SUPPORTING BUSINESS CUSTOMERS IN VULNERABLE CIRCUMSTANCES

JULY 2018

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The Lending Standards Board (LSB) is a self-regulatory body, set up to promote fair lending, by ensuring that all personal and small business borrowers receive a fair deal from their lender through adherence to the Standards of Lending Practice.

The LSB launched its Standards of Lending Practice for Business Customers in March 2017, expanding the scope and remit of existing protections across loans, overdrafts and credit cards. In June 2018, the scope of the Standards was extended to include commecial mortgages and a new set of Standards was launched covering asset finance products offered to small bsuiness customers. Forward-looking, the new Standards set a clear message for firms on transparency and fair treatment of their customers and is the only comprehensive protection for business borrowers up to £6.5m turnover.

www.lendingstandardsboard.org.uk

The Money Advice Trust is a national charity helping people across the UK to tackle their debts and manage their money with confidence.

We run Business Debtline, the UK's only free dedicated debt advice service for people who are self-employed and other small business owners. In 2017 Business Debtline helped 29,200 people on the phone and a further 7,100 people via webchat, with 167,300 visits to the Business Debtline website.

Beyond our front-line advice services, we provide training and consultancy to companies who engage with people in financial difficulty. We have now trained more than 16,000 staff in more than 190 creditor organisations, providing practical support and the tools they need to help customers in vulnerable circumstances.

www.moneyadvicetrust.org

FOREWORD

Identifying and supporting customers in vulnerable circumstances continues to be high on the agenda for financial services. Since the publication of the Financial Services Vulnerability Taskforce's report in 2016 and through the Financial Conduct Authority's continued focus in this area, firms are rightly working to improve.

Much of this work has so far taken place in the personal, rather than business, customer space. While progress is being made to improve outcomes for personal customers, there has been much less focus on the impact of vulnerability on people running small businesses.

Through our experiences at the Lending Standards Board, which launched its Standards of Lending Practice for Business Customers in March 2017, and the Money Advice Trust, the charity that runs National Debtline and Business Debtline, we are all too aware of the impact vulnerable circumstances can have on an individual and their business.

People who run small businesses are no less likely to be in a vulnerable situation than personal customers, yet there is a noticeable lack of research in this area. Given the importance of small businesses to the UK economy, understanding the nature and impact of vulnerability within this context is crucial.

This report shines a spotlight on these issues, by bringing together industry insight and the experiences of people helped by Business Debtline, providing insight into different types of vulnerability and the impact this may have on a business.

It draws upon the experiences of staff across a range of the LSB's registered firms to explore both the strategic approach to vulnerability by organisations, as well as the processes, delivery and training in place for frontline staff. Alongside interviews with Business Debtline clients in financial difficulty, we undertook in-depth conversations with money advisers to build a greater understanding of the experiences of business customers in a range of vulnerable situations.

We hope that firms find this a practical starting point for further discussions about how we can improve support for small business customers in vulnerable circumstances. We look forward to working with stakeholders across the business and commercial lending and advice sectors – and all of those involved in this complex and important area – to further improve policy and practice.

David Pickering
Chief Executive
Lending Standards Board

Joanna Elson OBE
Chief Executive
Money Advice Trust

1. EXECUTIVE SUMMARY

1.1 Overview

There is widespread agreement on the importance of small businesses and the contribution they make to the UK economy, and with good cause. Accounting for 60% of all private sector employment at the start of 2017[1], the benefits associated with small business are well established, epitomised by productivity, innovation and growth in spite of the economic uncertainties surrounding the UK. As we take the first tentative steps towards Brexit and a post-Brexit world we need small businesses to succeed for the UK economy to thrive, and they should be given the opportunity to prosper and grow, safe in the knowledge that they will be treated fairly by lenders and funders.

The Standards of Lending Practice for Business Customers (the Standards) were launched in March 2017 by the Lending Standards Board (LSB) aimed at protecting business borrowers with a turnover of up to £6.5m. One of the key areas built into the Standards was in relation to vulnerability[2], and the impact this can have on a small business, in particular where the vulnerability relates to a key decision maker in that business, and where other employees are, or may be, affected. While vulnerability is a well aired topic in the personal customer space, the same cannot be said for business customers. This report starts to bridge the gap, drawing on the experience of the LSB and Business Debtline, the free advice service run by the Money Advice Trust, to identify how lenders deal with their business customers in vulnerable circumstances and the impact that has on the customer.

Our research[3] consisted of in-depth management discussions with seven LSB registered firms, together with insight gained from the Business Debtline service, including interviews conducted with Business Debtline clients.

The key findings from our research are summarised below, split between the five key areas of policy, identification, support and management, training and monitoring. The main body of our report explores these in more detail, including a high-level assessment of where the LSB considers its registered firms to be currently.

We set out in section 8 the steps we encourage firms and the wider industry to take in response to the findings from our research and the actions the LSB is going to take to help the industry evolve in this area with a clear focus on delivering fair customer outcomes.

1.2 Key findings

Small businesses and vulnerability

- A vulnerable situation is never black and white, and businesses are by their very nature volatile. Not every trigger will equate to a small business customer suffering harm and so every customer needs to be treated on a case by case basis. Personal characteristics have an important part to play in how business owners respond to difficult situations.

1. Department of Business, Enterprise and Industrial Strategy (2017), Business population estimates 2017, https://www.gov.uk/government/statistics/business-population-estimates-2017

2. For the FCA's definition of vulnerability see Section 5.1

3. For more information see Methodology and Approach

- The causes of a vulnerable situation can be multiple and complex and may not always derive from personal circumstance alone but from a number of sources, including the business itself.
  - There is often a direct link between a business in, or at risk of, financial difficulty and the personal susceptibility of the owner to vulnerability.
  - Financial difficulty can stem from the impact of external factors on the business which often sit outside of the business owner's control.
  - The complexities of running a business, coupled with the current market conditions, may mean that these drivers do not exist in isolation.

Policy

- While most firms have an overarching vulnerability strategy, in practice, most policies, processes and training are in respect of personal customers. When it comes to small business customers, firms may still have some way to go in developing a practical framework to support the timely identification and assistance of business customers in vulnerable situations.

Identification

- One of the challenges with small businesses is identifying vulnerability early, particularly where the relationship is at arms-length, or customer interactions are limited. Firms should adopt both proactive and reactive triggers underpinned by targeted and role specific training for frontline and back office staff. If the business is not relationship managed or there is no clear evidence of financial detriment, it is difficult for a firm to spot the signs early on, which can prevent timely intervention.
- There have been concerted efforts to encourage customers to proactively approach their creditors for help. Data sharing between organisations can offer a useful way for firms to be alert to customers that may require additional support, as a business customer may hold multiple products across a number of different financial services firms.
- Statistics show a rising trend in digitisation and for those firms operating a digital platform, identifying vulnerability is a clear challenge. Further work is needed in this area to identify practical solutions to the competing demands of quicker online processes and supporting businesses in vulnerable circumstances.

Support and management

- Relationship managers have traditionally been the cornerstone of the lender-small business customer dynamic and are well-placed to identify a change in situation with the business. The proximity of the relationship often increases the likelihood of customers disclosing their situation or approaching the firm for early help and assistance. However, with many lenders moving away from the relationship management model to digital and telephone offerings, achieving the right balance between these competing channels is proving challenging.

- The advent of open banking has presented opportunities for regulated providers to develop solutions which can offer key insight into spending behaviours and account utilisation, to encourage informed decision making and better money management. These insights could really benefit small businesses and the management of their cash flow.

- Fraud can often cause financial disruption, including short term cash flow difficulties and losses. The money lost is generally irrecoverable, leaving businesses with limited recourse to action. In most cases businesses do not foresee themselves falling victim to a scam. The impact on the business and the mental health of its owner can be profound.

Training

- While firms acknowledge the importance of staff training in supporting customers in vulnerable circumstances, most recognise that more could be done to build and enhance staff capability. Some firms are rolling out training on vulnerability across their business and commercial banking teams for all employees in customer facing and back office roles.

- There is an opportunity for firms to build on the work carried out in the personal customer space in recent years and consider how this can be adapted to develop vulnerability training in the area of business and commercial lending.

Monitoring

- Firms should consider how they will evaluate how their policies and processes continue to operate in a manner that delivers consistently fair customer outcomes for business customers in vulnerable circumstances.

2. INTRODUCTION

2.1 Building a sustainable, responsible and profitable small business sector

Statistics show a sustained growth in the total number of businesses, with a growing emergence of non-employing businesses that are owner managed and run.[4] This increase may be indicative of a shift in employment dynamics, reflecting a peak in entrepreneurial drive as people opt to set up and run their own business, a trend that has not shown any signs of abating. For a small proportion, though, it is the outcome of the social and economic environment in which we live, where high levels of unemployment, increased redundancies or reduced retirement options offer no other viable alternative. Whilst many will go on to run successful businesses, for others, the lack of experience or the technical know-how can make them more susceptible to detriment, particularly where this limits their ability to make informed business decisions and plan ahead.

Data from the Office of National Statistics suggests that fewer than 50% of businesses survive the first five years, demonstrating the stark reality of the problem,[5] with weak leadership, a gap in entrepreneurial skills, limited business models, access to finance, cash flow, timing and poor planning commonly cited as factors inhibiting growth, whilst contributing to an increased risk of business failure. When we consider the significance of small businesses to UK economic growth and the benefits we reap through their success, these statistics are of particular concern.

4. Office for National Statistics; statistical bulletin; business demography, UK: 2016.

5. Ibid.

BUSINESS DEBTLINE CLIENT

Tracey and her cousin were in a business partnership, running a few shops in their local area. A disagreement about the running of the business caused a rift between Tracey and her cousin and she decided it would be best to end the partnership and carry on running the business on her own. However, Tracey and her cousin did not have a written agreement in place to set out the parameters of the partnership, which resulted in a difficult split and costly legal proceedings.

Tracey struggled to cope with the stress caused by the partnership split, the breakdown in relationship with her cousin, and the resulting financial situation. She developed anxiety which made it difficult for her to cope with running the business and managing the finances. Tracey struggled to keep the business afloat and began to get further into debt.

Tracey had a large business overdraft which she was incurring charges on, along with growing credit card debts, rent and business rates arrears. This meant that some months she was unable to pay the wages of her staff. Some of Tracey's friends lent her money to help, but this was not enough to pay off Tracey's debts and keep the business running. As a result, Tracey ceased trading and lost the business. In order to repay some of the debts, Tracey ended up selling a property and taking out her pension, adding to the stress of the situation.

As the number of active businesses increases year-on-year, the real value is in promoting growth to encourage job creation and increased productivity in all sectors of the economy. For this to happen, businesses must be equipped with the knowledge, skills and tools to grow while meeting the daily challenges of operating[6]. Data from the ScaleUp Institute suggests that there are around 31,440 scale-up businesses in the UK, which, despite the level of business start-ups, is a fairly low figure. Despite this relatively low number, scale-up remains a critical issue for the UK economy as it needs businesses to move to the next level. However, it is recognised that the challenges faced at start-up are different to those when a business scales up and the pressures brought about by this can lead to businesses getting into difficulty and a greater risk of vulnerability.

6. The most common definition of a scale up company is, 'a company with an average annualised growth in employees or turnover that is greater than 20% over a three year period' – Sherry Coutu Scale-Up Report on UK Economic Growth Report published 2014.

There are a number of other guides available to businesses through the British Business Bank and its Business Finance Guide with information spanning the business journey from start-up to growth, and Her Majesty's Revenue and Customs. But despite the existence of these guides and educational material, anecdotal evidence suggests that, due to time pressures, much of this information is not being accessed.

Some have pointed to the inconsistencies in government policy, including the decision to close Business Link in 2011 and the Business Growth Service in 2015 as a particular problem, leaving a gap in support. The Local Enterprise Partnerships (LEPs) do still offer business support through regional growth hubs, but the majority of these LEPs rely on businesses coming to them.

2.2 How has the industry responded?

- Most firms have developed key insights and material to support new businesses. The majority of this material is available online and is typically supported by downloadable, industry specific fact sheets, and local insights with facts and figures on local, regional and national trends to support businesses in their planning and research.

- Others provide economic and market insights to help businesses respond to market developments, whilst running local and regional workshops in affiliation with local companies, and universities on a business-related topic, providing vital networking opportunities.

- One firm has begun reviewing its start-up customer journey, to ensure that the information available on their website reflected the information that business customers wanted, based on insights gathered from small businesses through a dedicated focus group. This information is designed to equip businesses with the knowledge, skills and experience to build successful businesses.

- Some firms have dedicated high-growth teams with experienced relationship managers to support businesses and entrepreneurs in their growth, while others provide their Business Managers with access to an industry knowledge hub containing sector specific information which they are encouraged to discuss with their customers.

2.3 The issue of vulnerability in the context of a small business

Businesses are the backbone of our economy, stimulating positive job creation and economic growth. They epitomise a spirit and determination to succeed and lay the foundations for a vibrant and productive country; it is critical, therefore, that these businesses are given every opportunity to thrive. For a small proportion, however, starting a business is the outcome of the social and economic environment in which we live. High levels of unemployment, increased redundancies or reduced retirement options offer no other viable alternative.

Against this backdrop, there is a recognition that the benefits we reap from a business are ultimately driven by the people that run it. The sole traders, company directors, partners and staff – and their commitment – are key components of a well-managed and productive business, without which, the business is unlikely to succeed. These individuals are just as susceptible to life changing events or cognitive difficulties as any other person – the decision to establish and operate a business has no bearing on this. When issues do occur, the consequences can be far reaching, and potentially detrimental, delivering a blow to those that have made countless personal and financial sacrifices to build and nurture their businesses in the hope that they will go on to thrive.

The impact of vulnerability on a small business is an area that remains largely unexplored; this research has focused on the impact on the individual business customer and the business. The findings of the research are framed in a way to stimulate discussion, enhance firms' understanding of how vulnerability affects small businesses and enable them to develop their policies and processes for the benefit of their customers.

The causes of a vulnerable situation can be multiple and complex and may not derive from personal circumstances alone. There is often a direct link between a business in, or at risk, of financial difficulty, and the physical and mental health of the owner. In our view, the interaction between individual circumstance, business and financial drivers, and external market conditions can often cause, or exacerbate a vulnerable situation, which may limit the owner's ability to engage with the market or increase their risk of harm. The provision of appropriate support at the right time is critical to help minimise the impact and where possible enable a viable business to succeed.

'I've built my business from nothing and that was my life, to see that fail is just a massive amount of pressure and worry, and not knowing who to turn to.

'You just can't see the light at the end of the tunnel, you know you go into the abyss and you just don't know how you are going to come out the other end.'

- **BUSINESS DEBTLINE CLIENT**

3. METHODOLOGY AND APPROACH

3.1 Background

The Lending Standards Board (LSB) is a self-regulatory body, set up to promote fair lending, by ensuring that all personal and small business borrowers receive a fair deal from their lender through adherence to the Standards of Lending Practice.

The LSB launched its Standards of Lending Practice for Business Customers in March 2017, expanding the scope and remit of existing protections across loans, overdrafts and credit cards. In June 2018, the scope of the Standards was extended to commercial mortgages and asset finance. Forward-looking, the new Standards set a clear message for firms on transparency and fair treatment of their customers and is the only comprehensive protection for business borrowers up to £6.5m turnover. The Standards introduce enhanced protections for customers in vulnerable circumstances, whilst the LSB's Information for Practitioners provides the detail underpinning the Standards, with a view to highlighting areas of good practice.

The Money Advice Trust is an independent charity, providing free and independent money advice to people with debt problems. The charity's Business Debtline service provides free advice and support to micro-businesses in financial difficulty, to resolve their business finance and debt problems. As the only free debt advice service for small businesses and the self-employed, it offers a unique perspective into businesses in difficulty. In addition to its frontline advice services, the Money Advice Trust has now trained more than 16,000 staff in over 190 creditor organisations to help them identify, understand and support customers in vulnerable circumstances.

The LSB and the Money Advice Trust have joined forces to collaborate on an inaugural piece of research into vulnerability in the context of a small business, harnessing our knowledge and experience gained through our respective roles in the small business sector to offer some unique insights on this important topic. We have sought to understand the nature and impact of a vulnerable situation in the context of a small business customer, using insights from those customers. For the purposes of this research the LSB has focused on vulnerability for businesses of up to £6.5m turnover, in line with the threshold of the Standards of Lending Practice.

Vulnerability, and the fair treatment of business customers, is a key focus across all stages of the customer and product lifecycle, and this research has considered the impact of vulnerability on a key individual in that business at all points of the lifecycle. For the purposes of this research, we have used the stages adopted in the Standards of Lending Practice for Business Customers, which start with product information and move through sale, execution, account management, through to what happens when a business gets into difficulty.

The LSB worked with the Money Advice Trust and seven of our registered firms (firms), using key business customer insights, to provide a view of vulnerability at all stages of the customer and product lifecycle across the small business sector in the UK. The emphasis has been on promoting a better understanding of the topic, through evidence-based research, with a focus on delivering fair outcomes for business customers. We achieved this through a combination of business customer case reviews and discussions with subject matter experts in our registered firms and the Money Advice Trust's Business Debtline service.

3.2 Lending Standards Board

The LSB engaged with seven of the 20 firms that are currently registered to the LSB's Standards of Lending Practice for Business Customers.

- The LSB undertook in-depth management discussions with the relevant subject matter experts and operational staff to explore the key research areas. This included an understanding of the firm's strategic approach to business customers in vulnerable circumstances and the policies, processes and training in place, including: methods of identification, an understanding of the detrimental impact the individual's vulnerable situation may have on the business, and the structure and remit of specialist support available.

3.3 Money Advice Trust

In addition, the LSB was given access to Business Debtline, conducting in-depth conversations with Business Debtline advisers, examining client surveys and interviews with Business Debtline clients who had agreed to take part in this research.

- Business Debtline client case studies: we sought real-life insight into the different types of vulnerability that may exist through interviews with Business Debtline clients. We also explored the varying degrees of permanence, whilst understanding the impact that this may have on a business, building an evidence base that highlights the experiences of business customers in a range of vulnerable situations, across firms. This assessment was supported by an understanding of how the impact of a vulnerability might differ depending on the stage the business is at in the business lifecycle.

- Management discussions: discussions were held with key individuals across the charity to gain an understanding of the structure and availability of support to businesses in vulnerable circumstances.

- Discussion with frontline Business Debtline advisers and staff: focusing on staff in either a support or advice-giving role, we sought to understand the types of cases dealt with, and the support and advice that is offered.

4. WHERE IS THE INDUSTRY TODAY?

A summary

Vulnerability has been recognised as a key topic for development by financial services firms, and indeed other sectors, for several years, but the debate has been largely limited to personal customers. While the impact of vulnerability on business owners is focused on an individual, i.e. the business owner or key decision maker, there are wider considerations when assessing the impact on the business. As business performance, the well-being of key individuals and the welfare of its employees are inextricably linked.

Our research indicates that progress has been made by firms but there is still much work to do to understand how vulnerability can impact small businesses and how the performance of a business can impact on the well-being of its owners, and all the ramifications associated with this. Vulnerability is already a complex area and the added dimension of a business makes it even more so.

The Standards of Lending Practice for Business Customers requires registered firms to establish 'systems and controls that are capable of assisting with the identification of customers who either are, or may be, in a vulnerable situation.' This section presents a snapshot of where we feel firms are on the journey of vulnerability and the impact on small and medium-sized enterprises (SMEs).

Policy

Whilst most firms have an overarching vulnerability strategy, in practice, most policies, processes and training have been in respect of personal customers. When it comes to small business customers, firms still have some way to go in developing a practical framework to support the timely identification and assistance of business customers in vulnerable situations. In some cases, this derives from a limited understanding of how vulnerability might impact a business customer, coupled with the difficulties in implementing triggers to support the proactive and timely identification of vulnerable situations. These difficulties are exacerbated where the business relationship is at arms-length, or where the opportunities to engage with the customer are limited.

Identification

Our engagement with firms has highlighted that in the context of a business, a common challenge is identifying vulnerability early on, particularly where the relationship is at arms-length, or the number of customer interactions are limited. Most firms recognise the importance of proactively identifying vulnerability. However, there is a general feeling that, unless the business is relationship managed or there is clear evidence of financial detriment, there is very little information available to the firm to spot the signs early on, which in some cases, prevents timely intervention.

These difficulties are also driven by the presumption of the firms that their business customers are reticent to open up about their personal situation and are therefore less likely to divulge that they are vulnerable, often until it is too late. Our research attributes the trend in low self-identification to a general distrust in creditors, coupled with a limited awareness of what the firm can do to help.

Support and management

Where firms have established specialist teams, in most cases these are set up to deal with business customers already in financial difficulty. This approach stems from the fact that businesses are unlikely to contact the firm for support until they are in difficulty. Whilst we recognise that the impact of vulnerability in relation to problem debt is particularly acute, there is an acceptance that not all business customers in a vulnerable situation are in financial difficulties. The provision of early support and assistance is critical in minimising the impact of any detriment. This is based on an understanding that a vulnerable situation can arise at any stage in the customer journey.

Training

Some firms have invested time and resource in developing systems, strengthening internal processes and delivering dedicated vulnerability training to strengthen capability amongst staff. This is positive in encouraging identification and raising awareness of support needs across small business customers. However, in our view, more could be done to ensure that the firms can evidence that these developments deliver real benefit to business customers, are consistently applied and that fair outcomes are achieved in practice.

Monitoring

As firms document and develop their approach, consideration should also be given to their ongoing evaluation, to ensure that they continue to operate in a manner that delivers fair customer outcomes. This may be achieved through an on-going review and assessment of the design and operational effectiveness of policies, processes and training, along with an assessment of the internal control framework.

5. VULNERABILITY

5.1 Definition of vulnerability

The Financial Conduct Authority defines a vulnerable customer as, *'someone who due to their personal circumstance is especially susceptible to detriment, particularly where a firm is not acting with appropriate levels of care.*[7]*'*

While we acknowledge that in the context of a small business the FCA's statutory remit is limited, in the absence of a statutory regulator, this definition is a useful starting point. Our research sought to explore the application of this definition to a small business customer, and found that in most cases, firms have interpreted the definition fairly broadly to reflect the varied and complex nature of vulnerability and the fluctuating degrees of permanence. It is accepted that vulnerability can take many shapes and forms and that factors such as low financial capability, mental and physical health, caring responsibilities and life events can put anyone in a vulnerable situation. This is particularly the case where it affects a customer's ability to make, or communicate an informed decision, or engage with the market.

7. Financial Conduct Authority (2015), Occasional paper no.8 consumer vulnerability 2015 https://www.fca.org.uk/publications/occasional-papers/occasional-paper-no-8-consumer-vulnerability Note: as this report went to print the FCA was consulting on defining vulnerability as part of its Consumer Approach consultation.

5.2 Does this definition go far enough?

The LSB's Standards of Lending Practice for Business Customers defines vulnerability in the context of an individual running the business. For the purpose of the Standards, a business in difficulty is not, in and of itself, deemed vulnerable.

While the Standards refer to vulnerability in respect of the individual, rather than a business we recognise that the causes of a vulnerable situation can be multiple and complex. They may not always derive from personal circumstance alone but from a number of sources, including the business itself. We were keen to explore the drivers of vulnerability in the context of a small business customer, including the impact that external environmental and economic factors may have on a business, its finances and the people who run it.

The case studies suggested that there is often a direct link between a business in, or at risk of financial difficulty and the physical and mental health of the owner. Firms acknowledge that in some instances, these difficulties stem from the impact of external factors on the business which often sit outside of the owner's control.

5.3 Drivers of vulnerability and their impacts

The LSB's Standards of Lending Practice for Business Customers are designed to support firms in identifying and addressing situations where an individual within a business is vulnerable.

The reference to vulnerability is in relation to the individual running the business, rather than the business itself. However, we wanted to broaden our understanding of vulnerability to explore the impact that a business in difficulty may have on the individual/s.

This included an understanding of how vulnerability is defined in this context, and the extent to which there are any definitional variances across personal and business customers, and the varying nature and degrees of permanence.

Where vulnerability is identified, we have considered the impact this may have on a business, and how this may differ based on factors such as size and set up, incorporation status and the stage the business is at in the business lifecycle. We explored the nature and type of detriment that a business might be vulnerable to and how this might differ based on severity.

Firm processes – identification	We set out to understand a lending firm's approach to vulnerability across all channels of entry, including triggers and methods of identification across the business customer lifecycle, whilst considering some of the challenges firms may face in doing so. In the growing context of digital channels, we have explored the extent to which digital channels can be optimised to support identification in this area.
Firm processes – support	We considered the support that firms are able to offer to minimise the impact of a vulnerable situation and the risk of any detriment, whilst developing an understanding of how this might be structured including the responsibilities of teams, frontline and non-customer facing, and the availability of any specialist support.

5.4 How do these factors work in practice?

In our view, these factors can be grouped under three main headings or drivers of vulnerability:

- Personal;
- Business; and
- Economic

We recognise that the complexities of running a business, coupled with the current market conditions, may mean that these drivers do not exist in isolation. The interaction between personal, business and external market conditions may cause or exacerbate a vulnerable situation and limit the owner's ability to engage with the market or increase their risk of harm.

5.5 Personal

Businesses are led and run by people, and therefore these individuals are just as susceptible to a vulnerable situation as the rest of us. A recent review of statistics by the Federation of Small Businesses (FSB) into the health of its members identified that orthopaedic issues, mental health and cancer constitute over half of the referrals to its medical care and advice centre.[8] Whilst the practical consequences of these conditions may vary, for some this might mean: time off work for treatment, prolonged periods of absence, and in the case of mental health, a reduction in the ability to make informed business decisions or even reduced capability to run the business itself.

The Standards of Lending Practice for Business Customers defines an individual as someone, 'who is able to exert significant control over the way in which the business is run.'[9] Whilst the Standards remain silent on the term 'significant control,' our expectation is that firms should consider every situation on its own merits. This is in recognition of the fact that not every personal situation is likely to have a detrimental impact, and, in our view, the role and significance of the individual to the business and the nature and extent of their situation, will play an important part in determining this.

8. https://www.fsb.org.uk/media-centre/press-releases/fsb-statistics-show-small-business-owners-health-most-affected-by-orthopaedic-conditions-mental-health-issues-and-cancer

9. LSB The Standards of Lending Practice – Business Customers section 9: vulnerability.

> *'I was drinking heavily and getting up late and not putting my best into the business at the end really because I knew it was failing.'*
>
> \- **BUSINESS DEBTLINE CLIENT**

BUSINESS DEBTLINE CLIENT

John is a self-employed actor and was going through a period where there was little work coming through. At the same time, he was suffering from severe anxiety and had a relationship breakdown which knocked his confidence. He found working very difficult, so took time off to try and get back on track. Without any income from his acting, John had no other source of money to help him along. The combination of personal and financial circumstances meant he was struggling to deal with his finances.

John was relying on a personal overdraft and credit cards to get him through the month, so was accruing large amounts of debt. John found it difficult to cope without the support of others and the impact of the situation on him was particularly acute as he felt that he had no one to turn to and that he could not contact his creditors for help.

John's stress and anxiety was exacerbated by a genuine fear of having to talk to his creditors about his situation. He would ignore letters that came in the post and text alerts telling him he had gone over his overdraft limit, which would cause him further upset and anxiety. He borrowed money from friends and family but he got to the point where he had no money coming in and so contacted Business Debtline for help. With this support, he found the courage to speak to his creditors and found them to be supportive and empathetic towards his situation.

Smaller businesses with limited resources and increasing cost pressures carry a risk of key person dependency. In practice this means that the loss of a key person, such as a finance or sales manager, can have a significant impact on the business leaving a critical gap in knowledge and expertise. This is the case even where an individual is not able to exert significant control over how the business is run. For these reasons firms should consider every situation on its own merits, based on the information that is available to them, taking into account the longevity of the situation, their knowledge of the business and its structure and set up.

5.6 Business

'I think when I came out of the business and I ceased trading completely I kind of just stuck my head in the sand and tried to ignore it all.'

- **BUSINESS DEBTLINE CLIENT**

These are internal factors that derive from circumstances or events within an organisation and are often within the organisation's control. Our research found that business risks often had a significant impact on the viability of a business, increasing the risk of getting into financial difficulty. In a large proportion of cases, a vulnerable situation is caused by a business in, or at risk, of financial difficulty[10]. This is because the impact of business failure on people is significant. Many will have made countless personal and financial sacrifices to build and nurture their business, in the hope that it will go on to thrive.

Late payment of tax bills (sometimes due to an unanticipated tax liability), lack of business insurance, organisational structure, financial management and limited business planning were the most frequent reasons for businesses encountering financial difficulty. These reasons often increased the level of stress and anxiety for the business owners.

10. Office for National Statistics; statistical bulletin 2016; highlights a marginal uplift in the percentage of business failures from 10.5% in 2015 to 11.6%, the following year.

BUSINESS DEBTLINE CLIENT

Lauren was a successful manager in the catering industry and decided to open her own pub which ran via a tenancy agreement with a brewery.

Whilst the pub made some money in the first couple of months, it was not enough to sustain the business. The brewery then sought to increase the rental costs which the business could not absorb.

The business continued to lose money until Lauren could no longer afford to purchase stock from the brewery. She became depressed and was drinking heavily, which further impeded her ability to run the business. The stress of the situation impacted on her relationship with her family, particularly her siblings who had been supporting her, and she also fell out with some of her staff.

Lauren had to cease trading and close the pub. Aware, but unable to cope with the fact that she was in £50,000 of debt, she tried to ignore letters from her creditors which included the brewery. She was worried that she may have to become bankrupt, or that she would lose her house. She was contemplating losing everything, having to move away and start afresh, which made her feel more depressed.

Lauren was trying to seek an Individual Voluntary Arrangement (IVA) and informed the brewery of this, but they still decided to take court action. This was successful, and an attachment of order was made. Lauren paid two months of this until her IVA was put in place. However, the brewery wouldn't stop the order, even though Lauren was paying into her IVA, so she had to go back through the courts to get this stopped.

Late payments

A common issue for small businesses is late payments. The recent appointment of the Small Business Commissioner, set up to support businesses in resolving payment disputes and to deal with the issue of late payments, is indicative of the extent of the problem. This has gained prominence, in recent months, through the Business, Energy and Industrial Strategy's inquiry into productivity. The FSB's report[11] found that over one in three payments to small businesses are late, an issue that was brought to light more recently through the collapse of Carillion, with payments to subcontractors made after a 120-day delay.

11. 'Time to act the economic impact of poor payment practice' https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-report--late-payments-2016-(final).pdf

> *'The collapse of Carillion has thrown light on the treatment of small companies by large firms and the difficulties caused by late payments. Deliberate supply chain bullying can be devastating for business owners and contributes to thousands of business deaths each year.'*
>
> - **RACHEL REEVES MP COMMENTING ON THE LAUNCH OF THE BEIS COMMITTEE'S INQUIRY.**[12]

12. https://www.parliament.uk/business/committees/committees-a-z/commons-select/business-energy-industrial-strategy/news-parliament-2017/small-business-inquiry-17-19/

Statistics suggest that this problem has led to around 50,000 businesses folding, year-on-year, with a detrimental impact on the UK's productivity forecasts, despite the existence of the voluntary Prompt Payment Code setting standards for prompter payment practices.[13] But it doesn't stop there; research commissioned by the Prompt Payment Directory highlighted the personal impact this has on the people running the business, with over a third of small businesses facing cash flow issues, being forced to sacrifice their own salary or plug the gap through personal debt. In some cases, the stress of not receiving payments on time culminated in mental health issues.[14]

13. The prompt payment code is administered by the Chartered Institute for Credit Management. The code has over 1,700 businesses signed up to it and promotes a 30 day standard payment limit with a commitment to make all payments within 60 days, and is supported by stricter reporting requirements and oversight by a compliance board.

> *'For a long time, I was debating on either emigrating or just going, losing everything, all my possessions and just starting afresh, so that was getting me even more depressed and worried about the future.'*
>
> - **BUSINESS DEBTLINE CLIENT**

HOW FIRMS HAVE RESPONDED TO THE LATE PAYMENT ISSUE – CARILLION A CASE IN POINT

Whilst it is still unclear how many businesses could be at risk of difficulty because of the collapse of Carillion, given the size and scale of the company, the number is projected to be significant.

Several firms have been working to proactively identify and support small businesses likely to have been impacted by the liquidation, offering a package of measures to ensure that those businesses facing short term difficulties are given the financial support they need to stay on track. Recognising the importance of cash flow, these measures, which included: overdraft extensions, payment holidays and fee waivers, are designed to be pre-emptive and focused on minimising the risk of detriment, early on.

5.7 Economic

Businesses are extremely sensitive to fluctuations in market conditions, and upturns and downturns in the economy as this is part and parcel of running an enterprise. This has been highlighted in recent months through volatility in the value of the pound, the increase in the price of raw materials and import costs. Unlike business risks, these external factors are often outside of the businesses' control.[15] Whilst these factors can have a significant impact on the profitability of a business many are able to adapt and navigate through these challenges relatively unscathed without these events being terminal for the business. However, this is not always the case and there are some instances where the losses incurred by a business have had a significant impact on its viability, leading to its collapse. There are also cases where losses incurred by a business have had a significant psychological impact on the owners, adversely impacting their ability to take appropriate action and save it.

14. Research commissioned by The Prompt Payment Directory (PPD), a new payment behaviour rating website. The survey polled 1,000 UK small to mid-sized company owners who all suffer from poor cashflow due to late or outstanding invoice payments and examined the personal, financial and business impact of late payments.

15. Office for National Statistics; statistical bulletin 2016; highlighted a marginal uplift in the percentage of business failures from 10.5% in 2015 to 11.6%, the following year.

Although vulnerability can manifest itself in a number of different ways, it is often characterised by a range of emotional and practical consequences. For some businesses, the stresses and strains of dealing with these changes prove too much. This can result in heightened stress levels, a lack of perspective, and in the most extreme cases, suicidal thoughts. All of these factors can impact on their ability to continue operating their business, make informed decisions, plan ahead, or turn the business around.

These factors may be sector or industry specific

Some firms quoted the decline in the price of dairy as a key factor in the financial losses incurred by businesses operating in the farming industry. The fall in price, coupled with an increase in supply and decline in demand, has had a direct impact on the farming business. In some cases this has reduced profitability, resulting in an increased number of businesses trading at a loss. This often has direct and far-reaching consequences for the business owners and their employees, some of whom are left with no option but to leave the industry, diversify their product offering or cut costs. In some instances, this has triggered increased levels of stress and anxiety for the individuals running the business, and for the employees, the prospect of job losses. But the impact does not just stop there; in many of these cases, the fall-out is felt by the families, who may be under pressure to contribute financially or to invest their personal time in an attempt to salvage the business. In many of these cases, the personal time and money invested in the business can often exacerbate the impact of these changes, making it difficult to accept. The business is their livelihood and the external factors are often outside of their control.

The demise of the high street

The UK has seen the growing demise of the high street as households have seen their spending power reduced by rising inflation, following the drop in the value of the pound and the rising price of goods. This has resulted in a number of established businesses restructuring or entering into administration against the growing increase and success of online–only businesses. The impact of these large-scale closures on small businesses is yet to be determined. However, there is an opportunity to assess the broader implications of the changing economic landscape to ensure that any fall-out from these situations is managed appropriately, and, where possible, contained, to minimise the impact on any other businesses connected through the supply chain.

THE IMPACT OF EXTERNAL FACTORS – A BUSINESS DEBTLINE CLIENT CASE IN POINT

Stephen was a successful business owner of a long-standing independent company.

The business was well established and running smoothly, but there were changes in external regulation which had a significant impact on the company. The changes in regulation would require wholesale changes to the way the company operated, and Stephen was unable to keep up.

The company lost its strong customer base and with it, a substantial amount of money and eventually ceased trading. The stress of the situation caused Stephen to fall into severe depression and led to the breakdown of his marriage.

Stephen had both personal and business debts he had to deal with and he felt his creditors were not very understanding towards his situation. In the end, Stephen was forced to sell his home to pay for some of the debts.

6. IDENTIFICATION

6.1 One size does not fit all

In reality, a vulnerable situation is never black and white. Businesses are by their very nature volatile, there are good days and bad days and daily bumps and challenges are a fact of life. The LSB has always been clear that not every trigger will equate to a business customer suffering harm and, for these reasons, there is a need for every customer to be treated on a case by case basis. Personal characteristics such as levels of resilience, coupled with the drive to succeed have an important part to play in how some business owners respond to a difficult situation. The structure and resilience of a business and the strength and quality of the management team have an equally important role in minimising the impact of a vulnerable situation, although these factors are not exhaustive.

6.2 Identifying triggers

Businesses are not a homogeneous group, and their needs, resources and capabilities can differ based on factors such as: business structure and set up, size, the strength and quality of the management team, availability of resources and how resilient the business is to change. This means that the practical impact of a particular situation for one business customer may not be the same as for another, because every business is unique and should be treated as such. Firms should train their staff to pay attention to possible indicators of vulnerability. It is also essential that they build the structures and processes to question and explore situations fully, whilst equipping them with the knowledge and confidence to understand impact and likely support needs.

When considering impact, firms should have regard to:

- The ability of the customer to understand, remember, weigh up and make informed business decisions, and the degree to which this might be impaired by the situation.
- The nature and longevity of the vulnerability, how this is likely to affect the customer day-to-day, and their ability to engage with the market or interact with the firm.
- The sustainability of the business: the impact the situation has, or may have on income, and the business's ability to maintain sales or service volumes and financial commitments as they fall due.

Whilst we recognise the difficulties in identifying vulnerability early on, firms should have processes in place to support and encourage timely identification of business customers in vulnerable circumstances. We found that in the majority of cases, the triggers firms have in place are reactive to information volunteered by a customer in their interactions with the firm. For this approach to work, there is a reliance on customers to self-disclose, but the likelihood of disclosure in the earlier stages of the customer or product lifecycle is low. Our research found that these challenges are more prevalent in businesses that are serviced through direct, non-face-to-face channels. There are fewer opportunities for customer interaction and far between, coupled with the marked increase in the uptake and promotion of digital service offerings in recent years.

In light of these challenges, a more effective strategy would be to supplement a reactive approach with data-driven activity, to support the proactive identification of business customers that may be vulnerable and therefore at an increased risk of harm. Whilst we acknowledge that the quality of this data will depend on the information available to the firm, our research found that in most instances, firms have access to an array of transactional information on customers. Some of this, with the correct parameters and data analytic tools, could help decipher trends and flag up anomalies, prompting the firm to provide early support and help.

Whilst early identification of a vulnerability is key to managing a detrimental impact on a business, firms may encounter some situations where the impact of the individual's vulnerability has already had a financial bearing on the business. In these circumstances, declining business performance, evident through a review of financial accounts, or missed payments, may be a useful indicator of a change in situation, where further probing is required.

A number of firms told us that they have pre-delinquency triggers in place to identify customers at risk of financial harm. This is supported by a proactive contact strategy to encourage early intervention and the timely provision of help and assistance. Whilst the purpose of this activity is to spot the early signs of financial stress, these triggers are often indicative of something deeper – a possible underlying issue – that firms have an absolute duty to explore.

Firms should optimise these 'precious moments' to:

- proactively engage with the business;
- undertake a business review with a view to questioning and deciphering the root cause of the business's financial situation;
- comprehend the factors contributing to this position to ensure the provision of timely support;
- understand whether there is any evidence of a vulnerable situation, whilst considering the impact this has on the individual running the business and their ability to continue trading in the foreseeable future;
- consider if there is any support that can be offered to minimise the impact of any detriment; and
- identify opportunities to sign-post the business customer to external sources of support where relevant. This may include information on relevant third sector organisations.

6.3 Spotting the signs

> *'It's like you're desperately trying to get out of and trying to improve your situation but it's really hard, you know, and you have to manage without any sort of help.'*
>
> - **BUSINESS DEBTLINE CLIENT**

The success of a firm's vulnerability strategy is predicated on its ability to identify signs that a business customer is potentially vulnerable, or at an increased risk of harm. This should be supported by a broad range of proactive and reactive triggers and underpinned by targeted and role specific training for frontline and back office staff. Our engagement with firms highlighted that in the context of a business, a common challenge is identifying vulnerability early on, particularly where the relationship is at arms-length, or the number of customer interactions are limited. The majority of firms recognise the importance of proactively identifying vulnerability. However, there is a general feeling that unless the business is relationship managed or there is clear evidence of financial detriment[16] there is very little information available to the firm to spot the signs early on, which in some cases, has prevented timely intervention.

These difficulties are also driven by the presumption of the firms that their business customers are reticent to open up about their personal situation and are therefore less likely to self-identify as vulnerable. This can exacerbate the issue. Our research attributes the trend in low self-identification to a general mistrust of creditors, coupled with a limited awareness of what the bank can do to help. In most cases, this stems from a fear of adverse personal and financial consequences, and a genuine concern that their line(s) of credit may be withdrawn. In some cases, this might be exacerbated by the denial of a personal or financial situation, in the hope that if they persevere there may be light at the end of the tunnel for their business.

The majority of firms had processes in place to identify and support a business customer in a vulnerable situation once the business is already in financial difficulty. This approach is a result of the fact that businesses are less likely to contact the firm for support until they are in difficulty. The Standards acknowledge that vulnerability may occur at any point in the customer product lifecycle and is not something that is confined to financial difficulty. There is merit, however, in firms undertaking a deeper dive on the cases where vulnerability is identified. By tracing the case back through the customer journey, it will help the firm to understand if there is anything it could have done earlier on.

The findings from this exercise could be used to inform the firm's understanding of vulnerability in the context of a small business including the key factors which may give rise a vulnerable situation. It could also identify whether there have been missed opportunities to encourage early identification. In addition, it could explore, whether its current mechanisms of support are fit for purpose, and any support that could have been provided earlier on in the process to minimise the risk of harm and prevent the situation from worsening.

16. Typically this included indicators such as: missed payments, hardened overdraft limits; external data from credit reference agencies

6.4 Encouraging self-disclosure

Whilst firms acknowledge that there is more they could do to encourage businesses to self-disclose, there is often a limited understanding of the reasons why customers do not. In an effort to break down some of these barriers, firms should delve deeper to improve their understanding of the key reasons why customers may be reticent in volunteering information. This may be achieved through the provision of customer research. It could also involve engaging with customers already identified by the firm as being in a vulnerable situation, to understand if there is anything more the firm could have done to support early disclosure. This may be achieved through customer case reviews, where the firm works back through the journey to identify areas where their processes may have fallen short, and make improvements. This information should be used to build processes to support timely, customer disclosure and possibly provide an opportunity to engage with the customer and probe further.

Some firms recognise the benefits in enhancing their digital and branch literature to raise awareness of the support that is available to small business customers. This could help to encourage early contact, and to promote an understanding of how the firm may use the information that is disclosed to them. As the industry seeks to rebuild customer trust and confidence, these messages will only serve to reassure businesses that the information they disclose will be treated with the strictest of confidence and that there is help available, should they need it.

'I can't even believe I'm saying this to you now, but I had a stack of about 50, 60 unopened letters.'

'I just felt so ashamed of my situation, not being able to reach out to friends or family for emotional support, let alone my creditor.'

'They (the banks) were saying, well you know what's your regular income. I said I don't have a regular income... it was a long process to actually explain to people what self-employment was about and how irregular the income could be.'

- **BUSINESS DEBTLINE CLIENTS**

6.5 Industry solutions

Our discussions explored the benefits of an industry solution to solve the problem of self-disclosure. In our view, a concerted effort to encourage customers to proactively approach their creditors for help and assistance is a step in the right direction. Some firms target their brand marketing and advertising material on the concept of being on the customer's side, whilst tackling some of the perceived stigmas around divulging sensitive information. The prospect of data sharing between organisations, in our view, may offer a useful way for firms to be alert to customers that may require additional support.[17] This is based on an understanding that a business customer may hold multiple products across a number of different financial services firms, with data sharing offering the opportunity for one-stop notification.

The Priority Services Register is an example of a centralised data tool in the energy sector offering customers the option to self-register (in its case, to support the identification of customers who might need enhanced levels of service or support in the event of an interruption to their energy supply). In the financial services industry, this concept is gaining traction, with creditors able to upload and retrieve customer consented information from a central data-pool. But for a centralised register to work, customers must be aware of its existence. While the benefits of using this information remains untested, with the data largely focused on personal customers, there is an acceptance that a customer consuming products and services in a business capacity will also have personal account holdings. Where the customer consents to this information being registered, the data may be used for both purposes. The industry may wish to explore the extent to which these tools may help support the identification of business customers in vulnerable circumstances.

6.6 The role of the relationship manager

The role of a relationship manager is typically characterised by descriptions of trust, respect and customer confidence – embodied in a long-standing business relationship. Coupled with in-depth knowledge of a customer's business, our research found that the relationship manager offered a vital link between the firm and the business.

There is a consensus that the relationship manager model provides a sound basis to identify business customers in vulnerable circumstances. The hallmarks of an effective relationship are built on mutual values of trust and in-depth customer and sector related knowledge. This enables the regular exchange of information between the business and the relationship manager, often through a bespoke customer-driven contact strategy. Our research found that the frequency of information exchange and the type of interaction can vary based on a number of factors. These include: the size of the business, a firm's own criteria and method of customer segmentation, and the size of the relationship manager's portfolio, but at a minimum was likely to take place on annual basis. This means that in most cases, the relationship manager is well placed to identify a change in circumstance. They are then able to use this information to question or pre-empt the impact a change may have on the business in the normal course of the relationship, based on their knowledge of the business, its management team and the sector within which it operates.

The annual review is often fixed from the date of sanction, providing a relationship manager with an opportunity to identify changes to the business profile from a financial and non-financial perspective. It can typically focus on assessing historic financial performance against current performance and may include a review of product utilisation against expected use. Firms told us that this is supported, in some instances, by periodic site visits to the business premises where there are

17. Sharing is caring? Could data sharing improve the support provided to customers in vulnerable situations? April 2018 http://www.bristol.ac.uk/media-library/sites/geography/pfrc/pfrc1805_sharing-is-caring-report.pdf

further opportunities to identify a potential change in situation and to engage with the customer. Relationship managers may also have responsibility for pro-actively managing arrears within their portfolio, where there are indications of a declining financial position.

Our conversation with firms highlighted that the proximity of the relationship often increased the likelihood of customers disclosing the potential worsening of their situation or approaching the firm for early help and assistance. This often comes down to the fact that the relationship manager is a familiar face that a customer has learned to trust. While it may not be practical or cost effective for all business customers to be offered a bespoke relationship managed service, firms should ensure that, where possible, there is a consistent approach to identifying and managing vulnerability, irrespective of the channel through which the business customer engages.

6.7 Sector risk analysis

Firms told us that they proactively monitor external indicators such as political, economic or market conditions for the purposes of managing their exposure to particular sectors or industries. One firm told us that the fall in oil prices has had a significant impact on the oil and gas sector, resulting in a number of job cuts and a reduction in share prices. In practice this meant an immediate change in circumstance for all businesses operating in the oil and gas sector. The firm has been able to respond by encouraging their relationship managers to proactively engage with these businesses, whilst working closely with the credit risk teams.

This approach helps to determine what the fall in oil price means for the sustainability of these businesses, their ability to continue with their financial obligations and the support the firm is able to offer. Whilst there is merit in reviewing this information, we would encourage firms to consider using external data to step in and offer timely intervention and support.

6.8 Recording sensitive data

Data protection laws require firms to seek explicit consent from customers when recording and processing sensitive personal data; this includes information that relates to physical or mental health condition. Firms have traditionally viewed this requirement as a barrier to recording information in situations where consent is not forthcoming, or the disclosure is from a third party such as a family member or carer. Although the General Data Protection Regulations[18] have resulted in firms reviewing their consent procedures, the Information Commissioner has always been clear that when reviewing the fairness of a decision to record information, it will have regard to the merits of each individual case and the overall customer outcome.

Firms continue to work with their frontline teams to offer guidance on recording explicit consent and dealing with disclosures from a customer or a third party. This guidance has typically included:

- Acknowledging the courage it takes for a customer or a third party to call a firm notifying them of a customer's vulnerability;
- Adopting a 'can do' attitude, recognising that a sensitive approach to handling

18. General Data Protection Regulations (GDPR) came into effect on 25 May 2018.

the call is key, and that by proceeding with the call the firm may help alleviate some stress;

- Preventing disclosure of account information or transactional data, but noting down any unverified disclosures from a third party in a factual manner so that this information is visible, where possible, at a single customer level;

- If systems do not allow for a single customer view, ensuring there is a manual work-around to allow staff to identify each account the customer holds, to coordinate account activity and correspondence, and prevent conversations from having to be repeated;

- Giving full consideration to any action that needs to be taken by the firm to prevent the account from deteriorating. This should be supported by an explanation of any appropriate action taken. This may include an explanation on how the account will operate; for example, 'the account will be placed on hold; this will mean that during this time no interest and fees will apply.'

- Recognising that evidence is not a pre-requisite and is only requested where it is felt that this information will assist the firm in understanding the customer's situation better and to help the customer. Where evidence is requested, firms ensure they do not follow a rigid process, giving consideration to alternative forms of evidence.

Most firms are at varying stages of developing markers to allow staff to easily record customers identified as requiring additional support. In the majority of instances, progress is being hampered by legacy systems and the difficulty in achieving a single customer view for customers that have multiple product holdings. In some instances, firms can overcome some of these challenges by using system notes to record sensitive information in the interim, although the success of these measures depends on how visible these notes are to staff to consider the next time a customer's account is accessed. In our view, these measures are not always sufficient in achieving a one-stop notification, and in some instances would not have prevented customers from repeating their situation.

In most cases, this has also made it difficult for firms to extract valuable management information and obtain a full view of how many customers have been identified as having additional support needs, the solutions offered by the firm or an indication of outcomes. This would allow firms to assess the effectiveness of their interventions and form a view as to whether these need to be enhanced, removed or re-worked.

Whilst most recognise the benefits of developing flags as markers to identify customers who require support, there is a concern that this may breach data protection laws. That it could be an issue particularly in cases where the information is no longer accurate or up to date. Given that vulnerability can vary in degrees of permanence, the length of time this data is held is of prime importance. A flag (or flags) should be maintained only when it is necessary to ensure that the individual is treated properly, and the information is current. Whilst the responsibility for keeping information up to date resides with the firm, there is an onus on customers to keep the firm informed of any changes to their circumstances, to ensure that any adjustments offered remain appropriate and relevant to their needs.

One firm has developed a flag mechanism to identify cases where customers require additional support. The information captured is reflected as a 'customer support need.' This encourages staff to focus on how the firm might be able to support the customer, rather than limiting the notes to the situation giving rise to the support need. Where a flag is raised, this should be accompanied with a comprehensive set of notes on the customer's account to reflect their current circumstance based on a complete and thorough fact find.

6.9 Optimising digital channels

Statistics show a rising trend in digitalisation, reflected in an increasing amount of transactions and servicing completed online. The use of mobile banking applications and a general decline in opportunities, or appetite, for face-to-face, or telephone contact are also characteristic of this trend. Our research found that in general, for those firms operating a digital platform, identifying vulnerability is a clear challenge. The LSB has held a series of roundtables on the topic to promote a clearer understanding of the issue, engaging with fin-tech firms and traditional lenders to encourage practical ways to deal with this challenge head on. In our view, these challenges should not be seen as a barrier to progress. Instead, firms should seek to change the dialogue by re-articulating the challenge as an opportunity and think of innovative ways in which digitalisation can be support the proactive identification of customers in vulnerable circumstances.

The advent of open banking has presented a number of opportunities for regulated providers[19] to develop solutions which provide customers with access to their banking information in one centralised place. By aggregating account information, customers have increased visibility of their data, with providers offering key insight into spending behaviours and account utilisation, to encourage informed decision making and better money management. In some respects, these insights are even more valuable to a business customer, where time is precious and the effective management of cash flow an absolute priority.

19. These are FCA authorised third party providers and are able to offer services using open banking. A full list of regulated providers can be found here https://www.openbanking.org.uk/regulated-providers/page/2/

One firm has developed a digital dashboard, which populates data from a broad range of applications to present an aggregated view of a business. The dashboard presents a one-stop-shop of information relating to customers' account balances, money owed, and business growth, supported by information on products and an overall sales trajectory. By having this information in one place, businesses have a complete picture of their financial data, allowing them to spot changes, make informed and intelligent decisions based on hard facts and act swiftly where they need to.

Whilst our report places a responsibility on firms to develop triggers and processes to identify vulnerability, there is an acceptance that businesses are often better placed to identify and report changes (after all, who knows the 'ins and outs' of a business better than the individuals responsible for running it day to day). In our view, giving businesses greater visibility of their finances puts the customer in control. This is turn increases the likelihood of customers contacting their creditors for early support and assistance, because, where things do take a downward turn, the impact on the business is noticeable enough to prompt the customer to take action.

6.10 Listening to triggers

Whilst our report has explored the value in assessing transactional data and history to overcome some of the barriers associated with identifying vulnerability through non face-to-face channels, where there is contact, the value in conversation should not be under-estimated. The customer may volunteer information about their situation that may cast a light on their ability to cope or engage with the market. This might include references to 'the business not being worth it anymore…everything is really difficult now, I don't know how we will manage.'

In some instances, this may be supported by softer behavioural triggers, which, whilst not obvious, may indicate that the customer would benefit from further support. These may include signs of agitation, tone of voice and questions which suggest that the customer does not understand what is being explained and placing reliance on a third party for support, where there are no existing mandates or authorities in place.

Whilst we recognise that not every trigger may result in a customer being identified as vulnerable, they are clues which should be probed and explored further to encourage a complete understanding of the customer's situation, based on a 'tell us once' approach.

7. SUPPORT

7.1 Product design

Firms should ensure that vulnerability is at the forefront of everyone’s mind and can be evidenced through the product design, development and review process and is not simply a case of ‘ticking the box’.

There have been many reported instances of mis-selling, but perhaps the most pertinent example relates to the sale of complex structured interest rate products to small business's, with some firms failing to disclose exit costs and determining the business’ understanding of risk. Whilst this example reflects fundamental weaknesses in the way in which the hedging product has been sold, it also highlights significant failings in the way in which the product was targeted. For example there are instances where the purchase of a swap has been a condition of taking out a loan.

The Standards recognise the criticality of a firm’s product governance framework in ensuring products are designed and targeted appropriately to deliver fair value and outcomes for business customers.

Customer outcome*: all product information presented to business customers will be clear, fair and not misleading, enabling the customer to understand the key features of the product, such as the interest rate, fees and charges that apply.*

Firms are expected to achieve this*: with systems and controls at product design, financial promotion and product review stages that assess product performance and ensure product information is clear, fair and not misleading.*

Our research found that most firms’ new product approval and review processes consider vulnerability as part of the questioning around the target market. This results in considerations around the sale and distribution of a product, pricing, product risks and features, and the need to make reasonable adjustments. All firms acknowledge that the targeting and design of a product is integral to providing an inclusive service, whilst building appropriate protections to minimise the risk of customer harm. This is supported by a drive to ensure that all products are simple and transparent, with a concerted effort to draw out risks and limitations to enable customers to make an informed and balanced decision.

One firm had initiated a review of its business product offerings from a customer lens, classifying products based on complexity and the risks associated with its sale and execution. This was followed by a review of the sales framework to ensure that the product sold is appropriate to the target market, information needs and the level and nature of staff training and competence required to sell products. This prevented the targeting of more complex products to smaller businesses that may not be able to comprehend the risk associated with the product to make an informed and rational decision.

Firms should ask themselves the following:

- What are the needs of a business customer in vulnerable circumstances, how can we factor these in, and does the product meet these needs?
- Are there features and risks with the product that a customer may have difficulty in comprehending?
- How might this impact the sales and distribution of the product across all relevant channels, and are there any enhancements that need to be made to the process or the customer journey?
- Is there enough flexibility in the process?
- What are the information needs for customers identified as being in a vulnerable situation?
- Is there a need for enhanced training for staff to ensure the product is sold appropriately?
- What mechanisms are in place to ensure the product is targeted in the right way?
- What happens if a customer's situation changes, and how would these circumstances be factored into the servicing of a product and the support that the firm is able to offer?

7.2 Culture

In the LSB's view, an effective vulnerability strategy should be underpinned by a culture of care, which promises to do the right thing for customers.

Culture can be defined as the 'typical, habitual behaviours and mindsets that characterise a particular organisation,' and is reflected in the way a firm conducts itself, the way it interacts with its customers and its approach to decision-making[20]. It is possible that some weaknesses in culture could be attributed to poor and unethical conduct, epitomised in recent years by the systematic ill-treatment of small businesses in financial difficulty. While culture remains a key focus for regulators and firms, there is recognition that more could be done to tackle repeated instances of misconduct. This is supported by the view that customer trust and confidence can only be rebuilt if firms work towards cultural reform where shared values, attitudes and norms converge to deliver fair customer outcomes.

20. https://www.fca.org.uk/news/speeches/getting-culture-and-conduct-right-role-regulator

When it comes to the treatment of small business customers, this extends beyond rigid adherence to policy and process, and necessitates a culture that is built on principles of trust, care and respect, guided by a determination to 'do the right thing' for customers. However, principles alone are insufficient to deliver cultural change. Setting the right tone requires more than just idealistic encouragement of good behaviour; these values should be embedded in the culture of the organisation. This can only be achieved where firms lead by example, driven by their executive management, and where employees feel empowered in making the right decisions, with performance management frameworks that support and promote these values.

EMBEDDING CULTURE - A CASE IN POINT

One firm recognised the importance of creating a more empathetic and service orientated culture for both its employees and customers. This was achieved through management training which encouraged leadership teams to adopt a more empathetic style in their day to day interactions with their staff. In doing so, management could demonstrate that they were guided by the same qualities that they want their staff to emulate in their dealings with customers. The firm promoted the concept of empathy amongst staff and encouraged them to reflect this in their interactions with others in the team.

This can only be achieved if a firm's strategy and business model are aligned to the same ethos and can be evidenced in the tone from the top. Staff capability is pivotal in promoting the right behaviours, and the recent introduction of the FCA's Senior Managers and Certification Regime is instrumental in achieving this. Whilst firms have made considerable progress in developing and embedding a customer-centric approach with a commitment to treating customers fairly, they should ensure that the principles and protections underpinning the Standards are consistently achieved with the outcome that businesses are treated fairly and with integrity.

Our research indicates that while most firms have an overarching vulnerability strategy, in practice, most policies, processes and training have been in respect of personal customers. When it comes to small business customers, firms still have some way to go in developing a practical framework to support the timely identification and assistance of business customers in vulnerable situations. In some cases, this derives from a limited understanding of how vulnerability might impact a business customer, coupled with the difficulties in implementing triggers to support the pro-active and timely identification of vulnerable situations.

Whilst aligning the approach across personal and business customers is helpful in driving consistencies in practice, this should not be construed as a simple lift and drop. The firm's approach should be accompanied by an understanding of how vulnerability might impact a business customer. This should also be supported by a comprehensive assessment of the help that may be provided to minimise the risk of any detriment and ensure appropriate and targeted support, underpinned by a fair and customer-centric culture.

7.3 Investing in staff

Firms acknowledge the importance of staff training in supporting customers in vulnerable circumstances, but most recognise that more could be done to build and enhance staff capability. This is critical in empowering staff to handle difficult conversations with confidence, knowing that they are fully supported in making the right decisions, with the customer always firmly in mind.

There is an opportunity for firms to build on the work carried out in the personal customer space in recent years and consider how this can be adapted to develop vulnerability training in the area of business and commercial lending.

Some firms are already doing this, by rolling out training on vulnerability across their business and commercial banking teams for all their employees in customer facing and back office roles. Practically, this is being achieved through:

- The development of a bespoke computer-based training module on vulnerability, using scenarios to increase understanding of the different types of vulnerability and the corresponding needs of business customers. Albeit generic, the training highlights that vulnerability should be an active consideration in the execution of everyone's role. The training is refreshed in varying frequencies ranging from quarterly to annual assessment, with controls in place to monitor completion;

- Training on conversation models, to support the implementation of the TEXAS and IDEA models[21], to assist staff in handling vulnerability disclosures and to probe situations fully, whilst documenting the customer's support needs;

- Delivering role-specific training using practical examples and the different types of situations staff may come across in their day to day. Some focus on their conversation models, through role play, which helps bring the concept of vulnerability to life. Staff are encouraged to break the conversation down, to identify areas where they could have probed further, or asked a question in a different way.

- Building case studies based on 'real life' customer encounters to illustrate, and bring to life, the support that is available through the firm, with reference to policy and procedural guidance. These case studies are positive in breaking down some of the worries and perceived barriers in implementing the policy, empowering staff to make the right decision based on the customer's needs;

- Creating a centralised repository of information to support staff in identifying and supporting customers in their day-to-day role through a dedicated vulnerability hub. Operating as a one-stop-shop, the information is accessible through the firm's intranet site enabling staff to retrieve and recall useful material to support their interactions with customers, supported by case studies to bring processes and procedures to life.

These initiatives are positive in minimising the policy and practice gap, but it is crucial they are supplemented by a blended approach to training, supported by tailored, role specific activities, to maximise learning outcomes. However, we recognise that much of the work in this area is evolving as the Standards of Lending Practice embed.

Some firms are going further in developing and promoting the softer skills needed to encourage meaningful discussions. They recognise that the effective communication between their staff and their business customers is important for building trust and confidence in the firm. This is based on the premise that not all customers may be forthcoming with their information because of the worry that their bank may not understand or empathise

21. For more information on TEXAS, IDEA and other practical tools to assist staff in dealing with conversations around vulnerability see Vulnerability: A guide for debt collection (2017), http://www.bristol.ac.uk/media-library/sites/geography/pfrc/pfrc1701-21-steps-vulnerability-and-debt-collection-%28web%29.pdf

with their situation. These competencies centre around the ability to listen, empathise and question effectively, and are vital to breaking down the perceived barriers to self-disclosure and embedding a well-functioning vulnerability strategy.

We would encourage firms to build suitable frameworks and check points to ensure that the key messages of the training are firmly engrained and can be evidenced in practice.

7.4 Behavioural building blocks

For staff members dealing with customers in vulnerable circumstances, the situations they are confronted with are demanding ones and draw on a range of skills, techniques and qualities. These are shown below, split between relationship, communication and analytical. They demonstrate just what a tough and skilled job it is to deal with vulnerability.

Relationship	Communication	Analytical
Approachable	Showing patience	Remaining impartial
Being a customer advocate	Listening to the customer	Attention to detail
Showing empathy	Knowing what to say	Knowing when to delve deeper
Building rapport	Questioning	Assimilating information
Remaining calm under pressure	Clarity of communication	Identifying solutions

7.5 Specialist teams

Following the publication of the FCA's Occasional Paper and the subsequent launch of the UK Finance Vulnerability Taskforce Recommendations, many firms have responded by setting up specialist teams to support personal customers identified as being in a vulnerable situation. In some cases, these teams were ring-fenced to deal with customers facing a specific vulnerability, including bereavement and cancer, with external support from third sector organisations such as Macmillan. Our conversations with firms highlighted that these enhancements are typically available to personal customers, though some firms are still developing their thinking in this area.

Where firms have established specialist teams, in most cases these have been set up to deal with business customers that are already in financial difficulty. These teams have the discretion to offer a tailored service based on the customer's situation and are designed to be free from policy or process constraints. In our view, the support offered should be based on a thorough understanding of the customer's circumstances, including the factors giving rise to the vulnerable situation.

We recognise that the impact of a vulnerable situation in relation to problem debt is particularly acute. However, there is an acceptance that not all business customers in a vulnerable situation are in financial difficulty, and that the provision of early support and assistance is critical in minimising the impact of any detriment. This is based on an understanding that a vulnerable situation can arise at any stage in the customer journey.

The majority of firms feel it is practical to train all staff to identify and support business customers in vulnerable situations, delivering more enhanced training for front facing teams with a direct customer interface. This is based on an understanding that vulnerability can arise at any point and that every business customer should be treated with equal levels of care and diligence. Some firms have established a central repository of information for all staff to access for help and support, with practical information on recording sensitive information, links to training material and real examples of how customers have been supported by the firm.

This is supported in some instances, with the appointment of 'vulnerability champions', who are typically named contacts in the firm, who can offer expert guidance and support to assist staff in their dealings with customers, although we found that responsibility for managing the customer relationship remained with the front line team. In our view, this encourages staff to take ownership for their actions and to deliver the right outcome for their customers, safe in the knowledge that there is further access to support should they need it. After all, supporting business customers in vulnerable situations is a shared responsibility.

Some firms have increased the scope of their specialist vulnerability teams to deal with businesses customers that are not in financial difficulty, but are identified as being vulnerable; however the availability of this support is dependent on staff identifying that there is a need for further support, or the customer self-identifying and a referral made.

The Standards of Lending Practice do not require firms to establish specialist teams to deal with vulnerability, but where there are specialist teams in place firms should ensure that there are appropriate mechanisms to refer the customer to appropriate support. However, in our view, the success of this measure in the first instance is dependent on staff being aware that a specialist team exists, supported by a full understanding of its role and remit in supporting customers. We consider this decision to be entirely a commercial one although the outcome should be that all customers have access to support and that a specialist team does not impede this. Firms should ensure that their framework of support addresses any gaps in protection to ensure all businesses are given the support they need to get through a difficult situation, and that they are treated with empathy.

7.6 External collaboration

Most firms are aware of the benefits of external collaboration with charities, recognising the need to signpost customers where they are identified as being in a vulnerable situation and may benefit from emotional support and help. However, the majority of these referrals take place once the business customer is already in difficulty, though some recognise the merit in signposting earlier on in the customer journey to support the customer through their situation. Signposting can be helpful in directing customers to more specialised systems or outlets of support, but in the absence of developing staff awareness and knowledge of these organisations and the support they are able to offer, the benefits of external signposting may be lost.

One firm has developed a referral programme for personal customers experiencing financial difficulty, though the programme has recently been extended to business customers. Customers are provided with access to a dedicated adviser who completes a full assessment of their financial situation to ensure they have a complete understanding of their circumstances. The adviser is then able to provide the customer with advice and support.

Firms should seek to build these relationships at a business level, to allow for the sharing of best practice and to facilitate a better understanding of vulnerability and the support that these organisations may be able to offer. This may include opportunities to signpost earlier on, or insight that has been gathered from customers, which a firm may not necessarily have easy access to. This engagement should continue as firms develop, embed and evaluate their approach to vulnerability.

7.7 Fraud – the cost to businesses

It is broadly accepted that the growing prevalence of digital interfaces brings a number of risks. Statistics suggest that fraud and online crime costs businesses an average of £4,000 per year. The impact, however, does not stop there, as the cost of fraud to the wider economy is even greater, particularly where this limits a business' ability to drive economic growth[22]. The rise in push payment fraud is indicative of the growing prevalence and sophistication of scams in recent years, where the benefits of faster payment solutions, including speed of transaction, are exploited to profit the scammer.

22. https://www.fsb.org.uk/docs/default-source/Publications/fsb_cyber_security_and_fraud_paper_final.pdf?sfvrsn=1

With significant amounts of money at stake the cost of fraud is often enough to cause financial disruption, including short-term cash flow difficulties and losses. Businesses are often financially ill-equipped to manage the impact, causing increased pressure on the people managing it. This is because in most instances, the money lost is irrecoverable, and there is very little that creditors can do to return the funds leaving businesses with limited recourse to action. An account number and sort code are all that are needed to identify a recipient, even if, unbeknown to the business, the details have been altered, or the invoice intercepted.

Despite these limitations, the gap in protection prompts us to question the role the industry should play in preventing businesses from falling victim to fraud. In recent years, there has been an onus on banks to establish systems and controls to help identify scams and protect consumers, but, when it comes to businesses, the protections appear to be limited. This derives from the expectation that businesses have a greater level of responsibility to protect themselves against the risk of fraud. Some firms told us that they offer preventative support to educate businesses on the risk of fraud, but the take up of this is low. This is because businesses could not foresee themselves falling victim to a scam. The reality of the situation is that businesses do fall victim to fraud and the consequences are often profound.

One firm runs cyber security webinars for their business customers. Offered in branch and at the account opening stage, these webinars are designed to be preventative, offering businesses key insights into ways in which they might be able to protect themselves from fraud. This is supported by educational material on the web-site to raise awareness of the different types of fraud and the tools available to businesses to protect themselves.

The Payment Systems Regulator has recently consulted on the issue of authorised push payments, with a package of measures designed to protect consumers and businesses falling victim to this type of fraud. These include confirmation of payee and an industry code formalising the contingent reimbursement model into a set of rules governing the compensation of APP scam victims, whilst setting minimum standards of protection. We will watch these developments with interest as they seek to increase the current level of protection, safeguarding businesses against the risk of financial detriment. [23]

In our view, customer education plays an important role in raising awareness of fraud, whilst helping businesses to avoid falling victim. Firms may wish to consider:

- Horizon scanning - being proactive in the identification of scams, which should drive their strategy on communicating with customers either through branch literature, website, letter or email notifications and educational material to help raise awareness and prevent customers being exploited by scams;

- Customer education - covering the types of scenarios the bank has come across and the types of questions the fraudster might pose to the customer;

- Staff training - front line staff should keep their knowledge of scams up-to-date, including the likely scenarios they might encounter and the strategies that scammers might use to confuse customers into paying;

- Developing appropriate contact strategies – considering the method by which the bank may decide to contact the customer, once a suspect transaction is detected. The firm should have regard to the methods deployed by the scammer in contacting the customer, when considering the most appropriate contact strategy; for example, could the firm have contacted the customer via telephone to raise the suspicion rather than email? In some cases, an email alert may not be the most appropriate medium to communicate with the customer as it does very little to allay fears that the email may also be a scam.; and

- Delaying payment – giving the customer sufficient time to reflect on the transaction particularly where the transaction sits outside the customer's usual transaction history and the recipient appears suspect. One of the key decisions is balancing the inconvenience to the customer in deploying these methods against the benefit of not being scammed, and so any remedies need to bear a customer's risk appetite in mind.

23. Further information on the outcome of the consultation can be found at: https://www.psr.org.uk/sites/default/files/media/PDF/Outcome_of_CRM_Consultation_Feb_2018.pdf

8. NEXT STEPS

This report has drawn together extensive research undertaken at a number of the LSB's registered firms and client case studies provided from the Money Advice Trust's Business Debtline. This work has highlighted many thought provoking angles on how the vulnerability, impacting the owner or a significant individual of a business, can affect that business and its employees.

As highlighted earlier, small businesses are critical to the success of the UK economy. There are approximately 5.7m small businesses in the UK accounting for 60% of private sector employment. It is worth pausing to reflect on the significance of that statistic and to consider the part that we can all play in helping to ensure that these businesses thrive, and that early warning signs of trouble are spotted to avoid or minimise problems. The impact of vulnerability on key individuals in a small business is one such area.

It is, therefore, important that we all act on the findings of this report and there are points here for firms, the wider industry and the LSB to take forward. We would urge all parties who are able to positively influence this area to assess where you can contribute to this area of work.

8.1 Firms

We would expect our registered firms involved in SME lending to do the following:

- to reflect on the findings of this research, and the areas of good practice identified, and undertake a gap analysis to assess where they are now and where they need to be against the findings contained in this report;
- where they feel that improvements can be made to your existing policies and processes, we would encourage firms to make those improvements; and
- share their gap analysis and plans for improvement with the LSB.

8.2 Industry

We would encourage firms involved in the UK's SME sector in some other capacity other than as a lender or funder, to review the findings and good practice identified in this report and assess where they can help. This could either be in developing the thinking in this area or in practical ways, and work with lenders and funders as they seek to enhance their processes and develop their employees.

8.3 LSB

The LSB will ensure that we keep driving the SME vulnerability agenda forward and plan to:

- update our information for practitioners with the good practice identified in this research;
- collaborate with our registered firms to help them develop their thinking in this area;
- work with our firms to assess where they can improve, including periodic oversight to ensure that good practice has been implemented and embedded and that fair customer outcomes are being achieved;
- run a series of events building on this research to ensure that momentum is maintained; and
- collaborate with other industry stakeholders, joining forces where appropriate, to help bring about positive change for SMEs. We will start this process by formulating a plan of priority areas falling out of this research.

This report was produced by the
Lending Standards Board and the
Money Advice Trust.

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