Regulator Assessment: Qualifying Regulatory Provisions

Title of proposal: FG21/1: Guidance on the fair treatment of vulnerable customers

Lead regulator: FCA

Date of assessment: September 2021 (this is a retrospective impact assessment based on the Cost-Benefit-Analysis undertaken as part of the two-stage consultation process for the Guidance)

Commencement date: 23 February 2021

Origin: Domestic

Does this include implementation of a Cutting Red Tape review? No

Which areas of the UK will be affected? All of UK

Brief outline of proposed new or amended regulatory activity

There are existing rules in the FCA Handbook that relate to the fair treatment of all consumers, including vulnerable consumers, or specifically to vulnerable consumers (see Appendix 2 FG21/1 for an overview of relevant obligations). This includes our Principles for Businesses (the Principles). The key Principle underpinning the need for firms to take particular care in the treatment of all customers, including customers in vulnerable circumstances, is Principle 6 – Customers' interests: A firm must pay due regard to the interests of its customers and treat them fairly. Under Principle 6 there are also 6 outcomes that firms should strive to achieve.

In 2019 and 2020 we consulted on non-Handbook Guidance ("the Guidance") to help firms better understand our expectations, and their obligations, to treat customers in vulnerable circumstances fairly. This was because evidence from consumer organisations and our own regulatory work showed that there were still inconsistencies in how vulnerable consumers were treated. While some firms had made significant progress in how they treat vulnerable customers, others had failed to consider their needs, leading to harm. Some firms told us that they would like to improve their treatment of vulnerable customers but were unclear on how to.

We want customers in vulnerable circumstances to experience outcomes as good as those for other customers. So the Guidance is intended to drive improvements in the treatment of vulnerable consumers and bring about a practical shift in the actions and behaviour of firms that enables this to happen. It does this by making clear what the standards set by our Principles mean for firms, so that firms understand what we expect of them. It sets out what firms should do to meet those standards. While firms are not bound to adopt or follow any of the specific actions described in the Guidance, they must meet the standards set by our Principles and treat customers fairly.

Which type of business will be affected? How many are estimated to be affected?

All firms to which the Principles apply, regardless of sector. This includes firms that are involved in the supply of products and services to retail customers who are natural persons, even if a firm does not have a direct client relationship with the customer.

As outlined at paragraph 31 of the Cost Benefit Analysis section of GC20/3, based on the FCA Register we estimated that the Guidance would apply to 52,000 firms.

Price base year	Implementation date	Duration of policy (years)	Business Net Present Value	Net cost to business (EANDCB)	BIT score
2021	23 February 2021	10	-4199.1	487.8	2439.2

Please set out the impact to business clearly with a breakdown of costs and benefits

This is a retrospective impact assessment based on the Cost-Benefit-Analysis (CBA) undertaken as part of the two-stage consultation process for the Guidance (see Technical Appendix for details of the CBA methodology). While the CBA took place before the onset of the Covid-19 (coronavirus) pandemic and the ensuing economic downturn, we are of the view that the CBA remains a valid assessment of the costs and benefits. More information about this can be found in GC20/3, Annex 3, paragraphs 24 to 27 and FS21/4 paragraphs 2.83 to 2.85.

A summary of average and total cost of implementing the Guidance by firm size is set out below (source: GC20/3 Annex 3, Table 1). The estimated total costs of the proposal are significant because of the large number of regulated firms the Guidance applies to.

Costs will vary across the firm population because the Guidance applies to firms in different ways depending on the specific context of the firm, including its size, the markets it operates in, the products it offers and the characteristics of its target market and its customers. While we cannot control for all factors, we believe that firm size, as measured by number of employees, provides a fair approximation of costs. On a per-firm basis, the average one-off cost ranges from £3,200 for the smallest firms to £3.3 million for the largest firms. The average ongoing cost ranges from £2,400 to £2.4 million per year.

Table 1: Summary of average and total cost of implementing the guidance by firm size

	Number of employees					
	Less than 50	50-249	250-999	1000-9999	10,000 and above	Total policy cost
Average one-off cost	£3.2k	£63.8k	£69.1k	£221.4k	£3.3m	
Average ongoing annual cost	£2.4	£33.3k	£20.8k	£152.8k	£2.4m	
Estimated number of firms	47,320	2,937	1,090	604	50	
Firms in Sample	175	39	22	20	5	
Total one-off costs	£149.5m	£187.4m	£75.3m	£133.7m	£163.1m	£709.6m
Total ongoing annual costs	£114.6m	£97.7m	£22.6m	£92.3m	£120.9m	£448.1m

Source: FCA analysis of compliance cost survey.
Notes: Estimates are rounded. The total one-off cost includes familiarisation costs of £542,000 incurred by CMCs (see section on costs).

Compliance costs include:

- **Understanding the needs of customers in vulnerable circumstances** eg in carrying out or using existing research and data to understand characteristics in their target market/ customer base.
- **Training and development** eg adapting or development training and opportunity cost of staff time spent on training or sharing knowledge.
- **Product and service design** eg holding focus groups or exploring resources to understand how products can better meet consumers' needs, and building this in to the design process.
- **Customer service** eg adapting processes or systems to allow staff to respond flexibly, or to allow recording or information sharing about customers' needs.
- **Communications** eg reviewing language in key documents or tailoring communications
- **Monitoring and evaluation** eg obtaining, developing and analysing management information to evaluate whether consumers in vulnerable circumstances are getting outcomes as good as those for other consumers, and making changes where this is not happening. This would also include time spent as part of governance processes.

We have not made a separate estimation of familiarisation costs incurred, as we understand that firms incorporated these within the categories above.

Indirect impacts

It is possible that there will also be indirect impacts arising from the Guidance. For example, potentially some reduction in profits in the short term due to higher compliance costs or KPIs needing to be adjusted as staff spend more time on interactions with customers in vulnerable circumstances (although as explained below, we think this will provide long term benefits for firms)

Benefits

It is not possible to quantify the benefits to firms and consumers. However, we anticipate that monetised and non-monetised benefits could include:

- improvements in customers' trust and confidence in financial services firms (and therefore on firms' reputations)

- increase in staff morale and better staff retention rates due to staff feeling better equipped to handle challenging situations and receiving support from the firm
- time saved due to better quality transactions and interactions with customers
- products are appropriate for vulnerable customers' needs from the start (leading to a reduction in complaints / redress)
- increase in customer loyalty/ reduction in need to switch

We believe the expected benefits of the Guidance are proportionate to the cost to industry, especially when compared against the number of customers potentially affected (our Financial Lives 2020 survey shows that at October 2020, 53% of UK adults had one of more characteristics of vulnerability). Benefits for consumers will include more appropriate consumer transactions, reduction in the probability of individuals experiencing financial loss/ harm, reduced psychological stress and time saved.

Please provide any additional information (if required) that may assist the RPC to validate the BIT Score.

As outlined above, there are existing rules in the Handbook that relate to the fair treatment of all consumers, including vulnerable consumers, or specifically to vulnerable consumers. Based on firms' responses to the CBA survey about their expenditure, we estimated that the industry had already incurred annual costs of £1.4 billion in approaching treating customers fairly before implementing our Guidance. This baseline did not form part of the cost of the proposed Guidance. Instead, the CBA focused on incremental costs and benefits arising from the Guidance. Those arose from novel elements of the Guidance, where we indicated a firm should be considering a course of action to comply with the Principles.

As outlined at GC20/3, Annex 3, paragraph 27 and in the Technical Appendix we made the following key assumptions in the CBA:

- We assumed that firms that provided data on implementation costs were representative of the wider affected population. If responses were not representative, we would overestimate or underestimate the costs of our proposal. However, we considered that our approach minimised these risks and was reasonable for reasons set out in the Technical Appendix.
- We assumed the adjustments we made to survey responses based on consultation with respondents were representative of both the rest of the sample and the population.
- Firms who provided cost information may have found it difficult to provide accurate estimates without having seen the final Guidance. This was reflected in many qualitative responses throughout the survey. Following the adjustments made, we assumed that the costs were an accurate reflection of the actions that firms would be taking.

Impact on specific firms:

- We excluded Claims Management Companies (CMCs) from the sample of firms because the consideration of vulnerability is already embedded into their rules. Nevertheless, we assumed that CMC firms would still need to familiarise themselves with the Guidance and to undertake a gap analysis of their processes against the Guidance. Based on our standard assumptions for these cost types, we estimated a total familiarisation cost to CMC firms of £542,000.

While our survey respondents did not include not-for-profit debt advice agencies, to estimate total costs we applied our sample's cost estimates to a population of 52,000 firms that included debt advice agencies. Consultation responses did not reveal any types of costs that would be incurred by debt advice agencies, that would not be applicable to other firms.