



Unpacking the consumer duty: Reflections from the FCA and practitioners

19 September 2024

Ask a question



The screenshot shows a mobile application interface for asking questions. At the top, it says 'Q&A'. Below that, there is a section for a question and answer. The question is 'What happens when I raise my hand?' with a timestamp of 18:03. The answer is 'I can take you off of mute.' with a timestamp of 18:04. Below the answer, there is a large empty text input field with the placeholder text 'Please input your question'. At the bottom, there is a 'Send Anonymously' checkbox and a blue 'Send' button.

To ask a question

Click on the **Q&A** button in the bottom toolbar to open the submit question prompt.

Type your question and click send

NOTE: If you wish to ask your question anonymously check the **send anonymously** box shown on the illustration.



Did you know?

From 1 November 2023, ICAEW's revised Continuing Professional Development (CPD) Regulations brought in new CPD requirements, including a minimum number of hours and an ethics requirement.

This webinar could contribute to up to 1 hour of verifiable CPD, so long as you can demonstrate that the content is relevant to your role.

Find out more about how these changes affect you at [icaew.com/cpdchanges](https://www.icaew.com/cpdchanges).





Today's presenters



Joanna Legg
FCA



Nicola Ball
BDO



Kathryn Shepley
Grant Thornton



Amit Rao
Forvis Mazars



Chris Steele
KPMG



Agenda for today

- Keynote speech
 - Reflections on the first year, Joanna Legg, FCA
- Presentations from practitioners
 - Approaches to fair value assessments, Nicola Ball, BDO
 - Review of communications, Kathryn Shepley, GT
 - Closed book reviews, Amit Rao, Forvis Mazars
 - Outcome setting and monitoring, Chris Steele
- Panel session
- Q&A

Reflections on the implementation of the Consumer Duty

Jo Legg, Head of Department, Consumer Policy and Outcomes, FCA



REFLECTIONS ON THE FIRST YEAR

“Across industry, we’ve seen signs of positive cultural change”

Firms have:

- Changed their purpose and values to align more closely with the Duty.
- Updated their bonus structures to ensure that incentivisation is in line with the aims of the Duty
- Implemented a more data-led approach, thinking about what their customers’ needs are and about what data

Areas of challenge remain:



Approach to Fair Value



Outcomes monitoring

Our February publication on Consumer Duty implementation sets out more of what we’ve seen across the outcomes.

THE DUTY AS A DRIVER FOR INNOVATION AND COMPETITION

“An outcomes-focused approach gives firms greater flexibility to adapt and innovate”

We want to hear from you with views on our Call for Input



Call for Input

Review of FCA requirements following the introduction of the Consumer Duty

LOOKING FORWARD



Areas of focus beyond July:

1. Thematic work looking across sectors, to assess how firms are embedding the Duty
2. The Price and Value outcome
3. Sector-specific priorities



Our plans:

Sharing more **good practice** and set out our **expectations**. Firms should use these insights to continue to raise the bar and innovate in the interests of their customers.

IDEAS | PEOPLE | TRUST

Fair Value Assessments

ICAEW Consumer Duty Webinar

Nicola Ball

BDO

Fair Value Assessments - Overview

- ▶ Firms must undertake **fair value assessments** as a way of demonstrating if the **price a consumer pays** for a product or service is **reasonable compared to the overall benefits** they can expect to receive.
- ▶ Firms have some **discretion** in deciding on the factors they use in their value assessments.
- ▶ However, firms need to ensure they have **sufficient, good quality MI and data** to assess value, including information from **3rd parties**.

Relevant rules and guidance set out in [PRIN 2A.4](#) and Chapter 7 of our [non-Handbook Guidance](#) (and existing rules e.g. PROD and COLL)

Questions for Firms

“Is the firm satisfied that it is considering all the relevant factors and available data as part of its fair value assessments? Has it gathered relevant information from other firms in the distribution chain?”

Source: FG22/5 Final non-Handbook Guidance for firms on the Consumer Duty



Fair Value Assessments - Benchmarking

- ▶ **Avoid over-reliance** on benchmarking.
- ▶ **Consider any limitations** around benchmarking information e.g. limited number of providers in a market.
- ▶ Benchmarking may provide **useful insight** where a product may not be providing fair value.
- ▶ Important to consider **how the benchmark used is consistent with providing fair value.**

Questions for Firms

“What insight has the firm gained for its value assessments by benchmarking the price and value of its products and services against similar ones in the market?”

Have the price and value of its older products kept up with market developments?”

Source: FG22/5 Final non-Handbook Guidance for firms on the Consumer Duty

Examples

GAP Insurance - on average only 6% of the amount customers pay in premiums for GAP insurance was paid out in claims.

Fair Value Assessments - Customer cohorts

- ▶ FVAs should consider **appropriate customers segments**.
- ▶ They should **avoid using average metrics** where these could disguise outliers.
- ▶ Analysis should be tailored to consider whether the way **customer cohorts** use products **affect the costs** that they incur and the **benefits** that they receive.
- ▶ Consideration should be given to **scenarios** where some customers pay **different prices** or generate **higher profit margins**.

Questions for Firms

“ Can the firm demonstrate that its products and services are fair value for different groups of consumers, including those in vulnerable circumstances or with protected characteristics?

If the firm is charging different prices to separate groups of consumers for the same product or service, is the firm satisfied that the pricing is fair for each group?”

Source: FG22/5 Final non-Handbook Guidance for firms on the Consumer Duty

Examples

e.g. vulnerable customers, customers using different channels or who may be at risk of paying higher fees or charges

Fair Value Assessments - Taking Action

- ▶ Ensure responses and content of FVAs provide **insight and/or assurance** to support the product providing fair value.
- ▶ Ensure FVAs show the **rationale and justification** for how the total price paid by the customer was consistent with providing fair value.
- ▶ Where FVAs indicate potential concerns, ensure **appropriate action** is considered and taken.

Questions for Firms

What action has the firm taken as a result of its fair value assessments, and how is it ensuring this action is effective in improving consumer outcomes?

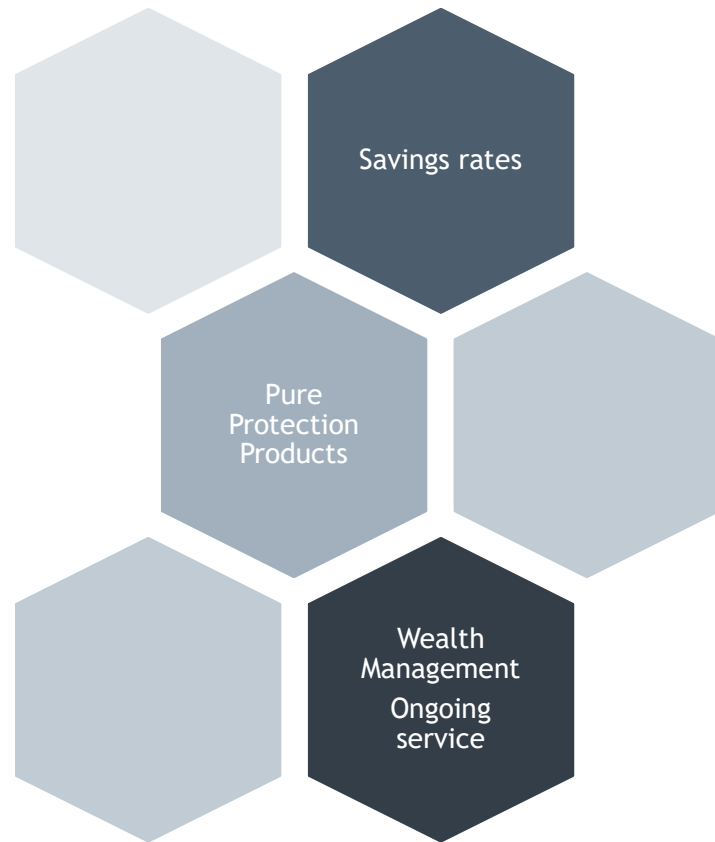
What data, MI and other intelligence is the firm using to monitor the fair value of its products and services on an ongoing basis? How regularly is it reviewing this material, and what action is it taking as a result?

Source: FG22/5 Final non-Handbook Guidance for firms on the Consumer Duty

Examples

Action to withdraw, suspend or adapt products or make amendments to price.

Fair Value Assessments - Recent examples of value considerations



- ▶ The **cost of living** crisis means fairness and value are increasingly important.
 - ▶ We set out a few examples of recent areas of focus.
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Unpacking the Consumer Duty

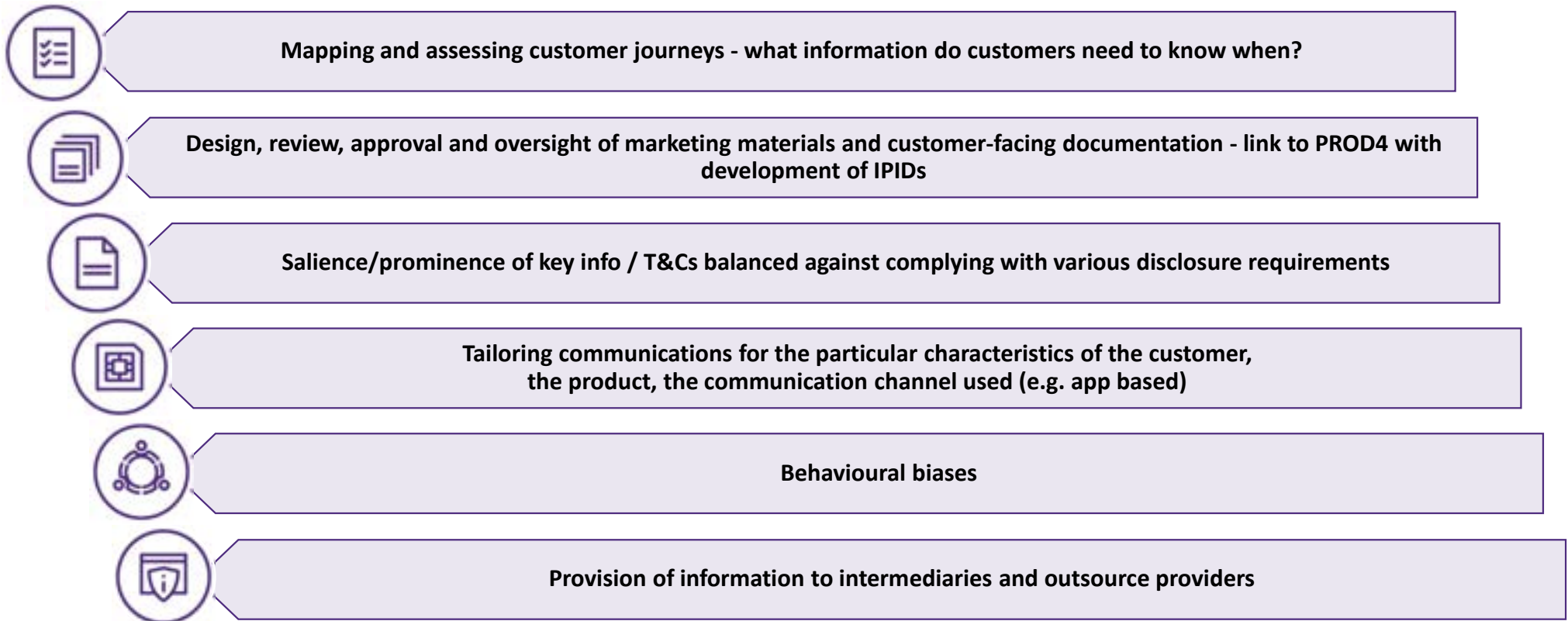
Approach to review of communications

ICAEW Consumer Duty Webinar
19 September 2024

Kathryn Shepley



Consumer understanding: communications



Challenges for firms – gone away customers

A customer could be considered 'gone-away' where their provider is unable to contact the customer regarding the policy or benefits using paper or electronic correspondence, because the customer has moved away from the address on the provider's records. This includes communications regarding policies that:

- Are yet to reach their benefit date
- Are making payments (i.e. annuities)
- Have reached or passed their benefit date and benefits have not yet been paid (i.e. an unclaimed asset)

Questions for firms:

- Can you demonstrate that you have taken all reasonable and proportionate efforts to trace and contact "gone-away" customers?
- Do you have an agreed, consistent and documented method for marking a customer record as 'gone-away' and processes in place for if a 'gone-away' customer reconnects?
- Do you have your own agreed and documented governance controls for the management of 'gone-away' customers in place to ensure that any associated conduct risks are identified?



Use of Artificial Intelligence



‘AI systems should not undermine the legal rights of individuals or organisations, discriminate unfairly against individuals or create unfair market outcomes. Actors involved in all stages of the AI lifecycle should consider descriptions of fairness that are appropriate to a system’s use, outcomes and the application of relevant law.’

- What are the possible benefits of/opportunities for using AI? (e.g. AI chatbots to help customers understand products and services)
- What are the risks (e.g. bias, ethical considerations, dealing with possible vulnerabilities and non-standard issues)

Vulnerable customers

Product design issue as well as a service issue – identify possible or likely vulnerability by virtue of product features and purpose and target market, and build this into service and support

Determine how vulnerability can be identified and catered for at each stage of the product lifecycle – this should include SME customers

Ensure front-line staff are equipped and empowered to identify and support customers with vulnerable characteristics

Customers should have easy access to what they need to know, when they need to know it, to make good decisions – consider any additional means to ensure this for vulnerable customers, e.g. regarding comms and service channels

Use outcomes testing to drive improvements in outcomes and experiences for all customers, including those with vulnerable characteristics

Use your understanding of the product and its goals to anticipate customers experiencing new or worsened vulnerability, and be proactive to address it – e.g. cost of living

Questions for firms

How are you testing the effectiveness of your communications? How are you acting on these results?

How do you adapt your communications to meet the needs of customers with characteristics of vulnerability, and how do you know these adaptations are effective?

- Uplifts of customer-facing information, communications and interfaces
- Evidence / data that provides comfort that customers not only receive information and support in good time when they need it, but that they genuinely understand it e.g. focus groups, surveys, pre-test, staff inputs
- Uplifted approaches to designing and reviewing customer-facing information, communications and interfaces, and capacity for tailoring based on target market and vulnerable customer needs

What assessment have you made about whether your customer support is meeting the needs of customers with characteristics of vulnerability? What data, MI and customer feedback is being used to support this assessment?

- How front-line staff are empowered, equipped and controlled in their interactions with customers, including those with characteristics of vulnerability
- Outcomes testing for vulnerable customers
- Feedback from customers and front-line staff
- Data points in overall good outcomes MI



Closed book reviews
ICAEW Consumer Duty Webinar

Amit Rao

forv/s
mazars

Preparing for Closed Book Reviews

The Consumer Duty: A recap



Financial Services Act 2021 called for increased standard of consumer protection

FCA released Policy Statement PS22/9 and Finalised Guidance for the Consumer Duty

The Consumer Duty came into force for **open products and services**

The Consumer Duty came into force for **closed products and services** and the first annual assessment was due

Preparing for closed book reviews

Key challenges

Gaps in customer data

Fair value

Customers with characteristics of vulnerability

Gone-away customer management

Vested contractual rights

Key challenges

Gaps in customer data

Firms must overcome data challenges that can make it difficult to identify and provide the right support to certain customer groups.

'Closed products and services may by nature be older, and the data firms hold about their customers may be incomplete, for example, due to challenges with complex legacy systems, back book purchases, and inadequate record-keeping practices at the time of sale.'



Questions for firms





- Have firms identified material gaps in data?
- Have firms identified different ways to fill data gaps?

Key challenges

Fair value

- Even if a product is no longer being marketed or distributed, firms must ensure customers still using these products are receiving fair value.
- If the value is better on new products (e.g. a better rate of interest), closed book customers should be proactively contacted.

Questions for firms

-  Are firms contacting closed book customers to inform them that better value products are available?
-  What actions can firms take to help customers access better value across their journey?
-  Are firms seeking independent assurance over their assessment of closed book products?
-  How do firms overcome profitability challenges relative to mass customers switching products?

Key challenges

Customers with characteristics of vulnerability

- The FCA expects firms to be able to identify when particular groups of customers, such as customers with characteristics of vulnerability receive systematically poorer outcomes.
- Firms with closed products or services that are long term in nature should anticipate changes to customers circumstances, economic and societal conditions over time. Customers may therefore experience vulnerability during their product journey.
- The FCA's 2022 Financial Lives Survey data indicated that almost half (47%) of adults show one or more characteristics of vulnerability.

Questions for firms

- How can firms evidence that they are proactively identifying and supporting customers with characteristics of vulnerability across their closed product book?
- Can firms evidence that they are delivering the same standard of good outcomes across different groups of customers, including those customers characteristics of vulnerability?
- Are firms able to adapt support channels and communications across closed products to facilitate specific needs of customers with characteristics of vulnerability

Key challenges

Vested contractual rights

Firms are not expected to give up vested rights (e.g. contractual entitlement to annual or exit fees) but should consider and address the potential these have for customer harm.

Scenario

- An asset manager has vested rights to collect a monthly fee for managing a customer's assets.
- The fee is charged as a flat fee regardless of the amount of assets under management.
- The firm's own fair value assessment determines the fee charged is too high in proportion to the asset

What should the firm do?

Questions for firms

- Have firms identified and addressed where their vested rights may cause foreseeable harm?
- Can customers be helped to switch to a new product or service that does not have the same issues?
- Could the firm better avoid causing foreseeable harm through changing non-vested fees or charges?



Consumer Duty: Setting outcomes, MI, and ongoing monitoring



Chris Steele

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19th September 2024

Have you mapped your customer journeys to identify the points of friction and potentials risks and harms?

Focus on Customer Outcomes

When mapping journeys for the Consumer Duty, think about things from the customer's perspective – don't get caught up on process mapping.

Identify the Right MI

Use the journey mapping to identify data and MI which directly measures the risks and potential harms.

Traceability

Firms should be able to trace Consumer Duty and Outcomes reporting presented to Exec and Board back to lower level harms – customer journey mapping supports with this.



Identify Potential Harms

Use the exercise to identify the potential harms and risks in the journey. Think about how different types of customer's may experience the journey differently.

Focus Testing Activity

Focus your testing activity (e.g. QA, Customer Outcomes Testing, Communications Testing) on areas with greater potential for harm.

Regular Review

Customer journey maps should be regularly reviewed and updated. They are a useful prompt for wider review of customer outcomes.

Your data should be appropriate to your customer's and your products ...

Across FS, firms are on a journey with building out and embedding meaningful conduct risk related MI within the business lines and associated governance fora. Consumer Duty has thrown a spotlight into this area and caused firms to more closely scrutinise what they have in place. We've found that in many cases some of the basic MI disciplines have been forgotten along the way.



Does your dashboards demonstrate a broad perspective on customer outcomes?

We've worked with a number of clients, across FS, as they address the need for improved customer outcomes monitoring necessitated by the Consumer Duty. We share here example metrics across a breadth of relevant perspectives.

Customer View	Risk / Control View	Ops / Product View	Financial View
NPS	QC / QA results	Product sales data	Profitability data
Complaints Data	Customer Outcomes Testing results	Product usage / behavioural insights	Costs of provision of product / service
Customer experience testing	Root cause analysis	Customer Service / Performance MI	Breaches of pricing principles
Online journey data	2LOD / 3LOD reports	Vulnerable Customers MI	Arrears rates / bad debt
Customer attrition	Regulatory breaches	Training and Competence Records	

Firms need to have **carefully considered their customer journeys** and identified the areas where **poor outcomes are likely** to surface / show, and design metrics accordingly.

Comparatives (vs defined thresholds, expectation, target market, trend, etc) and **insightful commentary** are key to bring meaning to the metrics presented and it's important that these are **evidential**.

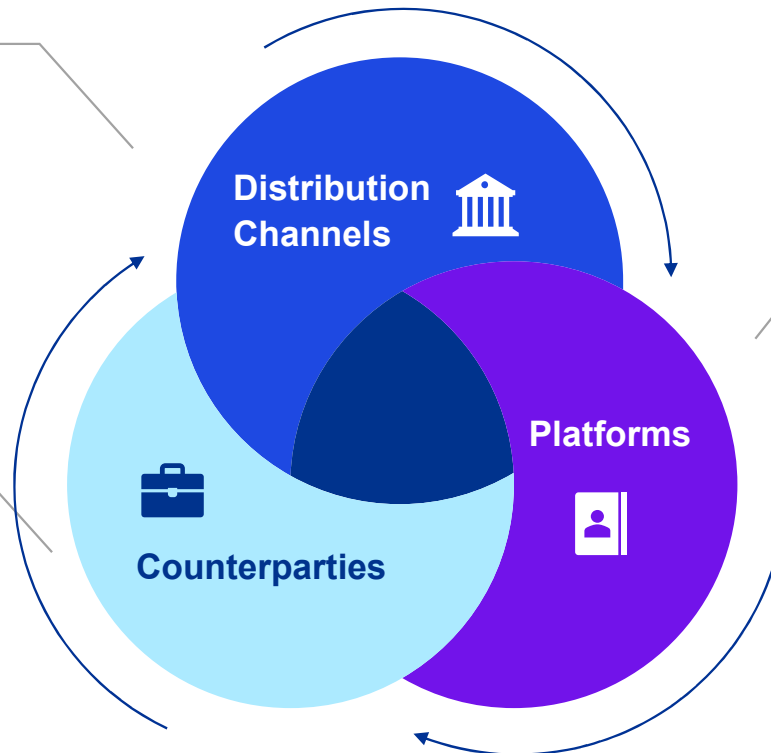
When monitoring outcomes firms should think holistically about all the ways they engage with customers ...

Distribution Channels

Do you monitor and track how different types of customers engage with different distribution channels?
Do customers receive different outcome dependent on how they engage?

Counterparties

Do you get the right data from your counterparties to get comfortable they are delivering good customer outcomes? What feedback mechanisms do you have in place to ensure corrective actions are taken?



Platforms

Can you monitor which platforms and channels are most effective for customer engagement? Are strategies flexible to adapt to what your results tell you?



Panel Session?

