

# The impact of the new Consumer Duty on T&C Schemes

# Today's Outcomes



To understand the key elements of the new consumer duty through a T&C lens



To construct a customer journey and identify the touch points that will need to be addressed



To analyse the key skills and changes that are needed to support a consumer outcome approach rather than one that is compliance driven



To critique the management information needed to evidence a consumer outcome approach

So why is more regulation  
needed?



# So why is more regulation needed?

Change has been coming for some time

HMT expectations

Some companies still not embracing the need to put customers first

Regulations have loopholes and unclear expectations

Regulatory fines tells a story

Customers lack trust in financial services firms

Harder for customers to make informed decisions

# Discussion

- ▶ In your groups please discuss
- ▶ What in your view are the key differences between Customer Satisfaction and TCF?
- ▶ How does TCF connect to T&C?
- ▶ The new Consumer Duty has been described as TCF with teeth. Do you agree or disagree with this? Why?

# Consumer Duty link to FCA objectives?

- ▶ How do the FCA describe the new regulations proposed impact of their objectives?

# FCA Success Measures



FAIR VALUE



PRODUCTS &  
SERVICES



TREATMENT



CONFIDENCE

# What the FCA has stated

Firms to consistently focus on consumer outcomes and put them in a position where they can make effective decisions

It is not enough to focus on old TCF as new requirements are more extensive

Firms need to extend focus beyond existing narrow compliance with specific rules

For many firms this requires a shift in both culture and behaviour

Firms will need to assess and evidence the extent to which and how they are acting to deliver good outcomes

The FCA  
has also  
stated

The FCA will have a more data led approach to help respond rapidly

Because of the additional clarity introduced by the Consumer Duty and its rules-based approach, we would be able to use it readily and effectively hold firms to account

# Consumer Duty

- ▶ Comprises 3 elements
- ▶ A New Principle
- ▶ 3 Cross Cutting Rules
- ▶ 4 Outcomes

# Principle 12- a firm must act to deliver good outcomes for retail clients

- ▶ Principles 6 and 7 dis-applied for retail business in scope
- ▶ Wording 'clearer' that principles that it replaces
- ▶ Guidance covering TCF and Vulnerable customers still applies (PRIN 2A.7.G(2))
- ▶ Focus on consumer outcomes of a product wherever they stand in the distribution chain

## PRIN2A.7.8G (2)

- ▶ While existing, formal guidance on Principles 6/7 will remain relevant to a firm in considering their obligations under Principle 12 firms should also take account of the inherent limits of such guidance...

# Principle 12- a firm must act to deliver good outcomes for retail clients

- ▶ It is appropriate to require a high level of protection for retail customers for reasons including:
- ▶ Typically in a weak bargaining position
- ▶ Susceptible to cognitive and behavioural biases
- ▶ May lack experience or expertise in products
- ▶ Frequently information asymmetries involved

# Behavioural Economics

- ▶ Heuristics
  - ▶ Asymmetries
  - ▶ Biases
- 
- ▶ FCA Occasional Paper April 2013

*Applying behavioural economics at the Financial Conduct Authority*

# Cross Cutting Obligations

- ▶ These develop and amplify the standards of conduct expected
  - 1) A firm must act in good faith towards retail customers
  - 2) A firm must avoid foreseeable harm to retail customers
  - 3) A firm must enable and support retail customers to pursue their financial objectives

These rules will also be applied to people subject to the new CoCON rule 4 'act to deliver good outcomes for retail customers'

# FCA Expectations

Do not manipulate or exploit emotions or behavioural biases to mis-lead or create a demand

...Ongoing relationship  
...act to avoid harm...throughout the life of the product

...the adequacy of the...communications and customer service

...sale...designed to meet...the objectives and interests...

Making sure retail customers have the information and support they need...to make and act upon informed decisions

# 4 Consumer Duty Outcomes

1. Products & Services (20 Rules)
  2. Price & Value (20 Rules)
  3. Consumer Understanding (7 Rules)
  4. Consumer Support (3 Rules)
- 
- ▶ Firms that currently comply with PROD3, 4, 7 or COLL 6.6 can rely on this to comply with (1) and (2) above for the relevant parts of their business

## Selected FCA expectations

All communications throughout a firm's interactions

Taking into account...  
Characteristics of vulnerability

Communicate...suitable points  
throughout the lifecycle of the  
product

Check the customer understands the  
information

# FCA Monitoring Requirements

- ▶ Firm must regularly monitor the outcomes customers receive from products, comms and support
- ▶ A firm must be able to determine:-
  1. Products met needs, characteristics and objectives
  2. Fair value
  3. Removal of products
  4. Right information to make effective decisions
  5. Support provided as needed

# Customer Touchpoints

- ▶ A touchpoint represents where previous, current or potential customers interact with a business.
- ▶ Touchpoints occur before, during and after affect buying decisions

## Why are touchpoints important?



Encourages customers to make initial purchase



Encourages repeat purchases



Helps you enhance customer experiences

# Examples BEFORE

- ▶ Online Ads
- ▶ Print Ads
- ▶ Marketing campaigns
- ▶ Video tutorials
- ▶ Blog posts
- ▶ Landing pages
- ▶ Infographics
- ▶ Social media platforms
- ▶ TV or broadcast ads
- ▶ Customer reviews
- ▶ Product ratings
- ▶ Product launch events

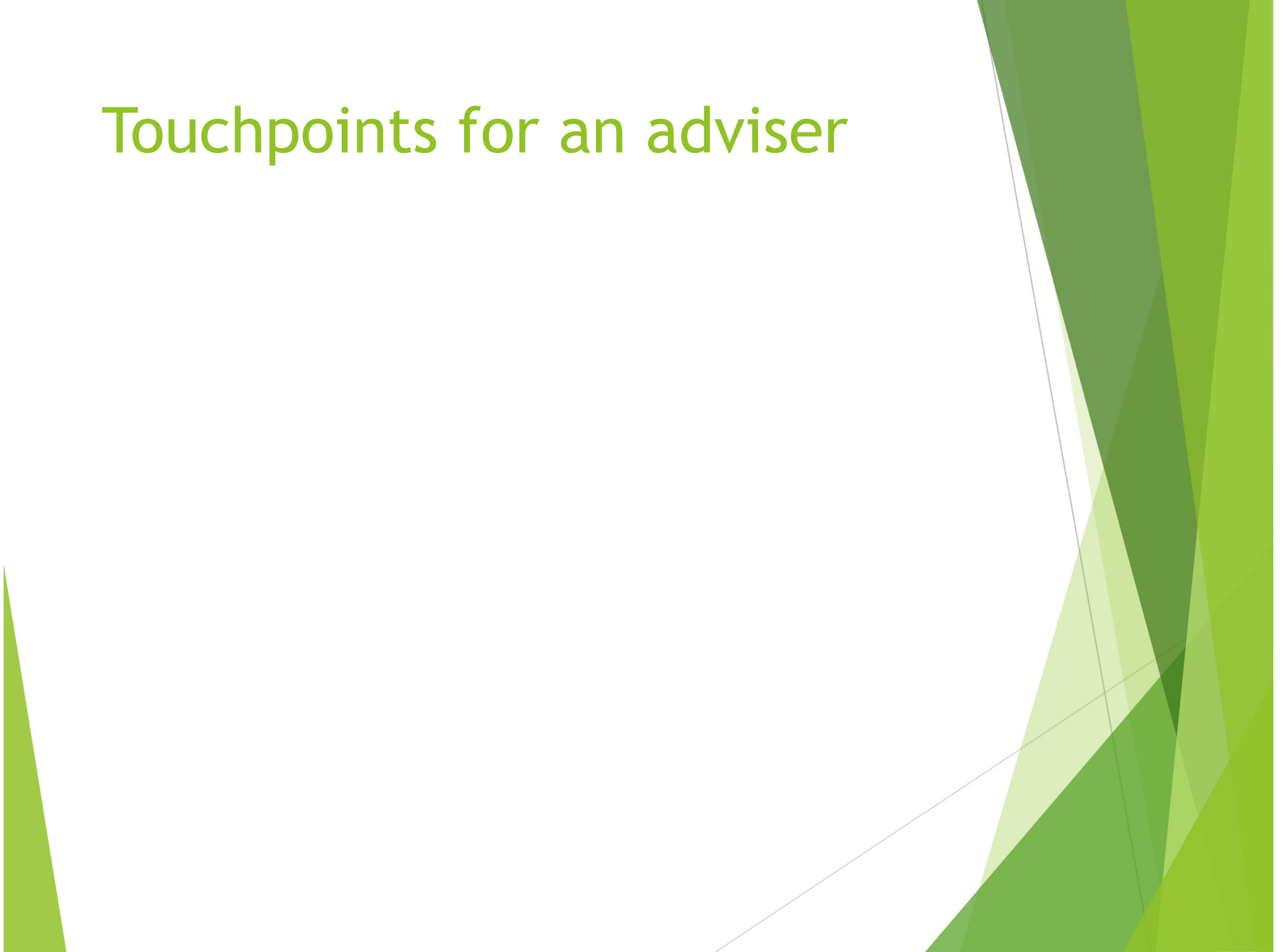
# Examples DURING

- ▶ Company website
- ▶ Product pages
- ▶ Bricks & mortar store
- ▶ Point of sale
- ▶ Product catalogues
- ▶ Sales Reps
- ▶ Product packaging

# Examples AFTER

- ▶ Feedback surveys
- ▶ Email newsletters
- ▶ Purchase confirmation emails
- ▶ Thank you emails
- ▶ Customer service reps
- ▶ Renewal options
- ▶ Help centres
- ▶ Customer loyalty programmes
- ▶ Billing documents

# Touchpoints for an adviser



# Touchpoints for an adviser

- ▶ Includes meetings, telephone calls, emails, video calls, social media
- ▶ Clarity of documentation and advice
- ▶ Immediate customer satisfaction
- ▶ Reviews
- ▶ Annual statements
- ▶ Cancellations, complaints
- ▶ Changes
- ▶ Vesting/Maturity

What does  
this tell us?

Touchpoints are far wider  
than the remit of the  
financial adviser

To be successful you will  
need to consider all  
appropriate touchpoints

SYSC 3.1.9 may come into  
play

## SYSC3.1.9

Firms which are carrying on activities that are not subject to TC may nevertheless wish to take TC into account in complying with the competence requirements in SYSC

Turn our attention to T&C

# Turn our attention to T&C

- ▶ Shift in focus to ensure you challenge how your approach creates good consumer outcomes rather than satisfying a compliance rule
- ▶ Does your culture make the customer are at the centre of what you do? Do your values support this?
- ▶ How do you define and measure a good consumer outcome? Does this include expected behaviours?

# T&C

- ▶ Have you developed your training to incorporate vulnerable customers and behavioural economics?
- ▶ Re-calibrate your competence and excellence standards
- ▶ Review your advice approach to ensure that customers do not feel 'processed'
- ▶ Analyse and act upon feedback from customers on how you can improve

# T&C

- ▶ Remodel your observation aids to suit an approach that focuses on consumer outcomes. Ask your supervisors to put themselves in your customers shoes when considering competence/development
- ▶ Matching customer feedback & observations
- ▶ Refresh your supervisors skills to incorporate vulnerability and behavioural economics
- ▶ Ensure that you revisit your advice standards to capture vulnerability and BE indicators and target market matching

# Monitoring/Governance

- ▶ Firms will need to monitor the outcomes their customers are experiencing and consider whether they are consistent with the consumer duty.
- ▶ Firms can expect at every stage of the regulatory lifecycle to be asked to demonstrate how their business model, the actions they have taken and their culture are focused on good consumer outcomes

# Firms to produce and regularly review MI on consumer outcomes

- ▶ Persistency
- ▶ File Reviews
- ▶ Customer Feedback
- ▶ Complaints
- ▶ 4 Outcome reviews
- ▶ Compliance reports
- ▶ Testing customer experiences
- ▶ Staff feedback
- ▶ Process & policy reviews
- ▶ Vulnerable customers outcomes experienced
- ▶ TC staff training, gap analyses
- ▶ Behavioural insights-customer interactions, drop off rates, use of channels

# Indicator review

Which ones do you not currently do?



How easy will they be to set up?



Any gaps?

# Timelines



Consultation period  
ends 15 February



Policy statement and  
new rules by 31 July



Fully implement by  
30 April 2023

# Actions from today



1



2



3