

Association of International Life Offices (AILO) Vulnerability Code of Conduct

Supporting customers with characteristics of vulnerability

Introduction

Statement of intent: *“In a world where every single one of us could be vulnerable tomorrow, we commit to protect and support those who are vulnerable today.”*

The fair treatment of vulnerable customers is already a crucial part of global regulatory policy and a firm’s ability to deal carefully and sensitively with its most vulnerable customers will be a key foundation of its sustainable business model.

Every firm must be stringent in its endeavours to protect its weakest and most vulnerable customers from financial harm. In addition, AILO Member firms recognise that, by fully supporting our most vulnerable customers, we will create a natural framework that will also benefit our less vulnerable customers. This will be achieved through easier and more efficient lines of communication, with staff who are better trained to listen, to be empathetic and recognise characteristics of vulnerability, along with better designed, easier to understand products, with fully transparent charges. We will treat all our customers as we would wish to be treated, listening carefully and collaborating with them, always acting together for the common good.

To be clear, the key purpose of the AILO Vulnerability Code of Conduct is to encourage AILO’s Members to develop greater insights into vulnerability and how it impacts across each firm’s customer base, to evolve strong and consistent behaviours that will help all firms deal confidently with customer vulnerability.

Set of Principles

The following statements combine to create a clear ‘set of principles’ which are the foundation of the AILO Vulnerability Code of Conduct. These are followed by a list of actions, processes, and behaviours that each AILO Member firm should endeavour to meet in order to demonstrate best practice and adherence to the Code.

ONE: Definitions and recognition.

Our definition of vulnerable customer accords with that of the FCA: *“a vulnerable customer is someone who, due to their personal circumstances, is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care.”* We recognise that anyone can become vulnerable depending on their circumstances and the risk is increased by characteristics of vulnerability related to four key drivers:

- i. Health – health conditions or illnesses that affect ability to carry out day-to-day tasks.
- ii. Life events – life events such as bereavement, job loss or relationship breakdown.
- iii. Resilience – low ability to withstand financial or emotional shocks.
- iv. Capability – low knowledge of financial matters, or low confidence in managing money (financial capability). Low capability in other relevant areas such as literacy, or digital skills.

The *Financial Vulnerability Taskforce (FVT)* believes there should be a fifth driver, “*namely abuse & coercion either physical, mental or emotional as these are frequent contributory factors...to financial vulnerability.*” However, for now, the AILO code will focus on the four factors outlined by the FCA and consider these additional factors sit within in driver (iii) Resilience, as those who are less resilient are more likely to fall prey to coercion and abuse.

We realise that vulnerability is often transient in nature, can be temporary or long term and is not always obvious. Vulnerability will not always be easy to identify because there is no clear division between “vulnerable” and “non-vulnerable” customers. It is one of degree and, as such, involves an element of judgement, particularly by our front-line staff who will require specialist training and on-going support. We recognise that customers in vulnerable circumstances are more likely to have different needs when dealing with our products and services so, whenever we fail to recognise and meet those needs, vulnerable consumers are more likely to suffer financial harm.

TWO: Information and understanding.

To ascertain if a client is potentially vulnerable, we must engage with them and gather information. We must do this with care and with sensitivity. We appreciate that many vulnerable customers will prefer not to be categorised as such. This further increases the need for understanding and empathy in our interactions with every single one of our customers. The language that we use is important and we recognise that, to accord with the often-transient nature of vulnerability, describing customers as having *characteristics of vulnerability* or being *in vulnerable circumstances* is generally preferred over a singular classification of “vulnerable clients.”

The FVT, which clearly has a much closer affiliation with adviser firms that have stronger and more regular engagements with customers, advocates that “*consumers in vulnerable circumstances should be encouraged to both make contact as well as self-disclose the nature of their circumstances.*” The **FVT Consumer Guide** <https://www.aabwealth.uk/documents/Consumer-Guide.pdf> can be shared, where appropriate, with adviser firms to help encourage clients to “*contact and self-disclose vulnerability.*”

We also realise, when working with our most vulnerable clients, that we won’t always be dealing with the customers themselves but with third parties acting in the clients’ interests. These may include relatives, beneficiaries, trustees, or professionals such as advisers, carers, and social workers. Taking great care not to harm our client’s position, we commit to supporting these third parties in their interactions with us and we will take the time to consider each client’s specific circumstances, using discretion to offer viable solutions.

THREE: Products and Services.

The products and services we provide are often highly technical and financially complex. Because of such complexities, we recognise that many of our customers could be seen as vulnerable, even those that are likely labelled 'sophisticated consumers' in other sectors. Complex products with multiple options and various charging structures are often difficult, even for non-vulnerable customers to understand completely. We are therefore fully committed to making every new product easy for our clients to understand, most especially those with the most serious characteristics of vulnerability. One of our key responsibilities is to make sure that vulnerable customers experience outcomes as good as those for other clients.

We understand, based on the FCA Financial Lives 2020 survey, that around 50% of all customers will, at some point on their life's journey, demonstrate 'characteristics of vulnerability'. As such, we recognise that vulnerable customers will always be present, not just in our target market but also our existing customer base. We commit to reviewing our existing products and services to make sure they still meet the needs of all vulnerable customers we have recognised within our client base to help avoid unintentionally disadvantaging them.

FOUR: Distribution controls.

Our products are usually distributed through third-party intermediary firms, but this simply means that *all firms* in the delivery chain need to treat *all customers* fairly, irrespective of whether they have a direct or indirect relationship with the customer. Therefore, whilst we cannot take on the regulatory responsibilities of other authorised firms in our distribution chain, we can make a positive impact by considering the characteristics of vulnerability when designing how we distribute our products, carefully considering our distribution chain and the eventual end client.

Despite the way products are typically sold, we understand our responsibilities and will deliver supporting information to help advisers clearly explain our products so they can help the understanding of our mutual end customers. From time to time, we will consider following up directly with clients, most especially those who we have recognised as being more vulnerable. We do not want our products to be 'hijacked' to create financial harm and we are therefore fully empowered to challenge broker firms to ensure they are themselves treating all customers fairly and, where they are lacking, we will consider taking corrective action, including the possible withdrawal of our agency agreement.

FIVE: Staff training and support.

AILO Member firms recognise that frontline staff, when dealing with vulnerable customers, may face quite challenging situations and that their own well-being can be impacted. As caring employers, we will offer practical and emotional support to our staff and by helping to support and improve our staff members' mental and emotional resilience, we will, collectively, be more able to engage with vulnerable consumers sensitively.

We will deliver continuous training, provide reliable support tools, and define clear escalation routes. We will build in 'downtime' for staff who may need it, following any challenging interactions.

SIX: Embedded behaviours and empathetic culture.

The fair treatment of vulnerable customers will be embedded across our respective workforces, through training and by providing on-going support. We aim to ensure that, over time, all employees can identify the types of harm vulnerable customers are likely to face and we will educate our frontline staff to understand how to listen actively for information that could indicate vulnerability when dealing with a customer directly. All of our staff will be able to redirect customers to appropriate resources, internal or external, as approved within the firm.

We will further support our staff by making sure our culture and systems do not discourage staff from taking extra time, or flexible steps, to respond to vulnerable customers' needs. Staff must be allowed to 'stop the clock' on any case where they feel the customer needs more time, or support, to understand information properly and make a good decision. As such, rather than being driven by speed of action, or volumes of clients served, our remuneration structures will aim to reflect quality of service and the most beneficial customer outcomes. This is a genuine commitment to place the long-term interests of our clients, above our more immediate commercial interests.

Actions, Processes and Behaviours

To support the six principles which make up the AILO Vulnerability Code of Conduct, in this section we consider the sort of actions and behaviours that can help achieve the best outcomes and adherence with the Code, but these are not exclusive or enforced upon the Member firms. Rather it is expected that each firm will develop and promote its own processes, in line with, or exceeding the AILO published standards.

1. It is crucial, for any firm developing its guidelines and processes to deal positively and proactively with vulnerability, to ensure it is not set aside as a separate compliance exercise but is embedded into the firm's daily actions and behaviours. In Principle ONE we refer to 'clients in vulnerable circumstances' rather than 'vulnerable clients', so it is important that firms focus on the *circumstances that can create vulnerability* rather than compiling lists and fashioning groups of people who might be labelled as 'vulnerable.' **The key action for AILO Member firms is to create and maintain an internal vulnerability policy that should explore and record the likely vulnerabilities and resulting needs, across both the firm's target market and its current customer base.** By way of example, many wealth insurance products are attractive to clients who are already advanced in years when they first invest and, simply through cognitive decline, those clients may be demonstrating characteristics of vulnerability by the time they need to make withdrawals.

2. MiFID guidelines state: "*Firms should also consider the nature of the client when determining the information to be collected. For example, more in-depth information would usually need to be collected for potentially vulnerable clients (such as older clients might be).*" Firms already collect sensitive data on all clients to satisfy compliance obligations around AML and Source of Wealth. But, whilst taking care to respect fully appropriate data protection rules, such as GDPR, firms might look to build a more flexible framework to garner additional information. This will help firms to support a client through a passage of vulnerability by being able to identify potential trigger points and apply the most appropriate assistance to meet the customer's needs. **A combination of progressive and flexible compliance functions, documentation designed to gather additional and likely more sensitive information in a safe and empathetic way, along with front-line staff trained (see 6 below) to listen for and record further details which clients share, would help to demonstrate the firm's development towards Principle TWO.**

In addition, especially where a person's vulnerability is more permanent, such as a catastrophic brain injury perhaps following a serious accident, firms will be dealing with third parties who are representing the client. It is crucial that AILO Member firms can demonstrate they have mechanisms in place to deal easily with such representatives, whilst also maintaining confidentiality and ensuring that all behaviours are fully compliant with the relevant legislation, including The Equality Act 2010, Consumer Protection regulations, The Mental Capacity Act 2005 and GDPR.

3. The products and services provided by AILO Member firms are complicated. They can involve extended commitments and, as such, they have the potential to create serious negative impacts, especially for more vulnerable clients. It is therefore important that all new products are designed to be clear in their aims and functions, are promoted to an appropriate target market, and have highly transparent charging structures. **In consideration of Principle THREE, firms should ideally demonstrate that product design and the services which sit around such products, consider adequately vulnerable customers' needs as part of the design process and review functions.** Of course, firms will already have an established review process for existing products. These should now consider more actively how older products with complex designs and multiple charging structures might be more harmful to clients with characteristics of vulnerability. All products have a natural shelf-life and this Code encourages firms to establish a transformation agenda that will eventually retire the older and typically more complex products.

4. Even the best products, when poorly presented or advised, can create long-term effects which can be life changing. So, to avoid carefully constructed products being hijacked to cause financial harm, firms need to continually *"ask themselves what types of harm or disadvantage their customers may be vulnerable to, and how their own actions can increase or reduce the risk of harm."* These actions naturally include evaluating and monitoring the distribution channels through which products are advised or sold to customers. When appointing new brokers, due diligence (DD) is automatically required by every firm. The Code would simply encourage more regular reviews and requests for DD updates (with additional questions where necessary). Member firms can also quite easily review how their products are being sold by each broker, for what client purpose and what levels of commission are being taken, often creating tell-tale signs if products are being used in a way that was not intended in their original design. Such instances might require occasional intervention to help protect clients, especially those who are likely showing characteristics of vulnerability, from financial harm. **In line with the ethos of Principle FOUR, Member firms should consider how and when they might challenge third-party distributors who are misusing their products, with the ultimate sanction being the removal of agency.**

5. It is the intention of AILO to extend its hugely successful e-Learning programme to include a module on vulnerability. This can be used as an introduction to vulnerability for new joiners or, on a wider basis, to complement the firm's own training and awareness initiatives. Training should focus on identifying those in vulnerable circumstances, by being able to recognise the signs, rather than applying categories or labels. More advanced training would focus on a greater awareness as to the nature of mental health and the wide range of circumstances that create vulnerability. Especially for front-line staff, appropriate methods of engagement and initial support strategies can then be backed up with logical escalation processes; these might be an internal specialist unit or, just as likely, some external links to those with more specialist knowledge and techniques for dealing with clients who find themselves in vulnerable circumstances. **A good plan to satisfy Principle FIVE would include some or all of the following:**

- **Combine AILO and possibly other third-party training programmes with those developed in-house, to ensure a focus on *indicators of vulnerability* and the potential needs of clients in different vulnerable circumstances.**

- These initial learning courses may be further extended by engaging with external organisations for specialist training focusing on how those in vulnerable circumstances process information and act in respect of behavioural bias.
- Training front-line staff in the effective use of listening and engagement techniques.
- Introduce some elements such as listening skills and emotional intelligence into recruitment and staff reward programmes.
- Give staff opportunities to share knowledge and experiences, perhaps through working with local charitable organisations which support vulnerable adults.
- Supporting staff to build emotional and mental resilience, providing downtime and clear escalation routes, whether these are internal or external resources.

6. Principle SIX is likely the most difficult to evaluate and demonstrate, as it is, in many ways, achieved through progress around the other five principles. **The final principle asks firms to develop a vulnerability framework that considers: specific vulnerability awareness training for all employees, plus emotional resilience support for front-line staff; reviewing and updating the firm's TCF and AML standards, to invoke more flexible and sympathetic information gathering techniques that will increase support to those who are potentially vulnerable; clarification of how vulnerability is present across the firm's target markets and existing customer base; evolving product design and governance procedures; on-going reviews of distribution channels and evaluating broker delivery and use, set against product design and intention.**

Ultimately, Principle SIX – similarly to the preceding five principles – is about embedding a culture where the firm is constantly and consistently meeting and responding to the needs of customers with characteristics of vulnerability, whilst quickly making the necessary improvements where this is not already happening.

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April 2022

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