

Episode 12: Transcript & Shownotes

Title: Vulnerability by Omission: The Risk Firms Don't See Coming

Summary: What happens when advisers don't ask about values? With guests Richard Farr and Mike Head, we examine vulnerability, resilience and the emerging risk of "vulnerability by omission" - and why foreseeable harm isn't limited to financial loss. Plus: Client Preference Ready, stewardship reform and CP26/5. A practical look at knowing your client fully.

Note: Guest contributions are transcribed from the recording. Host sections are based on the final script used for recording and may contain wording variations from the audio.

Transcript:

Elly: Hello, I'm Elly Dowding.

Lee: And I'm Lee Coates. Together we are In Accord and the Accord Initiative.

E: You're listening to Accord Talks, a podcast about sustainability and compliance and advice processes supporting the financial advice sector. We hope you're all well.

L: Before we get into today's main discussion about vulnerability, we want to start with something we're genuinely excited about. Drum roll please <<<DRUM ROLL>>> Our Client Preference Ready badge is now live.

For a long time, firms have told us: "We do this properly. We ask. We record. We reflect preferences in suitability." But there's been no simple way to demonstrate that publicly. The badge changes that. It's a voluntary, firm-level standard. Process-based. Outcome-neutral.

It doesn't judge fund choices or performance. It looks at whether firms have embedded a structured, neutral and consistent approach to asking about, recording and reflecting investment preferences across the firm.

And it's free to apply thanks to our partners!

E: it's been such an exciting and busy few weeks hasn't it! Love that intro. So good to be able to offer this to firms.

So, please, if your firm already asks all investment clients about preferences, records them clearly and applies the approach consistently across advisers in the firm, and you will probably meet the standard.

I think, I have to say, what we're really doing here is making good client understanding visible -not just to potential new advised clients but to the regulator as well due to how it formalises processes in terms of client understanding.

L: great point there about visibility. So, Applications are open now and we invite you to apply - Early adopters are very welcome! The links are in the shownotes for you!

E: OK, so another couple of quick things before before the main topic
First - The Investment Association has recently published Realigning Stewardship: Delivering Sustainable Value Through Stewardship report. This report is essentially a roadmap for strengthening the UK stewardship ecosystem.

What's interesting here isn't the headline. It's the direction of travel. The report reframes stewardship less as policy positioning and more as core capital allocation discipline - focused on long-term value creation.

L: Yes, for advisers, that matters. This is because stewardship isn't abstract. It's how risks like climate, governance, biodiversity and human capital are addressed inside portfolios over time.

So, if you're recommending funds making sustainability claims, understanding how those managers exercise stewardship is part of knowing what you're putting clients into. And I think the subtext is important. The market is moving from "Do you have a policy?" to "Show me the outcomes."

E: yeah I think this feeds directly into Consumer Duty expectations. If a sustainability feature is part of a product's proposition, firms need to understand how it is actually delivered - not just marketed. it is about evidencing substance.

L: OK, so the second thing to cover before our main topic, is something I know you wanted to cover Elly - this being the recent CP26/5 which is the the FCA consultation on aligning listed company sustainability disclosures with UK Sustainability Reporting Standards.

Now, Im very aware that this is not a retail rule change. It doesn't introduce new disclosures for consumers. But what it does do I think go some way to fix the information supply chain upstream.

E: yes, that's right, good point. So, to hammer that home a bit, the FCA is explicit in the consultation that weak, inconsistent sustainability disclosures harm end investors through capital misallocation, mispriced risk and poorer long-term returns.

What the proposals details is that better issuer-level climate and sustainability reporting means better data for asset managers.

And better data should mean better product design, better pricing of risk, and stronger alignment with target markets.

And, this is a big one - It also removes one of the biggest excuses in the market that "the data isn't good enough."

Over time, I think that raises the evidential bar for firms claiming they consider sustainability or climate risk.

So what I think is interesting is that while CP26/5 doesn't change Consumer Duty directly, it strengthens the infrastructure that Consumer Duty relies on. And firms should be thinking ahead.

L: Great points - super interesting and definitely worth advisers time thinking about. OK, I think we are now ready to start today's main topic! Which is our several times promised episode on vulnerability!

Those of you who know us and our work, know that we've talked a lot over the past year about knowing your client fully. We think that vulnerability sits at the heart of that - and very interestingly and like many regulatory and sustainability-related issues, it's an evolving issue.

So, we were delighted that Richard Farr could join us for this episode to give us a neat overview of how vulnerability is evolving.

E: Yeah, so glad Richard could join us.

A quick intro for our listeners - Richard Farr is CEO of Telos Solutions, which is a management consultancy, he is Chair of the Association of Professional Compliance Consultants' Vulnerability Working Group.

And is a Non Executive Director of Comentis - the duty of care assessment company that delivers a digital assessment platform to identify and support vulnerable customers. Over to Richard:

Richard Farr: Elly and Lee, thank you very much for inviting me along to talk about vulnerability.

I wish to look at the whole process from identification through to validation and what all the different terms mean in between.

So, I'm a big advocate of screening customers for vulnerability. It's a bit like the attitude to risk that IFAs use. You wouldn't think about advising somebody unless you knew what their risks were, so I don't see why IFAs should not know if there are any issues, any vulnerabilities that the customer may have. So you can't just assume, you can't just let it happen. Actually having a screen in place, a bit like the attitude to risk, is an important step.

So, some people think, oh, that could, you know, unearth an awful lot of vulnerabilities. I think some of the stats say that half of us at some point in our lives will be in a vulnerable circumstance. But, you shouldn't be too worried about that.

So, I know we've discussed before the concept of causative nexus and perhaps I can just explain what that means. So, just because a vulnerable circumstance has been identified, it doesn't actually mean to say that the customer is in a vulnerable position. Causative nexus means that there are other factors around.

So, quite a good test is the twins test. So, there is a particular set of circumstances where one twin. They've got both the same vulnerable characteristics, but one twin has got a greater resilience than the other for whatever reason. So that the person has got enough resilience to actually overcome whatever their vulnerable circumstance is, where as the other may have less resilience and need some more support in terms of getting that through.

So that's what we mean about causative nexus is measuring that even though there are vulnerable characteristics, is there any additional support needed?

Another good start example is around bereavement. It could be that, you know, a lifelong partner at an early age has passed. Yeah, clearly that is going to have a massive effect on somebody.

Actually, myself, I've just had an aunt pass back just after Christmas, and she was 101 and she had a wonderful life. But, and you know, there is sadness involved, but again, in terms of that effect on me, it was a fine set of circumstances - because of the background to that.

So that's again, a way of doing it. Now it can be much, much more nuanced than that. And there are tools in place to be able to deliberate and feel as if there is something more to drill down with the customer or not and to move on.

Then once you you got somebody that needs some sort of support, it's actually looking at what support is appropriate.

I know you at In Accord have looked at the Comentis Vulnerability Support Framework as a model developed by psychologists and people who have worked in the care industry and it gives a very good sort of perimeter of what is appropriate and you don't need to go any further than that.

So again, the Comentis system actually will identify a particular characteristic and then say what the appropriate level of support is. However, that vulnerability support framework is available completely open source for any company. You don't have to have the Comentis system to be able to use that, but it does put a sort of boundary around all the different types of vulnerability and the appropriate support that's that's needed.

We talk about the the four drivers of vulnerability, so that's life events, health events, capacity and resilience. I regularly say to people in financial services you are pretty good at spotting life events and health events. Not so good at capacity and resilience. These things are clinical and really you do need a set of tools, a bit like the attitude to risk Oxford model for attitude to risks. You've got a tool that can actually test for that. So again, there are tools out there that can actually help identify capacity issues and resilience issues.

I know obviously from your own papers, we talk about financial resilience and but that is only one factor of resilience. There other factors as well. And again in your papers you talk around certain belief patterns that can have a very strong effect on resilience. So it's important to understand those two concepts by looking through a particular tool to actually be able to measure those.

So we've got a new piece of regulation coming in in 2027, the complaints reporting process. This is a bit of a landmark in terms of measuring vulnerability data. So, although there's an advantage that the FCA is looking at taking away 5 complaints reports, emerging them all into one, so it should make complaints reporting easier. They are actually measuring, they have got a new column against complaints about whether there are any vulnerable characteristics.

So this is the first time we are actually seeing vulnerability as a formal report back to the regulator, and so it is a well publicised timeline, it's 2027. But, I urge all firms you need to start measuring for vulnerability, particularly on screening now so that you've actually got the data to be able to tabulate it on the complaints report. So running up for years with the data. Now is the time to actually start monitoring that. If you are not doing it, and you need help, there's lots and lots of help out there. Get hold of me or In Accord and they will tell you what to do.

And finally, with my Commentis non-executive director's hat on. The market has matured now. We first of all started thinking about identification, then we moved on about from identification causative nexus and what is the appropriate support that's required. Then we

looked at the data that came off the back of that so you can record it for that particular customer.

We're now three years into consumer duty and very much so we're taking that end point of the data and validating it back to the outcomes for the customer. So it's actually an outcomes report so that you can test, refine, learn on the process, the customer journey to make sure that new customers, you know, posing that particular vulnerability have got the best and you can learn and refine the support that they need. But also we know that vulnerabilities ebb and flow throughout the same customer. So again, having a validation loop, so you can keep going with continuous improvement on your practises, is the way that vulnerability and looking at sustainability is moving forwards.

Thank you very much for having me.

L: Wow, thanks so much to Richard for joining us. There's a lot in that. OK, so I think what Richard does very well is takes a part identification from assumption. What I mean by that is that just because someone has a vulnerable characteristic doesn't automatically mean they require intervention. That causative nexus point is critical.

And I think the "twins test" example makes it practical. Two people. Same circumstance. Different resilience. Different support needs. That's the mature framing of vulnerability.

E: Yeah completely agree. And for me, what is striking is how the market has evolved. It started with "spot the obvious vulnerability." Then we moved to identification frameworks. Now I guess we can say we're in the validation phase, which is testing whether support mechanisms actually lead to good outcomes. This is a reflection of three years into Consumer Duty - vulnerability should not be seen by firms as a tick-box exercise. It's part of continuous improvement.

And Richard's point about data loops matters. Our regular listeners will remember I mentioned this in our last episode - vulnerability now needs to be formally captured in complaints reporting starting from 2027. That's a one year lead in. So, it has all got to be measurable.

L: OK, great stuff. So, Richard talks about resilience and capacity. Our next guest, Mike Head, takes the discussion somewhere slightly different - but equally important as he challenges what happens when advisers simply don't ask certain questions.

E: Yeah its great to have leading views. So, a quick intro for Mike.

Mike Head is Managing Director at Ethical Investors, which is an independent financial advice firm specialising in advising clients seeking to invest in line with their personal values.

Mike is also Managing Director at Ethical Screening which provides detailed and accurate ethical, ESG, and impact research for responsible investment funds within UK, European, and Global portfolios.

I like that Mike's LinkedIn profile explains that his focus, and that of both Ethical Investors and Ethical Screening, is (and will continue to be) achieving outcomes that link investors and their money to their beliefs.

L: Over to Mike.

Mike Head: OK, so vulnerability is the thing that the FCA has been talking about a lot for the last few years. And it's very interesting how it's sort of evolved that it started off with people feeling as though vulnerability was - does the client have dementia? All of these early classifications that came out that there are events that trigger a sense of vulnerability. So it was about, oh, divorce or bereavement or whatever else it was. It was also say medical conditions, which are all very sensible. And it, I think it was a very useful initiative because what it did was it made advisers think a bit more about the client.

I think it's fair to say that too many advisers are very transactional and putting them in a position where they have to actually consider the client. And I was actually an event earlier in the week where they were talking about consumer duty and vulnerability. And one of the interesting of sort of elements that came out of that was people talking about vulnerability in terms of understanding.

I know one of the things that the FCA has been all about for a long time is that a large number of people that they identify vulnerable on the basis of their lack of either financial or industry understanding product related etc so that advisors try within meetings to make sure and reinforce at the client really knows where they're invested or whether insurance is a place and that they are relevant to their requirements.

And the idea of actually saying to a client, you know why we've arranged this plan 'cause if you went along to a client a week after you've put them into an income protection plan or you put money from a GIA to an ISA and you asked him about it and if they had to refer back to the reason why letter they'd be a little bit uhhh I think it's because my advisor said it was a good idea.

So I think that a lot of the evolution around vulnerability has been generally very positive and a good thing for the FCA to be focusing on.

The one that I find interesting is what I describe as vulnerability by omission. Because in a world where advisers refused to ask the question, they don't find out about the fact that by their omission of the question, they've got clients with incredibly strongly held beliefs, whether they be environmental, social, religious, etc. And, if vulnerability is about anything, then when mental health as a negative impact is raised, it is about the ultimate red flag.

But the reality is, if you're a financial advisor who refuses to say to a client "Have you ever thought about where your money is invested?" And "if you have, are you bothered?", if you haven't asked that question of someone who has recently been arrested for protesting against Palestine, or who was an Extinction Rebellion supporter who is so concerned about the planet that it actually keeps them awake at night that makes them unwell? The thought that they could actually have been invested and profiting from genocide or ecocide would be genuinely devastating for them.

And yet it seems as though asking that question is something that is beyond advisers and they still insist, I hear this more times than I thought was possible, on saying or no ones asked for it. Which is very strange because no one's ever asked for a multi-asset, volatility of X, and sharp ratio of Y with a five year time horizon. But seemingly that conversation happens. But the one that says if you found out that you were investing into child labour or anti-abortives, how would you feel is beyond them.

And so in terms of vulnerability, it's very odd that the regulator thinks vulnerability rightly is a key issue, but then it doesn't relate it to morality and belief. Which surely is one of the most important things because these are issues that at the core of being for individuals who are asking their advisor and it's quite important to understand that it's adviser. This isn't clients who are self selecting. They are being advised, they are being guided on where their money should be invested, both financially and socially and environmentally. And then the advisor, unwittingly, but, sorry, lazily, is choosing not to ask a question because they think it would be awkward.

So, the ultimate output and outcome of that is that someone's going to be very unhappy. And that's not really what advice should be leading to.

E: OK, a massive thanks to Mike for taking the time to join us. Super valuable I think for our listeners. That idea of “vulnerability by omission” is I think an uncomfortable truth - but necessary.

It makes me think that if a client holds deeply entrenched beliefs - be it environmental, social, or religious - and those beliefs are core to their identity - failing to ask about them isn't neutral. And I will go further - It can create foreseeable harm! Particularly where the discovery that their money is invested contrary to those beliefs could cause genuine distress.

It is very important to understand that foreseeable harm isn't limited only to financial loss.

L: And this is the bit that I think is often missed. Many people feel strongly about issues like climate change, human rights, conflict. But they certainly don't automatically link those concerns to their investments.

We've said it many times on these podcasts and our wider education work - clients may have no idea that alignment of beliefs in an investment is even possible.

Imagine for a moment a person who is anxious in nature and worries deeply about human rights issues or climate change to the point that this is what they think about when they cannot sleep. Let's say that they have an appointment with their financial adviser for their investments and the adviser does not ask anything about their personal views or beliefs, they just ask about the standard name, relationships, money etc.

Therefore, the adviser will never find out about this client's anxiety and it will probably never occur to the client to mention it. If the client subsequently finds out that their money is invested in areas that they are worrying about, what do we think the outcomes is likely to be? Will it be 'C'est La vie, or will the anxiety be made worse? and therefore a potential foreseeable harm.

E: Exactly. I think transparency is the core thing needed in the process. It's quite simple really. Inform the client - what is possible, what is not, how and if they want their values considered. Let the client then make an informed decision. Don't leave them in the dark.

And, another thing... I think Mike really summed it up brilliantly when he talked about beliefs being “core to being” for some individuals. It is what makes us human. That includes our vulnerabilities - and this ebbs and flows, as Richard explained. Advisers missing all this are missing some vital attributes of knowing their clients.

L: OK, quite right. What strikes me from all of this is that vulnerability and sustainability have both matured. Vulnerability has moved from identification to outcome validation. And, sustainability and values have moved from product labelling to evidencing integration. And now, through a regulatory lens, they're converging.

E: Yes I think you're right. And, we picked up in this in the last episode, firms need to recognise that failing to address values properly may become an emerging risk issue. This may be the compliance side of me showing through here but if a firm systematically avoids asking about beliefs because it feels awkward, that's a process weakness. And process weaknesses are what regulators focus on.

L: and it is important to say, this isn't about pushing ethical investing. It's simply about asking a neutral, structured question as part of knowing the client fully. Just as we wouldn't skip risk profiling because "most clients don't ask for it," we shouldn't skip preference discussions.

E: Yeah, and we come back again to the foreseeable harm issue. If it is reasonably foreseeable that a client could experience significant distress upon discovering a conflict between investments and deeply held beliefs - and the adviser chose not to ask - or the firm doesn't have the processes in place to appropriately inform and ask - that becomes difficult to defend. Consumer Duty is about anticipating harm, not reacting to complaints.

L: So perhaps the real message from both Richard and Mike is this: Good vulnerability practice and good sustainability practice both come down to structured curiosity. Ask properly. Record properly. Reflect properly. Review outcomes.

E: Love that. I think you may have made our socials podcast sound bite there with that! I think for me this all comes down to the fact that for a lot of clients, beliefs, preferences and values, however you wish to describe them, are central to identity, resilience and wellbeing. Ignoring that isn't a neutral position because it may in fact become a material risk for firms who fail to adapt as supervisory expectations evolve.

L: Great. A lot to digest from this episode. Perhaps a sound bite there from you too Elly! But, OK, for now, with that, I think we've brought everything In Accord.

E: yes, it's been a good one. So interesting today... Thanks again to both Richard and Mike for joining us and sharing their expertise. If today's discussion has sparked questions about vulnerability, client values, the new client preference ready badge or your advice process, please do get in touch

L: And if there are any topics you'd like us to cover in future episodes, please reach out and let us know. As usual, we've put lots of links in the shownotes so you can read further into the topics we've covered today.

E: if you've enjoyed this episode, please don't forget you can subscribe to Accord Talks - and, of course, a very big thank you, as always, to our Accord Initiative partners who make it possible for us to spend the time producing these podcasts for you.

L: Thanks for listening.

E: We've loved it. We hope you have too.

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IA report: Realigning Stewardship: Delivering Sustainable Value Through Stewardship report - a roadmap to strengthen the UK's stewardship ecosystem and support long-term value creation -

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CP26/5: Aligning listed issuers' sustainability disclosures with international standards - <https://www.fca.org.uk/publications/consultation-papers/cp26-5-sustainability-disclosures>

In ACCORD Vulnerability, protected characteristics & client values - practical guide & checklist - <https://www.esgaccord.co.uk/wp-content/uploads/2026/01/Vulnerability-protected-characteristics-client-values-practical-guide-checklist-.pdf>

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