



CONSUMER DUTY: ONE YEAR ON

Highlights of the FCA's livestreamed event on 31 July 2024 to mark Consumer Duty's first anniversary.

31 July 2024 was the first anniversary of Consumer Duty's implementation for open products and services, and the start of its application for closed products and services.

The FCA marked this occasion with a conference at their London head office, attended by our CEO, and livestream webinar. This document summarises the main points:

The speakers were senior figures from the FCA and Financial Ombudsman Service (FOS).

- Sheldon Mills: Executive Director, Consumers and Competition, FCA
- Abby Thomas: Chief Executive and Chief Ombudsman, FOS
- Graham Reynolds: Director of Competition, FCA
- Dominic Cashman: Director of Authorisations, FCA
- Therese Chambers: Joint Executive Director of Enforcement and Market Oversight, FCA

MANY POSITIVE IMPACTS ALREADY

The FCA cited many examples of positive, significant and impactful changes to processes, communications and fair value announced within the Duty's first 12 months:

- Cash savings – enacting base rate increases faster led to extra £4bn pa for savers.
- Intervention on gap insurance's commission structure should save customers £70m.
- Changes to advice processes leading to improved client outcomes and transparency.

- Platform providers no longer charging for cash holdings should put £10bn pa back in customers' accounts.
- Firms developing better metrics to understand customers and identify vulnerabilities, and adopting "tell us once" processes.
- Restructured staff bonus schemes so employees get good outcomes when their customers do.
- More proactive and simplified communications.

PROTECTING CONSUMERS AND ENCOURAGING GROWTH

The FCA is often asked whether the Duty protects consumers too much and hampers growth. They believe that consumer protection and growth should be mutually reinforcing not mutually exclusive.

The regulator wants to see inclusive and sustainable growth where suitable products are developed to help consumers meet defined needs.

Since 2023, the FCA has a new secondary objective; to facilitate the international competitiveness of the UK economy and its growth in the medium to long term. Their approach to the Duty will support this objective by promoting more effective competition and innovation.

Examples of action in this area are:

- FCA's innovation sandboxes and pathways have supported around 900 firms (including startups and FinTech) test and develop new products.

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- Helping 450 newly authorised firms to understand their obligations and meet the required standards.

The FCA's rules aim to enable firms to better support people who can save and invest.

- Financial Lives survey showed that, in 2022, at least 4.5m people had investable assets of £10k or more. This was totally or mainly in cash despite no plans to withdraw their savings in next five years.
- Other research found that 38% of people aren't saving enough for a minimum lifestyle in retirement, creating huge issues for the individuals and the economy.

Positively impacting these measures would benefit investment, growth and the consumers as well.

FCA will continue to be proportionate in assessing implementation of the Duty. They want small firms to feel confident in adopting the Duty and take an approach that fits their size, their activities and market.

They pointed to their [Call for Input](#), announced 29 July, to address areas of duplication, complexity or over-prescription which can lead to extra cost but little consumer benefit, and encouraged all firms to engage with and feed into this initiative.

NEXT STEPS FOR THE FCA

They'll soon publish a grid of upcoming work:

- A focus on addressing foreseeable harm to retail consumers.
- More understanding of how firms are implementing the Duty and the outcomes they're delivering.
- Continue to share good practice and expectations.

- More thematic work across sectors.
- Keep focus on the Price and Value outcome and helping firms get this right. **The FCA confirmed that their role is not to set prices but guide firms in assessing and providing fair value to consumers.** They also reiterated that they won't stand in the way of well-run firms making profit in a well-functioning market.

FCA AND FOS ALIGNMENT

The Financial Ombudsman Service's vision is to ensure that every customer (individuals bringing a complaint or the businesses) either receive a better outcome or are better informed as a result of using the service.

In the last two financial years, FOS quality scores have increased and resolution timescales have halved.

FOS attends events with FCA to promote understanding of the Duty and shared insights around day to day working.

Complaints is one way that the FCA measures the Duty's impact, and Consumer Duty impacts how FOS assesses what's fair and reasonable in each case.

FOS resolved over 200,000 complaints in 2023 and shared resulting insight (positive and negative), for example:

- Consumer Duty requires effective and understandable communications but FOS still receives complaints that some communications aren't clear, cause confusion or come at the wrong time.
- Poor admin and customer service is still one of biggest areas of complaint.
- FOS still receive complaints about firms not considering or meeting customer's needs.

FOS examples of best practice:

- Firms working to find a solution when client requests something new or different, not justifying why they can't do something and closing the complaint.
- Taking time to listen to clients and understand their issues can help firms identify how to offer better services, more efficiently.
- Treating your clients as you would expect to be treated in their circumstances.
- How can you use the FOS complaints insight and other information to improve your service offering, rectify detriments and demonstrate how your firm is embedding the Duty?

Most FOS complaints still arise from the start (sale and onboarding) or end (maturity, transfer, claim) of client lifecycle.

STAND OUT GOOD PRACTICES

FCA believes that the firms that are best at delivering the Duty have a culture aligned with their clients' interests. Practical examples of this are:

- **Viewing the Duty holistically** rather than focusing on individual cross-cutting outcomes.
- **Adopting a customer lens** - changing firm's purpose and values to align with the Duty, updating training materials and client-facing scripts, using data to better understand customer characteristics and needs. **Firms should focus on serving clients better, not just meeting compliance requirements.**
- FOS see great examples of firms thinking about **end-to-end client journeys** and mapping them out to incorporate client events and feedback to identify what

makes a good experience. They are more likely to find in favour of a business than a complainant and only see complaints that haven't been resolved earlier in the journey.

- **Encouraging challenge** - from Board champions (can be valuable in meeting requirements) and using annual reports to challenge business objectives and strategies.

Annual reports aren't a one size fits all, and firms have flexibility to produce them in a way that suits them; small firms are more likely to have an annual business plan that incorporates the Duty outcomes.

- **Encouraging continuous improvement** and curiosity, for example - acting on FCA surveys, findings and shared best practice.

CHALLENGES EMBEDDING THE DUTY

FCA's interactions with firms across sectors has highlighted the two biggest challenges:

1 Fair value assessments

FCA recognises this is a big change for firms and commits to sharing lessons learned. Five key ingredients for a good assessment:

- **Benchmarking** - identifying the right comparable firms and products.
- **Solid data and credible evidence** of client experiences.
- **Clear consideration of client cohorts and target markets** - who's buying your products, how and why.
- **Clear examination of total price paid v benefits over lifetime.**
- **Holistic perspective**, not just price and value but including client understanding, support and options.

2 Outcomes monitoring

- o Put yourselves in client's shoes to understand the issues they're facing and what actions can you do to help?
- o [“Good and poor practice for insurance firms”](#), published in June, includes five key ingredients for clear outcomes focused monitoring:
 - Clearly define outcomes specific to the business model.
 - Use qualitative and quantitative data to measure performance and trends.
 - Identify poor outcomes.
 - Take corrective action.
 - Evaluate the changes.
- o Firms should be able to explain how applications they've bought, or process changes they've made, help them measure and improve client outcomes.

ENFORCEMENT AND A RED FLAG EXAMPLE

FCA will continue to take a proportionate approach to Duty enforcement, trying to educate and illuminate rather than automatically reach for the big stick.

However, an example of what might attract their attention is where they see a firm or cluster of firms that are outliers compared to peers in the way they're operating.

Being an outlier isn't necessarily a bad thing but there must be a clear explanation of why the gap is there, otherwise FCA will expect the firm/s to respond to their feedback positively and take actions to close the gap. Not doing so could lead to “a knock on the door”.

GUIDANCE AND TEMPLATES

Consumer Duty is outcomes based not prescriptive, giving firms flexibility. FCA will continue to share good and poor practice, and other guidance on their website.

One reason for issuing the [Call for Input](#) is to consider the circumstances when prescriptiveness is helpful and important, and when firms want flexibility.

WHAT DOES GOOD LOOK LIKE?

FOS - The spirit of challenge and enquiry that's applied by the best firms being applied by all firms.

FCA - two data-led examples:

- Increasing levels of consumer trust in the sector (index within Financial Lives survey)
- Complaints data from FOS and firms showing that volume of complaints and upheld complaints is falling.

Other measures:

- Post implementation review in a couple of years.
- More innovation from firms around client interaction and better outcomes.
- Being able to say yes to more authorisation applications faster.

Watch the full webinar recording here.



Go to www.consumerduty.org for more information and support on financial vulnerability and Consumer Duty.