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Improving outcomes for vulnerable customers

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Introduction

The fair treatment of vulnerable customers has never been more important in light of COVID-19.

In early 2019, the Financial Conduct Authority (FCA) issued a guidance consultation which encouraged firms to consider the needs of vulnerable customers throughout their customer journey – from initial communications to product design and post sales service. Following a feedback period, the FCA updated their consultation on the guidance in July 2020 and plan to issue final guidance later in the year. This focus on vulnerable customers is likely to continue, particularly following the impacts of the COVID-19 pandemic, which has caused a huge increase in the number of individuals classed as vulnerable.

In this report, we focus largely on vulnerable customers in the insurance industry. In particular, we consider:

- Who vulnerable customers are and how their vulnerability impacts them accessing insurance;
- the draft guidance issued by the FCA;
- how COVID-19 has affected vulnerable customers;
- other industries' approach to vulnerable customers; and
- where insurers should be focussing their attention.

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2. Understanding vulnerable customers

Who are vulnerable customers?

Vulnerability can affect anyone and can take many forms. The FCA defines a vulnerable customer as: *"someone who, due to their personal circumstances, is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care"*.[1]

The FCA outlines four key factors which can act as drivers of vulnerability. The four drivers, and example characteristics for each of these, are shown below.

Health

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

Life events

- Caring responsibilities
- Income shock
- Relationship breakdown
- Bereavement

Resilience

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

Capability

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

The drivers, level and impact of vulnerability

The FCA considers there to be a spectrum of consumer vulnerability and risk, and states that consumers may become more or less vulnerable throughout their lives. All consumers are at risk of becoming vulnerable, particularly if they display one or more of the characteristics under the four drivers of vulnerability. Research shows that just under **half of UK adults** (over **24.1 million** people) display one of these characteristics[2] so the treatment of vulnerable customers is an important issue for a material proportion of the population. Levels of vulnerability can vary slightly by age group, and in particular, there tends to be a higher proportion of vulnerable customers in the age group of 75 and over. Research shows that over a two-year period, over 4.5 million UK adults were declined a financial product[3]. Many of these adults may have become more vulnerable as a result of this.

To understand how vulnerability can negatively impact insurance customers, we will consider some of the above drivers in more detail.

Physical disabilities and long-term illnesses

These individuals represent a huge proportion of the UK population. For example, it is now estimated that half of the UK population will be diagnosed with cancer in their lifetime[4] and over 20% of people have a disability[5]. As part of the underwriting for most insurance products, people with physical disabilities or long-term illnesses are likely to be required to disclose these. From the insurer's perspective, these people will present more risk and a greater likelihood of claims and as a result will often be charged a higher premium or even declined cover. Research shows that 3 million people in the UK with disabilities have been refused cover or charged more[1]. This results in these vulnerable customers having limited cover options, poor access to insurance and much poorer quality deals than other customers.

Low income

Research shows that over 14 million people in the UK are living in relative poverty[6]. Customers on a low income may be unable to afford insurance or may believe they can't afford it. If they can't source policies with sufficiently low premiums, they may be left without cover.

Additionally, customers with irregular income may find that they sometimes struggle to pay their premiums. Where insurers don't have policies in place to deal with this (such as premium holidays) missed payments can result in policies lapsing and loss of cover.

Research has shown that households on lower income tend to pay more for the same products or services than households with a higher income. This is often referred to as the "poverty premium" and is driven by a number of factors. For example, companies may reduce the cost of cover if customers are willing to pay the full cost up front, rather than spreading payments over a longer period. However, low income households are unlikely to be able to afford this up front cost. Discounts may also be offered where multiple products are purchased together. Low income households may be unable to afford cover for multiple products at once, which results in them paying more for the individual products. Low income households are likely to have limited access to financial advisers who can source and secure better deals. Research shows that the poverty premium, across all products and services, costs the average low income household £490 per year[7].

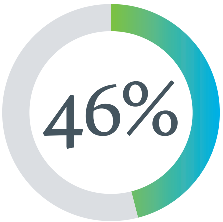
Poor mental health

There is growing awareness of the prevalence of mental health issues and of the importance of good mental health. In England it's estimated that a quarter of people will experience a mental health problem each year[8]. Customers with poor mental health may find they purchase products which don't suit their needs or offer good value for money. For example, research by the Money Advice Trust showed that around half of those with mental health problems struggled to weigh up the advantages and disadvantages of a loan product[1]. Insurance contracts can be complicated and there are many different variations of products available. People with mental health issues may struggle to identify which product best suits their needs. Where a product or service doesn't meet their expectations, they may also be less likely to complain or seek compensation.

Insurers sometimes offer lower prices to new customers. So, for short term renewable contracts, it is often beneficial to switch to a new contract rather than renew. However, 23% of people with mental health problems say they avoid switching as they find it overwhelming[9].

Low financial knowledge or literacy

A lack of financial knowledge can result in customers having low awareness of their needs for insurance. It is estimated that 1 in 7 adults have the literacy skills that are expected of a child aged 11 or below[10]. Those with low literacy and/or little financial knowledge may struggle to understand the design and terms and conditions of insurance policies. This can result in them purchasing ill-suiting products and being more susceptible to mis-selling and scams. Research shows that only 13% of vulnerable customers read policy documentation carefully when taking out or renewing their policy[11]. In contrast, around half of those who are not considered vulnerable read the policy documentation carefully.



Just under **half (46%) of UK adults** (over **24.1 million** people) display one of the FCAs vulnerability characteristics[2]

Physical health

Half of the UK population will be diagnosed with cancer in their lifetime[4]

Over **20%** of people in the UK have a disability[5]

3 million people in the UK with disabilities have been refused cover or charged more[1]

Mental health

A quarter of people in England will experience a mental health problem each year[8]

Half of those with mental health problems struggle to weigh up the advantages and disadvantages of a loan product[1]

23% of people with mental health problems say they avoid switching as they find it overwhelming[9]

Low income

Over **14 million** people in the UK are living in relative poverty[6]

The poverty premium, across all products and services, costs the average low income household **£490** per year[7]

Poor literacy skills

1 in 7 adults have the literacy skills that are expected of a child aged 11 or below[10]

Only **13%** of vulnerable customers read policy documentation carefully when taking out or renewing their policy[11]

Identifying and engaging with vulnerable customers

Effectively identifying and engaging with vulnerable customers is essential to ensure that their needs are met and they are not disadvantaged. However, this can be quite challenging due to a number of reasons:

- The definition of vulnerability often extends beyond what people may initially think. It's therefore likely there are groups of people who are not considered vulnerable either by the insurer or the customer themselves. For example, you may not immediately think of those who are wealthy to be vulnerable. However, if we consider wealthy people approaching or in retirement, they are potentially extremely vulnerable to scams which aim to steal their pension.
- People often do not wish to be classed as vulnerable. This may come down to pride or due to concerns that being labelled as a vulnerable customer makes them an easy target for poor deals.
- Obtaining and storing information around vulnerability can be challenging. Customers may perceive questions as invasive or irrelevant and there may be concerns around data protection.
- Customers may become vulnerable throughout the term of their policy. It may be the case that when the customer initially applied for the policy they didn't present any information which suggested they were vulnerable. However, they could subsequently become vulnerable and the insurer may not have processes in place to continue monitoring the vulnerability of customers throughout their policy term. Similarly, customers may be vulnerable when they take out their policy and then move out of the state of vulnerability.
- A proportion of vulnerable customers will depend on others for assistance in financial and other matters. Research shows that those over 70 and with a self-defined disability are the most likely to receive support across all practical and financial forms of help. Insurers may need to adapt their processes and security systems to allow for the fact that they may deal with family members rather than the policyholder themselves.

It appears there may be work to be done in changing the terminology around vulnerable customers and helping firms identify vulnerable customers and obtain relevant information them about in a suitable manner.

Insurers' responsibilities

As discussed earlier, a material proportion of an insurer's customers and target market may be vulnerable. Insurers therefore have a duty of care to ensure that they are proactive in understanding and managing the needs of vulnerable customers to ensure they are not disadvantaged.

The FCA has issued two guidance consultation papers on the fair treatment of vulnerable customers, which we will discuss in the following section.

3. Recent focus on vulnerable customers from the FCA

In July 2019, the FCA published the Guidance Consultation paper 19/3 – "Guidance for firms on the fair treatment of vulnerable customers". In July 2020, the FCA produced an updated version of this Guidance Consultation paper 20/3 to reflect feedback received from firms. The guidance concentrates on four main areas:

Understanding the needs of vulnerable customers

Skills and capability of staff

Taking practical action

Monitoring and evaluation

Understanding the needs of vulnerable customers

This section of the FCA's guidance states that firms should understand the needs of vulnerable customers and, in particular, consider:

- The nature and scale of drivers of vulnerability within their target market and customer base,
- The impact of vulnerabilities on the needs of the customers within their target market and customer base, and
- How vulnerabilities could affect customer experiences and outcomes.

Example of good practice

Research from the Just Group Retirement Leaders' Summit shows that many firms have utilised the expertise of charities to better understand vulnerability. This has led to adoption of communication protocols such as TEXAS, which was developed by the Money Advice Trust and the Royal College of Psychiatrists. These can help establish a common industry framework that allows firms to identify vulnerable customers and manage their needs.

Under the **TEXAS** framework staff are required to:

- **T**hank customers for sharing useful information
- **E**xplain how the information will be used
- e**X**plicit consent should be obtained for using this information
- **A**sk the customer key questions which will help them understand their personal circumstances and needs
- **S**ignpost or refer to internal or external help

Other similar communication frameworks are used by other insurers.

Skills and capability of staff

This section of the guidance states that firms should embed the fair treatment of vulnerable customers across the workforce and ensure that all staff understand how their role impacts the fair treatment of vulnerable customers.

The guidance states that staff should be trained in how to identify vulnerable customers and understand their needs. In particular, they should understand what the indicators of vulnerability are and how to obtain information to gauge customer vulnerability.

Staff should be trained to respond appropriately to the needs of vulnerable customers, including how to adapt their approach to meet the needs of vulnerable customers and consider what extra support they may require. Additionally, firms should offer support to staff dealing with vulnerable customers.

Example of good practice

Zurich has launched mandatory vulnerability awareness modules for all staff and supplemented this for frontline staff with face-to-face training. The module promotes vulnerability awareness and guides staff in how to identify and support vulnerable customers.

One area that many life insurers focused their attention on is the support that brokers receive in dealing with vulnerable customers and raising their awareness around vulnerability. Many have issued informative material and Old Mutual Wealth have taken this a step further and provided a seminar tour focused on how financial planners can address vulnerability when advising clients. It is important to note that, while keeping financial advisors well informed on how to meet the needs of vulnerable customers is a good step forward, some vulnerable customers (e.g. those on low income) may not have access to financial advice.

Taking practical action

Product/service design

This section of the guidance states that firms should consider how vulnerable customers will be positively or negatively impacted by a product or service design. In particular, they should consider if any product or service features deliberately or inadvertently exploit or benefit vulnerable customers. When designing a product or service, firms should consider the needs of vulnerable customers at each stage of development – from idea generation, through to the final review.

Example of good practice

In recent years we have seen more products come to market which allow customers more freedom in how they access their pension pot. While the flexibility of these products' design is great for some, it can be risky for vulnerable customers who haven't received sufficient advice. Vulnerable customers may benefit more from advice but may struggle to afford it.

Research in Just Group's report on "Dealing with vulnerable customers" showed that under half the companies surveyed said they had partially or fully embedded vulnerability into product design.
However, the survey did highlight some examples of good practice in product design, such as:

- Ensuring product development teams include vulnerable groups when conducting market and consumer research, and
- Using third parties such as specialist charities to conduct audits of websites or communications.

Good customer service

The guidance states that:

- Systems and processes should be set up in a way that enables vulnerable customers to disclose their needs,
- Customer service processes should be flexible, so frontline staff can exercise discretion to respond to the needs of vulnerable customers,
- Staff should be forthcoming in making customers aware of the options available to them such as specialist support services, and
- Firms should have systems in place to record information on the needs of vulnerable customers.

Example of good practice

A number of companies, including Sun Life Financial of Canada have established "Vulnerable Customer Champions". These are more senior and experienced workers who can advise on how to help and communicate with customers in special situations. They also monitor the effectiveness of existing processes and share examples of recent cases. This allows front-line staff to escalate cases to more senior employees, who can authorise a more flexible and tailored solution.

In early 2020, 26 insurance industry parties signed a voluntary agreement to help make protection insurance more accessible. Under this agreement, if providers can't offer insurance policies to a customer because the customer doesn't meet their eligibility requirements (e.g. they have a pre-existing health condition) the provider will signpost them to another provider who can offer them insurance. This scheme demonstrates good customer service and should help make protection insurance more widely available for vulnerable customers.

Communications

The guidance suggests that firms should ensure that all communications are clear and provided in a form that customers will understand, to ensure that vulnerable customers are not disadvantaged. Firms should consider how best to communicate with vulnerable customers and make customers aware of the different communication channels available.

Example of good practice

Standard Life have established a "meet and greet" policy where customers can come into their office to discuss concerns around their policy. It's estimated that around 50% of the visits Standard Life receive are from vulnerable customers. Offering this one on one, in person service to vulnerable customers helps them fully understand their policy.

Other examples of good practice include companies moving from paper-based drawdown applications to telephone based applications. This allows companies to gauge customer capability and understanding and provide additional support where needed.

Monitoring and evaluation

The guidance states that companies should implement processes to evaluate how firms meet the needs of vulnerable customers. Firms should implement processes at key points in the customer journey to identify where these needs are not met. They should additionally produce management information considering the outcomes of vulnerable customers.

4. The impact of COVID-19 on vulnerable customers

The COVID-19 pandemic has impacted individuals in a number of different ways and to different extents. Some individuals have been more greatly impacted than others and this section will consider how COVID-19 has affected:

- Customers' vulnerability, either in the short-term or long-term, from life events such as unemployment and care responsibilities,
- Individuals' financial resilience, and
- Individuals' health, including both physical health and mental health.

We also consider how insurers are likely to be affected by COVID-19.

Life events

The FCA identifies life events and sudden changes in circumstances as a key driver in vulnerability.

Unemployment

Millions of people across the UK have seen changes to their working lives due to the pandemic - some have had to work from home while others have been furloughed or even made redundant.

According to the Office for National Statistics (ONS), the number of employees on payroll fell by almost 650,000 between March and June 2020. Additionally, the number of people claiming work-related benefits has more than doubled to 2.6 million[12] and this is expected to rise further as the furlough scheme comes to an end.

Some industries have been hit harder than others. For example, lockdown measures meant that industries, such as hospitality, were unable to operate for several months. The ONS found the 6 industries with the greatest proportion of staff furloughed were accommodation and food services, construction, manufacturing, wholesale and retail, transportation and entertainment. All of these industries furloughed over 75% of their staff.

Individuals have also been made unemployed and for staff who are furloughed, it is unclear when they will return to work and whether they will work the same hours per week as before (noting that the furlough scheme itself is due to end in October). Insurers' customers who work in the industries that have been most severely impacted are more likely to now be vulnerable due to changes in employment.

Hospitality sees most workers furloughed

Percentage of workforce furloughed by industry

Accomodation and food services
92.0%

Construction
90.8%

Manufacturing
88.3%

Wholesale and retail
84.3%

Transportation and storage
77.3%

Arts, entertainment and recreation
75.9%

Source: ONS Business Impact of Coronavirus Survey (4-17 May 2020)

Caring responsibility

Carers UK estimated that 8.8 million adults in the UK were providing unpaid care in 2019[13]. Of this 8.8 million, 40% care for their parents or parents-in-law, 26% care for partners or spouses and 13% look after disabled children and adult children.

Since the outbreak of COVID-19, even more people are now providing unpaid care for their family members, friends and neighbours. This is due to the reduction of care services available, increasing care cost, closure of day care centres and social distancing measures. Figures from Carers Week revealed that the COVID-19 pandemic has resulted in an additional 4.5 million people now caring for those who are elderly, disabled or with physical or mental illness[14]. Among these unpaid carers, 2.8 million have taken on care responsibilities whilst continuing with their paid work.

Adult day care centres provide support for elderly and vulnerable people who need care and also offer a break for carers at home. Essex City Council alone places around 2,100 adults each year in day care centres as part of their support package[15]. However, during the pandemic, many adult day care centres have been forced to close. Finding an alternative carer would have been challenging and many care responsibilities were temporarily taken on by family members and friends. It remains unclear how day centres will have been financially impacted by the pandemic and how many will be able to re-open and remain running.

Domiciliary care industries have seen a decreased workforce, due to social distancing measures and more staff needing to self-isolate. To combat this, some carers have been required to work for extra hours during the pandemic.

High mortality rates in care homes in the UK has made people reluctant to seek help from care homes, even when they have care needs. Social distancing measures may also mean that care homes are now unable to provide the same service as before. The cost of care is also expected to increase due to the cost of Personal Protective Equipment (PPE) and implementation of social distance measures. Research shows this could cost care home residents an additional £100 per week[16].

COVID-19 has caused a huge increase in the number of people providing unpaid care. It is likely that this number will continue to increase due to the ongoing challenges faced by professional care facilities. This will likely add to the number of people who are vulnerable due to taking on care responsibilities which can also have potential impacts on mental wellbeing and financial implications.

Financial resilience

Debt

An estimated 4.6m people have been negatively impacted financially by COVID-19. It is estimated that these people have accumulated £6.1 billion of arrears and debt[17]. This averages out as £1,076 in arrears and £997 in debt per adult affected and this figure is likely to increase while some lockdown measures are still in place.

The FCA has encouraged the financial services industry to introduce temporary payment holidays to help reduce financial burdens for customers. It has been shown that 2.7 million people have accessed payment holidays[17].

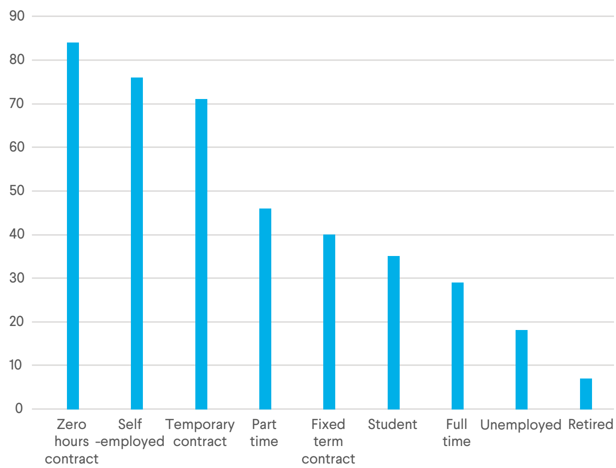
The most common financial coping strategies for those negatively impacted is to borrow to meet basic needs (26%), followed by using savings (23%), asking for help from family and friends (11%), rely on Universal Credit (9%) and selling possessions (8%)[17]. With under a quarter using savings, i.e. money that they actually have, this illustrates a lack of financial resilience and vulnerability. Another coping strategy that has been used is reducing or stopping pension contributions. It's estimated that 40% of 18 to 34 year olds have stopped or reduced their contributions to their pension scheme. While this will allow them to have more cash in the short-term, it could result in them being more vulnerable in the longer -term[18].

Low or unstable income

COVID-19 has exacerbated poverty and job insecurity and many have experienced a loss of income or unstable income. This has been driven by individuals being furloughed, working reduced hours, being unable to attend work due to illness, taking time off to care for loved ones or being made redundant.

Those with less job security (e.g. those on a zero hour contracts, a temporary contract or those who are self-employed) have been most financially impacted by COVID-19.

Groups negatively affected financially by coronavirus by employment category



Source: Step Change Coronavirus Policy Briefing[17]

An income shock can make individuals very vulnerable. According to a survey conducted by Compare the Market in May, nearly half of individuals are struggling because their income is not enough to cover their outgoings, because they have been furloughed, suffered a pay cut or lost their job[19]. Individuals who have been most affected include those who are not fully covered by the furlough scheme. For example, individuals who are recently self-employed or those whose salary exceeds the £30,000 cap have received a much lower income than pre-COVID-19.

Health

Physical health

It is still unclear whether COVID-19 will have any longer-term health impacts on those who have who recovered the illness. It has been reported that some people have been suffering symptoms such as difficulties in breathing and fatigue for several months after contracting the illness.

For those who did not contract COVID-19, they may still have experienced impacts on their physical health. The lockdown reduced accessibility of medical resources and caused delays and cancellations in screenings, urgent referrals and treatments. Patients may also have been reluctant to visit hospitals during the pandemic and emergency admission rates to major A&E units dropped significantly in March and April. NHS figures also showed there was a 60% drop in people visiting their GP and being referred for tests in April 2020, and cancer referrals were down by 45% at the end of May[20]. It is therefore expected that these will have longer-term mortality and morbidity implications which could drive increased vulnerability.

Mental health

COVID-19 has put a huge strain on the population's mental health and wellbeing, which may make customers more vulnerable. The ONS reported in late March that almost half of British people reported a high level of anxiety, which is a sharp increase from the end of 2019[21]. The ONS found that people were most concerned about how COVID-19 would impact their wellbeing, work and household finances. A recent survey from the Mental Health Foundation unveiled that a third of fulltime workers are concerned about losing their job and one third of adults are worried about debts and bill payments[22].

Employment is one of the most strongly evidenced factors that influences mental health. The quality of employment can influence quality of life, social status and self-esteem. Therefore, it's not surprising to find that twice as many unemployed people (26%) are not coping well with the stress of the pandemic compared to people in employment (12%)[22].

It is also concerning that some people are not seeking help as they think their problem is not important compared to the wider pandemic, or feel it is unsafe to attend a face-to-face appointment. The mental health charity, Mind also found that more than a quarter of people who did try to seek mental health support in late April failed to receive any help at all[23]. Mental health is a key driver in vulnerability and it is essential that support services are provided as a priority.

Insurers' responses to COVID-19

Many insurers have implemented some valuable product changes to help customers through this difficult time. These include premium holidays, cover and premium reductions, services such as online GPs and helplines, and online medical screening for claims management and underwriting to adapt to the lockdown. Some insurers proactively monitored lapse rates and reached out to potentially vulnerable customers and offered them help through payment holidays.

Going forward, insurers may need to consider the impact on areas such as pricing, valuation of liabilities, underwriting and distribution channels. As insurers make changes, the fair treatment of vulnerable customers should be considered.

Insurers may find that customers have changed their behaviour and are now more willing to shop online. We may therefore see an increase in sales of insurance online or over the phone.

As insurers make these changes, it is essential that these are appropriately communicated to vulnerable customers, so they understand what the implications are for them and what support they can access.

5. Vulnerable customers in other industries

The approach to managing the needs of vulnerable customers can vary between different industries. In this section we will consider how general insurers, banks and other industries (outside of the financial sector) manage the needs of vulnerable customers.

Financial Services Industry

As discussed in Section 3, the FCA has issued guidance on managing the needs of vulnerable customers, including ensuring that staff have the skills and capability to address their needs. The FCA has also issued guidance on whistleblowing for pricing actuaries who may feel that vulnerable customers are being targeted or exploited. This allows actuaries to raise concerns around the fairness of pricing and internal mechanisms. FCA guidance is applicable to the whole financial services industry, and so extends beyond just the insurance industry.

In the general insurance market, we have seen many examples of insurers considering the needs of vulnerable customers during COVID-19. In the motor, home and travel insurance markets, insurers have taken steps to help vulnerable customers struggling to meet payments by offering help with payments, refunding premiums and making policy adjustments. The FCA has outlined that firms should consider giving customers premium payment holidays and relaxing other administrative charges and interest on missed payments.

In the banking industry, a key area of concern is vulnerable customers falling victim to financial scams. This has implications for both the customers and the banks, who can be subject to severe penalties if the regulator believes that more could have been done to protect customers. The banking industry is generally very vocal about fraud and Barclays bank are currently running adverts specifically to warn customers about fraud and offering further information on keeping their money secure. Another current example of banks taking steps to protect vulnerable customers is Nationwide providing hints and tips on avoiding scams when the customer attempts to make a payment to a new account. During COVID-19, we have seen banks take additional steps to consider the needs of vulnerable customers, including mortgage holidays for furloughed or unemployed customers. Additionally, Santander were calling isolated customers during the lockdown to check on their wellbeing.

A number of charities also carry out work to help vulnerable customers in the financial services industry. For example, the Money Advice Trust have created a traffic light system to categorise customers as either potentially vulnerable, vulnerable or particularly vulnerable. Depending on the category assigned to customers, this will influence how companies should approach helping each type of customer. The Money Advice Trust also offers training for companies in how to help vulnerable customers. The Alzheimer's Society also offers training to financial services staff. This training aims to raise awareness of dementia and share information on initiatives that companies can use. This training should be hugely beneficial in helping insurers protect these vulnerable customers.

Wider industries

Consideration of the needs of vulnerable customers should also be a priority for industries outside the financial sector and companies who do this will often experience really positive impacts on their reputation.

During COVID-19, there was an increased effort to assist those who were most vulnerable across a number of industries. We saw some supermarkets allocate certain opening hours exclusively for vulnerable customers to do their shopping, plumbers and handymen provided free services to the more vulnerable and some local councils and utility providers also temporarily exempted customers struggling to pay bills.

Similar to the guidance issued by the FCA, the regulator for energy providers, Ofgem, has a consumer vulnerability strategy to protect gas and electricity consumers in vulnerable situations until 2025. This strategy focusses on a number of areas, including:

- considering affordability,
- improving identification of vulnerability and smart use of data,
- providing quality customer service for vulnerable groups,
- encouraging positive and inclusive innovation, and
- working with partners to tackle issues that affect multiple sectors.

Together, the overall aim of the strategy is to ensure customers in vulnerable situations are treated fairly.

6. Next steps for insurers

Future trends

As discussed in Section 2, research shows that nearly half of UK adults display characteristics of vulnerability[2].Very recently we have seen the impacts of COVID-19 increase the number of vulnerable people in the UK. COVID-19 has had an immediate impact on people's vulnerability, which could extend into the longer-term. It is possible that in the future we will experience outbreaks of other illnesses which could have a similar impact.

In the UK we have an ageing population. As there tends to be a higher proportion of vulnerable people in the age group of 75 and over, we could see an increase in vulnerable customers in the future. Insurers may therefore need to consider if their products meet the needs of older customers, if they are readily accessible to older customers, whether carers should be able to access products on the policyholder's behalf and how to protect older customers from risks such as fraud. The FCA have carried out research which investigates how the ageing population would affect the financial services industry and have published an Occasional Paper on this[24].

Technology has the potential to both aid and disadvantage vulnerable customers in the future. It is key that insurers consider the needs of vulnerable customers in their innovation to ensure they are not left behind.

Where should insurers focus their attention?

As discussed in Section 3, the FCA has issued a guidance consultation on how firms should ensure the fair treatment of vulnerable customers. This guidance is applicable to the whole financial services sector and is likely to be most critical for companies where there is a real risk of customer detriment, for example companies which offer credit facilities. However, it is still very important that insurers review their practice in light of this guidance and ensure that the needs of vulnerable customers are considered throughout their customer journey. In particular, insurers should ensure they:

- Can identify vulnerable customers and understand their needs,
- Have staff who are sufficiently skilled and capable of meeting the needs of the vulnerable customers,
- Take practical action to improve product design, customer service and communications for vulnerable customers, and
- Monitor how effective they are in meeting the needs of vulnerable customers on an ongoing basis.

Other areas that we have identified, where insurers should consider the needs of vulnerable customers, are technological advances and business transfers and transformations. In terms of business transfers and transformations, we will specifically consider later in this section where policies are transferred from one insurer to another and where policy benefits are altered.

Technology

As technology advances, it presents both opportunities and challenges. In this section we look at how technological advances, in a number of areas, can impact vulnerable customers in the insurance industry.

Wearables

Some insurers have begun to incentivise the use of wearable devices (for example FitBits) by offering premium discounts to policyholders who are more active. As a result we have seen an increase in ownership of these devices. ReMark Group, a subsidiary of SCOR, has reported that 26.6% of UK responders owned a wearable device and 24.1% were intending to get one[25].

These devices allow people to track their exercise, sleep and food consumption. The devices often provide prompts, for example to encourage exercise, so this combined with the incentive of lower premiums should help promote a healthier lifestyle for policyholders. As a result, insurers hope to see reduced volumes of claims. For customers who are vulnerable due to poor physical health, living a healthier lifestyle could improve their health and resilience to illness and reduce their vulnerability. Vitality offers rewards to its policyholders depending on their daily activity levels. A study of more than 422,000 Vitality members found that unhealthy people are much less likely to take up a reward programme like Vitality's but when they did, they showed a "pronounced behaviour change"[26].

However, where these schemes rely on the customer purchasing their own wearable device, it is likely that customers who are vulnerable due to low income will not see the benefits that other policyholders do. They may not be able to afford a wearable device and would be reliant on the insurers providing one. Another consideration is that prompts and target exercise goals may need to be tailored to vulnerable customers. For example, a target of 10,000 steps per day be unrealistic for someone in poor physical health. More realistic targets could be set so individuals are motivated to reach them and experience the benefits.

Data Analytics and Artificial Intelligence

On July 2nd 2020 Home and Renters Insurance provider Lemonade listed on the New York Stock Exchange (NYSE), a milestone for InsurTech. As data analytics and artificial intelligence (AI) are embraced by market innovators the benefits for insurers vary.

Big Data can be used by insurers to gather policyholder data from a number of sources (such as a wearable device) to get more granular data on which they can base their pricing. However, with access to a greater volume of data, insurers may view some vulnerable customers as very risky. For example, if life insurers have greater access to information on policyholders' families' medical history, their lifestyles, occupations, living conditions etc, the insurer may determine the policyholder is a higher risk and more likely to make a claim. This could result in vulnerable customers being charged much higher premiums or being declined cover.

On the other hand, technology can allow expenses to be significantly reduced by streamlining the underwriting and claims processes to minimise human input. A reduction in expenses could benefit smaller policies and make insurance more affordable to some vulnerable customers. However, there could be a number of challenges for life insurers. For example, life insurers are restricted by regulation on how to use life and health data. Under data protection laws, data processors (such as life insurers) are only permitted to use personal and medical data on a "need-to" basis and policyholders have the right to an explanation on how their data is used by an AI system. The algorithms used by an AI system are not always simple to explain but transparency is essential in proving that an automated underwriting decision has not breached regulation.

Case Study 1

Ant Financial, the Chinese FinTech group, launched a critical illness product for Alibaba customers in autumn 2018. The product covers around 100 critical illnesses and the cost is shared equally by all participants. An existing risk credit score, Alibaba's Sesame Credit point system, is used and no medical underwriting is required. The simplicity of the product, along with Alibaba's market penetration, has led to impressive take-up - aiming to reach 300 million users within two years of its launch. Due to the simplicity of the application process for policyholders the product has been able to reach rural areas of China which have historically been under-served by life insurers.

Whilst this product shows how technological innovation can be used to benefit vulnerable customers there are some potential downsides. For example, the product is not being marketed as an insurance product and is therefore not subject to China's insurance regulator. This may mean there is less protection for policyholders. Charging the same premium for all policyholders may also be seen as unfair, as different policyholders will present different levels of risk and likelihood of a claim. There is therefore work to be done in ensuring advances in technology don't come at a cost to some customers.

The FCA has taken steps to promote innovation while protecting consumers. They have launched a number of initiatives – the Regulatory Sandbox, the Innovation Hub and the Advice Unit. These allow firms to test innovative FinTech propositions at a small scale with real consumers and encourage innovation that will help in the identification of vulnerable customers or fraud.

Customers may become more or less vulnerable throughout their life, due to changing circumstances, and identification of vulnerable customers after initial underwriting can be particularly challenging. The long-term nature of life insurance contracts means that customers may move in and out of states of vulnerability throughout their policy. AI and monitoring real-time data such as credit scores or electronic health records could help insurers identify vulnerable customers throughout the term of their policy.

Moving operations online

Insurers are increasingly moving services and operations online. It is now common practice to go online to find company and product information, make an application or claim or to access customer services. For vulnerable customers who don't have access or understand how to access these services there is a risk that the services provided by insurers do not meet their needs. There tends to be a large proportion of vulnerable customers who are over 75 and this part of the population tends to have less online skills. Insurers should ensure products, services and information are accessible for all customers.

COVID-19

As discussed in Section 4, the COVID-19 pandemic has prompted an expansion in the industry's use of remote services. Social distancing measures have led to insurers partnering with firms that offer remote medical screenings, which can be used as a substitute for GP reports during underwriting. This has helped customers gain access to insurance during a period where they may be particularly vulnerable. Additional services such as virtual GPs and mental health support have gained more traction with existing policyholders. A continued use of remote services, such as virtual GPs, could make underwriting easier for less mobile policyholders and therefore increase access to insurance.

Business transfers and transformations

Business transfers and transformations are used frequently in the insurance industry to meet strategic aims and result in fundamental changes to customers policies. It is therefore key that all customers', and particularly vulnerable customers', needs are considered during these processes. In this section we will specifically consider where policies are transferred from one insurer to another (a Part VII transfer) and where policy benefits are altered (a Part 26 scheme of arrangement).

Part VII transfers

A Part VII transfer is a legal transfer of all, or part, of one insurer's portfolio to another insurer and requires court approval to proceed.

The FCA and PRA will advise the court on whether they approve of the transfer. The FCA considers the conduct and fairness of the transfer and the PRA considers the impact of the transfer on the solvency of the companies involved. Their inputs should ensure that policyholders are treated fairly throughout the process (this includes ensuring good communications to policyholders) and that policyholders' benefit expectations or benefit security are not threatened by the transfer.

An Independent Expert ("IE") is also appointed to opine on the transfer and in particular assess whether any policyholders are materially disadvantaged by the transfer. The court will place considerable weight on the IE's report when deciding whether to approve the transfer. While the regulators and the IE's inputs are not legally required to specifically consider vulnerable customers, they should ensure a degree of protection for them and it is good practice to consider the impacts on vulnerable customers.

Case Study 2

The IE for a Part VII transfer (from The Prudential Assurance Company to Rothesay Life) considered how the treatment of vulnerable customers could change as customers transferred from one company to another. Despite this not being a regulatory requirement, the IE requested information from both companies on their approach to vulnerable customers. Having reviewed this information the IE stated in his report that there was no reason to believe that the treatment of vulnerable customers would change as a result of the transfer.

Under a Part VII transfer, it is a requirement that the companies involved write to their policyholders outlining the key elements of the transfer and important information from the IE's report. It is essential that these communications are made using simple, non-technical language so vulnerable customers understand the transfer and the implications for them. While policyholders' approval is not required for the Part VII transfer to proceed, if they object, they are able to present their case to the court who will take their objection into consideration in approving the transfer.

Part 26 schemes of arrangement

A creditor compromise scheme of arrangement is a process under Part 26 of the Companies Act, which allows a company to alter its contractual agreement with its customers. A Part 26 scheme of arrangement can cover a wide range of alterations. For example, these alterations could include converting with-profits policies to non-profit policies or altering policy options, for example Guaranteed Annuity Rates ("GAR").

The process requires approval from the court and by the policyholders, by means of a majority vote. Additionally, depending on the particular scheme, policyholders may be able to opt out. The policyholder vote and potential opt out option may protect customers, including vulnerable customers, who feel they are disadvantaged by the scheme. However, some vulnerable customers may struggle to understand the concept of the scheme and what the implications are for them and therefore may struggle to understand whether they should vote in favour and opt in or out.

There is no regulatory requirement to appoint an IE for this scheme, however it is recognised that this often helps ensure the fair treatment of policyholders, so an IE is generally used. As with Part VII transfers, while the use of an IE isn't just for vulnerable customers, it should ensure that vulnerable customers are not materially disadvantaged by the scheme.

Case Study 3

A previous example of good practice was Royal London's Part 26 Scheme of Arrangement - Project Talisker. Around 33,000 Royal London policyholders held policies with a high GAR. As part of Project Talisker, Royal London gave policyholders the option to either keep their GAR or exchange it for a one-off increase to their retirement savings.

Royal London acknowledged at the outset that this customer base was elderly and therefore likely to be vulnerable. Royal London adhered to good practice by beginning communications with the FCA at an early stage, holding pre-plan meetings and carrying out customer testing with focus groups, to understand how communications with policyholders would land. An Independent Expert was appointed to review the scheme and ensure policyholders were treated fairly. In addition, Royal London ensured that they began communications with customers through "warm-up" mailing to notify them of the upcoming changes.

Vulnerable customer training and guidelines were put in place and certain behaviours and trigger words helped Royal London employees identify policyholders that may require additional help. For those identified, Royal London were able to arrange call-backs, to give these policyholders time to digest information and follow-up. In special cases, they were also able to arrange for home visits to discuss the project, if policyholders appeared confused, exceptionally distressed or were struggling to understand concepts over the phone. To minimise confusion, communications were made using simple wording, without jargon and technical language.

Areas of focus for business transfer & transformations

During a business transfer or transformation key areas to consider are:

- Adhering to legal and regulatory requirements which protect all policyholders,
- Identifying which policyholders might be classed as vulnerable,
- Ensuring communication with vulnerable policyholders is tailored to their needs, and
- Providing further resources, such as guidance and advice, to them if possible.

Next steps for insurers

As discussed throughout the report, there are various aspects of insurance that could result in vulnerable customers being disadvantaged. Insurers therefore have a duty of care to ensure that they are proactive in understanding and managing the needs of vulnerable customers.

Insurers should review the guidance consultation issued by the FCA and consider how they cater to vulnerable customers' needs. Insurers should aim to implement policies and processes which are sustainable, particularly when we have seen a recent increase in the number of people who are vulnerable.

Example areas which insurers should review include the following:

Area	Considerations
Strategic	• A holistic and end-to-end firm approach around the treatment of vulnerable customers is required. • The spectrum of vulnerability needs to be recognised and addressed as part of the insurer's strategy. • As with all important elements of a firm's strategy, the tone from the top is key and there should be evidence of this important topic being on the Board level agenda. • Insurers may consider where they can build their expertise by partnering with vulnerability specialists such as mental health charities.
Product and service design	• There should be good awareness of product features that may cause harm. • An assessment of vulnerable customers should be built into all stages of product design and testing. • Using all available data, it should be possible to have a view of vulnerabilities that exist in an insurer's client base and the target market. • Products in the design phase should be stress tested to see how they might perform in different economic environments. • The complexity of products and features should be considered, with more straightforward designs preferred so that they can be more easily explained and understood by customers. • There should be reviews of products on an ongoing basis to check if they are achieving their aims and to assess customer feedback (e.g. complaints data).
Customer service and communications	• Channels of communication need to be open for everyone to be able to access. • During customer service interactions, there should be enough flexibility to help, not exacerbate the risk of harm. • On websites, digital tools can be employed which provide additional help or spot hesitancy and other signs of uncertainty (e.g. inconsistent information).
Skills and capability of staff	• Staff should have awareness of how their role impacts the fair treatment of vulnerable customers. • Staff should have the necessary skills and capability to both recognise the characteristics of vulnerability and respond accordingly. • There should be support available for staff to help them to deal with difficult situations. • Good practice can be shared regularly among the customer facing teams.

How we can help

Hymans Robertson has a wealth of experience in product design, regulation and conduct risk. We can provide a number of services to you to ensure you treat vulnerable customers and improve customer outcomes. These include:

- Developing processes or scoring systems, to identify vulnerable customers,
- Reviewing the effectiveness of existing policies for identifying and treating vulnerable customers fairly,
- Various market leading tools which can guide vulnerable customers, who otherwise may not be able to afford advice, into making better retirement decisions,
- Creating checklists and processes to be used throughout the product development process, and
- Reviewing policyholder communications.

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