sopra steria

Vulnerable Customers in the Financial Services Industry

What makes you feel vulnerable?

Is it the loss of a loved one or an important relationship breaking down?

Is it a change in your work, where your income dropped unexpectedly?

Do you feel vulnerable when you think about those that depend on you for support?

Do you have a health condition that makes it difficult for you to carry out day-to-day tasks?

If you relate to any of these you're not alone, with 50% of UK adults showing at least one characteristic of being potentially vulnerable.

The FCA's recent consultation paper invites us to consider how financial services businesses should better serve the needs of vulnerable customers, releasing a draft version of a new guidance document for businesses to trial. As the UK's financial regulator, its final output could have a far-reaching impact on our financial services industry — an impact which we believe will be positive for both customers and the Financial Services organisations themselves.

The FCA considers both vulnerable and potentially vulnerable customers in this guidance, describing four 'key drivers of vulnerability': health, life events, resilience and capability. This is used as a basis for the outcomes that firms should aim to achieve for their entire customer base. With 1 in 2 UK adults showing at least one characteristic of a potentially vulnerable customer, this guidance is hardly aimed to help financial institutions address a niche issue.

The FCA asks those testing the guidance to provide a cost-benefit analysis.At Sopra Steria we want to look into that cost-benefit analysis and debunk a common argument against investing in vulnerable customers. We want to demonstrate how servicing vulnerable customers can create shareholder value and grow a more profitable business in the long-term.

Shareholder value doesn't mean short-term profit

If you've ever gotten into a conversation about why businesses don't do more for society, you've probably been faced with the argument of 'shareholder value'. The idea goes that businesses' boards of directors have a legal responsibility to return value to their shareholders, with it frequently interpreted as increased share price and dividends within the financial year.

While actions that increase a business's share price in the short term and provide shareholders with dividends are not necessarily bad for society and the environment, these choices do often come at the price of negative impacts for the greater good...and, we argue, a cost on businesses' medium and long-term value.

If this is the case, it seems that our businesses are legally obliged to make decisions that maximise short-term profit.

But is it the case?

Well, no. In the UK, the responsibilities of business directors are set out in the 'Companies Act 2006' (particularly sections 170 & 172). In this legislation, you'll discover a notable absence in the words 'shareholder value'. Instead, you'll read about businesses' directors acting in the best interests of 'members as a whole' (it specifically says 'in the way he considers', an example of gender bias written into our law, but that's a topic for another blog). These 'members as a whole' stretch beyond shareholders, including company employees, customers, suppliers and even the environment and society. This permits, for instance, that a business provides its staff with a bonus or raise at the end of the year, decreasing available money to pay dividends to shareholders. They might decide to spend money on a community programme to develop the skills of the local population, or to buy more environmentally friendly but potentially more expensive materials from their suppliers.

These examples share more than one thing in common. Not only are they all manifestations of providing value to 'members as a whole' but they're also compelling strategies to return greater value to shareholders in the medium and long term.

Such policies might cause the business to pay less in dividends to shareholders in year one. However, in years two and three, they are likely to see a higher return on investment through more engaged staff and a lower attrition rate. The money spent on developing skills in the local population may nurture future staff and preserving our environment benefits everyone in the long term. You wouldn't hire an employee if you didn't think they'd return value to the business, so it makes sense to invest in them.

It's the same with society at large — every person and business is a product of the society they exist within, so actions that benefit that society benefits its people and businesses too. By and large, these actions will also improve share price and dividends, exchanging a short term gain for greater long term growth.

The term ‘shareholder value’ seems to hold a similar influence in the US, and shares a similar legal position to the UK.

A more accurate interpretation of ‘shareholder value’ is actually much closer to the words themselves - holding business executives responsible for taking actions which embody the values of their shareholders. While profit might be a shared value to many, profit at any cost is a value held by very few. With more and more investment funds examining the social and environmental impacts of the businesses they support, shareholder values might sit comfortably alongside the traditional concept of shareholder value.

Invest in vulnerable customers to build a sustainable bank

While we want to break away from the idea that shareholder value demands businesses pursue short-term profits above all else, we’re not suggesting forgetting profit altogether. Far from it.

Consumer sentiment has shifted over the past 5 years.

Move fast and break things is the oft-quoted mantra of Facebook. In 2015, Facebook began shirking responsibility for online hate speech and content moderation. The challenge seemed too difficult: to moderate and measure the impact of the 35 million status updates posted daily by their 2.45 billion active monthly users. This wasn’t good enough for consumers or regulators, and Facebook responded by establishing content moderation teams and publishing their internal guidelines and community standards online in 2018. Facebook doesn’t talk about ‘move fast and break things anymore’, reflecting consumers’ expectations for care to be taken on services weaved so tightly into the fabric of our society, though it’s far from plain sailing from here.

Take Uber, a company whose past is marred by sexism scandals, developing tools to avoid law officials in cities where Uber is banned and trying to geofence the Apple HQ and hide their data collection practices from Apple engineers. In the past, Uber might have been considered a necessary evil. Too big to fail and too convenient to ignore. Today users are flocking to Lyft, an app that provides a near-identical service which doesn’t have the same ethical baggage as Uber, in markets where Lyft is available.

Having strong ethical values can also help to grow your business, as the financial services industry demonstrated in 2019. In the last 3 months of the year nearly 220,000 people switched to a new current account. In terms of the ratio of people leaving vs those joining, ethical banks were the clear leaders. Triodos Bank, a leader in ethical banking saw 10 new customers join for every 1 that switched away.

The top 3 performing banks based on this ratio also included Monzo (with 18 joiners to every person that left) and Starling (9:1). These challenger banks put a stronger emphasis on ethical banking than their high street rivals, with Monzo being rated the “best buy” current account by ‘Ethical Consumer’ and Starling sharing a set of ethical values, codified in their internal policy, on their public website.

The message is clear. Users want to buy products from ethical businesses. And this is being reflected in stock market valuations, with the most ethical businesses outperforming large-cap sector businesses by 14.4% over a 5 year period.

The risk in ignoring the needs of vulnerable customers is going the way of Uber, with customers jumping ship for more ethical alternatives. The opportunity is clear, with the businesses that side with consumer sentiment coming out on top. Remember, 50% of UK adults demonstrate one or more characteristics of being a vulnerable customer. That means that, potentially, a significant proportion of your shareholders, employees, and suppliers are potentially vulnerable, too. Valuing the needs of vulnerable customers is closer to home than you might think, so if your company truly wants to live the values of all of its stakeholders — while still creating the more traditional form of shareholder value — build a business that works for vulnerable customers.

About Chemistry

Sopra Steria has launched ‘Chemistry’, an ecosystem bringing together industry peers, fintechs, academia, charities and subject matter experts to solve the biggest consumer challenges with technology. With half of UK adults displaying a behaviour characteristic of a potentially vulnerable customer, Chemistry wants to find out how data and technology can be leveraged to turn your most vulnerable customers into your greatest strength.

Interested? Click here for more information or contact Kerry Nicolaides who is running Sopra Steria’s Chemistry programme - Kerry.Nicolaides@soprasteria.com

Thank you for reading

Vulnerable Customers in the Financial Services Industry