"We test advisers annually and there is a huge amount of guidance on the internal internet." Nat

"Someone you have to afford extra care – not necessarily because of age or inexperience." Nat

"DB scares me, divorce and sudden lump sums or got the money by surprise - these are all areas of possible concern." Nat

"We are members of SOLLA and their work has heavily informed our approach to vulnerable customers. We look at how they are impacted as part of our review of overall processes – how we record information, deal with people, support them and advise them." Nat

"We try to build relationships so we can identify changes over time in health, approach, wealth and so on." Nat
"Naturally, later life planning is potentially a minefield. We have to consider age, health, cognitive decline, care, next generation, inheritance, care fees planning etc." Nat

"The FCA's definitions are quite limited. For us a vulnerable customer is anyone requiring additional support and potentially not making the right decisions." M

IDENTIFYING & SERVICING VULNERABLE CUSTOMERS - IN THEIR WORDS, CONTINUED...

"In the later life market, we like the client to have a third party present. But there are also possible coercion issues." M

"Equity release is obviously an area of possible vulnerability but in our target group (over 55) early access to pensions is also a significant consideration – how, why and so on and the risk of long term vulnerability in full retirement. We have to be vigilant on this matter the whole time." M

"Everyone is vulnerable until proved otherwise. We work extensively with Comentis." M

"Key flags and signals are changes in behaviour for example from cautious to speculative, physical factors – frailty or distraction, undue influence from a third party." M

"Care, people retiring (a big life change), debt and family conflicts are all susceptible to vulnerable customer situations." M

"As an EBC, our client is actually the employer though we provide services to employees. Vulnerability is a significant issue and our direction of travel is to give a man a fishing rod. We try to help employers create an infrastructure to provide support at the right time. We are also trying to help employers prevent issues from arising – for example through services like financial coaching." W

"Vulnerable customers include those more susceptible to harm than average – often those with a lower level of knowledge and understanding of finance. Maybe those suffering acute financial stress/debt." W

"We look for changes in circumstances, those looking to access funds suddenly and urgently. We look at how they communicate, when and what they are asking." W

"Vulnerability can sometimes show itself around retirement; before pension freedoms came in, it was a lot easier to spot." W

"The individual wealth planning arm of our business has well developed vulnerable customer policies and they permeate the culture of the business overall even when not directly relevant to our employer relationships." W

"Debt is a killer – literally with suicides; 20% of the population have serious debt issues." W

"We track changes in behaviours and attitudes, we look at health indicators, both physical and mental. We look at things like indebtedness and financial resilience." W

ARE WE PREPARED FOR VULNERABLE CUSTOMERS?

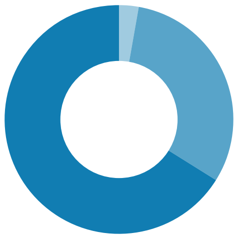
6.1 // READINESS FOR VULNERABLE CUSTOMERS FRAMEWORK

Two-thirds, 66%, of those advisers surveyed by AKG felt they are well prepared for the FCA's vulnerable customer framework, but just under one-third, 31%, admitted they could do better.

Only 3% of those advisers surveyed by AKG felt they really haven't devoted enough resource/time to preparing for the FCA's vulnerable customer framework.

- 39% of those surveyed said their vulnerability definition had evolved to consider mental health
- 30% said it had evolved to include FCA definitions

How well prepared for the FCA's vulnerable customer framework would you say your firm is?



Source: Adviser survey findings

6.2 // VULNERABLE CUSTOMERS; FCA BODY OF WORK

Meanwhile all advice firms participating in AKG's research interviews confirmed they had fully engaged with the FCA's body of work on vulnerable customers.

Some claim to have fully adopted the FCA's grid definition of areas of potential vulnerabilities, whilst others have used it as a base and then built more comprehensive definitions and vulnerability scenarios.
At a minimum all feel they have adopted the FCA's final guidance. Again, some firms feel they have built even stronger and more robust internal systems and controls.

Reassuringly, via these interviews we generally encountered positive comments from participants about FCA work in this area. It was seen as constructive, collaborative and responsive to industry feedback.

6.3 // READINESS TO COMPLY

Despite admission of challenges ahead, the majority of advice firms interviewed by AKG are comfortable they are ready to comply with FCA vulnerable customer requirements -some even think they are ahead of the game.

Several interview participants reported receiving help and support from their network/service provider and from their back office system providers, as well as other specialist third parties. For example, the work of Comentis was often referred to in positive terms.

On the four prescribed actions relating to vulnerable customers:

- **The needs of vulnerable customers** - most feel confident things are in place and functioning well
- **Skills and capability of staff** – all have relevant, frequent and ongoing training, webinars, written guidance and coaching; these are reinforced by compliance and business quality controls – monitoring, checking etc and also backed up commonly by access to expert guidance and/or referral to specialist support organisations
- **Taking practical action** – ultimately demonstrated by what firms offer and what advisers do
- **Monitoring and evaluation** – advisers hope they are doing the right things and confidence in systems and processes is generally good. Management Information , for many advisers is subject to continual development; many advisers are waiting to see how things pan out in practice

6.4 // CHALLENGES & OPPORTUNITIES ARISING

Despite positivity about general engagement with the regulatory principles and framework, it is fair to say that those advice firms interviewed by AKG see more challenges arising than opportunities moving forward. Indeed, the main opportunity mentioned was that it provides advisers with some of the tools to address evolving client requirements in the face of vulnerable scenarios.

Challenges on the other hand were described as many and varied, including but not limited to:

- Learning how to identify potentially vulnerable clients in the first place
- Identifying vulnerable customers without using the 'V' word
- Training and developing advisers to spot and respond to such situations
- Ongoing skills development
- Monitoring and responding to issues
- Providing relevant support to advisers as well as clients
- Time, resource and costs involved in serving vulnerable clients

6.5 // VULNERABLE CUSTOMER FRAMEWORK ENGAGEMENT - IN THEIR WORDS

"The big challenge with the FCA approach is that we find it difficult to have the right sort of conversation – for example you can't really use the word vulnerable. You cannot ask the direct question. One opportunity area might be health protection insurance." N

"We are comfortable our advisers are doing what they need to be doing. Demonstrating this is a bit more difficult. This is a major work stream for us." N

"We have a vulnerability task force and use Comentis software." N

"Our vulnerable customer policy mirrors FCA requirements closely. We ask advisers to consider guidance on conversations, face to face at home if needed, using formats that can be understood." N

"The major piece of work for us is getting advisers to flag vulnerable customers on the system. Our mindset is that vulnerable customers are potentially an opportunity, with needs that might have been overlooked or neglected.- more inclusivity, not less." N

"As far as vulnerable customers are concerned, we believe our policy is comprehensive and compliant; we are now working hard getting advisers to go on the journey." N

"We use FCA definitions and use FCA finalised guidance for firms and advisers. We have a training programme and run webinars. We also work with Comentis on vulnerable customer issues. We have strong links with relevant charities and experts – Dementia UK for example." N

"We keep MI on vulnerable customers via Intelligent Office and processes are mandated for advisers. We think perhaps 15-20% of the population is potentially vulnerable at any one time, not 54% as the FCA suggests. The fact that our clients are choosing to use advisers suggests they are less vulnerable, actually." N

"Can't immediately see any major upsides in dealing with vulnerable customers, but in terms of challenges, it is an emotive area and it is not always easy to identify vulnerable customers." N

"Training for advisers is both important and a challenge, helping them understand what to do from a practical point of view. They must certainly never use the V word." N

"We work with a number of outside bodies, for example Dementia Aware." N

"In monitoring and evaluation, we collect comprehensive MI with Intelligent Office and we do 100% compliance checking on cases where vulnerability is identified." N

"Awareness is the key; clarity about anything touching clients." Nat

"I feel we are ahead of the game." Nat

"Vulnerable customer data is subject to continual board review." M

"Vulnerability can be quite a subjective thing so difficult to assess." M

"We have fully engaged with FCA work and we use a lot of material from Just with interactive workshops, helping to understand what is best practice." M

"One issue is that taking on a new client can become an onerous process." M

"We have three levels of engagement with communications with employers with regard to their workforces – tell well, teach not preach about what is needed and then involvement at the workforce level." W

"We have an internal register relating to vulnerable clients; we coach telephone listening skills, we train on how they should be approached. Proactive monitoring and treatment." W

CONSUMER DUTY

Having had longer to prepare for the vulnerable customers framework, at this point in time the Consumer Duty principles, cross cutting rules and outcomes are now becoming more prominent and relevant to advisers and providers – both in terms of engagement with the regulation and readiness for implementation.

It is abundantly clear from AKG's discussions with providers that Consumer Duty is being taken seriously and multiple workstreams and resources are being used to prepare.

7.1 // CROSS-CUTTING RULES

The cross-cutting rules are designed to strengthen the standards of conduct the FCA expect under the Consumer Principle. They develop the FCA's overarching objectives for firm behaviour through three common themes applying across all areas of a firm's conduct. They also intended to inform and help firms interpret the four outcomes.

The cross-cutting rules require firms to:

1. Act in good faith toward retail customers
2. Avoid foreseeable harm to retail customers
3. Enable and support retail customers to pursue their financial objectives

7.2 // FOUR OUTCOMES

The four outcomes represent the key elements of the firm-customer relationship. The behaviour and actions of firms in relation to each of these outcomes are instrumental in enabling consumers to meet their financial needs and improve their financial wellbeing.

1. Products and services
2. Price and value
3. Consumer understanding
4. Consumer support

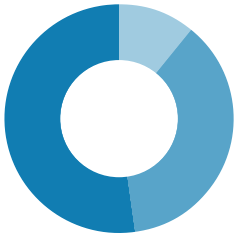
7.3 // READINESS FOR CONSUMER DUTY FRAMEWORK

When compared to survey respondents' level of preparation for the vulnerable customer framework the picture felt slightly different when looking at readiness for Consumer Duty requirements.

Just over one-half, 52%, of those surveyed by AKG, felt they are well prepared.

Over one-third, 37%, admitted they could do better, and 11% felt unprepared.

How well prepared for the FCA's Consumer Duty requirements would you say your firm is?



Source: Adviser survey findings

"Consumer Duty is a significant and unique opportunity to challenge all business functions to focus on the needs of all customers, and the depth and range of their needs. We welcome the opportunity to work with our adviser clients and their customers to not only better understand their financial needs, but also to provide support for them with an enhanced focus on the needs of vulnerable clients, which we all know is an area where the FCA has highlighted that we all need to improve.

If, as an industry, we develop a progressive focus on how we demonstrate positive client-centric values, we are convinced that this will continue to improve outcomes for all clients."

Dimpel Patel, Head Of Client Services, RBC Brewin Dolphin

7.4 // CONSUMER DUTY & VULNERABILITY

Those advice firms interviewed see no conflict between Consumer Duty requirements and those for vulnerable customers. They reportedly fit together well and are consistent.

What they do see, however, is a huge, onerous and long-term requirement that will need to be continually updated and refreshed as markets, products, consumers and regulation evolve.

Many advisers are confident that the vulnerable customer regulatory framework is established and in place and while vulnerabilities themselves may change, policies, processes, strategies and training infrastructure are adaptable. As the verbatim quotes below indicate, the same level of confidence does not extend to Consumer Duty requirements in some regards.

The feeling is that the background is evolving, guidance is evolving and putting measures in place is still work in progress.

7.5 // ASSESSING & EVIDENCING PUTTING THE CLIENT FIRST

Interestingly, many advisers feel they have a reasonable grasp of the vulnerable customer requirements in the context of Consumer Duty because they have developed the policies and processes already in respect of distributing products, providing services and communicating with customers with vulnerabilities.

The piece of the jigsaw that is not yet there for many is assessing and demonstrating the value of advice consistently over time and between customers.

And evidencing approaches and outcomes for customers is even more of a challenge and many questions remain to be answered – even relatively simple ones like transactional business and business conducted in the past.

Further ongoing guidance from the FCA and continuing dialogue with the industry are both necessary and expected before and beyond Consumer Duty implementation dates.

"Partnering with Conquest Financial Planning has enabled Fidelity to provide a capability which is able to demonstrate the impact of advice which is going to be core for advisers to assess and evidence value for their customers. We want to ensure that we can make the right tools available to aid advisers in delivering good outcomes for their customers."

Jackie Boylan, Head of Fidelity Adviser Solutions

7.6 // CONSUMER DUTY - IN THEIR WORDS

"Vulnerable customer requirements are completely interwoven with Consumer Duty needs." N

"We need to be able to demonstrate the value of advice. Consumer Duty is the next big step up from Treating Customers Fairly." N

"I do have a concern; does more paper cause possible unintended consequences in terms of consumer understanding. More FCA guidance will probably be needed on this subject." N

"One really big challenge that we struggle to get our heads around is that you could have two customers with exactly the same needs or issues, but the way they need to be treated or dealt can be very different." N

"Evidencing might be a challenge; if clients understand the advice they are given then the Consumer Duty should be deemed to be fully discharged." N

"MI is a developing focus for us in ensuring we comply with Consumer Duty." N

"There are lots of areas where we think we can/need to improve. For example, we don't currently produce materials in Braille; more widely we are looking at what more we can/need to do." N

"Our work on evidencing is not yet fully complete. On things like DB transfers and equity release, we do have processes to check client understanding, reminding them of things, playing them back to ask if they understand and ask them what they think. These approaches may need to be extended to other product and advice areas." N

"Some products, for example in lending, might actually generate vulnerable customer issues." N

"In terms of new business, I believe we are well placed to evidence adherence to Consumer Duty requirements. As far as the back book is concerned, however, more work needs to be done." N

"There is a logical fit between the two. It refers back to final guidance and seems pretty joined up to me." N

"In terms of evidencing putting the client first, the work is all in hand with various workstreams crosscutting the rules and outcomes requirements.. We are talking to advisers about evidencing and it may be that we have to make cash flow modelling mandatory." N

"Consumer Duty is crucial in the delivery of ongoing services but there is also a great deal of transactional business and I am not sure how well that gets picked up – if the client is not a repeat client." Nat

"Our new CRM system will be a valuable aid to evidencing putting the client first but it is not fully there yet. Nat
"One of the biggest tasks we have found is around identifying and addressing target markets. Mortgage business is a good example because the client may be with you for a single transaction for which the recommendation may have been right at the time, but which may be capable of challenge if circumstances change." Nat

CONSUMER DUTY - IN THEIR WORDS, CONTINUED...

"Consumer Duty dovetails nicely but we have a big working group looking at all aspects of the business from a Consumer Duty point of view. I provide input on the advice piece. Most of our advice is on a % of value basis. Fact finding is longer these days, but we don't consider the impact to be significant. We are only talking relatively small numbers of cases anyway. Nat

"In terms of evidencing we are putting the customer first under Consumer Duty, we have good support from threesixty. We work from their template. It has 8 sections – four on governance etc and 4 on outcomes. We have even looked at staffing levels." Nat

"Ensuring consistency over time is an overarching issue for us. We are working on staff training to ensure consistency is maximised." M

"We have a vulnerable section on the fact find and this includes details of other people to contact if necessary." M

"Assessing the value of advice is a core value in good financial advice. It should be at the heart of everything we do." M

"In evidencing putting the client first, I really don't think there is anything new – the process, fully documented, should be the same – initial meeting, building trust and relationship, taking account of relevant details, due diligence, assessing attitude to risk, build a file with good compliance oversight." M

"As a firm whose primary client is the employer, we are still trying to work out exactly how we are affected by Consumer Duty, directly. The work we do is member and outcomes focused for trust based client firms." W

FINANCIAL WELLBEING

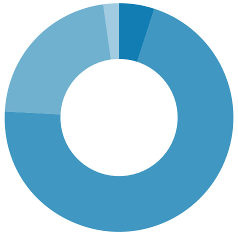
8.1 // HOW IS WELLBEING VIEWED BY ADVISERS?

AKG's survey asked advisers whether they see supporting (client) financial wellbeing as a distinct part of their firm's business compared with supporting financial planning goals in general.

The majority of those responding to this question, 71%, do see supporting financial wellbeing as distinct, but as a secondary part of the business in comparison with financial planning in general.

22% say supporting financial wellbeing is a core part of the business.

Do you/your firm see supporting financial wellbeing as a distinct part of your business compared with supporting financial planning goals in general?



- No, we focus on financial planning (support with investment/retirement planning/ protection) - 5%
- Yes, but it is a secondary part of the business in comparison with financial planning in general - 71%
- Yes, it is a core part of the business - 22%
- Don't know - 2%

Source: Adviser survey findings

8.2 // WHERE DOES WELLBEING FIT IN THE PROPOSITION?

And then delving into this theme a little deeper to ascertain development financial wellbeing approaches which indicates a growing area of focus in many firms.

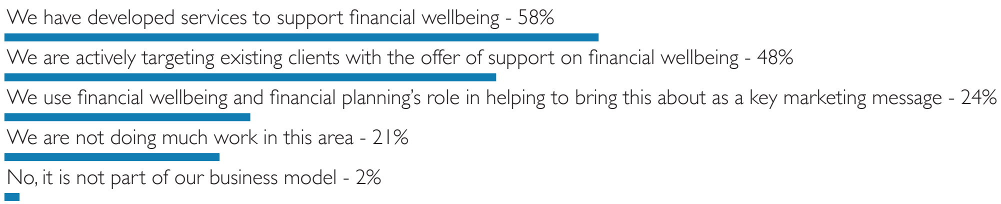
58% of those advisers surveyed by AKG have developed services to support financial wellbeing.

48% are actively targeting existing clients with the offer of support on financial wellbeing.

24% use financial wellbeing, and financial planning's role in helping to bring this about, as a key marketing message.

21% are not doing much work in this area.

Is your firm actively helping clients to develop their financial wellbeing?



Source: Adviser survey findings

8.3 // HOW IS WELLBEING VIEWED BY ADVISERS?

There was little evidence that interview participants were specifically familiar with the MaPS definition of financial wellbeing. Nevertheless, there was a great deal of commonality in the ways in which participants themselves defined what they understand by financial wellbeing.

Financial wellbeing is all about:

- Knowledge
- Confidence
- Comprehension
- Comfort, and
- Resilience

in dealing with personal financial matters.

Interviewed advisers firmly believe that financial wellbeing is implicitly embedded in all they do for clients, but one of the facets of financial wellbeing identified in this research is knowledge of when and where to seek advice in the first place.

Since large swathes of the population are not clients of financial advisory firms, however, financial wellbeing has to be developed in other ways.

Those interviewed here believe that the tools needed to ensure financial wellbeing throughout life should be learned through the education system. They commonly note that financial education is absent from the national curriculum though it should be firmly embedded there.

As a consequence of this omission, it is felt that young adults enter the workforce rather less well equipped than they might be. The workplace, by default, has become the hub where financial wellbeing resources can be built and used and so development of financial wellbeing strategies has become a key area for employee benefit consultancy services and other firms providing workplace advice, communications and services. Larger and other enlightened employers are encouraged to make such services available to their workers. Employee Assistance Plans (EAPs) have become a major conduit for offering services as diverse as healthcare resources and debt counselling, with a wealth of other resources also potentially included.

The services are available but often, because it rapidly migrates into the realm of private/personal activity, employers and their advisers are unsure of how much use is made of the resources. For some employers this may be a deterrent – they do not always know the true cost benefit equation of the services offered. Workplace pension schemes are the other major (often main) portal into financial wellbeing for employees. They have a wealth of resources, typically relating to financial matters sometimes ranging from debt services to access to individual financial advice as well as links to other valuable resources. Again, there is often a gap between availability and MI about actual uptake and usage.

The role of the workplace providers is demonstrated by the relative frequency of verbatim responses from these firms compared with others.

8.4 // FINANCIAL WELLBEING - IN THEIR WORDS

"Anything to do with employee reward and their overall financial situation." W

"There are services that employees can select that fit their requirements. Having the right mix in place is entirely reliant on having the right information and data to work with." W

"It is about money confidence – being able to self-serve. It is about being better informed and knowing what action to take and how to take it." W

"In terms of impact on delivery of advice and guidance, at the individual detailed level, it probably does not make a massive difference, but it underlies our approach to workplace scheme members." W

"Financial wellbeing is having a healthy respect for and an understanding of the utility of money and what to spend it on. Maslow's hierarchy of needs provides a good guide. It is about understanding priorities, building up financial resilience and building an understanding of what saving is about. It is embedded in how we think as real people writing for other real people. The medium is Drumroll Creative.com." W

"The industry is getting better at financial wellbeing, but too often factional interests are more important than the bigger picture. Not fixing the problem, simply papering over the cracks." W

"Financial wellbeing is about learning how to understand your own financial decisions. In terms of our services, our role is the help employers understand what they can help employees with. Ultimately it is about education." W

"It is implicit in the way we do business." N

"It is an area where we have done a lot of work; debt consolidation is a key area, where for example we would help the client focus on a manageable monthly figure rather than the total debt." N

"It is a given that recommendations should be suitable, making sure all information and advice is communicated in a way the client can engage, evaluate and make an informed decision." N

"It is around being financially comfortable, able to understand and manage your own finances." N

"Making sure all eventualities are covered. Not a big issue for most advisory firms because it comes out in the customer relationship over time." N

"The Institute of Financial Wellbeing will become a valuable asset." Nat

"I would link financial wellbeing very closely with personal wellbeing. Years ago no-one talked about mental health for example." Nat

"We find our advisers often doing pro bono financial wellbeing work - for example debt counselling and pointing clients and families in the direction of help and support. It is all about educating clients broadly which may or may not be part of the adviser's job." Nat

FINANCIAL WELLBEING - IN THEIR WORDS, CONTINUED...

"Oh, this is one of those phrases. It is all about having enough income to support desired expenditure, being secure. A lot of it is about educating clients for example on the impact of the cost of living crisis." Nat

"Financial wellbeing is feeling secure and in control of your money – not worried and in good mental and physical health." Nat

"It is having a good understanding of your financial affairs, where are you, what are you aiming for? Can often be supported by employers and those around you. Knowing my employer has my best interest at heart is a good thing." M

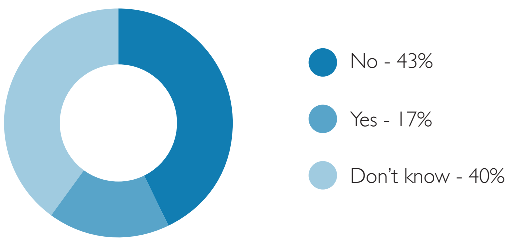
MARKET OPPORTUNITIES

There is no doubting that, for a range of reasons including big regulatory change, this is a challenging time for the financial services market, but where there are challenges there will always be opportunities for market incumbents and new players.

> *"Through the context of the tough times and uncertainty of the past two to three years, this research shows how we need to continue to place advisers and their customers at the heart of our businesses. It is clear that we are making good strides in prioritising support for vulnerable customers and their financial wellbeing, and it's reassuring to know that, as an industry, we are aligned in what we think is most important."*
>
> **Jackie Boylan, Head of Fidelity Adviser Solutions**

9.1 // IS FINANCIAL SERVICES MARKET PROVIDING ADEQUATE RESOURCES TO SUPPORT FINANCIAL DECISION-MAKING CAPABILITY OF VULNERABLE CUSTOMERS?

Do you think the financial services market provides adequate resources to support financial decision-making capability when customers are in difficult, stressful or vulnerable situations?



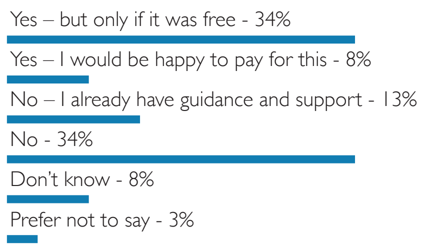
Source: Consumer survey findings

Not a glowing verdict here. 43% of those consumers surveyed by AKG do not think the financial services market provides adequate resources to support financial decision-making capability when customers are in difficult, stressful or vulnerable situations. And 40% don't know.

On the basis that only 17% do, it should be hoped that with a concerted regulatory and industry focus on outcomes for vulnerable customers and customers outcomes more generally we might expect to see an enhanced perspective on the levels of support provided in future. Can the industry do better to externalise the work it is doing so that consumer perceptions are enhanced?

9.2 // WOULD YOU VALUE EXTRA GUIDANCE/ ADVICE ON YOUR FINANCES?

Would you value extra guidance/advice on your finances?



Source: Consumer survey findings

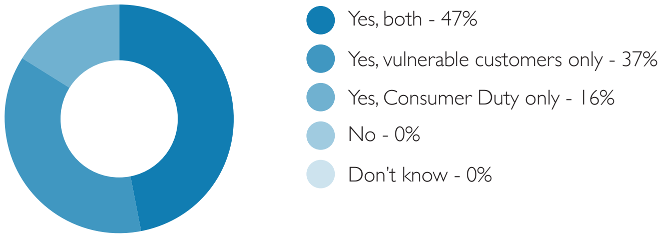
This is an extremely big topic. 34% of those consumers surveyed by AKG would value extra guidance/advice on their finances, but only if it was free.

Only 8% would be happy to pay for this.

9.3 // IS HELP REQUIRED? PROVIDER SUPPORT REQUIREMENTS

Despite the relatively healthy picture portrayed about preparedness for regulatory change and challenge, just shy of half of the survey respondents, 47%, said their firm would welcome support from providers on being better prepared for both Consumer Duty and vulnerable customer requirements. Over one-third of those surveyed would like help from providers on being better prepared for vulnerable customer requirements only.

Would your firm welcome support from providers on being better prepared for Consumer Duty and/or vulnerable customer requirements?

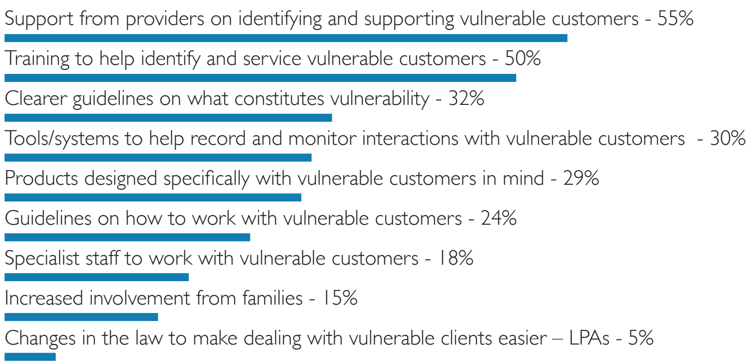


Source: Adviser survey findings

9.4 // WHAT TYPE OF HELP IS REQUIRED? PROVIDER SUPPORT REQUIREMENTS

55% of those surveyed felt their firm requires support from providers on identifying and supporting vulnerable customers. 50% felt they needed training to help identify and service vulnerable customers. 32% need clearer guidelines on what constitutes vulnerability.

What does your firm need help with when it comes to ensuring vulnerable customers are serviced appropriately and positive outcomes are consistently targeted?



Source: Adviser survey findings

9.5 // PROVIDER SUPPORT & COLLABORATIVE WORKING

The feeling among those advice firms interviewed is that they have the primary duty of care for their customers in general and vulnerable customers in particular. Working with providers and other stakeholders is something under their control and they have the ultimate sanction of not doing business with providers or other service companies whose support falls short of their expectations.

Having said that many point out that provider firms have their own commercial objectives to achieve. The bottom line is important, and they will naturally focus on the things that make their business successful and profitable. This may or may not include providing support for advisers dealing with vulnerable or potentially vulnerable customers.

Their experience of providers, platforms, fund managers and so on is variable, though the majority of advice firms interviewed feel that such providers and their other business partners generally do a very good job of supporting them. Some have embraced challenges and others have not.

Providers and service organisations in areas of perceived high risk of vulnerability are singled out by some advisers for the high quality of their input. In the older age segment of the market, SOLLA is mentioned often and Just is singled out for praise for the quality of its materials, communications and support.

The following verbatims give a flavour of adviser thinking on this subject.

> *"Enabling staff to challenge and question how vulnerable customers are supported is key to developing the right cultural approach to supporting clients. We believe that this is a significant step up from treating customers fairly and the PROD rules in making sure investment solutions meet the needs of one or more identifiable target markets. This is an area where we collectively have to do better – not just to onboard clients, but to continue to service their financial needs effectively and efficiently, and articulate progress towards meeting those needs in a language they understand, avoiding jargon where possible. Providing the right environment for staff to challenge will really help us achieve the right outcomes, as we can't expect our procedures to meet every client need, so being able to take a risk-based approach to the adjustments required for vulnerabilities will mean we can empower and give clients the confidence to take control of their financial future."*
>
> **Dimpel Patel, Head Of Client Services, RBC Brewin Dolphin**

9.6 // SUPPORT OPPORTUNITIES FOR PROVIDERS & OTHER STAKEHOLDERS - IN THEIR WORDS

"As a general rule, I think providers do a good job – good guidance and good information flows." N

"Providers are increasingly stepping up to the mark, especially lenders. We do a lot with Just and SOLLA is especially helpful." N

"There is a huge place for platforms, especially regarding education for example on how to deal with clients. More generally we try to work together with other stakeholders and ensure marketing and communications are clear and not misleading – designed for clients. But when you are recommending complex products it is not that easy." N

"Our main challenge is training advisers making it easier for them to identify and look at issues." N

"Cost is irrelevant but efficiency is the key thing. You need slick and efficient systems. Delays may mean the difference between successfully dealing with possible vulnerabilities and creating harm." N

"We work closely with manufacturers/providers on overall governance and continuous assessment and feedback, but at a product by product level, market complexity means there is sometimes a major training need." N

"Some providers are better than others. Providers in the later life market are generally good and Just are particularly helpful." Nat

"We have great support from Just, SOLLA, people like Jackie Berry. Other providers are not great but are beginning to show some interest." M

FUTURE DEVELOPMENTS & SUGGESTIONS

Like many AKG research-based exercises conducted over the years – and particularly most recently – the overarching conclusion from this research among expert adviser and workplace firms is that good consumer financial education is of paramount importance.

Few would disagree that it needs to be fully and firmly embedded in the national educational curriculum. If it were, financial wellbeing would be a more achievable aspiration, issues of vulnerability would be more readily identifiable and addressed and Consumer Duty would be firmly at the heart of financial services provider and adviser firms.

The reality is that this outcome is still at least a generation away, but in the meantime advisers and workplace providers are working hard to fill some of the gaps. And this work only adds to a challenging and onerous workload over the coming months and years.

As far as the imminent concerns of vulnerable customers, Consumer Duty and financial wellbeing are concerned:

- Most interview participants appear comfortable that they are across their vulnerable customer obligations and are generally well placed to demonstrate this as needed
- Financial wellbeing is a long-term aspiration, heavily reliant on education and access to the right resources at the right time. It is a major focus for firms operating in the workplace and for some (but by no means all) of the employers they work for. This still leaves substantial parts of the population left to their own devices. Although relevant services are increasingly becoming available to the public at large, there is no way of ensuring those resources are used/valued
- Consumer Duty is the big uncertainty and challenge for 2023-24. Most participants in this series of research interviews felt they have work (in many cases much work) to do to ensure compliance with requirements. They generally see it as a long-term exercise in embedded approaches, processes and procedures into their corporate culture; it is much more than a project

Overall, the FCA has been seen to do a great job of helping the advice industry with vulnerable customer work and it is hoped that the collaborative approach will be extended over time to Consumer Duty requirements as they evolve as they undoubtedly will.

The amount of time, effort, resource and cost involved should not be underestimated – all of which will have to be paid for one way or another.

"The issues of financial wellbeing, financial education, and vulnerable customer all play to the strengths of advisers and how they've been serving clients over many years. But they can't be left to tackle this alone. The solution to customers securing a financial future they are comfortable with lies in a collective response from providers, regulators, educators, and advisers, all working to close the advice gap and empower clients in their ability to confidently engage with their finances, at the right time and in the right way. Much good work is underway but more needs to be done, so that financial wellbeing is at the centre of advice and guidance in the UK."

Chris Hudson, Retail Intermediary Managing Director at Standard Life

FCA retirement income advice review

Whilst AKG was working on this project, the FCA announced (in January 2023) it will be undertaking a thematic review assessing the advice consumers are receiving on meeting their income needs in retirement. It stated the review is a piece of discovery work to explore how financial adviser firms are delivering retirement income advice and assess the quality of outcomes consumers are getting.

Obviously we need to await the findings of this review work but it provides another example of potential regulatory challenge and will be intrinsically linked with wider vulnerable customer and Consumer Duty work and themes.

10.1 // FUTURE DEVELOPMENTS & SUGGESTIONS IN THEIR WORDS

"One challenge is the disparate range of financial needs and circumstances. Also, one has to ask whether all employers care or are able to provide employee support – especially if they are smaller employers." W

"NEST's 'Sidecar' is a good development but not sure that availability and uptake are good." W

"People don't trust pension companies and insurance providers. Even basic admin serves to reduce confidence. Firms need to get the basics right/better and show they are good at running their own businesses." W

"Most financial wellbeing initiatives are driven by product providers. They need to be doing things for the right reasons. I think Consumer Duty is a push in the right direction. There needs to be proper evidencing and agnostic communications." W

"Education and awareness are vital. The curriculum should include education on pensions at a high level. In the meantime, firms could easily fall foul of Consumer Duty and vulnerable customer requirements." N

"Things are certainly better than they used to be, but there is a lot of work still to do for example on auto-service and self-service." M

"Larger insurers and lenders have improved significantly, smaller firms of all types probably have a lot more to do." N

"Looking ahead, training is the main challenge, there may be a gap between policy and practice in some firms." N
"I think the overall strategy is there but evidencing needs to be developed and things like vulnerability champions have a role to play." Nat

"More effort needs to be devoted to education – especially at younger age about financial wellbeing – at school or university. Personal financial education should be in the national curriculum. The big issue for advisers and providers is the commerciality of supporting those that need it most but who can't really pay for it." Nat

APPENDIX 1

11.1 // ADVISER SURVEY QUESTIONS POSED

Q1. How well prepared for the FCA's vulnerable customer framework would you say your firm is?

Q2. How well prepared for the FCA's Consumer Duty requirements would you say your firm is?

Q3. Would your firm welcome support from providers on being better prepared for Consumer Duty and/or vulnerable customer requirements?

Q4. Has your definition of what constitutes vulnerability in a client changed over the past couple of years?

Q5. Do you/your firm carry out regular reviews on clients and their potential vulnerability status?

Q6. What groups/segments of your clients would you automatically regard as vulnerable?

Q7. What percentage of your firm's clients do you believe could be classified as vulnerable customers?

Q8. Have you noticed any changes in client behaviour/vulnerability following the pandemic and subsequent cost of living crisis?

Q9. What does your firm need help with when it comes to ensuring vulnerable customers are serviced appropriately and positive outcomes are consistently targeted?

Q10. Is your firm actively helping clients to develop their financial wellbeing?

Q11. Do you/your firm see supporting financial wellbeing as a distinct part of your business compared with supporting financial planning goals in general?

11.2 // CONSUMER SURVEY QUESTIONS POSED

Q1. How financially confident would you describe yourself at present in relation to the rising cost of living?

Q2. Are you concerned about your or any vulnerable or older relatives financial decision-making as you / they get older?

Q3. Do you believe your older or vulnerable relatives have made poor financial decisions in the past two years?

Q4. You mentioned your older or vulnerable relatives have made poor financial decisions, what caused this?

Q5. Have you felt stressed when trying to make financial decisions in the past two years?

Q6. Do you feel you have made poor financial decisions in the past two years?

Q7. Would you value extra guidance/advice on your finances?

Q8. How do you currently feel when thinking about your finances?

Q9. Which, if any, of the following make you less confident in making financial decisions?

Q10. Has the rising cost of living and the impact of inflation changed your behaviour when it comes to financial decisions?

Q11. Would you be concerned about your financial decision-making capability in any of the following situations?

Q12. Do you think the financial services market provides adequate resources to support financial decision-making capability when customers are in difficult, stressful or vulnerable situations?

11.3 // OVERVIEW OF ITEMS COVERED IN ADVICE FIRM INTERVIEWS

- Brief description of advice firm, participant and role in firm
- Participant firm involvement in financial services advice and distribution
- Definition, identification and service for vulnerable customers
- FCA work on vulnerable customers and impact on financial services companies and advisers
- Consumer Duty impacts, requirements and preparedness
- Challenges, issues and opportunities
- Financial wellbeing
- The future – where is the market headed?

11.4 // IDENTIFYING & SERVICING VULNERABLE CUSTOMERS - IN THEIR WORDS

"We have detailed guidance and procedures for identifying vulnerable customers. There are 4 key drivers – health, resilience (financial knowledge), life events and capability. We monitor skills – for example, English Language – then we document the details and identify the support needed." N

"Areas more susceptible to vulnerability issues include mortgages and debt. The challenge here is that mortgage business is often transactional with no ongoing client service need. This may be different in the case of equity release type business where Consumer Duty requirements will weigh heavily." N

"Vulnerability is potentially such a complex issue that in all honesty it is actually easier to identify and describe non-vulnerable customers." N

"We adopt a very broad definition of potential vulnerabilities. Some are clear but others less so and on our estimation up to half the adult population might be vulnerable whether permanently or temporarily at any one time. Cost of living concerns are adding to the list at present." N

"Questioning skills and soft conversational skills are vital in teasing out vulnerability issues especially relating to health and age concerns." Nat

"We treat everyone as potentially vulnerable until they prove otherwise." Nat

"New clients that we have no existing relationship with can be a challenge; we have to rely on their openness. There is a difference between the generations- older people are less likely to disclose and discuss. Relationships can be damaged with lasting power of attorney if relevant people are not in the loop. If people can be encouraged to have proper family conversations it helps with ongoing support and advice." Nat

"Advisers are trained to look for signs and flags and a risk assessment is undertaken before new clients are taken on. If advisers are unsure, they are encouraged to consult colleagues who are experts in compliance and, for example, later life issues. Coercion is something we look for in later life cases – we need to understand the reasons if someone is unable to see the adviser on their own. Other red flags are lack of understanding or inability to retain information." M

"One of the key challenges is actually identifying vulnerability in the first place. From a commercial point of view there is also a challenge around addressing their needs cost effectively and profitably. More digital solutions may need to be developed." W

"Vulnerability or potential vulnerability is a huge subject area. 50% of the population have low level literacy and numeracy issues. 5 million have sight issues. There needs to be accessibility for all. Some do not see the world in the same way that others do. Cognitive decline is an issue that often comes with age; it is a much bigger issue than is scientifically quantified. 60-70% of the population may be affected. Cultural exclusion is also a factor. Vulnerability can take many forms." W

"Different vulnerabilities need different solutions, and this is not really recognised in the way it should be. Some vulnerabilities are easily dealt with – e.g. large print and audio support for those with visual impairment. But this does not help those with mental or cognitive issues. Can any one organisation cover off all issues? Interesting question. EAPs can help and there are numerous charities that can be referred to, but it is a huge subject." W

"The fact is that large numbers of people do not understand money so they could be seen as vulnerable." W

11.5 // VULNERABLE CUSTOMER FRAMEWORK ENGAGEMENT - IN THEIR WORDS

"There are opportunities in engaging with vulnerable customers for example with firms creating vulnerability champions, signposts to experts, for example. On the other hand, some firms are simply not geared up to query whether clients need to see specialists or even whether they need sign language or more accessible paperwork." N

"For the main flags and signals, we lean on the FCA guidance grid – physical, mental, health and life events, resilience and capability, relationships, domestic abuse and control, poor literacy and digital skills." N

"The challenge is around education on how to identify vulnerability without using the term." Nat

"A big possible issue is the fact that financial advisers may not be used to dealing with emotional situations. We seek to build confidence through online learning, coaching things like soft conversational skills and looking for clues in the way clients react." Nat

"FCA guidance has been proving very helpful." Nat

"Our preferred norm is face to face advice and this allows us to look at things like body language. However, there is now more telephone and Teams work and this makes things more of a challenge. We do look at everything on a case by case basis, but working remotely we can't always pick up the signs, especially if there is a third party on the call in the background rather than overt." Nat

"Vulnerability runs right through the Consumer Duty work, and we seek to capture information on vulnerability all the way through our client relationships. We are trying to stay ahead of the game. We have annual tests, assessment of adviser competence, set reading and dedicated T&C officers." Nat

"One of the big challenges is that vulnerable customer work takes more time and more meetings and this then becomes the way it has to be for the long term." M

"Monitoring and evaluation is the hardest part and it can become even more hard when a client may be subject to temporary or transient vulnerability." M

11.6 // CONSUMER DUTY - IN THEIR WORDS

"The vulnerability work is entirely consistent with Consumer Duty, but there are potential issues around the impact of the two on time taken in the advice process and the associated costs to clients." N

"Vulnerable customer requirements slot in well with Consumer Duty. The main challenge is the heavy reliance on advisers to flag up issues." N

"There are significant challenges in ensuring consistency of approach looking on a client by client basis. Vulnerable customers do take greater time and resource to support and the effect on the adviser firm depends on the fee structure. Some advisers working on an hourly fee basis take a pragmatic view of how to deal with the work." N

"Firms that approach this as a project are not doing things right. Consumer Duty needs to be very much Business as Usual; it is not a tick box exercise. We have Consumer Duty streams of work, on which we have overlaid vulnerability work." Nat

"One of the main aspects of Consumer Duty from our perspective relates to early access to pensions and what that might do to the client's long term financial position." M

"Consumer Duty does not directly affect us as an EBC, but we do have to look through the employer to the end consumer." W

11.7 // FINANCIAL WELLBEING - IN THEIR WORDS

"Financial wellbeing is all about financial education and understanding; being equipped to make a plan. It is thinking about finances holistically. And on that basis I would include consideration of property." W

"It is about giving people the tools and confidence to plan for the future; even if they are good already, the information we provide can seem overwhelming." W

"It is working with clients providing the right tools relevant to the employer's own workforce needs. Guidance, education and coaching are the foundations. The MoneyHelper site outside the benefits package is a point of support. Listening to individuals, finding out what is on their mind, what is important to them. People's priorities change over time. Mental wellbeing is the focus before any product consideration. We seek to offer targeted communications." W

"There is no support in this country for helping people understand and deal with money. We need skills training to be embedded in the education curriculum." W

"Financial wellbeing is when the individual has adequate knowledge to make informed decisions about finance, to meet obligations and the ability to bounce back if things go wrong." N

"It is about being in control of your finances, feeling secure, able to withstand unexpected shocks and holding emergency funds." N

"Having knowledge and understanding of own finances, to make decisions that support you in the future. Having the financial literacy to seek advice when needed. Being secure in not having to worry about money." It feeds across into a lot of what we do." Nat

11.8 // SUPPORT OPPORTUNITIES FOR PROVIDERS & OTHER STAKEHOLDERS - IN THEIR WORDS

"In my experience, providers are doing pretty well in supporting advisers; obviously some are better than others." W

"Lots of providers produce materials and documents in accessible format these days. We specifically exclude providers and prospective partners who do not do things in the right way." N

"Providers generally do the best they can, but a big factor is that they do not see specific client circumstances – so this makes it difficult to always support advisers." M

"Overall responsibility for Consumer Duty lies with the adviser." M

"Provider support varies widely. Annuity providers are very good but pension providers vary enormously, some are not really getting Consumer Duty. Other providers are also variable- some have an overriding focus on growing assets under management. It is part of our job to filter out the bad providers and other stakeholders." M

11.9 // FUTURE DEVELOPMENTS & SUGGESTIONS - IN THEIR WORDS

"Some providers have some leading edge information available about topics people are focused on, health and debt, for example. It is about nudging people in the right directions." W

"Financial education in schools is a genuine need and something that will help financial wellbeing and countering vulnerability in the long term." W

"Technology needs a lot of work to make fit for purpose. More demands are being made – for example growing uptake and use of employee assistance plans on line. Increasingly these have a strong financial element." W

"Employers are increasingly recognising the importance of financial wellbeing and there is evidence that more of them want to provide relevant support." W

"Issues vary across industries. Recruitment and retention are very important and services that support employees in regard to reward are important too. Where staff are in lower paid jobs the issues are different – debt and financial stress come to the fore. The wellbeing proposition must be tailored to employer and employee needs." W

"Given the economic crisis at the moment the need for financial wellbeing services is promoting itself. Personal finance considerations are not taught at school so individuals are entering the workforce unprepared for what awaits them. Personal finance education needs to start much earlier than it does at present." W

"The industry is facing serious challenges now. There are more vulnerable customers; the challenge for firms is that everyone is actually or potentially vulnerable." N

"It comes down to the cost of advice; everyone could benefit from better advice relationships, but it is not the problem for individual advisers." M

"It is all very much work in progress. There is still so much to be done. The FCA itself has summed it all up by saying this is not a one-off exercise. It has to be a business as usual thread of work, with vulnerability experts and champions." N

"It is an ever-evolving beast. It would be naïve to think it might be a once and done exercise. It needs to be embedded in the firm's culture. It will certainly need more evolving guidance from the FCA. One big question that needs to be resolved is how, realistically, advisers can be expected to identify vulnerable customers without asking overt questions." N

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