



THOUGHT PIECE

Consumer Vulnerability & Financial Services

Digital efficiency, consumer diversity and
the psychological imperative

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Efficiency and Exclusion

The digital transformation of financial services in the last decade has a dark side. It was formed in the crucible of economics but now needs psychology to illuminate it so that we can avoid a significant social detriment to an increasingly diverse pool of customers.

The Summary

- Digital services are super-efficient because they remove human interaction. People are expensive, so insourcing their jobs to web pages yields huge financial gains. Unfortunately, in the process, digital transactional services inevitably become optimised funnels that work well only for un-exceptional customers.
- Vulnerable customers^[1] however are exceptional and there are millions of them in the UK^[2] who risk becoming collateral damage in the drive to digitize: excluded, confused, poorly served or - worst of all - in receipt of products inappropriate to their needs.
- It will take new thinking and psychology to develop digital environments that can absorb some of the data that we naturally process and absorb in human-to-human transactions. If we can develop such thinking, we stand a chance of addressing an otherwise intractable problem that drives diverse vulnerable customers into exclusion or inappropriate purchases.

The curse of the bell curve

Nowhere are Mr and Mrs Average better served than by a digital journey whose questions and parameters are dictated by the middle of the demographic bell curve.

This is a place where the greatest volume of business can be enticed with the lowest possible friction and differentiation. Unfortunately, we know that vulnerable customers are different by definition from this average and their needs are highly diverse.

The Financial Conduct Authority's (FCA) quantification of the 10million+ vulnerable customers in the UK includes people whose needs range from transient vulnerability to those with low financial competence to those suffering a range of psychiatric conditions. People who suddenly find themselves as carers; those with poor numeracy and low reading ages through to people with bipolar disorder or suicidality.

The fact that economics has produced a situation where such people - who need extra help and support - are poorly served as an unintended consequence of competition; the ultimate manifestation of an economic problem that laid its roots well before e-commerce.

In 1990, every B2C financial transaction in the world was completed either face-to-face, over the telephone or by post. Face-to-face was the dominant channel and it worked well. Fast forward past the noughties and a bifurcation into online and offline occurred. The economics of this split were discussed in every financial services boardroom in the land at some point.



Every real person employed in customer transactions costs us significantly, around £15,000+ per year. This person can only serve perhaps 12 customers properly per day or 20 on the phone. By contrast, electricity, CPU processing and memory are cheap. They don't get sick or need holidays, appraisals, bonuses, parking spaces or desks. Each new transaction completed online instead of face-to-face has a zero incremental transactional cost, so we can spend more on acquiring them and boost scale. We can even drop margins if we need to because even the thinnest of margins online can yield profit increases with scale that relies only on the acquisition of traffic, not our human cost of servicing it.



The imagined speech above aims to capture the futurology of the late 1990s, articulated by visionaries in boardrooms. The logic was compelling and, as a result, digital became the new prince.

The drive to online

Since the turn of the millennium, public acceptance of online transactions has shifted from suspicious to expected and even demanded. Developments in underlying programming languages and technologies have created rich desktop and mobile experiences that significant proportions of customers prefer. Key economic and experiential metrics have shifted, giving digital most of the aces in games of boardroom poker. The digital kingdom's utilitarian promise has, however, started to decay. It came with a payload for the increasing number of vulnerable customers in the UK financial services market.

Financial services in the UK is a super-competitive, cut-throat sector. Companies pursue market share aspirations etched into their business projections and in the pursuit of scale – which will allow them to cope with thinner margins - they must stumble around blindfolded in the dark rooms of acquisition with equally motivated competitors who have their own, market share aspirations to satisfy.

The market, however, is not big enough to satisfy all such aspirations simultaneously. Unless companies can

expand their markets, it's a zero-sum game where each winner is balanced by a loser. The primary enemy of marketers and product strategists is no longer just the competition, it is bounce, drop-outs, abandonment and friction. People have busy lives and if a website takes too long, many will leave it and perhaps never return. Optimisation is the new kingmaker.

As the optimisation dial is turned towards 11, more acquisition projections are satisfied but the likelihood of identifying, signposting and serving a vulnerable customer also reduces dramatically.

In 2018, LAB started to search out any digital techniques being used in practice to help vulnerable customers within the UK financial services market. It was a miserable search. Monzo has made a credible effort with its introduction of positive friction for gambling^[9]. Customers can now set a gambling ban whereby gambling transactions are blocked, but, crucially, the account takes 48 hours to switch off the ban. This 'cooling-off' period offers a means of stalling the outcomes of manic states and impulsive episodes in those who are potentially vulnerable. Unfortunately, most providers exhibit meagre attempts to identify and differentiate journeys appropriately when humans are not involved.

Good efforts abound where people are involved and this is where the majority of the PR effort by companies has focused. Initiatives such as the BRUCE protocol

from the Money Advice Trust[4] show how appropriate care is being taken very seriously during transactions that involve a human mediator. Humans are experts at reading other humans. Evolution has made us so in order to detect threat and incongruence in rivals that can ultimately weaken our chances of survival. We subconsciously read and react to facial micro-expressions, body language and vocal nuance better than we realise. It is therefore relatively easy for providers to train staff to detect a potentially vulnerable person in front of them or on the phone through observation and sympathetic filtering questions.

When no such mediator is involved, the problems arise and become even worse when full scale optimisation is underway because the process inevitably removes questions that might point towards the presence of vulnerability.

In January 2019, at LAB, we adapted a psychological model that we had used previously as an e-commerce optimisation tool to test it on this problem. We turned our previous work on its head to see if we could use intra-browser behavioural residues to better identify and serve vulnerable customers. **We call this our Intra-browser Vulnerability Assessment (IBVA) methodology.**

Bridging the observation gap

Our richest results came from attempts to bridge the observation gap, the tics and biases of human behaviour that a human can assess face-to-face but a digital journey can't. We set a challenge to our psychologists and neuroscientists to make the browser 'see' the customer.

We enjoyed some early successes that could be rolled out based on three building blocks:

1. **Strong psychological and UI theory.**
2. **A willingness by any provider adopting the techniques to endure some digital implementation payload and cost.**
3. **A willingness to sacrifice some degree of efficiency.**

In this list, lies the rub. Most companies don't have 1), would rather spend the money needed on 2) on quick wins within their IT priority list, and the CFO and CMO may not like the sound of 3).

It is therefore unsurprising that so few companies are prepared to face down this challenge so far.

But face it they must...

We are at a turning point in regulatory history. The FCA's focus on the treatment of vulnerable customers is gaining momentum. Their recent consultation^[5] raised a non-trivial prospect of a future 'express duty of care' that could be placed on companies to give them an obligation to take account of vulnerable customers at every stage of product design and service.

In its 2019/20 Business Plan, the FCA makes 17 mentions of vulnerable customers. The plan asserts that the FCA "will expand on our early activities in relation to vulnerable consumers, and how technology can help firms and consumers achieve positive financial outcomes, including for those consumers with specific health or financial needs."^[6]

A variation of the lightbulb class of jokes goes: How many psychologists does it take to change a light bulb? The answer: Only one... but the light bulb has to really want to change.

We have to ask if financial services firms really want to change.

In pursuit of the win:win

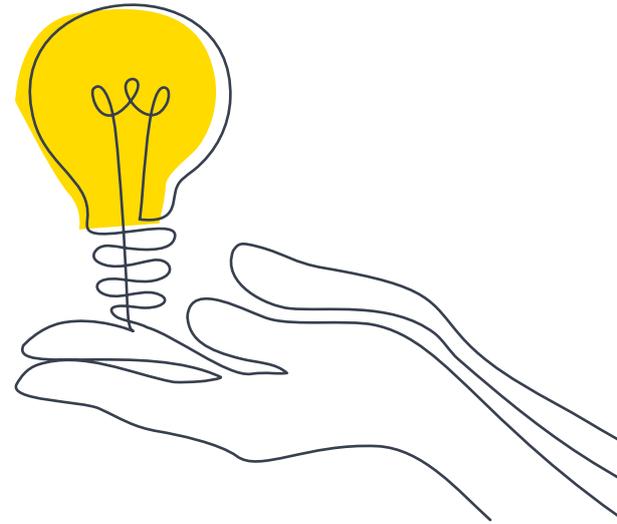
The economics are not in favour of the vulnerable. That won't change and some companies may view the prospect of future regulatory fines as inevitable collateral damage outweighed by the raw efficiency of optimised digital journeys where detecting vulnerability is near impossible.

However, there is a win:win here that can be grasped by companies with vision and a mission to help vulnerable customers. But it will take courage as no broad datasets

exist yet to show that technological psychology is effective. The field is too new and most research has been laboratory rather than quantitatively studied. This is new thinking and may have been viewed by some companies as unpalatable when efficiency is such a key driver.

The next five years is the time for firms to find that courage and embrace the opportunity that vulnerable customers could present to them as well as understanding the risks.

In the near future, they may be forced but there is a potential premium if they take these steps willingly and it is one that millions will thank them for.



A digital methodology to help vulnerable customers online

LAB's IBVA methodology has been based on extensive research of psychological models relating to the interpretation of intra-browser behaviours and metrics as indicators of underlying personality traits and competence ^[8, 9, 10, 11, 12]. This approach can help companies set parameters and thresholds for journey alteration, including the addition of assistive friction or 'gating' mechanisms that can guide and signpost vulnerable customers appropriately.

A key scientific paper in 2008 by M L Khan and colleagues states, "...Researchers have noted that such behavioural residues are not restricted to the offline environment and showed that personality can be inferred from records of keyboard and mouse use"[7]. This reinforces the proposal that vulnerable behaviours could potentially be detected through the manifestation of mouse and keyboard patterns. When the largely un-investigated domain of interactive browser behaviour (e.g. clicking order) is overlaid, this approach gains extra power. The IBVA method allows for dynamic UX adaptations based on intra-browser metric thresholds being triggered. As a result, companies can start to better tailor digital journeys towards inclusion, neurodiversity and consumer protection.

This approach is appropriate for most platforms that deliver enterprise-level online forms and funnels. LAB has a technical team who can advise on all elements of IT integration supplementing a psychology and neuroscience team who manage the design and behavioural calibration of both inputs and results.

The LAB IBVA method allows for either the gathering and storage of data post-interaction or else to dynamically adjust journeys through the real-time introduction of new questions or increased friction before the calibrating data is discarded, thus removing data storage and privacy issues.

The wide view

The increasing focus on potentially vulnerable customers by the media and regulators make this area of innovation particularly relevant to financial services providers.

The lack of behavioural gauges during online transactions leaves companies vulnerable in the face of post-hoc complaints regarding unrecognised vulnerability during purchase. Our methodology addresses this shortfall. The data that can be gathered using an integration of psychology and technology – even within a simple online journey – could allow firms to potentially alter journeys ‘on-the-fly’ to better suit different cohorts of customers on the back of their intra-browser behavioural indicators.

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[1] The Financial Conduct Authority (FCA) defines vulnerable customers as the following: ‘A vulnerable consumer is someone who, due to their personal circumstances, is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care.’

[2] Financial Conduct Authority Occasional Paper #8, 2015, Page 5

[3] Gambling: ‘A banking app helped me beat my addiction’ (BBC News, 2018) doi: <https://www.bbc.co.uk/news/uk-45652429>

[4] Lending and vulnerability: An introductory guide to mental capacity (Money Advice Trust, 2018), doi: <http://www.moneyadviceblog.org/2018/04/03/using-the-bruce-protocol-to-identify-and-support-customers-with-mental-capacity-limitations/>

[5] Discussion Paper on a duty of care and potential alternative approaches (Financial Conduct Authority, 2018), doi: <https://www.fca.org.uk/publication/discussion/dp-18-05.pdf>

[6] Business Plan 2019/20 (Financial Conduct Authority, 2019), doi: <https://www.fca.org.uk/publication/business-plans/business-plan-2019-20.pdf>

[7] Khan, I. A., Brinkman, W. P., Fine, N., & Hierons, R. M. (2008). Measuring personality from keyboard and mouse use. In Proceedings of the 15th European conference on Cognitive ergonomics: the ergonomics of cool interaction (p. 38). ACM.

[8] Costa Jr, P. T., & McCrae, R. R. (1990). Personality disorders and the five-factor model of personality. *Journal of personality disorders*, 4(4), 362-371.

[9] Kosinski, M., Bachrach, Y., Kohli, P., Stillwell, D., & Graepel, T. (2014). Manifestations of user personality in website choice and behaviour on online social networks. *Machine learning*, 95(3), 357-380.

[10] Alloy, L. B., & Riskind, J. H. (2006). *Cognitive vulnerability to emotional disorders*. Routledge.

[11] Schrammel, J., Köffel, C., & Tscheligi, M. (2009). Personality traits, usage patterns and information disclosure in online communities. In Proceedings of the 23rd British HCI group annual conference on people and computers: Celebrating people and technology (pp. 169-174). British Computer Society.

[12] The scale of consumer vulnerability in the UK (FCA, 2015), doi: <https://www.fca.org.uk/publication/occasional-papers/infographicop8.pdf>

CONSUMER VULNERABILITY IN THE UK

Austerity, social media, the rise in awareness and an ageing population all contribute to a rise in the reported number of vulnerable customers in the UK. This graphic covers some of the main categories but there are many other categories of transient vulnerability also.



LITERACY AND NUMERACY



1 in 7

One in seven adults has literacy skills that are expected of a child aged 11 or below.



Just under half of UK adults have a numeracy attainment age of 11 or below.

SAVINGS



50%

Almost half of adults do not have enough savings to cover an unexpected bill of £300.



LIVING WITH DEMENTIA

200%

There are 800,000 people in the UK living with varying degrees of dementia, and this is expected to double over next 40 years.

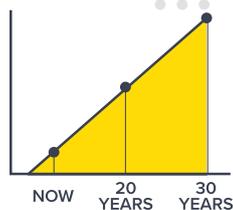
MENTAL ILLNESS



25%
In any given year, one in four adults experiences at least one mental disorder.

OLD AGE

Over 1.4m people in the UK are aged 85 or over. The number of people over 85 in the UK is predicted to double in the next 20 years and nearly treble in the next 30 years.



INTERNET

Of the 7.1m adults in the UK that had never used the internet in May 2013, over half were disabled (3.7m) and nearly half were over 75 years of age (3.1m).



Findings here were sourced from The Scale of Consumer Vulnerability in the UK ' (FCA, 2015)^[12]

WE ARE

LAB[®]

A DIGITAL AGENCY

OBSESSED WITH
HUMAN BEHAVIOUR

We harness the power of empathy, creativity and digital
to create powerful brand experiences



To create deeply engaging experiences, we need deep human insight. At LAB we blend a mixture of psychology, behavioural economics and neuromarketing to predict, measure and influence non-conscious, emotional reactions across digital, design, website build and marketing.

Consumers are irrational - so we have developed a unique approach based on established psychological theories to quickly and clearly identify the irrational desires of your target audience.

Gain a deeper understanding of your customers, make better predictions of their responses and influence them more precisely by reaching out to us.

If you'd like to chat,
get in touch at hello@lab.co.uk
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