Defining VULNERABILITY

An extract from Perspective: The affordability and responsible lending issue.

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Defining vulnerability

**Matt Vaughan Wilson from the Money Advice Trust, the charity that runs National Debtline and Business Debtline, explores an intriguing question increasingly being raised by creditors: can a small business be ‘vulnerable’?**

It can sometimes feel like it’s difficult to walk into a room without having a conversation about vulnerability in the credit industry these days – and we are beginning to see real benefits from the increased attention that this crucial issue is receiving. The Financial Conduct Authority’s Occasional Paper on the treatment of vulnerable consumers, published in February, has thrown a welcome spotlight on how we can improve outcomes in this area.

The British Bankers’ Association’s Financial Services Vulnerability Task Force, chaired by Joanna Elson, Chief Executive of the Money Advice Trust, will now begin to look at how the FCA’s recommendations can be implemented – and there are encouraging signs that this work can be joined up with vulnerability work already under way in other sectors. The hope is that best practice can be further improved and shared, so that together we deliver a material improvement in how vulnerable consumers are treated by companies that provide them with the services they need and want.

As this agenda develops, an intriguing question is increasingly being raised by creditors – what about small businesses? Can a small business be vulnerable in the same way as individuals? If so, how should that affect the way they are treated by banks, utility companies and other service providers? A new report published by the Money Advice Trust may prove useful to the growing number of creditors beginning to consider these issues.

**The cost of doing business**

At the Money Advice Trust we are perhaps best known for National Debtline, our free, independent advice service that last year helped 287,000 individuals struggling with unmanageable debt. We also, however, run Business Debtline – the UK’s only free, dedicated advice service for small businesses. Last year, we helped 42,000 small business owners deal with their business and personal debts, with more than half of our clients able to resolve their immediate problems and continue to trade.

In June, we published new research on what we have called the Cost of Doing Business – the significant challenge facing tens of thousands of self-employed people and other small business owners today. The report’s findings, drawn from the front-line experience of our award-winning Business Debtline advisers and in-depth qualitative interviews with 104 of our clients, are stark.

On the face of it, as we enter the latter part of 2015, the economic environment is improving – the economy is growing, and unemployment has fallen to a seven-year low. We have to look behind the headline figures, however, to understand a very significant change in the nature of employment in the UK – the growth of self-employment, now rapidly approaching five million people. Our research shows that many of these self-employed people, and other small business owners, are struggling to cope.

**A double burden**

More than one in three of the 104 Business Debtline clients we interviewed drew less than £100 from their business each month, leaving them in a constant struggle to stay on top of their personal, as well as business, finances. We know that this often leads to business and personal finances and credit becoming intermixed, presenting further risks to financial stability. In fact, 71 clients we interviewed who had taken out a personal loan were using it to prop up their business. A natural consequence of this struggle is that more than three quarters of clients reported cutting down on household spending. More than a third told us they had reduced spending on gas or electricity, and a worryingly high 74 had pared back on food.

**The ripple effect of debt**

It comes as little surprise, then, that small business owners are paying a high personal cost in the rest of their lives. More than 80 clients interviewed had suffered stress, anxiety or depression – and more than half said they were losing sleep as a result of problems with their business finances. Almost a quarter reported problems in their relationships as a result of their business debts.

These findings are compounded by a worrying lack of financial resilience, with a large majority of small business owners we interviewed having no safety net to fall back on. 95 clients had no savings and 83 had no pension provision – figures that compare very unfavourably with the wider UK population.

A clear picture emerges – and one that tallies with the experiences of our Business Debtline advisers helping tens of thousands of small business clients each year – of many small business owners facing low, sporadic incomes, unsustainable finances and a worrying impact on their mental health and wellbeing.

**Making sense of vulnerability**

Where they are consuming services as an individual, these small business owners should certainly be deemed vulnerable and treated accordingly. However, does a small business owner’s vulnerability imply that the small business itself should be deemed ‘vulnerable’ when consuming services as a business – and what does that mean for creditors?

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There will be significant debate over this issue in the years to come. I would argue that the answer depends on the nature and size of the business – and how related the fortunes of the whole are, to those of its parts.

In the case of many sole traders, partnerships and even limited companies run by a small number of people, the fortunes of the owners and those of their businesses are very clearly intertwined. Indeed, as our report shows, the intermingling of personal and business finances inevitably ensures that this is the case, often with disastrous results. In the case of these smallest of small businesses, the argument can certainly be made that vulnerability considerations are as important for the entity as well as the individual – as they often amount to the same thing.

What next for creditors?
There is a need for creditors to understand this intertwining of fortunes and, in the case of the smallest of businesses, begin to see the individual, as well as the entity. Business Debtline clients often tell us they feel that creditors assume that because they run a small business, they are more resilient and should have a greater capability to resolve their financial difficulties. The Cost of Doing Business report shows that this is far from the case.

A good start in addressing this would be to consider new applications for the best practice that is already in place for the treatment of vulnerable individuals. We know that creditors are carrying out significant work to improve in this area, and that the pace of this change is increasing. The Money Advice Trust has now delivered more than 100 training sessions on vulnerability, and demand for our expertise is growing rapidly. We are keen to expand this work into new sectors wherever we can.

This best practice needs to be translated and adapted into the small business debt space, including situations where those small businesses might be considered vulnerable.

We are, of course, very much at the start of this debate and I am looking forward to continuing these conversations with creditors of all kinds in the months ahead. As the trend towards self-employment and encouraging entrepreneurship continues to grow into a key feature of the UK’s changing economic landscape, this intriguing question is one that is here to stay.

For more information about the Money Advice Trust’s vulnerability training, please contact Matt Vaughan Wilson by emailing matthew.vaughanwilson@moneyadvicetrust.org or on 0121 410 6263.

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**Idea in brief**

**THE SITUATION**
With consumers being defined as ‘vulnerable’, can the same be said of small businesses?

**THE CHALLENGE**
How should banks, lenders, utilities and other service providers treat small businesses if they show signs of vulnerability?

**THE TAKE AWAY**
The fortunes of owners and their businesses are clearly intertwined and best practice being demonstrated for individuals needs to be applied to the small business space.