**FCA consultation on proposed guidance for firms on fair treatment for vulnerable consumers**

**Response from Citizens Advice Scotland**

**September 2020**

*Scotland’s Citizens Advice Network empowers people in every corner of Scotland through our local bureaux and national services by providing free, confidential, and independent advice. We use people’s real-life experiences to influence policy and drive positive change. We are on the side of people in Scotland who need help, and we change lives for the better.*

*In 2018-19, the Citizens Advice Service network helped over 270,000 clients in Scotland and dealt with almost 750,000 advice issues. With support from the network, clients had financial gains of over £131 million and our self-help website Advice in Scotland received approximately 3.7 million page views.  At 110,439 advice issues, debt is the second largest issue dealt with by the CAS network. Local Citizens Advice Bureaux helped and supported clients with 31,128 issues relating to, consumer credit.*

*We represent two major stakeholders - our clients and the CAB advisers who support them. We welcome the opportunity to respond to this consultation on their behalf and in the wider public interest.*

**Introduction**

Citizens Advice Scotland (CAS) welcomes this further opportunity to respond to the consultation on proposed guidance for firms on the fair treatment of vulnerable consumers. We are pleased to see the continued commitment by the FCA to protecting vulnerable consumers.

This guidance is particularly timely with the current and future impact of COVID-19 which will result in both an increase in the number of vulnerable consumers and the increased vulnerability of some consumers. In June of this year, we saw an increased demand on our public advice site for advice about dealing with debt, with page views on options for dealing for debt rising by 50% and help with debt by 39%. CAS expects to see this increase further once the temporary measures end, such as the furlough scheme and payment holidays. This will impact many people’s finances and they may struggle to cover basic costs. Therefore, there may be a lag in people reaching crisis point due to unmanageable debt and seeking help.

We are pleased to see that the FCA has taken on previous feedback and made some changes to this guidance. In particular, we are pleased to see positive steps being taken in relation to issues we advocated for in our previous response[[1]](#footnote-1):

1. Inclusivity built in to culture, product design, sales, communications and processes
2. If a particular product is exacerbating vulnerability, they must offer support and advice to vulnerable consumers to help them decide whether the produce is right for them, **before** they take on said product

**Recommendations**

Nonetheless, there are areas of the guidance where we think there could be improvements made to prevent detriment to vulnerable consumers.

In order to protect vulnerable consumers, we recommend that firms:

* Consider the impact of their procedures on vulnerable consumers – for example the increased use of online channels; retailers only accepting card payments; and the potential impact on consumers of accessing payment holidays
* Ensure there is consistency across all channels as vulnerable consumers may face issues due to their skills and capacity
* Share good practice – this has the potential create a shortcut to getting firms up to speed with their response to vulnerable consumers
* Have dynamic policies in order to meet the changing needs of individuals and the changing context
* Ensure staff are aware of their firm’s policies/processes/help for vulnerable consumers

**Response to Q1 - Do you have any comments on our assessment of equality and diversity considerations of our proposed Guidance?**

The demographics of those seeking advice from the Citizens Advice Network in Scotland are changing and this should be considered in relation to equality and diversity. CAS are seeing some differences between the client demographics for those who sought advice prior to COVID and those who first sought advice after COVID. New clients are more likely to be younger, in full-time employment and to live in the two least deprived SIMD quintiles than repeat clients.

Moreover, CAS are seeing more repeat clients seeking advice on debt which highlights that the impact of COVID-19 on those who were already struggling. It is also important for firms to recognise that some consumers will have more limited options in terms of credit they can access which could potentially cause them harm. For example, the FCA High-cost credit review highlighted that rent-to-own consumers have a low median annual net income; a low credit score; and have the highest median number of products with outstanding personal debt[[2]](#footnote-2). This highlights the importance of ensuring firms have high standards for treating all consumers to ensure that more vulnerable consumers do not face detriment as a result of their limited options.

**Response to Q3 – Do you have any feedback on our cost benefit analysis?**

Whilst we recognise the potential positive impact of cooperation between firms and the third sector we have some concerns. Firstly, this sector is already facing increased demands due to COVID-19 and these demands are likely to increase once the temporary measures to support employers and to mitigate debt end. This sector was already under pressure pre-COVID-19 and the demand is likely to further increase in the near future. Whilst we recognise that the cost benefit analysis is mostly focused on costs to firms these costs should be considered.

**Response to Q4 - Do you have feedback on what we should prioritise when monitoring firms’ treatment of vulnerable consumers?**

CAS recognises that importance given to monitoring and evaluation how firms treat vulnerable consumers. However, we have a number of concerns:

* In terms of monitoring it is important to consider the impact/degree of harm not just the number of people suffering harm. A particular policy or process could affect the most vulnerable more than others
* Identification of vulnerable consumers is central to this guidance. Firms should also be evaluated on how consumers can share vulnerability and ensuring they feel comfortable to do so, for example, there will not be negative consequences
* It is important that firms’ policies are flexible and evolve. In order to allow this CAS would recommend that firms regularly evaluate their policies and processes and make alterations/improvements where necessary
* CAS is concerned that it is unclear what consequences they are for firms if they do not abide by the guidance
* CAS recognises that a rule-based approach risks becoming a tick box exercise. However, if the current approach does not lead to improvements in the ways vulnerable consumers are treated by firms, we hope that other measures would be considered, including enforcement

**Response to Q5 - What types of information do you envisage it would be necessary for firms to collect, to assess the effectiveness of their policies and processes in respect of vulnerable consumers?**

Citizens Advice Scotland believes firms should collect information on the below areas:

* Staff training - in order to ensure that staff are up to date on processes/procedures to follow. It is also important that training is seen as central to a firm as opposed to an optional add on
* Interventions undertaken in relation to vulnerable consumers – including what their impact was in the short and (where possible) long term
* Customer reviews/feedback – it may be that some consumers chose to provide feedback at a later stage, either directly to the firm or through online reviews
* Complaints – It is important there are no barriers to complaints, such as fees; multi-channel options should be available; and the process should not be time intensive. These steps are necessary to ensure complaints can be monitored accurately

**Contact information**

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**Appendix 1**

Below are a number of cases which show the negative impact on vulnerable consumers as a result of poor practice from firms.

An East of Scotland CAB reports of a consumer with poor mental health who had fallen behind with payments to a rent to own store. Additionally, it is reported that her income comes solely from benefits. The affordability checks undertaken did not sufficiently budget for living costs which led to her not being able to make payments. The creditor refinanced instalments over a longer period but this led to a cycle of worry and anxiety and she was fearful about contacting her creditor, in particular she was worried about items being removed. She told the CAB that she was underspending on food due to debt issues.

A West of Scotland CAB reports of a consumer who sought assistance following being declared bankrupt. Their high street bank had closed their bank account as a result. The CAB contacted the bank and was told that their policy was to close accounts following bankruptcy with consumers then having to open a new account. This caused difficulties as the consumer was unable to get their benefits paid into their bank account.

A South of Scotland CAB was visited by an elderlyconsumer who had entered a DAS. Despite this, they were still being repeatedly contacted by a creditor demanding payment causing severe distress.

A West of Scotland CAB reports of a consumer with significant mental health issues who was repeatedly taking out pay day loans to pay off the minimum balances on existing loans. This consumer had been able to easily access credit due to poor credit and affordability checks. This consumer had no prospects of paying off these debts in a reasonable time. This situation has resulted in the consumer’s mental health deteriorating.

An East of Scotland CAB was visited by a consumer who had acted as a guarantor on a loan for a friend. He reports his friend had stopped making payments and he could not afford them. Both the consumer and his friend had poor mental health, and he agreed to be a guarantor shortly after leaving hospital and he was unwell at the time. The consumer was concerned as his home was at risk due to this debt.

An East of Scotland CAB reports of a consumer who was vulnerable due to mental health issues and learning difficulties. The consumer did not understand about interest being charged on his debt and he was unable to make payments or any sufficient difference to the debt. It was reported that his vulnerability was not taken into account when he was approved for credit.

1. Citizens Advice Scotland (2019), [*Response to FCA consultation response on proposed guidance for firms on fair treatment of vulnerable consumers*](https://www.cas.org.uk/system/files/publications/fca_consultation_response_on_proposed_guidance_for_firms_on_the_fair_treatment_of_vulnerable_consumers.docx.pdf) [↑](#footnote-ref-1)
2. *FCA* (2017), [High-cost credit feedback statement](https://www.fca.org.uk/publication/feedback/fs17-02.pdf) [↑](#footnote-ref-2)