

An Overview of the Consumer Duty for BVRLA members



Agenda.



1. High-level summary of the new Consumer Duty regime, its rules and outcomes.
2. Overview of the key considerations for your business.
3. Questions.

A new Consumer Duty.

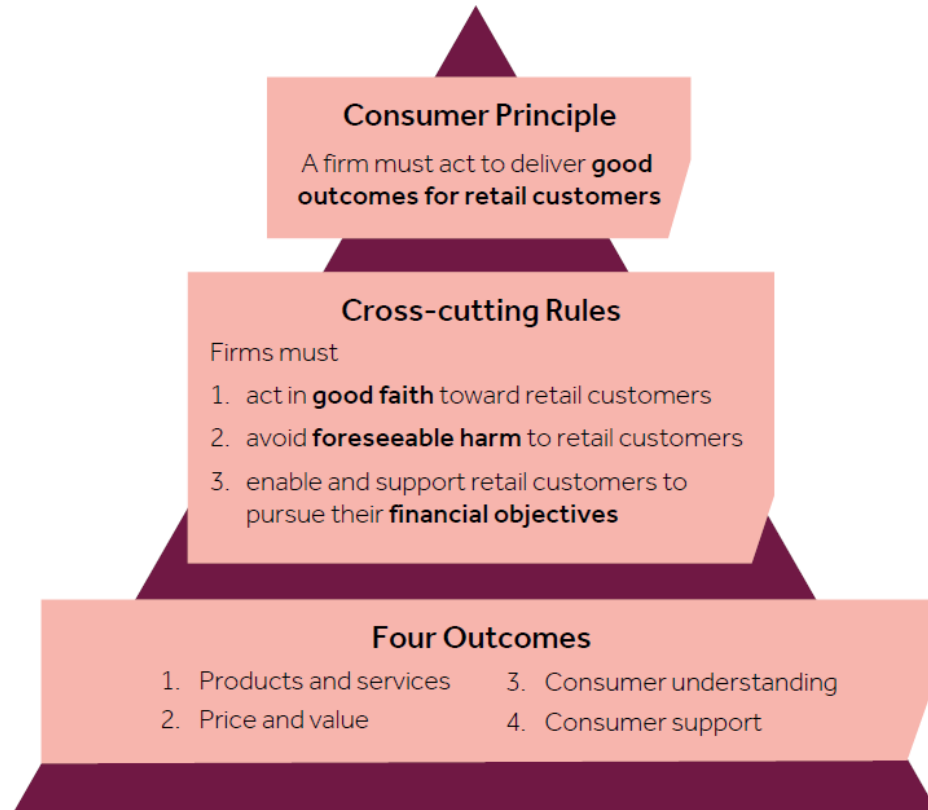
- On **14 May 2021** the FCA introduced new guidance on Consumer Duty.
- **The FCA has conducted two rounds of consultation and expects to publish final rules in July 2022.**
- The new guidance is to counteract against firms misleading consumers with often difficult to understand information and thus hindering consumers ability to properly assess the product or service on offer.
- Firms are to ensure the products and services on offer are fit for purpose, represent fair value and are clearly communicated and understandable.
- Relates to products and services sold to ‘retail clients’.
- Definition of ‘consumer’ includes all clients other than professional clients (such as large corporates and government bodies) and eligible counterparties. **The Consumer Duty will apply to financial services offered to SMEs.**

A new Consumer Duty - brings a new Consumer Principle.



- A new Consumer Principle of business to be introduced will go above and beyond Principle 6 (TCF principle) and is intended to reflect the overall standards of behaviour the FCA expects from firms.
- **‘A firm must act to deliver good outcomes for retail clients’.**
- The FCA want this new principle to set a higher standard than Principle 6 (TCF).
- Intended to ensure firms play a greater or more important role in delivering outcomes especially those who use distribution chains to sell and service products.

A new Consumer Duty – the Cross Cutting rules...



Three Key behaviours from firms called the Cross-Cutting rules:-

- Firms should take all reasonable steps to avoid foreseeable harm to customers
- Take all reasonable steps to enable customers to pursue their financial objectives and
- To act in good faith

A suite of rules and guidance is expected with detailed expectations for firm conduct in relation to four specific outcomes. These are Good Communication, Products and Services, Customer Services and Price and Value.

Consumer Duty – What are the four outcomes?

1. PRODUCTS AND SERVICES

2. PRICE AND VALUE

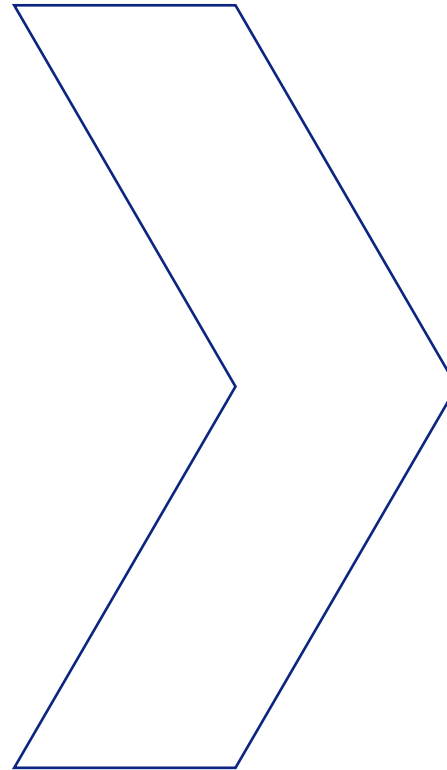
3. COMMUNICATIONS/ CONSUMER

UNDERSTANDING

4. CUSTOMER SERVICE / CONSUMER

SUPPORT

BVRLA



These will represent the key elements of the firm-consumer relationship regarding products and services: how firms:

- Design
- Sell
- Service

The FCA proposes to set expectations for each of these four outcomes in a suite of rules and guidance.

Consumer Duty

Outcome 1: Products and Services.

- Products and services should be fit for purpose, designed to meet customer needs and targeted to the right consumer.

Examples of insufficient consideration:

- Consumer credit products designed to generate a high proportion of profits from late payment fees or re-lending.
- Unreasonable exit fees which discourage consumers from leaving products or services that are not right for them, or accessing better deals.
- Sludge practices that discourage exit, for example requiring customers to go into a branch to close a product.
- Firms having insufficient controls to prevent products being marketed to consumers for whom the benefits are unlikely to be justified by the price.

Key considerations: Products and Services.



Are your products and services fit for purpose, designed to meet customer needs and targeted to the right consumer?

- Review your current products and services to check whether they are fit for purpose, meet customer needs and are targeted at the right customers – including any outsourced third parties.
- Review the terms and conditions in place with your Funders – do these create customer detriment?
- Review your terms and conditions with customers to ensure you are acting in good faith to avoid foreseeable harm.

Consumer Duty Outcome 2: Price and Value.

- Products and services should be fit for purpose and represent fair value.
- The FCA wants firms to assess the price of products and services at the design stage, and through ongoing monitoring.
- They should ensure that the benefits of the products and services offered to consumers are reasonable relative to their price.

This does not mean the proposals set price caps or regulate pricing per se :

- Set levels at which firms should price their products or services.
- Nor should they intend to use the proposed rule itself to introduce market interventions such as price caps or other price interventions.

Key considerations: Price and Value.



Do all consumers receive fair value?

- Regular review of your products and services – fair value template.
- Firms should assess the price and value at the design stage and before offering products or services.
- Assess whether products or services provide fair value on an ongoing basis.

Consumer Duty

Outcome 3: Communication/Consumer understanding.

- The FCA wants consumers to be given the information they need, at the right time and presented in a way they can understand.
- To make effective decisions, consumers need to be able to understand and assess:
 - The features of products and services
 - The costs they are likely to incur, risks they might take and the benefits they are likely to derive from products or services
 - Whether products and services will meet their needs.

The FCA clarifies that they do not want to see:-

- Communications that are framed. For example, communications that focus on daily rates rather than the whole cost of borrowing.
- Key information hidden in a large volume of material or hard to find.
- Insufficient information being provided to consumers or provided at a time when consumer's have time to reflect and consider.
- Firms failing to draw customers attention to key changes in an agreement.
- Communications not being tailored to the channel used.

Key considerations: Communication/Consumer understanding.



Review your customer journey and the communication points at every point of this journey.

- Does your communication clearly highlight risks for consumers and does it provide adequate explanations of these risks?
- Do you provide the necessary calls to action to avoid negative impacts?
- Do you consider the different communication needs of customers and do you tailor your communications accordingly?

Consumer Duty

Outcome 4: Customer Services/Consumer Support.

Firms will be required to:

- Design processes in a way that actively takes the consumers' needs into account.
- Consider the customer service needs of their customer base, and the target market for their products and services and make sure their customer service meets the range of those customers' need.
- Monitor the performance of processes, looking for information that may indicate areas where they fall short of the outcome, and act promptly to address these.
- Regularly review processes to ensure they remain fit for purpose.

“Customer service to meet the needs of consumers, enabling them to realise the benefits of products and services and act in their interests without undue hindrance”.

Key considerations: Customer Services/Consumer Support.



Does your customer service enable consumers to realise the benefits of the products and services they buy?

Does it ensure that customers are supported when pursuing their financial objectives?

- Do current after sales process meeting existing requirements? (CONC and DISP).
- Are there any unreasonable barriers that create customer detriment or harm?
- Regular monitoring of whether your processes and procedures provide an appropriate standard of support that meets the needs of and does not disadvantage retail customers, especially vulnerable customers.

Consumer Duty – Management Information.

- Implementation of the new Consumer Duty will require appropriate data-gathering and management information.
- Data will be important to almost every aspect of the Consumer Duty.
- The FCA gives a list of examples in the CP of the kinds of data an MI that are likely to be needed.
- **FCA state:-**
- ***“Firms would need to assess and evidence the extent to which and how they are acting to deliver good outcomes.”***

Firms will need to review their data-gathering and record-keeping arrangements.

- Demonstrate compliance is going to be around the MI in terms of evidence, data and records - include complaints data or customer retention data.
- Firms will be expected to produce and regularly review management information on consumer outcomes that is appropriate to the nature, scale, and complexity of their business.
- Firms will need to demonstrate effectively how they are monitoring outcomes and addressing issues.

Consumer Duty – Key Takeaways.

COMMS, PRODUCT/SERVICES, CUSTOMER SERVICES, PRICE & VALUE



Do you equip your customers to make effective, timely and properly informed decisions about your financial products and services?



Are your communications framed in a way that is reasonably likely to be understood and that facilitates decision-making?



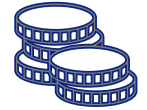
Can you demonstrate that you take proportionate steps to review your products and, where appropriate, test and adapt your communications to ensure they are likely to be understood by your target customers?



Design
Are products and services specifically designed to meet the needs of consumers and sold to those whose needs they meet? Are they designed to benefit your customers and perform as you would reasonably expect?



Customer Service
Does this meet the needs of consumers, enabling them to realise the benefits of products and services and act in their interests without undue hindrance? Is it as easy to exit a product or service as it is to purchase it in the first place?



Price and Value
Do the price of products and services represent fair value for your customers and is this price relative to its expected benefits? What is your price and value proposition?

Summary of practical considerations.



How ready is your business for Consumer Duty?

- A gap analysis between current practices today and required mode of operation in April 2023.
- Structuring your approach to appropriately meet regulatory deadlines.
- Proactively monitor outcomes for consumers across each of the Duty's four outcomes and produce effective Management Information.
- Refresh training to ensure that staff at all levels of the firm understand their obligations under the Consumer Duty.



JOANNE DAVIS
CO-FOUNDER & CEO

+44 (0)7741 240114

jo.davis@auxillias.com

