



# HOW READY ARE YOU FOR CONSUMER DUTY?

Key milestones for financial advice firms ahead of Consumer Duty's implementation deadline 31 July 2023

Following a review of larger firms' implementation plans, in January 2023 the FCA highlighted three key areas that they felt firms should focus on:

- 1. Effective prioritisation**
- 2. Embedding the substantive requirements**
- 3. Working with other firms**

This guide explains the main actions most firms will need to address to meet their Consumer Duty substantive requirements.

It's important to be able to "show your working" for all of them with, for example, documents explaining how and why decisions were made.



## BY 31 OCTOBER 2022

### COMPLETED GAP ANALYSIS AND CREATED IMPLEMENTATION PLAN

By this date firms should have:

- Completed Gap Analysis to help identify any obligations and actions the firm needs to take to comply with the Consumer Duty.
- Created an Implementation Plan detailing how the firm is going to deliver the required actions (for example, workstreams aligned to the Consumer Duty's four outcomes).
- Received feedback on the above plans from the firm's board, executives, and audit and risk functions following their scrutiny and challenge.



## BY 30 APRIL 2023

### RECEIVED INFORMATION FROM MANUFACTURERS

By this date, all manufacturers should have provided distributors with the information they need to comply with their Consumer Duty obligations (see **31 July 2023 - Completed Target Market Assessment**).

This information should include Value Assessments and Target Market Statements for their products and services. Please click the following links for examples of manufacturer information: [Aviva](#), [Canada Life](#), [Just](#), [Royal London](#).

### DISTRIBUTORS CAN BE MANUFACTURERS TOO

Firms should appreciate that a distributor can also be a “manufacturer”, for example if they set the parameters of a product or service such as a Discretionary Fund Management Service.

Distributors may be deemed a “co-manufacturer” of a product or service if, for example, they commission other firms to build it. For example, an intermediary might design an investment fund and work with a fund manager to launch it. Both are considered co-manufacturers. Where firms are co-manufacturers of a product or service, they must have a written agreement outlining their respective roles and responsibilities.

Listen to this [FCA podcast](#) for more information about this milestone.



## BY 31 JULY 2023 - GENERAL MILESTONES

### COMPLETED IMPLEMENTATION PLANS

A firm's Implementation Plan workstreams should have delivered against the gap analysis to ensure the your firm is meeting its Consumer Duty obligations.

### AGREED DATA AND TECHNOLOGY STRATEGIES

Firms should have agreed what data strategies and/or technology they'll use to monitor compliance with the Duty, including gaps against the intended outcomes for different customer groups, including those in vulnerable circumstances.

### REVIEWED EXISTING POLICIES

Firms should have reviewed existing policies against the Consumer Duty requirements including, but not limited to, your firm's:

- Vulnerability Policy
- PROD
- Centralised Investment/Retirement Proposition
- Platform due diligence
- Suitability reports
- Ongoing services
- Advice and sales processes (including promotions, suitability reports, pension transfer process, insistent client process, execution only process etc)
- Customer support (including client agreements, terms of business, fee agreements, disputes and complaints handling, channels of support)
- Client onboarding processes
- Document disclosure processes
- Information to customers
- How you test client understanding
- Culture, governance and accountability



## By 31 July 2023 - SPECIFIC MILESTONES

### COMPLETED TARGET MARKET ASSESSMENT

1. Firms should have defined target markets - at a level of granularity meaning typical consumer needs can be identified and met via the range of products and services being offered.
2. Established client needs within our target markets.
3. Mapped out the customer journey for each target market - all interactions an individual has with a firm (outgoing and incoming) in relation to buying and using products and services, including outsourced services.
4. Documented your proposition (including a schedule of products and services) for each target market and segment.,

As stated previously, by 30 April 2023 all manufacturers/providers must publish material documenting the target market for their products/services. This will allow firms to make an informed assessment of whether they can provide a suitable solution for their target clients.

### GOVERNANCE

Firms must have defined how they will engage with the board and executive to provide ongoing assurance that they are meeting their Duty obligations.

### ASSESSMENT OF FORESEEABLE HARM

Firms should have identified and assessed any foreseeable harms and risks that relate to the full lifecycle of the products and services they distribute.

This should include consideration around how consumers' behavioural biases, such as inertia, might lead their products or services to cause foreseeable harm.

### FAIR VALUE FRAMEWORK/ASSESSMENT

Firms should have completed and documented a fair value assessment of all products and services (that goes beyond price) offered to each target market. Firms offering a separate Discretionary Investment Management (DIM) service in-house will need to perform a value assessment on the DIM fee, as well as the advice fee.

Firms need to document why the overall fees across the distribution chain (including advice, DFM, fund and platform) offer fair value in relation to the products and services they deliver to clients, either directly or through chosen providers.

Firms may find it useful to benchmark their standard advice fee against the range of fees used across the advice market. This can be a useful indicator to show that they're firm is not over-charging relative to similar services clients could get elsewhere.

Seeking feedback from clients can also provide useful evidence of fair value.



## By 31 July 2023 - SPECIFIC MILESTONES (CONTINUED)

### DEFINITION OF 'GOOD OUTCOMES'

Firms should have defined what 'good outcomes' look like for each target market and client segment. For example, for the retirement income target market as a whole, this might include essential expenditure covered via sources of guaranteed and sustainable income, and discretionary expenditure covered by sufficient and sustainable sources of flexible income.

Firms should then look to each of the four outcomes when setting detailed expectations of conduct, whilst also paying attention to the cross-cutting rules:

**1. Products and Services** - firms to ensure advice services meet the needs, characteristics and objectives of clients in the target market. Meeting this requirement should be relatively straightforward for firms already complying with the PROD rules (compliance with which should be evidenced).

For most firms it means documenting what they already know and demonstrating a clear link between the target market, their needs and the products and services the firm offers.

Firms must be confident that the data and management information being used can monitor whether products and services continue to meet the needs of customers and contribute to good consumer outcomes.

**2. Price and Value** - firms to assess whether their products or services provide fair value to a customer. This aims to address the issue of firms offering products or services that are poor value, thereby potentially leading to foreseeable harm (see Fair Value Framework/Assessment section, page 4).

**3. Consumer Understanding** - firms to create an **assessment and testing framework** that helps determine the extent of customer testing they need to undertake in order to ensure customers understand the information provided before sale, at the point of sale and thereafter.

**4. Consumer Support** - firms to **create customer support monitoring policies and supporting MI suite** that should document what support they provide for each service proposition and subject each to questioning and evidencing around a client's ability to realise the benefits of the products and services they buy, allow them to pursue their financial objectives and ensure they can act in their own best interests.

By this date at the very latest (if not by 31 October 2022) firms must have appointed a **Consumer Duty Champion** at board or equivalent level to support the firm's Chair and CEO in raising the Duty in all relevant discussions, and to challenge the firm's management on how it is embedding the Duty and focusing on consumer outcomes.



## FROM 31 JULY 2023

**REGULAR GAP ANALYSIS** and make appropriate changes to ensure the firm is meeting their Consumer Duty obligations.

The FCA has highlighted that the Duty is a journey needing continuous attention and may require changes before the cycle starts again.

### REVIEW FAIR VALUE ASSESSMENT

at least annually, or earlier if there's:

- A material change in the scope or price of the advice service(s) offered
- Any indicators of potential harm to clients
- Any relevant external factors.

NOTE: the FCA has warned it will pay extra attention to how advisers deal with the price and value aspect of its Consumer Duty rules, repeating concerns that “some clients of financial advisers may be getting an ongoing service that does not represent value for money”.

### FEEDBACK TO MANUFACTURERS

The FCA expect distributors and manufacturers to work together and share information, to perform their respective roles effectively and deliver good consumer outcomes.

If a firm identifies consumer harm elsewhere in the distribution chain, it must raise the concerns with other relevant parties. This could include identifying foreseeable issues with how a product or service is operating in practice, for example confusing product literature.

Firms must also notify the FCA when they believe another firm in the distribution chain may not be complying with the Duty.

### MONITOR AND REGULARLY REVIEW CUSTOMER OUTCOMES

It's important to ensure that a firm's products and services are delivering outcomes consistent with the Duty. The review process should flag if, and why, customers are not getting good outcomes, lead to appropriate corrective actions and prevent repeats in the future.

### PUBLISH BOARD CONSUMER DUTY REPORTS ANNUALLY

The FCA has stated that boards must review, at least annually, whether their firm is delivering good consumer outcomes in line with the Duty and approve plans to address poor outcomes. This means the first annual board report on compliance with the Duty must be **finalised before 31 July 2024**.

The FCA expects this report to be “provided on request” and it will be a key part of their assessment of compliance with the Duty. Firms will also will need to regularly report on how their future business strategy, governance, leadership, and people policies are embedding the Duty in the firm's culture.



## FROM 31 JULY 2024 - CLOSED PRODUCTS AND SERVICES

The Duty will apply to all closed products and services from this date.