Tackling affordability in the context of consumer vulnerability

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Outline

- Growth of interest in consumer vulnerability
- Relationship between (un)affordability and vulnerability
- Conclusions – general and in practice

Unfair Commercial Practices Directive 2005 Article 5(3): Commercial practices which are likely to materially distort the economic behaviour only of a clearly identifiable group of **consumers** who are particularly **vulnerable** to the practice or the underlying product because of their mental or physical infirmity, age or credulity in a way which the trader could reasonably be expected to foresee, shall be assessed from the perspective of the average member of that group.

Some recent UK work on consumer vulnerability

- 2010 British Standard for inclusive service provision (BS 18477): identifying and responding to consumer vulnerability
- 2012 Direct Marketing Association Guidelines for call centres dealing with vulnerable consumers
- 2013 Ofgem Consumer Vulnerability Strategy
- 2014 Citizens Advice Tackling consumer vulnerability
- 2015 Financial Conduct Authority Occasional Paper on Consumer Vulnerability
- 2016 British Banking Association (now UK Finance) Improving Outcomes for Customers in Vulnerable Circumstances
- 2017 National Audit Office Vulnerable Consumers in Regulated Industries
- 2017 UK Regulators Network Making better use of data: identifying customers in vulnerable situations
- 2017 Personal Finance Research Centre Vulnerability: a guide for debt collection
- 2018 Sustainability First Energy for All – Innovate for All

Consumer vulnerability – who?

A move from considering

- *vulnerable groups* such as:
  - The old or the young
  - People with disabilities
  - Low income groups
  - People living in remote rural areas
- which includes too many people while also excluding too many

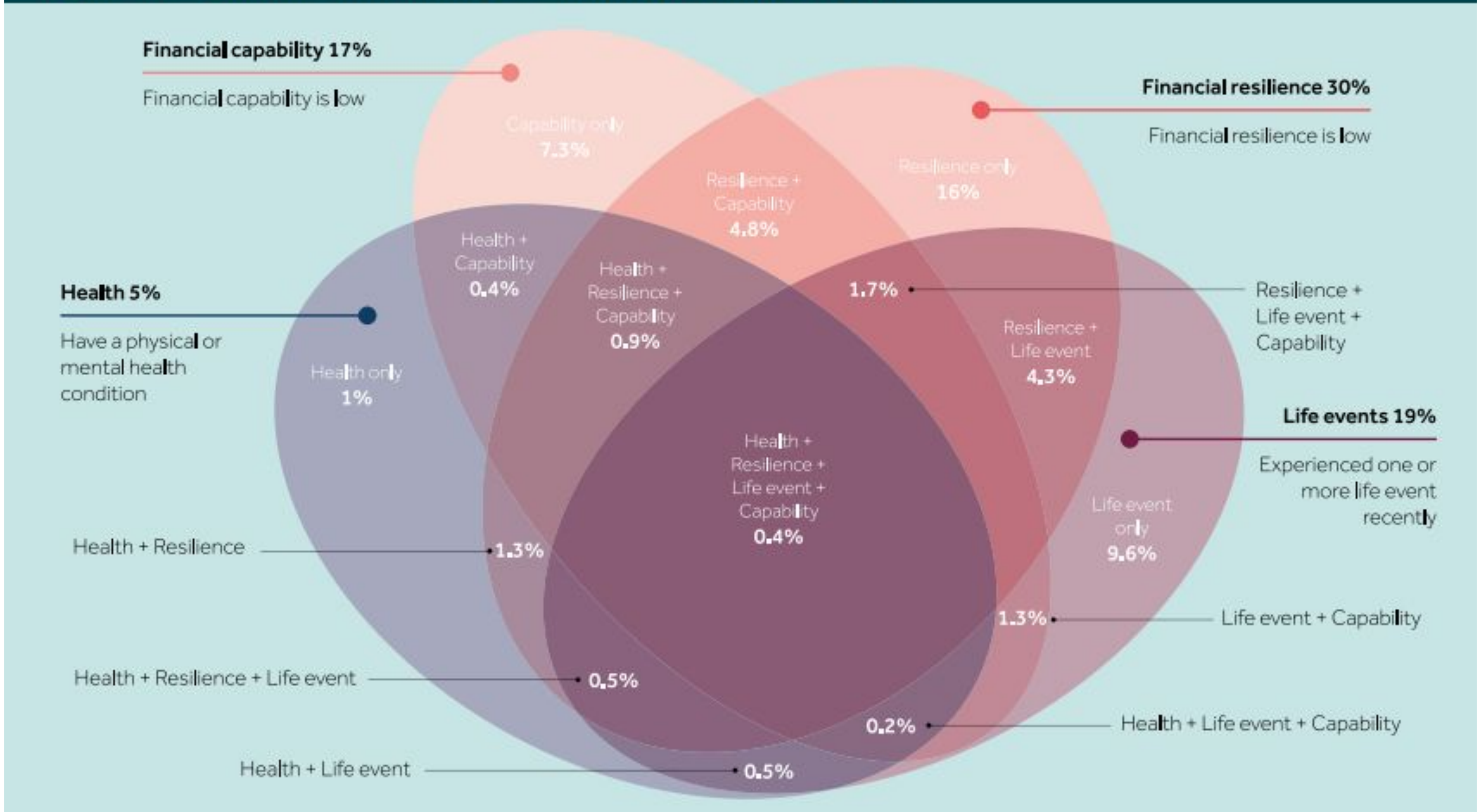
towards considering

- overall *individual vulnerability* resulting from a combination of risk factors (“vulnerable circumstances”):
  - Membership of groups, as before (mainly lasting)
  - Personal circumstances like illness, job loss or bereavement (mainly transient)
- which achieves better identification, at cost of more commitment and human involvement by companies

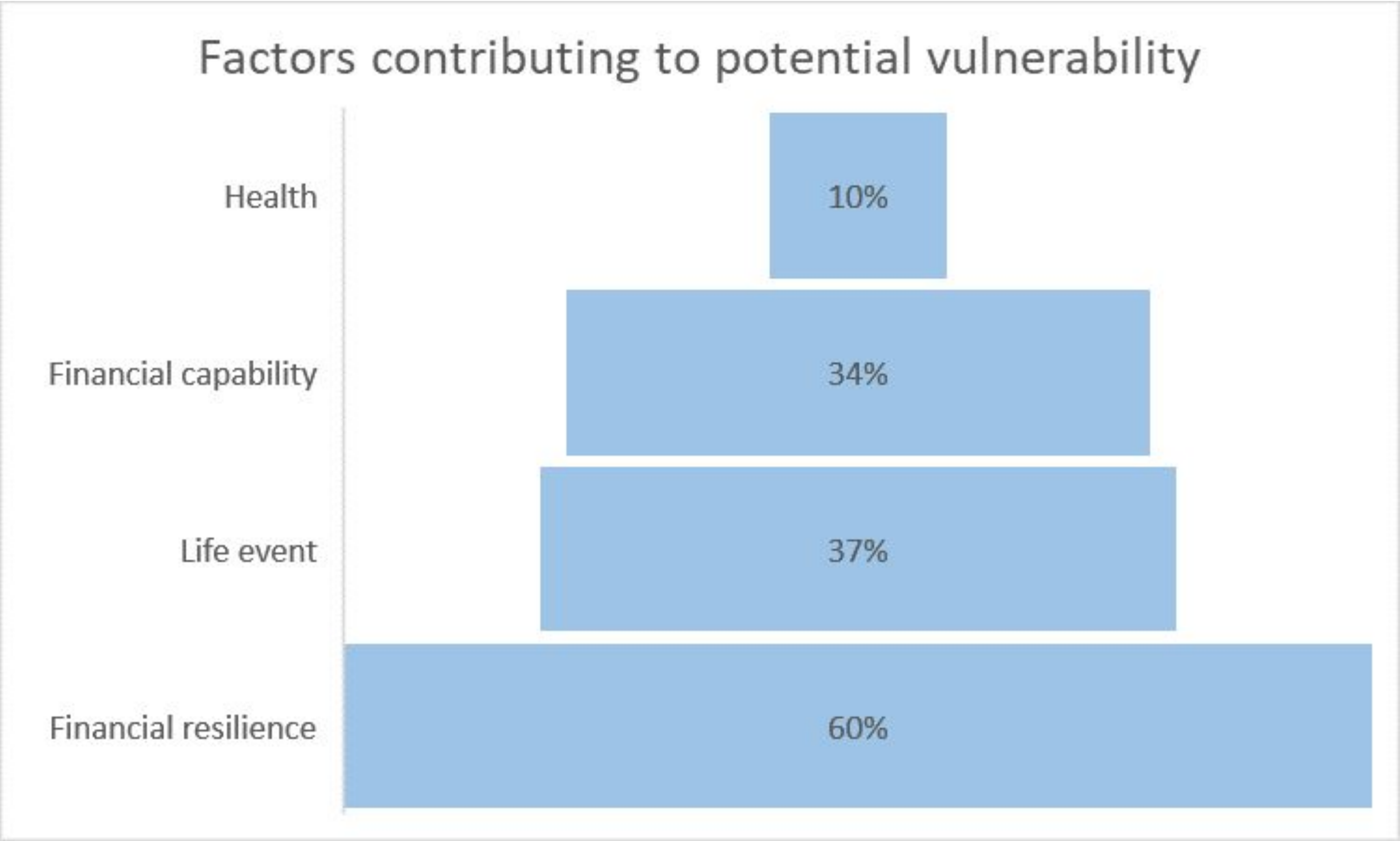
Consumer vulnerability - to what?

- Literally, vulnerability is ability to be wounded (or "at risk of harm") – and we are all consumers. On its own, this is too broad to be useful.
- Consumer vulnerability should properly be limited to vulnerability to consumer detriment, which itself covers financial detriment and non-financial detriment experienced through consumer transactions.
- Essential services (including utilities) offer high scope for non-financial detriment (including health risks), as well as significant scope for financial detriment.
- Comms and financial services, as general purpose utilities, also expose consumers to other risks like fraud or addictive behaviour. These need separate consideration.

Figure 2: Potential vulnerability – combined characteristics



Source: Our Future Approach to Consumers, FCA, 11/2017



Half of all adults surveyed showed one or more of these factors. The percentages show how common each factor was among this half.

(Lack of) financial resilience is much the most common.

Vulnerability and (un)affordability

- Low financial resilience is a major risk factor for inability to pay, and hence consumer vulnerability
- There is a strong association between low financial resilience and other risk factors such as disability or low literacy/education
- High prices and poor company policies together can lead to consumer detriment of under-consumption, unpayable bills, debt and disconnection

General conclusions

- Tackling affordability and tackling vulnerability should be mutually supportive and reinforcing.
- Vulnerability is the broader and more all-embracing concept, hence tougher to address satisfactorily overall – but may be welcome in a corporate context (appealing to staff sympathies).
- Improving affordability should go a long way towards addressing vulnerability concerns, though others will remain, and there will always be room for improvement.
- **We should not allow the new enthusiasm for tackling vulnerability to sideline efforts to tackle affordability; rather, welcome the broader perspective but keep a focus on affordability.**

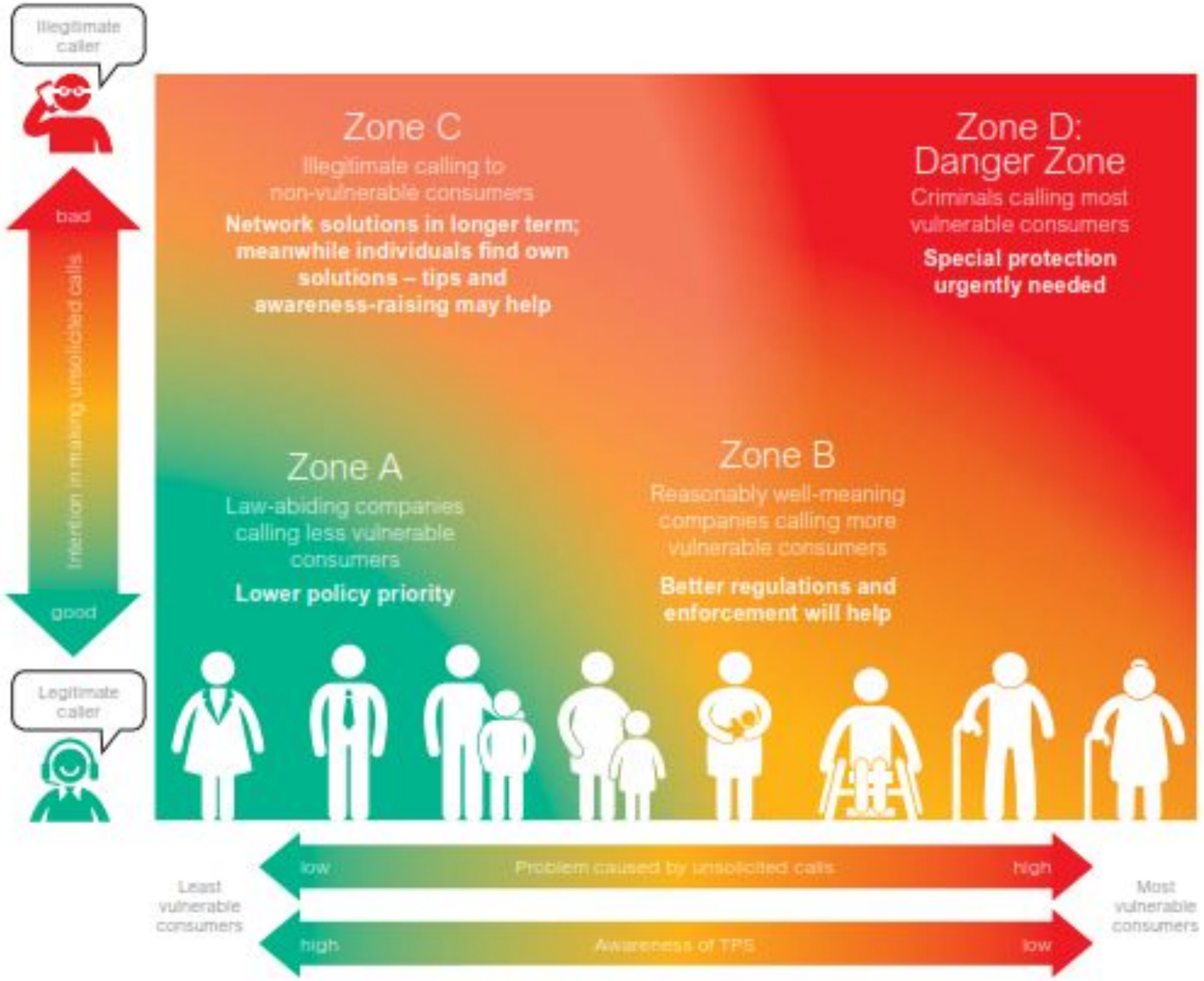
Supplementary slides

Tackling affordability in practice

- General useful measures for affordability include:
  - Lower prices (and less usage, where feasible)
  - Support in finding and securing these prices
  - Varied billing and payment methods to suit individual circumstances
- A vulnerability perspective on affordability also stresses:
  - An individual approach to payment difficulties (actual and potential)
  - Inclusive communications about billing and payment, with varied options
  - Flexibility to and understanding of consumers' circumstances

Suppliers also can exacerbate or even create vulnerability

Original context: nuisance calls ([StepChange Report 2015]) but idea is more generally valid



Consumer vulnerability policies

- Both regulators and companies are increasingly developing policies in relation to consumer vulnerability (c.f. in UK, Ofgem; Wessex Water, British Gas, Barclays)
- For practical purposes, must limit the reach of special provisions for vulnerable consumers – focus first on the most vulnerable (e.g. those on priority service registers)
- May consider the risk of detriment, the level of detriment, or combine these into the expectation of detriment (then set limits and hope to expand these)
- Important to consider detriment relative to consumers' resources – a given detriment is worse for a person with lower resources
- Regulators should consider implications for competition:
  - Looking after individuals may fit well with the public service ethos of (former) monopoly incumbents, and with a relatively high quality/high cost market positioning
  - A toolkit for smaller companies might help newcomers