

Consumer Duty

Preparing for the
FCA's new Consumer Duty

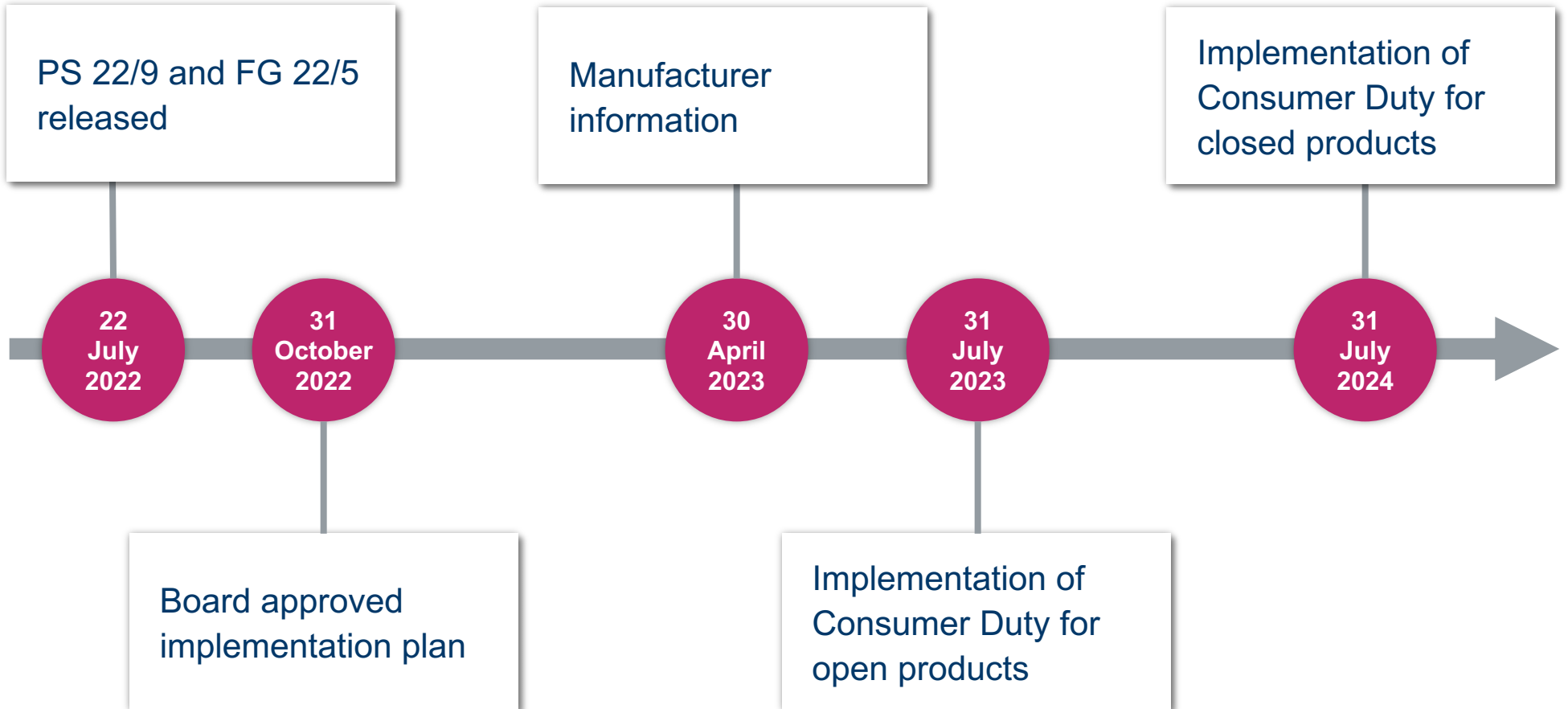
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September 2022

Agenda

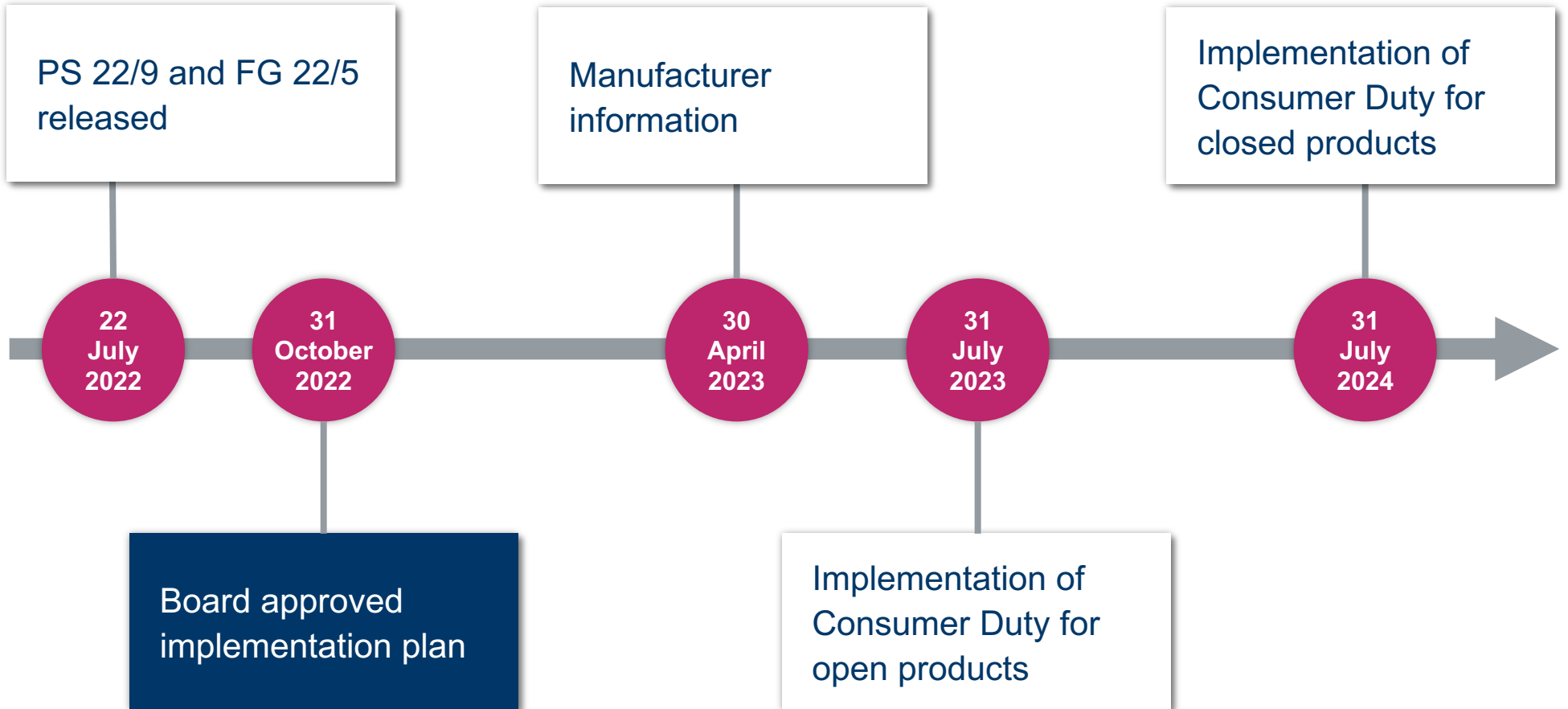
- Timeline
- Consumer Duty Overview
- Key points and concepts from the Policy Statement
- How will Consumer Duty impact you
- Sector focuses
- Actions for firms
- Project approach
- Q&A

POLL

Why the rush?



Why the rush?



Consumer Duty – Purpose

Quotes from the regulator:

“ Set higher and clearer standards and put customer's needs first

“ Help customers make effective choices and act in their interests

“ Ensure products and service are fit for purpose and offer fair value

“ Focus on ensuring ‘good customer outcomes’ are achieved

Consumer Duty overview



- Act
- Deliver
- Good outcomes

- Good faith
- Foreseeable harm
- Financial Objectives

- Outcome
– “a consequence” of your actions

The four outcomes

Products and services

- Are designed to meet consumer needs
- Perform as they should
- Appropriate distribution
- Product Governance

Price and value

- Provide fair value
- Price/value assessment completed regularly

Consumer understanding

- Right information right time
- Clear and transparent
- Appropriate for the customer
- Consider vulnerabilities

Consumer support

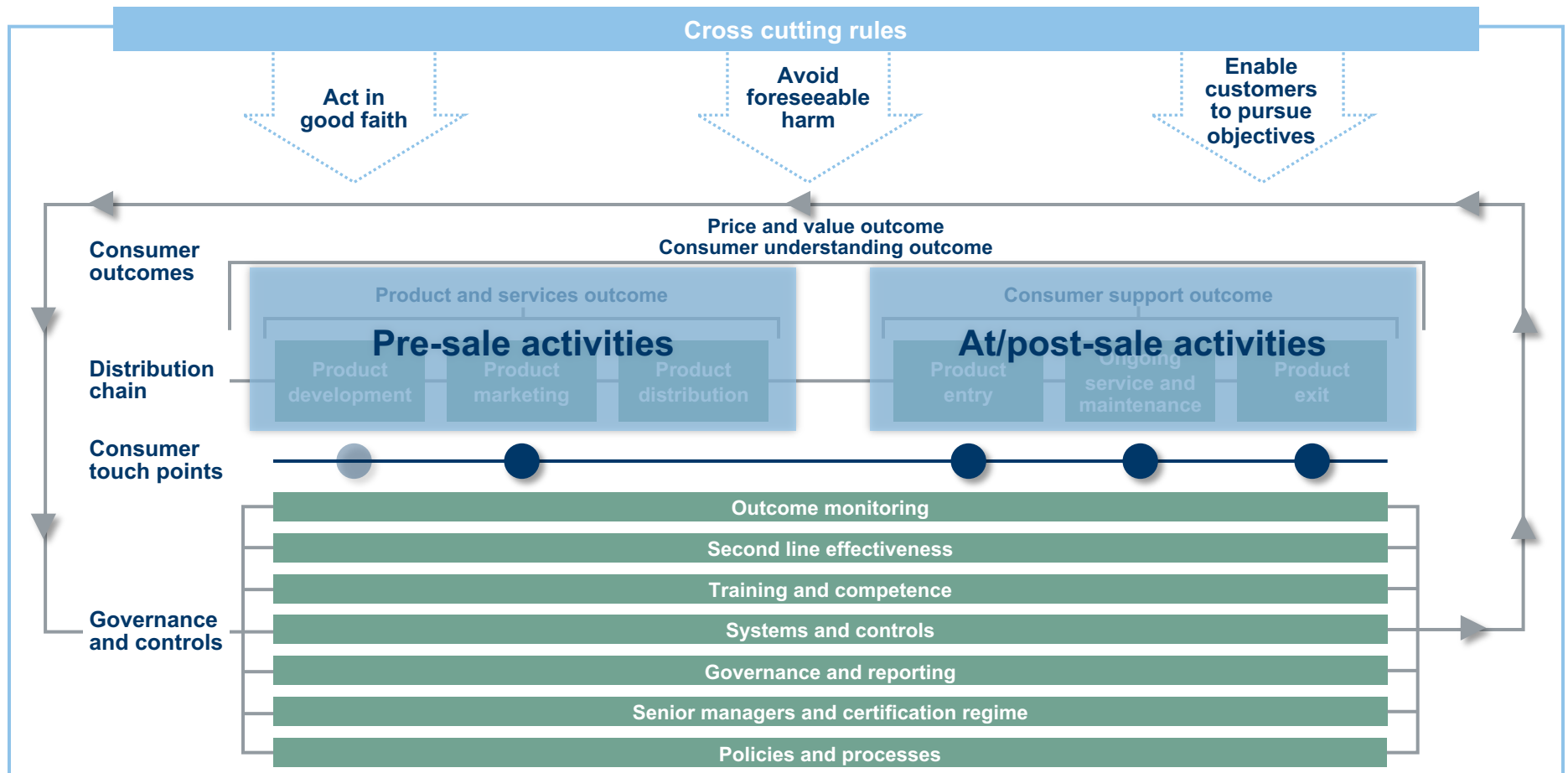
- Responsive, accessible and appropriate
- Sludge practices
- Reviewing performance

How is this different?

- Consumer Duty **applies across the entire distribution chain** for **all retail customers** - across all FCA firms who have a *material impact* on consumer outcomes
- **Foreseeable harm**
- **Fair value assessments**
- Firms should **pro-actively remediate** customer issues where identified
- Evidencing 'good outcomes' through **effective monitoring and MI reporting is crucial**
- Customer understanding and effective communications – tailoring and testing

Consumer principle:

A firm must act to deliver good outcomes for retail clients



Questions
so far?



Some areas to think about now:

Pre-sale

Product development

- Consumer needs/objectives
- Good outcomes and value drivers
- Target market
- Co-manufacturers
- Pricing
- Vulnerability features
- MI from performance of product/service

Product marketing

- Information needs of the target market
- Good outcomes from the communication across the distribution chain
- Testing, sign off, feedback
- Vulnerability features of readers

Product distribution

- Distribution strategy
- Channel selection risks
- Distributor selection and control
- Pricing differences vs value in distributors
- Vulnerability MI in distribution chain

Some areas to think about now:

At and Post-sale

Product entry

- Suitability/ appropriateness/service selection
- Customer engagement strategy/channels of values
- Friction

Ongoing service and maintenance

- Service personnel vs sales
- Good outcomes – servicing
- Financial and non-financial harm
- KPIs /MI
- Complaints

Product exit

- Fees – fair, quantum
- Speed
- Transfers/changing service level

Senior Management responsibility?

Consumer Duty becomes part
of your responsibilities

- Board champion to cheerlead – but exec to lead
- Allocate “overall” or “other” responsibilities for Consumer Duty to a SMF
- Implement appropriate systems and controls to achieve good, fair and consistent outcomes is part of the Senior Manager’s responsibilities in their span of control
- Current FCA supervision, enforcement is already referencing the existing duties and the FCA is explicit in linking individual responsibility to the consumer duty outcomes
- Not a compliance project
- Evidencing - Implementation plan – reasonable steps

POLL

Sector focus:

Consumer credit

Distribution channels:

- Understand upstream and downstream progression of customers from introducers to lenders.
Do customers move from CONC to MCOB?
- Credit brokers: to what extent do you co-manufacture with the lender

Debt consolidation:

- At point of sale and 'debt counselling'.
 - Are financial promotions clear?
 - Pre-load advice?
- Ongoing effectiveness reviews
 - consider whether more information needs sharing 'downstream'
- Balance regular affordability with overall amount repayable.

Sector focus:

Mortgage lending

Introductory rates

- Switching to avoid SVRs likely to be high priority
- Consider APR and monthly payment reductions alongside additional re-mortgage fees

Fees and charges

- across all products, particularly specialist mortgages (e.g. equity release, second charge)
- changes to use of those products:
 - should customer securitise debt and pay long-term interest for anything other than a house / income?

Re-financing and debt consolidation

- needs to balance regular affordability with increased amount repayable overall
- potentially particular issue under MCOB regulation due to longer terms

Sector focus:

Insurance distribution

- Understanding what happens after First Notification of Loss (FNOL) and treatment by additional parties in chain
- Ongoing review of delegated authorities
- Demarcation between manufacturers and distributors (particularly where there are multiple co-manufacturers)
- Manufacturers / distributors should review whether appropriate for distribution chain to continue. (needs clear understanding of risks posed by each, benefits to customer of product, and intermediary of product and customer)

Sector focus:

Retail banks

Packaged products

- Value likely to come under focus, even when no additional charges are paid by account-holder
- Value to customer and actions of product providers should be re-reviewed

Overdrafts and debt

- Increased scrutiny of overdraft charges, interest and terms
- Increased use under cost-of-living crisis
 - Are customers informed?
 - Can they compare the cost of borrowing across different options?

Access to cash and branch closures

- closures accelerating with move to online or telephony.
- consider options for customers without access to ATMs

Open banking

- Take-up not as high as predicted
- Are customers losing out because of hesitancy
- How should this be addressed?

Sector focus:

Wealth

Financial advice

Ongoing services

- do they offer genuine value for money?
- concept of bronze, silver and gold service levels centre on firm's commercial model rather than customer need

Discretionary investment management

- FCA may challenge whether mandates are offered to the right target market
- could extend to challenge on value for money (total cost perspective)
- could apply more scrutiny around **client categorisation** esp. use of elective professional. Could trigger rethink in use of complex / alternatives for HNW clients

Retail broking

Service levels

Sector focus:

Asset Management

In-scope?

- Determine position in product distribution chain for each product manufactured or distributed
- Where no direct interaction with retail clients, determine whether activities could affect them

Vulnerability

- Ensure vulnerability is factored into target market assessments and distribution

Co-manufacturing

- Clear co-manufacturing agreements which define responsibilities of all parties

Sector focus:

Payments and E-Money

Applicability

- All Payment Service Providers and Electronic-Money Institutions where distribution chain involves retail customers
- Including any agents or distributors
- Firms undertaking activities connected to payment services or the issuance of e-money, (eg. banks providing safeguarding accounts)

Exceptions

- Conduct of business obligations under the PSRs and EMRs take precedence

Other considerations

- Senior Managers
- Firms required to embed the Duty

Practicalities – what are firms doing now?

- Getting senior stakeholder buy-in
- Identifying a board level Consumer Duty lead to champion and initial exec lead
- Understanding how Consumer Duty impacts the business
- Undertaking a maturity / gap assessment and capability assessment
- Developing a robust, achievable project plan (by end of October 2022 at the latest)
- Developing an improvement plan to strengthen areas of identified weakness
- Implementing the necessary changes by the 2023/2024 deadline
- Embedding the consumer duty into BAU

Practicalities – a possible project approach?

Stage 1 – High level review and implementation plan

- High level gap workshops/document reviews
- Assurance of current “compliance”
- Board/Level 1- Implementation plan development

Stage 2 – Detailed BU review and plan detail

- Level 2/execution plan based on more detailed BU work

Stage 3 – Implementation

- IT development for MI
- Training
- Document uplifts

Workstreams

- By distribution chain
or
- By outcome

Consumer Duty assessment methodology

Rules and guidance mapping

- High level gap finding
- Traceability

Handbook Reference	Rule	Guidance Mapped
Prin 2A.3.4	<p>R For each product that is not a closed product, a manufacturer's product approval procedures must:</p> <p>(1) specify the target market for the product at a sufficiently granular level, taking into account the characteristics, risk profile, complexity and nature of the product;</p> <p>(2) take account of any particular additional or different needs, characteristics and objectives that might be relevant for retail customers in the target market with characteristics of vulnerability;</p> <p>(3) ensure that all relevant risks to the target market, including any relevant risks to retail customers with characteristics of vulnerability, are assessed; (4) ensure that the design of the product:</p> <p>(i) meets the needs, characteristics and objectives of the target market;</p> <p>(ii) does not adversely affect groups of retail customers in the target market, including groups of retail customers with characteristics of vulnerability; and (iii) avoids causing foreseeable harm in the target market;</p> <p>(5) ensure that the intended distribution strategy is appropriate for the target market; and</p> <p>(6) require the manufacturer to take all reasonable steps to ensure that the product is distributed to the identified target market.</p>	<p>Firms must identify a group or groups of customers sharing common features whose characteristics, needs and objectives the product is or will be designed to meet. These customers are the end-users of the product or service, not other firms in the distribution chain. They are the target market of the product or service. The rules require firms to identify the target market at a sufficiently granular level, considering the characteristics, risk profile, complexity and nature of the product or service.</p> <p>One way firms may wish to test whether the target market has been identified appropriately is to consider if it would include any groups of customers for whose needs, characteristics and objectives the product or service is generally not compatible. Firms may consider if there are any groups of customers who might suffer harm from the product and think if this helps to refine the target market. For example:</p> <ul style="list-style-type: none"> • An investment fund might start with a target market described in terms of investment objective and investment risk. However, the target market should be refined and clarified if the product is generally incompatible with the needs, characteristics and objectives of people who cannot commit to hold the investment for more than five years or who cannot afford to bear potential investment losses. • General insurance products might be designed to meet the needs, characteristics and objectives of customers looking to insure certain technological items. However, if these items are likely to be adequately covered by standard contents insurance, the target market should be refined to exclude people with existing cover. • The initial target market for a financial advice firm's services might be any customer with a potential pension and investment need. However, the inclusion of high fixed minimum fees in its adviser charging model means that the target market should be refined to exclude customers with very small investment amounts. <p>For simple products or services intended for the mass market, identifying the target market may be a straightforward exercise. For example, the target market may be more widely defined for:</p> <ul style="list-style-type: none"> • a term life assurance, paying out a sum assured on a policyholder's death within a fixed term, for a fixed premium • a payment service allowing free transactions for customers <p>In determining the target market, firms should consider the overall product or service and what is expected of consumers' ability to understand relevant concepts. The more complicated a product or service structure and features, the more difficult it is likely to be to explain without risk of consumer misunderstanding. This may have an impact on the target market for the product or service. Material conditions or limitations for a product or service should be clear to the target market and, where appropriate, firms should test consumer understanding. Firms should also consider requirements under the customer understanding outcome, discussed further in Chapter 8.</p>
Prin 2A.3.5	<p>R (1) A manufacturer of a closed product must maintain, operate and review a process to assess and regularly review whether any aspect of the product results in the firm not complying with the cross-cutting obligations (PRIN 2A.2) in relation to existing retail customers.</p> <p>(2) The manufacturer's process in (1) does not have to comply with PRIN 2A.3.2R, PRIN 2A.3.4R, PRIN 2A.3.7R, PRIN 2A.3.9R, PRIN 2A.3.10R, PRIN 2A.3.11R or PRIN 2A.3.12R.</p>	<p>The Duty also applies in full to closed products and services. However, the products and services outcome does not apply in the same way as for new or existing products and services. For example, as there would be no further sales, there are no requirements for firms to have a target market or distribution strategy for the product or service.</p> <p>We still expect firms to review closed products and services under the Duty. This includes:</p> <ul style="list-style-type: none"> • Reviewing the product or service during the implementation period, and on an ongoing basis, under the cross-cutting rules. Firms should identify whether there are aspects of the design of the product or service which mean they are not meeting these rules. For example, they should consider if any aspect of the product or service could lead to foreseeable harm or frustrate customers pursuing their financial objectives. Where they identify that aspects of the design could cause the product or service to breach the cross-cutting rules, they should take appropriate action to mitigate harm. • Ensuring products continue to offer fair value under the price value outcome rules. • Ensuring they meet the consumer understanding and consumer support outcomes in respect of these outcomes. <p>When reviewing closed books, firms could consider:</p> <ul style="list-style-type: none"> • Carrying out an initial review first. For example, firms might want to consider what aspects led to the decision to close the product or service, to see if that has a bearing on outcome outcomes. If a product was closed because it offered poor value compared to newer products, this is clearly a factor to consider. • Prioritising review of products or services with higher risk of consumer harm. For example, if a firm has received complaints about a product, such as in relation to price and value, it could focus on that product. • Incorporating a review of the elements of the Duty into existing and ongoing review cycles, so long as they meet the implementation deadlines for compliance with the Duty. • Grouping similar products and services together for review. For example, firms may be able to: <ul style="list-style-type: none"> – analyse cohorts of products or services together, or – more quickly conclude, for instance, that more recent closed book products or services (which are similar to those still on sale) provide fair value going forward

Consumer Duty assessment methodology

Maturity assessment / Heatmap

- Uplift vs gaps

Maturity assessment outcomes

Distribution Chain Stage	Maturity Level				
	Leading (5)	Meeting (4)	Developing (3)	Starting (2)	Aspiring (1)
Product Development	5	3	2	1	1
Product Marketing	1	5	3	2	4
Product Distribution	4	1	3	4	1
Product Entry	1	1	3	2	5
Ongoing Service & Maintenance	5	3	3	2	1
Product Exit	3	3	2	1	2

Areas which require attention

- Product Design
- Product risks
- Reporting & MI
- Record Keeping
- Customer demographic / target market
- Fair value assessment

Areas which are meeting or better

- Communications and disclosures
- Distribution strategy / channels
- Customer needs and understanding
- Vulnerable customers
- Fees and charges
- Firm collaboration and responsibilities

Maturity assessment heatmap

Distribution Chain Stage	Theme																		Overall
	Communications and disclosures	Distribution strategy / channels	Customer demographic / target market	Customer journey	Vulnerable customers	Customer needs and understanding	Product design	Product risks	Fair value assessment	Fees and charges	Closed products	Testing and monitoring	Governance and approval	Reporting and MI	Record keeping	Personal obligations and culture	Firm collaboration responsibilities	Other handbook compliance	
Product Development	5	4	1	5	4	4	3	2	1	5	5	3	5	3	4	3	5	5	4
Product Marketing																			
Product Distribution											N/A								
Product Entry																			
Ongoing Service & Maintenance																			
Product Exit			N/A				N/A												
Overall																			

Enablers for success

- Build on what you already have
- Existing product governance arrangements
 - Responsible product/service owners/managers
 - Committees – product/service shelf, individual client outcomes
- Customer journeys
- Project manager/ project structure
- Aspiration vs capability realism

Questions?



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