

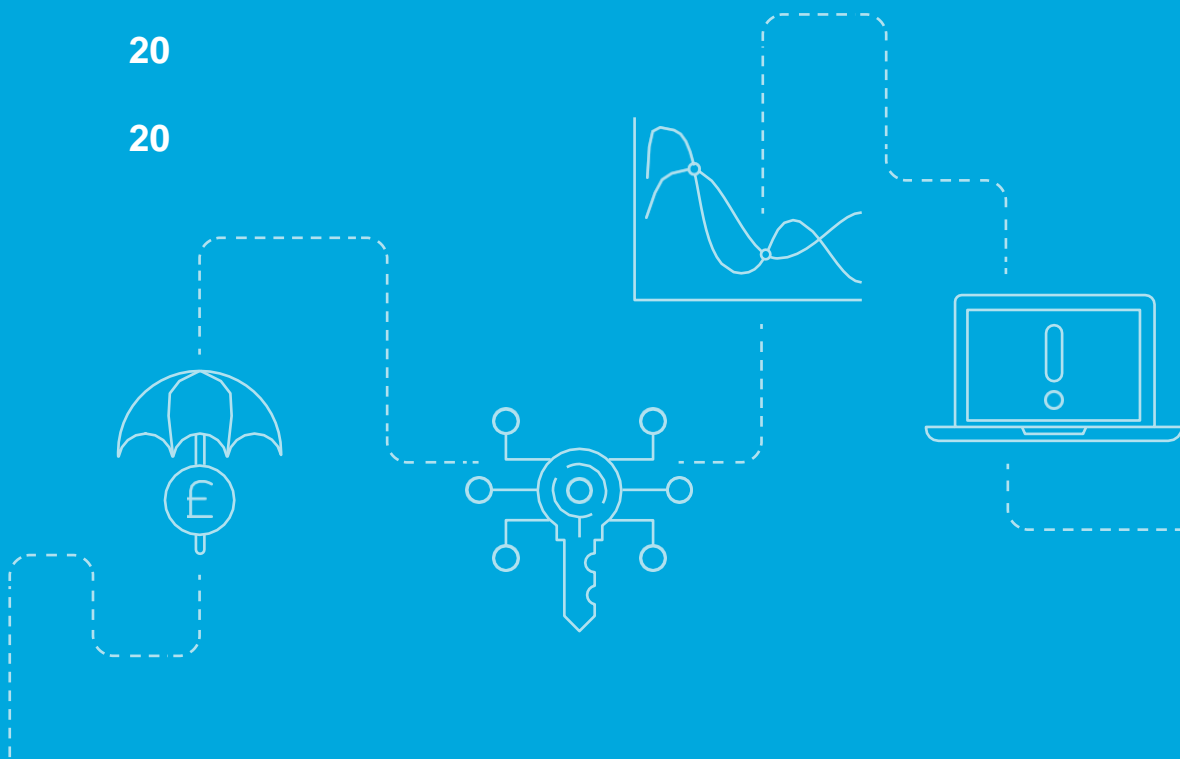
Consumer Duty

Readiness Survey Analysis



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Introduction

In its Policy Statement (PS22/9) the Financial Conduct Authority (FCA) set out its rules for a new Consumer Duty; a 'new Consumer Principle that requires firms to act to deliver good outcomes for retail customers.'

It is being described as one of the most fundamental regulatory change programmes in recent years.

The FCA expects that financial services firms have an understanding of their customers' needs, are flexible, and ensure good customer outcomes. The regulator is looking to instil a higher level of consumer protection, where putting customers' needs first is central. The Consumer Duty is being introduced in phases. For new and existing products or services that are open for sale or renewal, the rules come into force on 31 July 2023 and for closed products or services, the rules come into force on 31 July 2024.

We understand that firms are in the midst of assessing the impact of the new Consumer Duty on their businesses and delivering programmes of work to ensure readiness.

This report sets out the findings from our recent survey, which gathered feedback on how far firms have progressed with their planning, the different interpretations of the requirements, their approaches to implementation and the key challenges.



What are the FCA's Consumer Duty expectations

Principle 12 is a new Consumer Principle that requires firms to "act to deliver good outcomes for retail customers"

The four outcomes they must achieve are:

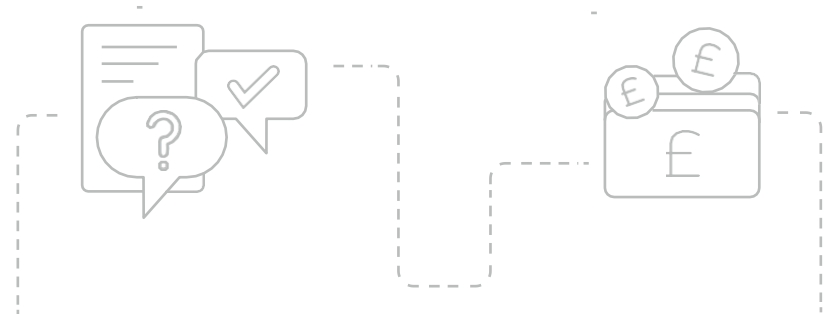
- 01** **Consumer understanding** – ‘expect products to come with timely and clear information that customers can understand so they can make informed decisions.’
- 02** **Products and services** – ‘firms should be offering customers products that meet their needs, rather than pushing products that aren't suitable or needed.’
- 03** **Consumer support** – ‘expect firms to ensure customers are supported throughout their relationship with them to consider the best ways to engage including digital and non digital.’
- 04** **Price and value** – ‘expect firms to satisfy themselves that the prices they charge are reasonable for the benefits.’



In addition to the new Consumer Principle, the FCA has set out three cross-cutting rules and four customer outcomes that will require firms to evidence that they are achieving.

Under the cross-cutting rules firms must:

- Avoid causing foreseeable harm;
- Enable customers to pursue their financial objectives; and
- Act in good faith towards customers

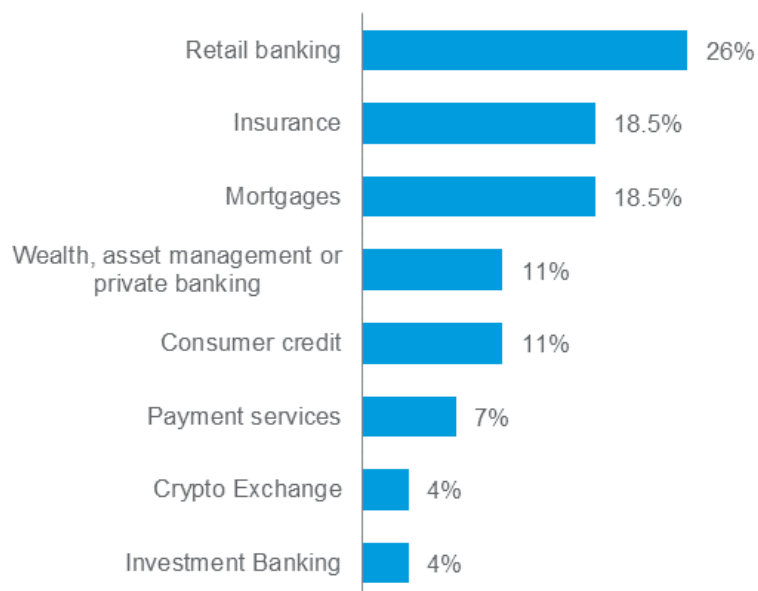


Introduction

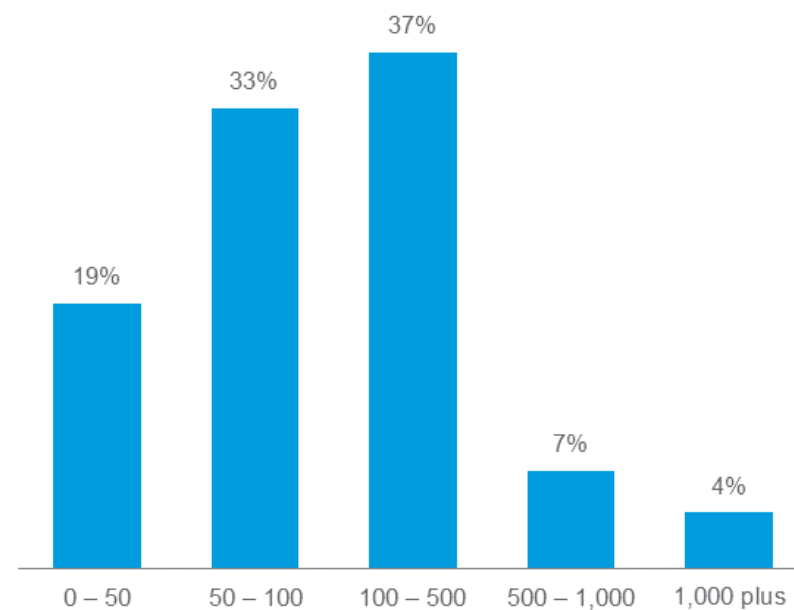
With 31 July 2023 implementation date quickly approaching, we wanted to understand where financial services firms are in their journey to meeting the Duty requirements.

We summarise the findings from our survey, which incorporates firms spanning the breadth of the financial services sector, and from small (0 to 50 employees) to larger (1,000 plus employees) organisations to obtain a range of insights and experiences.

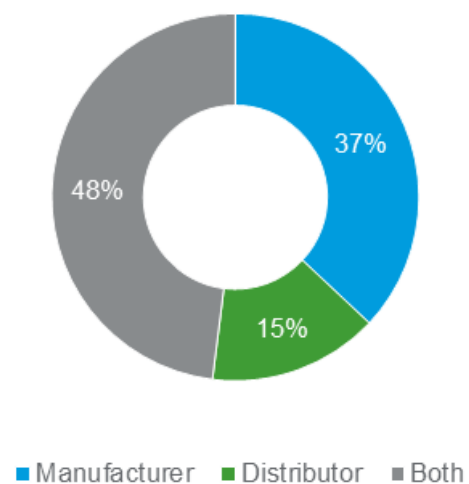
Primary sector of respondent firm



Number of staff employed at respondent firm



Is the respondent firm a product manufacturer or distributor?



Resourcing, Support and Training

Key to meeting the requirements of the new Consumer Duty is ensuring that organisations have sufficient resources to implement programmes and ensure adherence to the requirements, and in the timescales set by the FCA. Firms must also ensure they have the resources post implementation, allowing firms to evidence adherence to the requirements on an ongoing basis. Organisations will have to provide training to guarantee their employees understand the requirements of the Duty and what they have to do to meet it.

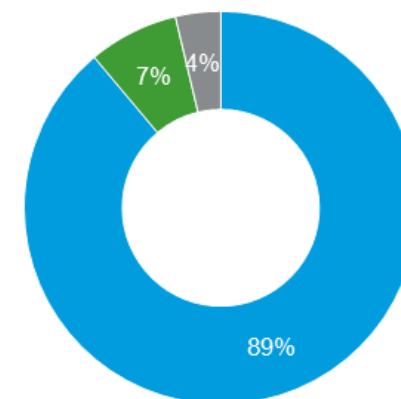
Given the far-reaching effect of the Consumer Duty, touching all areas of financial services firms' products and services, it is perhaps surprising that 66.5% of firms in our survey had not engaged any specialist advisor(s) at all to support them in their implementation of the Duty.

The third of respondents (29.5%) who confirmed that they have engaged specialist advisers to support them in their implementation of the Consumer Duty have sought expertise from a variety of sources including external compliance consultants and business advisory firms, as well as RSM's internal auditors, to carry out an independent advisory review of progress to date.

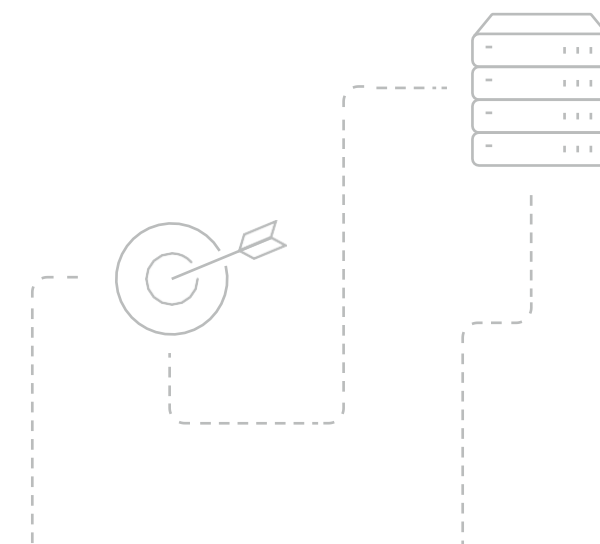
- 78% of firms are resourcing their Consumer Duty implementation programme using existing internal resources only.
- 18% of firms are resourcing the implementation programme through recruiting additional permanent or temporary resources. These tended to be smaller financial services firms, that perhaps do not have the breadth of staff to leverage support for large projects.
- 4% of firms stated they are resourcing the Consumer Duty implementation programme primarily through existing internal resources, but with some additional subject matter expert (SME) contractor support.

Consumer Duty implementation should be led by the board; under senior management responsibilities board members are personally responsible for the implementation and embedding of the Duty.

Have you sought any clarification on requirements from the FCA?

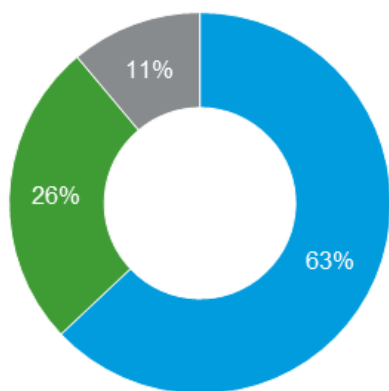


■ No ■ Yes ■ Clarification from BSA / UK Finance



Training

Have you provided training on the Consumer Duty to the Board and Consumer Duty Champion?

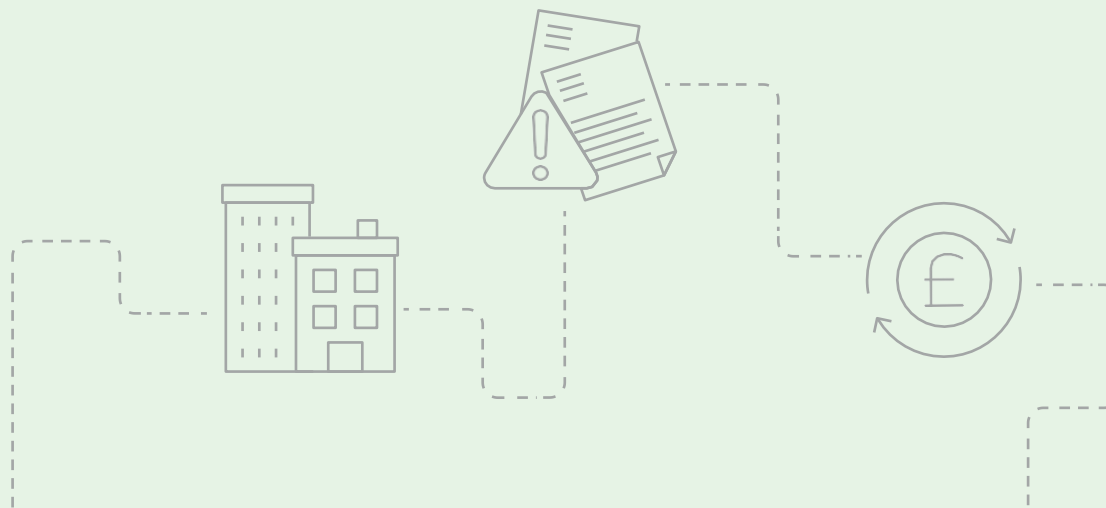


- Training provided to both the Board and the Consumer Duty Champion
- No training provided to the Board or Consumer Duty Champion
- Training provided to the Board only

It is reassuring, however, that 93% of firms in our survey have attended training events on the Consumer Duty. They included training delivered by industry bodies such as UK Finance, Association of Financial Mutuals (AFM), Building Society Association (BSA), Personal Investment Management and Financial Advice Association (PIMFA) and FCA events including webinars and podcasts.

Given the responsibility of the board to implement the Duty, we were concerned to find that 26% of firms had not provided training to the board or Consumer Duty Champion.

A minority of firms have sought clarification on the requirements of the Consumer Duty from the FCA (7%) or from an industry body (4%). However, the vast majority of respondents (89%) have sought no further guidance from the FCA which is surprising as our own interaction with firms has indicated a need for more guidance.





The Implementation Plan

As the implementation date looms, it is clear that firms are at different stages with their plans. Focus and effective prioritisation is key if firms are to avoid missing deadline.

In its January 2023 publication 'Consumer Duty implementation plans' the FCA noted that 'many' of the plans 'reviewed showed that firms have understood and embraced the shift to focus on consumer outcomes, established extensive programmes of work to embed the Duty, and are engaging with the substantive requirements.' The FCA did however 'identify plans that suggested some firms may be further behind in their thinking and planning.' Our survey results concur with the findings of the FCA.

- **52%** had partially drafted an implementation plan with many of the actions required identified, however, there is some work still to be completed to identify all required actions.
- **37%** of firms had an implementation plan fully drafted with all required actions identified with the owners and deadlines assigned.

- **7%** of firms stated the implementation plan was at a high level, for instance requirements had been identified and some impact assessment completed but no granular action plan had been defined.
- **4%** of firms had not drafted an implementation plan at the time of completing our survey.

30% of respondents have not defined what good outcomes look like in the context of their business

In creating the implementation plan, 85% of firms confirmed they have mapped and documented all of the requirements under the new Consumer Duty and performed an assessment of their current practices against them.

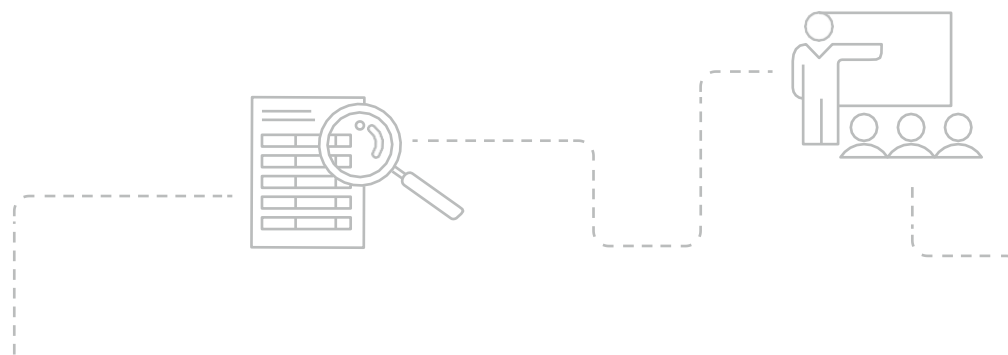
This process is key to ensuring the implementation plan considers and factors in all requirements, so we would have expected all firms to have completed it.

Of those that did, 30% stated that they had not defined what good outcomes look like in the context of their business. That said, some firms are in the process of doing this, and many (63%) have defined what good outcomes look like. Yet there is room for enhancement, as only 30% of firms have defined a process and standards for how the assessment of current practices should be performed and documented.

Without such a process, and appropriate quality assurance, there is no guarantee that assessments performed are adequately robust to identify all gaps which need remedying.

In relation to the assessment exercise, survey respondents noted the following:

- The assessment framework had been designed by the compliance department and had been designed to assess compliance against existing regulations and overlaying those to the new Consumer Duty requirements.
- The assessment framework encompasses gap analysis activity, undertaken by the first line, with oversight from the second line.
- The framework was largely a review of desired outcomes and experience.
- Checklists were produced by the compliance department for each of the key areas of the Duty to support the business in its assessment. The outcome of the assessment is then discussed and agreed with the respective business area, together with action plans for addressing any issues identified.
- SME project leads and the second line provide assurance and external support is utilised to identify areas for further improvement. The assessment is reviewed in detail by the Chief Executive.
- Project management resource has been used to document reviews to ensure consistency of approach. The output is then shared among workstream leads and discussed and challenged.
- BSA templates have been used as a guiding source document.



As a result of their assessment work

- 74% of firms stated that some work was required to uplift existing practices to ensure compliance;
- 7% of firms stated their assessment identified significant work was required to enhance practices to ensure compliance; and
- 19% of firms stated no or limited work was required, as appropriate practices were already in place.


The FCA expects firms to robustly challenge their current practices and is wary of firms that appear to be complacent and demonstrate little evidence of engagement.

In providing further context, we summarise on the next page, the areas of focus currently on the radar of our survey participants.

Most firms had partially drafted the implementation plan with some actions identified, but some still to be completed.



Areas of Focus

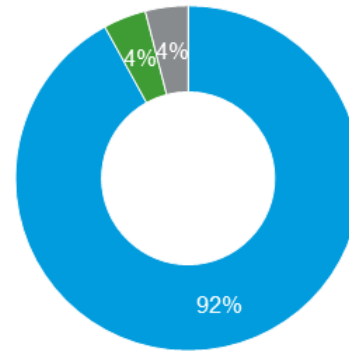
	1	2	3
Gaps in outcome	Having completed an assessment against the four outcomes, and how current practices align to the cross cutting rules, there is a need to identify all gaps within current practices.	There is a clear distinction between processes that need immediate refinement to meet the Duty requirements and those that meet the requirements already, but which would benefit from further enhancement to go beyond the minimum standards. This is driving prioritisation.	There is a need to implement more robust methodologies for pricing, product generation and product closure. In particular, work is required to define products and services in relation to 'fair value'.
Customers	Improvements to customer documentation and communications are required to raise awareness, to ensure they align with the target demographic, to fully meet requirements and ultimately, ensure customers are suitably informed.	The customer journey needs to be documented in detail and there is a need to broaden forbearance solutions for certain cohorts of customers.	A member forum will be established to understand how to better interact with members through the product lifecycle.
Governance	There is a need to strengthen product governance and to evidence and document approaches and rationale via policy and process. This includes formalising and documenting existing practices and adapting these to meet the requirements of the Consumer Duty. Current processes need to be as streamlined and customer friendly as possible.	There are some gaps in product testing, value frameworks, oversight and Board reporting.	Terms of reference for key committees need to be reviewed, and role profiles re-visited. A robust second line sign off process needs to be established.
Data and information	New data sets need to be created to support evidence gathering and monitoring, as well as modifying some processes to allow Consumer Duty outcomes to be more easily drawn out and evidenced.	Work is required to understand and gather existing management information (MI) / data to support customer outcomes	

The Implementation Plan

Of those firms that are part of a distribution chain or rely on material outsourcers or suppliers, 35% of respondents have not yet engaged their third parties as part of their planning. This aligns with the findings from the FCA's recent review. It is imperative firms engage with third parties at the earliest opportunity. A number of the businesses we are assisting with their action plans have identified that the ability to obtain relevant management information (MI) is essential to monitor the effective implementation of the Duty throughout the distribution chain.

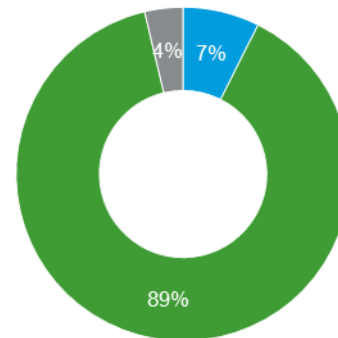
It is imperative that the implementation plan is reviewed and challenged by the board, and reassuringly, 92% confirmed that it had been. This aligns with the FCA's findings, where the regulator had found 'evidence that plans have been scrutinised and challenged by firms' boards.' It is vital that firms can evidence, through documentation, that a robust review and challenge exercise has been completed by the board, and that the board continues to review and challenge any changes to the plan and progress against it

Has your implementation plan been reviewed and challenged by the Board?



■ Yes ■ No ■ Not yet

Has the FCA requested any details of your implementation planning?



■ Yes ■ No ■ Don't know



Data

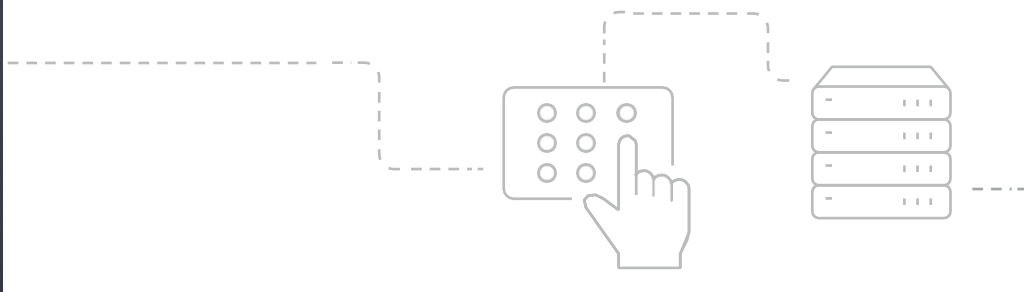
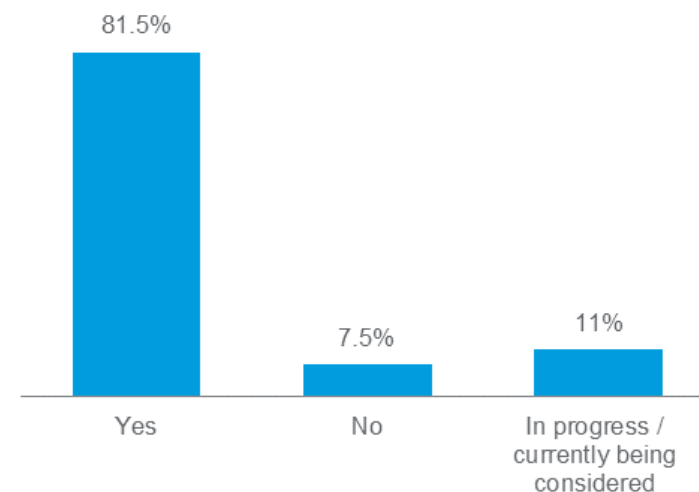
A key part of meeting the Consumer Duty is evidencing customer outcomes, which relies on understanding the data the organisation holds, and exactly what it is seeking to measure, including each of the reportable metrics. This relies on developing an effective data strategy.

Of those that did, 30% stated that they had not defined what good outcomes look like in the context of their business. That said, some firms are in the process of doing this, and many (63%) have defined what good outcomes look like. Yet there is room for enhancement, as only 30% of firms have defined a process and standards for how the assessment of current practices should be performed and documented.

The FCA, in its review of organisations' implementation plans, noted that 'many firms need to work and share information with other firms in the distribution chain, however some plans gave little focus to this area.'

When asked how easy it will be for the organisation to access the data required, 26% of survey respondents said it would be challenging, as the organisation needs to create a new suite of data and/or is reliant on third parties to provide access to data.

Have you considered the data / MI that you will need to collate on an ongoing basis to evidence compliance with the requirements?

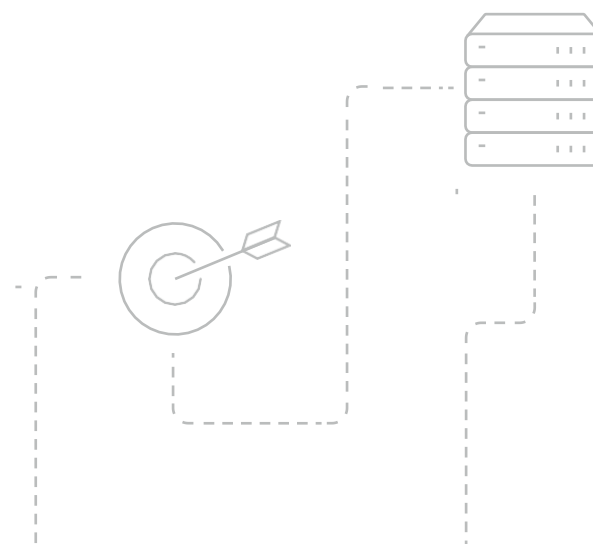
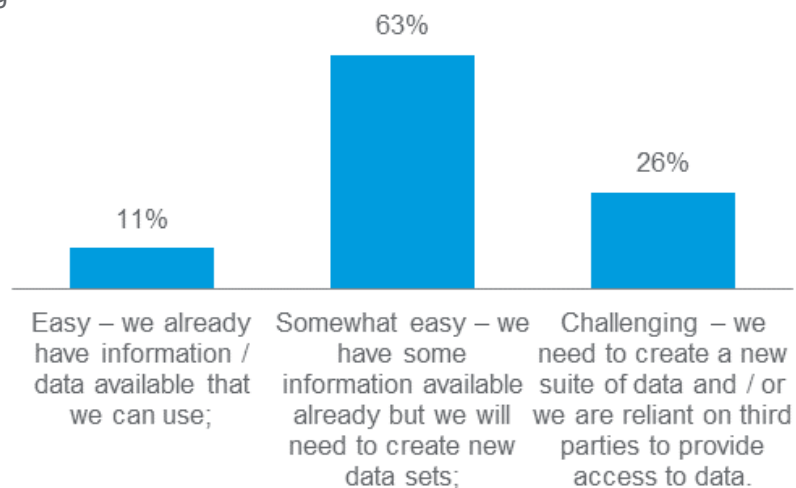


Gaps and data challenges

The survey respondents shared the following comments.

- There are gaps in Consumer MI data, or the data required to support MI does not exist and will not be possible to automate by the July deadline.
- The assessment of value is the most complex set of data that needs to be created.
- Data will be required at a much more granular level to meet requirements.
- New reports need to be written to collect the data. This includes building new reports for the questions that currently cannot be evidenced. For those where there is MI evidence, firms are reviewing and enhancing the data sets.
- Data is spread around the organisation in different systems and so will need drawing together, in a consistent way.

How challenging will it be for you to access the data required?



Process change, innovation and reporting

- Data will need to be used in different ways, to enable firms to demonstrate good outcomes.
- The Quality Assurance (QA) framework has been remodelled to report on outcomes rather than adherence to process.
- There is a need to understand core system constraints and automate where possible.
- While data is largely available, it needs to be turned in to useable MI and agreement reached on what metrics are needed. MI will need to be presented appropriately to evidence compliance with the Duty.
- While the organisation has a lot of data, consideration needs to be given to who must interrogate the data and how this feeds into senior management and reporting.

Third Parties

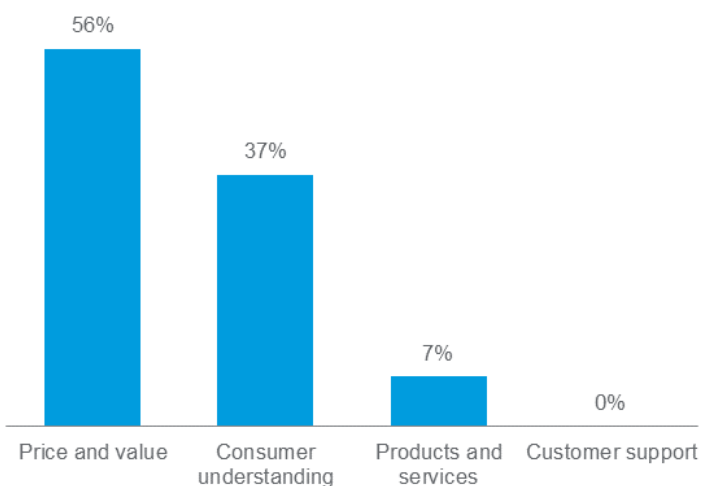
- The need to evaluate data and implement new data requirements in conjunction with third-party suppliers.
- System limitations and outsourcer's own priorities may limit whether the organisation obtains all the MI on the new 'wish list'.

Key Consumer Outcome Challenges

56% of firms stated price and value will be the most challenging consumer outcome to evidence. This was second to consumer understanding at 37%.

We have summarised the challenges in each of these areas as noted by survey respondents, in the comments below.

Which consumer outcome will you find the most challenging to evidence?



Price and value

- This is a subjective outcome to assess and in current market conditions it is challenging to evidence, as price is driven by the markets and not set by firms. For example savings and mortgage rates are driven by the Bank of England Base Rate, PRA expectations and margins.
- Completing the fair value assessment is challenging, particularly given the complexity in quantifying what is considered value.
- Price and value are considered to be new elements to the advice process.
- As a with-profit fund, price and value is reviewed at least annually by the Chief Actuary and presented to the Board. These are long documents and it is challenging to find a good set of easy-to-understand MI, which can be used to evidence this process.
- Price and value is a varied topic, and as such there is a need to re-visit policies to bring them in line and have a more robust methodology for pricing savings and mortgages. There is also a need to revisit the back book to ensure pricing and value were considered fair at the closure stage
- As a small organisation, there is limited evidence to support target market analysis, product testing, and customer feedback around products is generally limited.
- As a distributor firm, this area of consumer outcomes is difficult to fulfil.



Consumer understanding

We have noted that firms feel slightly more confident in relation to consumer understanding, which is likely to be the result of previous regulatory focus on key areas such as financial promotions and complaint handling. However, respondents have identified that there is still more work to be done and shared the following comments.

- It is difficult to obtain definitive confirmation that each customer understands all the information they have been provided with and that customers are clear at each stage of the journey.
- Describing something that is complex to a client who does not want to engage can be difficult. It can also be difficult to know if customers understand, unless they are forthcoming and tell you they don't.
- Customer forums and questionnaires have been put in place to evidence the consumer understanding requirement. There are also recorded lines on sales calls, and defined call scripts, that can capture customer understanding on a case-by-case basis. In addition, there is positive friction included in the online customer journey.

- Consumer understanding is the area where the least amount of verified data is currently held.
- Defined service level agreements for business processes are not currently in place and will need developing.
- As an insurer that sells through intermediaries, there is a need for the firm to create new ways to go direct to the consumer to improve understanding.

Firms may have a very broad target market with a wide range of customer literacy and numeracy. The contradiction between statutory requirements for some documentation and the Duty requirements to ensure documentation allows for informed decision-making and provides information in a transparent fashion is going to be challenging.

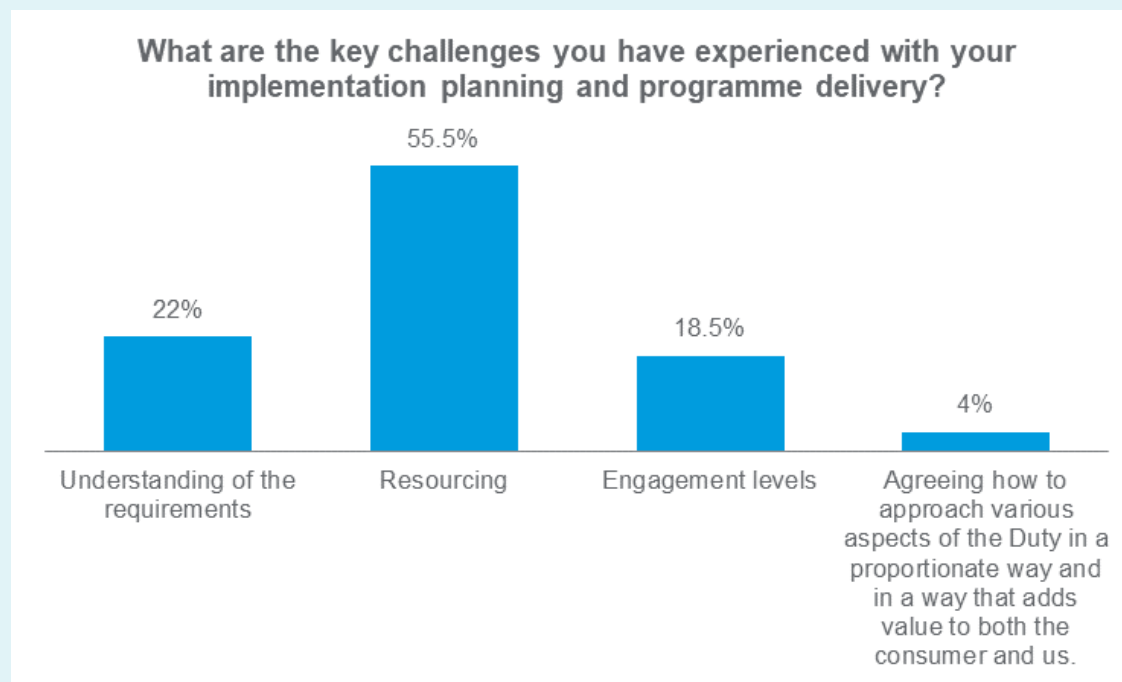


Key Challenges and Deliverability

There is no doubt that embedding the Consumer Duty and meeting the requirements by the 31 July 2023 deadline will not be easy. But what are the key challenges?

We asked firms what the key challenges they had experienced with implementation planning and programme delivery?

Just over 50% stated resourcing, followed by understanding the requirements (at 22%) and engagement levels (18.5%). Resourcing may be a particular issue as 78% of respondents confirmed they are resourcing the Consumer Duty implementation programme using existing internal resources only.



Understanding of the requirements

The respondents commented that:

- The Consumer Duty is formed of a complex set of interacting principles and further clarification is required on what constitutes good and poor practice.
- As the Consumer Duty implementation date draws nearer, information and opinions have evolved. However, with different views on the expectations of the Duty from different organisations, it is difficult to adopt proportionality in some cases.
- This is a business-led project rather than compliance and it has taken some time for project leads to be comfortable with the FCA's language and style, and to understand exactly what is required of them. In some cases several 'what if' questions remain.

Resourcing

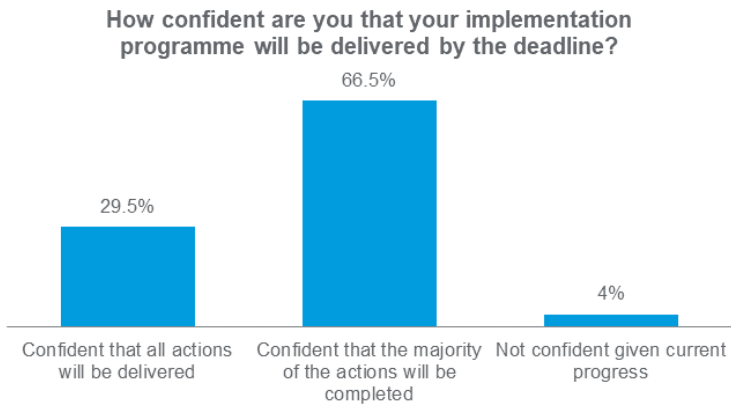
- The work required for Consumer Duty implementation is significant. The gap analysis is a significant piece of work and has diverted resources away from other customer-focused activities. Even when gaps are minimal, the need to evidence the rationale and process underpinning the gap creates a lot of work.
- For small organisations, the short implementation timescale has made resourcing more challenging.
- Implementation of the Consumer Duty has involved staff from across business areas (such as sales, marketing, operations, compliance, IT as well as executive management) but a common theme is that there is insufficient spare resource across the pool of staff to adequately support the project as the organisation would like.
- Implementation of the Consumer Duty is expected to be undertaken by individuals who already have demanding roles within the business. Financial services firms are managing significant economic disruption, amidst the cost-of-living-crisis and uncertainty increases demand on business-as-usual operations.
- Without a dedicated project manager or team in place, the implementation has been managed by the compliance department, with assistance from other key stakeholders. It has been a project completed alongside business-as-usual operations so conflicting priorities have had to be mitigated throughout the project. Other than guidance and insights from trade press, webinars, and Consumer Duty specific presentations there has been no third-party input.

Engagement Levels

- Ensuring that across all levels of the organisation, especially at board level, the importance and level of work and scrutiny required to meet the Consumer Duty is understood.
- Business-as-usual operations and other business priorities come before wider implementation plans.



With the short timescales firms are working with, it is unsurprising that just 29.5% of survey respondents are confident that all the actions will be completed by the deadline.



The survey respondents made the following comments.

Confident that all actions will be delivered

- All actions will be delivered as there is a clear action plan and implementation schedule that is currently on track for completion. Yet, the implementation deadlines set by the FCA are tight, and so focus is required to ensure the project is maintained, amid conflicting requirements.

Confident that the majority of the actions will be completed

- There may be some actions that have started but are not complete or reviewed by the deadline. Time and resource are the major constraint, but prioritisation is in place in line with FCA guidance and firms are taking a proportionate approach given their size.
- There is a chance that prioritisation will need to be given to some tasks over others. While every effort may be made to complete all tasks on time, those that involve third parties could over run.

- High-priority actions to ensure compliance are to be delivered and any actions identified that prevent foreseeable harm are considered priority. All other actions will form part of an overarching roadmap to deliver a satisfactory customer experience.
- Until all the gaps have been identified, it is difficult to know when compliance will be reached and, as much of the Consumer Duty regulation is subjective, this will be a moving piece of work.
- Actions that relate to system or technical updates are likely to take longer, due in part to limited development resource. These may relate, for example, to MI.

Not confident given current progress

- Requirements have yet to be determined.



Our concluding comments

The Consumer Duty represents an opportunity to improve the business, placing the customer at the centre. Implementing the Duty effectively will require senior-level engagement and commitment and the business as a whole may require a cultural shift.

Appropriate levels of resource and developing relevant MI with appropriate KPIs and KRIs will be key to ensuring successful implementation and ongoing monitoring of compliance.

If you would like to discuss the findings further or talk to one of the team about your consumer duty plans then please contact:

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