



Insurance Institute of the Isle of Man – Consumer Duty Overview

25 January 2023

Background to the FCA's Consumer Duty Strategy and Deloitte Survey



FCA's 2022-2025 strategy

- The FCA's Consumer Duty stands at the heart of the FCA's commitments in its focus areas and it is clear this will form a significant part of its efforts in the year ahead.
- FCA's 2022-2025 strategy emphasises a focus on Consumer Duty, whereby *"firms will need to understand and evidence whether those outcomes are being met. The FCA will integrate the new Consumer Duty in our supervision and enforcement to focus on the outcomes consumers experience."*



Deloitte Survey

For a better understanding of the impact that the FCA's new Consumer Duty will bring about specifically, Deloitte have conducted a survey which aims to capture the **elements of the Duty propositions** that may concern the firms the most.

The survey also explored which outcomes may present the **biggest challenges** for firms in the sector to achieve and implement.

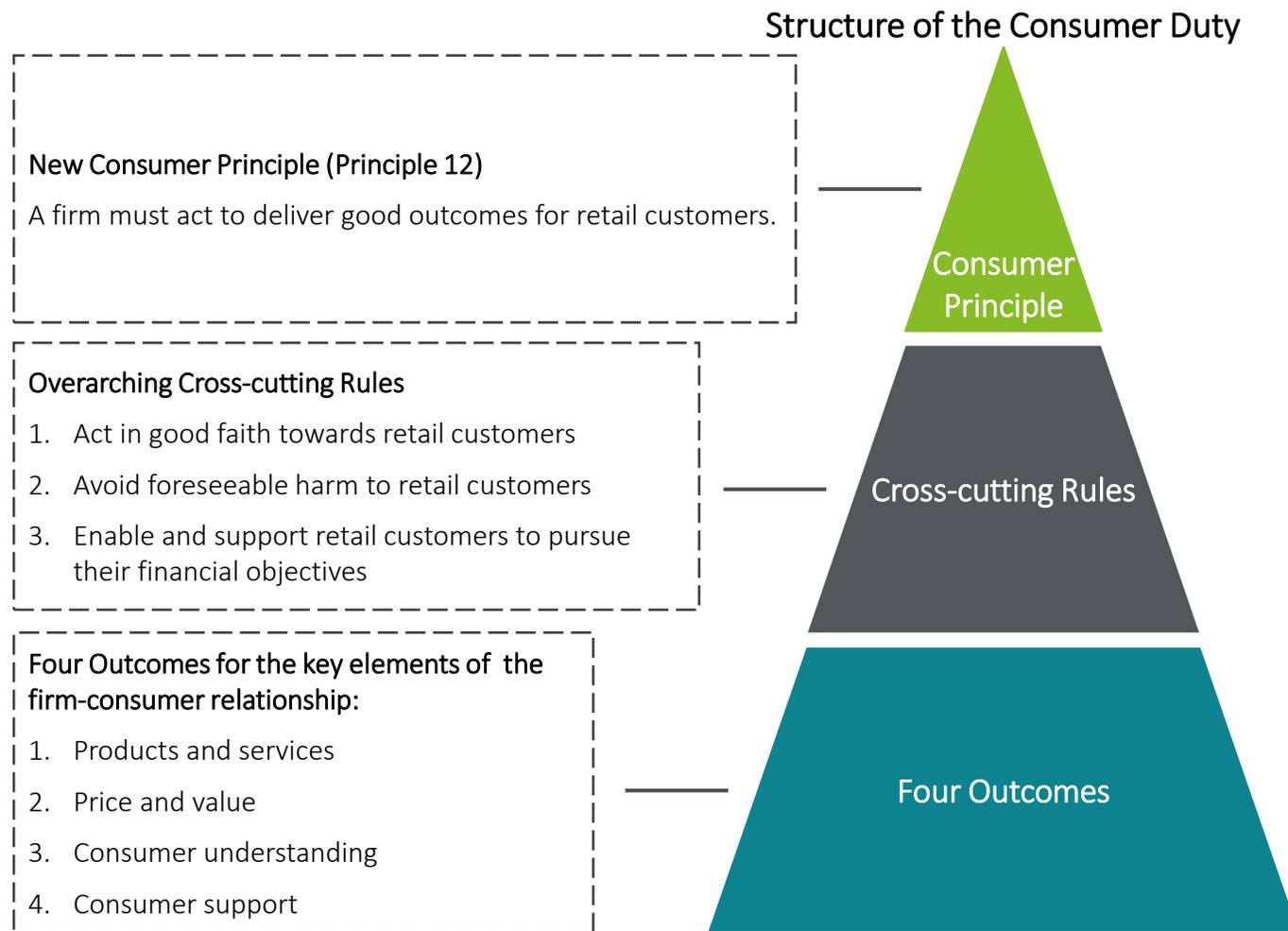


Deloitte Survey Responses and Thought Leadership

- [FCA Finalises Final Consumer Duty Rules – Blog](#)
- [Results of our Investment and Wealth Management Survey on the impacts of the FCA's Consumer Duty](#)
- [The Extra Territorial Scope of the Consumer Duty](#)

The FCA's new Consumer Duty

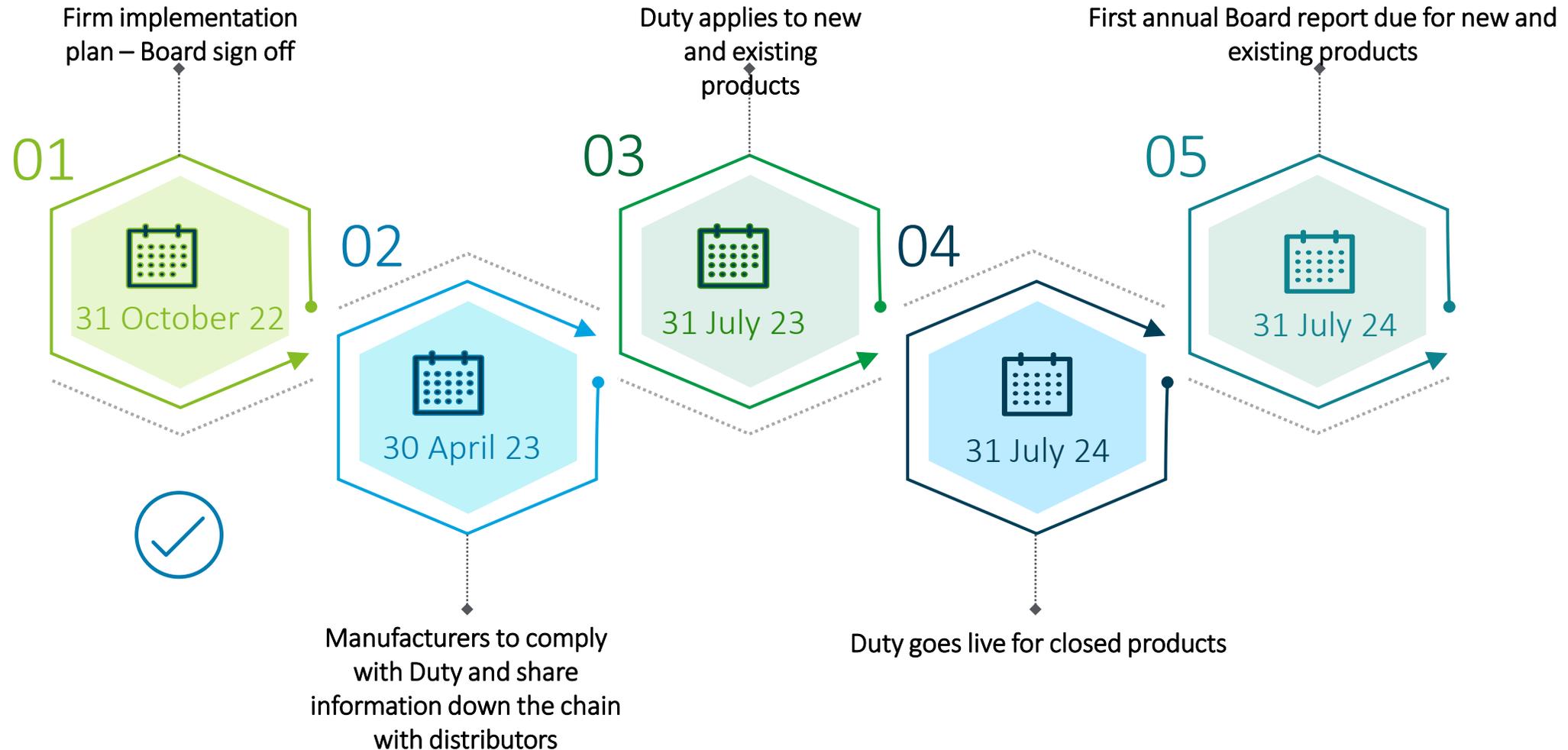
A package of measures setting higher expectations of firms



Implementation Planning

Key Milestones

The FCA's Consumer Duty implementation deadline of 31 July 2023 requires firms to work at pace to ensure they are prepared for this paradigm shift in regulation. The below sets out the five-stage journey the FCA expect firms to follow as the requirements are implemented:



Scope and Proportionality

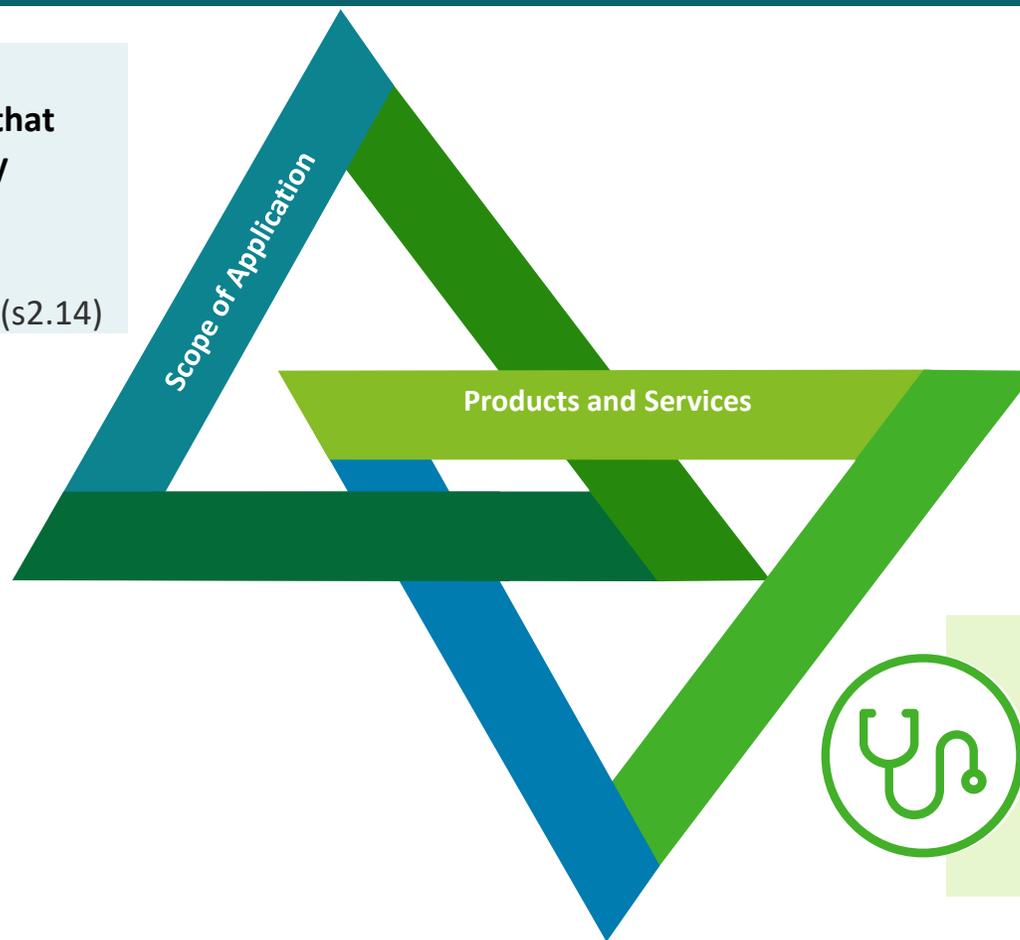
Determining the scope of the Duty application

The Consumer Duty is underpinned by the concept of reasonableness. Firms should take this into account when determining their distribution strategy, and materiality in the distribution chain.



“The Duty applies to firms that can determine or materially influence retail customer outcomes”

FCA – PS 22/9 (s2.14)



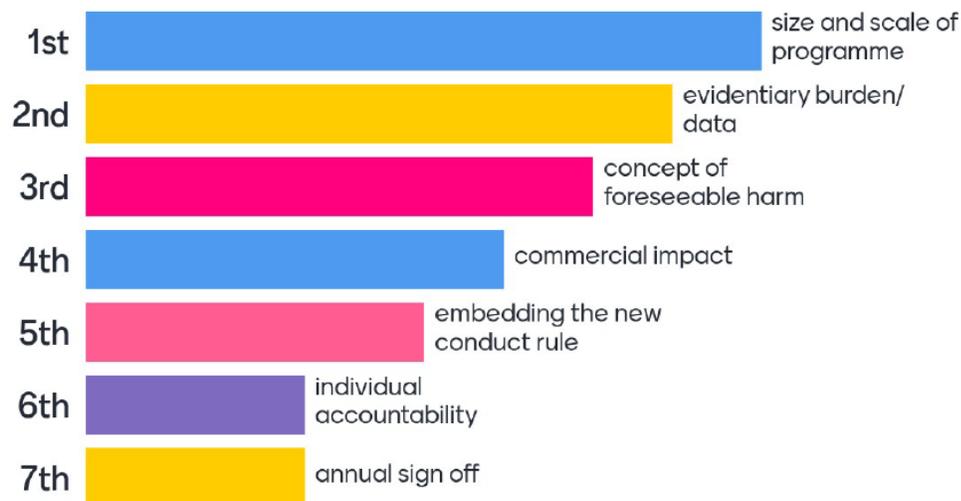
- Wholesale investors
- Professional clients
- Investment trusts
- Territorial application

Industry Insights – Key Challenges

We explored with firms the areas of their concerns around Consumer Duty implementation

Survey Response

In order of greatest challenge, rank the following:



Evidentiary burden and data quality

- **Data will play a fundamental role** in supporting firms to fulfil their obligations to monitor, assess, evidence whether they are delivering good outcomes.
- Firms should identify the relevant sources of data, consider the type of information, and how frequently it is collected.
- Firms should prioritise **identifying gaps in the data** required to produce the annual **report to the Board**, as well as **to monitor the ongoing adherence to Consumer Duty** requirements.
- The type of information collected and recorded will differ across various firms depending on their size, business model, products, target market and distribution strategy. Obtaining information from distributors still represents a challenge in the industry.

Foreseeable harm concept

- Consumer Duty narrows down the concept of harm to consumers and emphasises that the firms are responsible for addressing harm when it is **reasonably foreseeable** at the time. Key aspects of the concept include:
 - Collecting enough information to ensure the products are realising the financial objectives for the consumers and aligned to the disclosed investment strategy to avoid any harm, e.g. unfair value or a risk of greenwashing
 - **Consideration of behavioural features**, such as *'inertia'* that might lead to the cause of foreseeable harm (for example remaining in the expensive share classes when cheaper share classes are available within the fund range).

Consumer Duty outcomes

We asked firms which outcomes they perceived to be most challenging

1  **Price and Value** **57.1%**

- ❖ Consumers experience harm where they do not get value for money. A lack of fair value therefore causes harm and is unlikely to be consistent with customer realising their financial objectives.
- ❖ Firm's will be required to practically demonstrate that fair value is considered across the customer base across all products and services.
- ❖ A particular challenge is how to demonstrate that the quality of service received by customers commensurate with the fees charged.
- ❖ A manufacturer's assessment of whether or not a product provides fair value must include the expected total price to be paid by the retail customer or that may become due from the retail customer.

2  **Customer Understanding** **38.1%**

- ❖ A firm must test communications before communicating them to retail customers.
- ❖ This outcome represents a particular challenge to firms who do not have direct customer relationships or existing capabilities to leverage for testing.
- ❖ Firms are required to consider whether tailoring customer communications will be required, for example to groups of vulnerable customers. This presents challenges from a technological perspective to support tailored client communications
- ❖ Firms should carefully consider the scope of customer understanding testing, including defining the "how, what and when".



Assessment of value has been a hot topic in the industry and a focus of the FCA over last few years, however majority of the firms shared their biggest concern that remained with the Price and Value outcome.

Similarly, our survey shows that another outcome that the companies consider will take the resources is Customer Understanding.

Consumer Duty outcomes (Cont'd)

We asked firms which outcomes they perceived to be most challenging



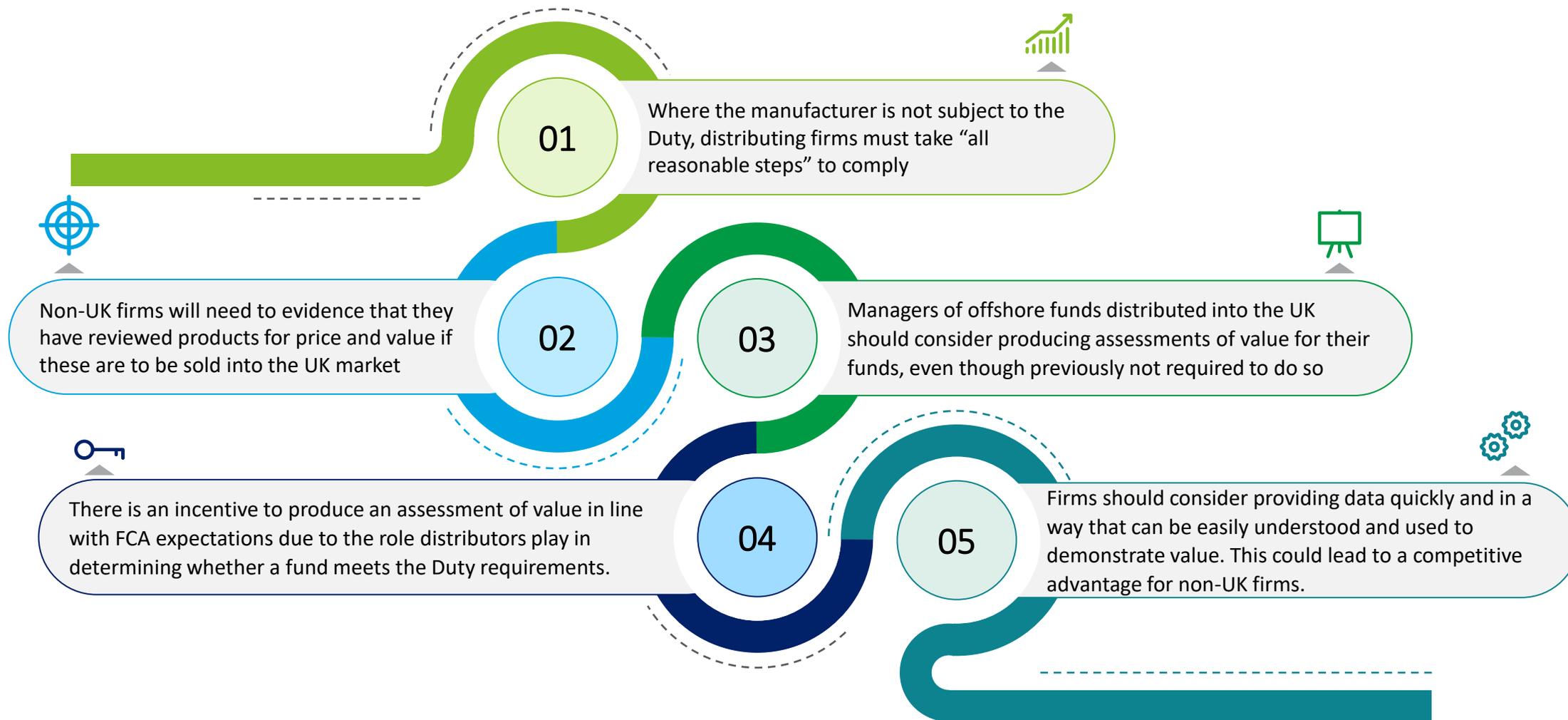
Assessment of value has been a hot topic in the industry and a focus of the FCA over last few years, however majority of the firms shared their biggest concern that remained with the Price and Value outcome.

Similarly, our survey shows that another outcome that the companies consider will take the resources is Customer Understanding.

Key considerations for non-UK firms

Outcomes 1 and 2

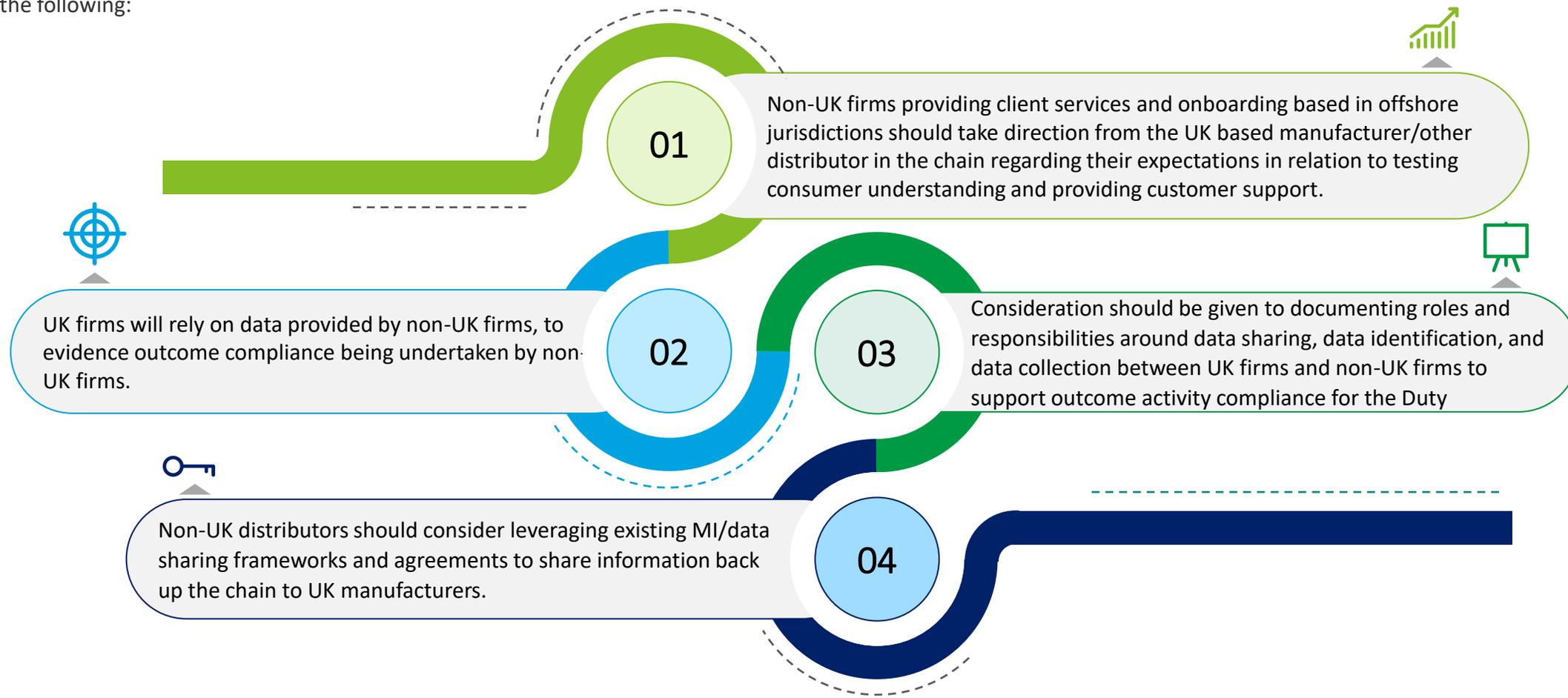
Consumer Duty is likely to have some degree of extra-territorial impact, as there is an obligation on distributors to obtain enough information from the manufacturer to understand the outcome of the value assessment. As a result, non-UK firms should consider the following:



Key considerations for non-UK firms

Outcomes 3 and 4

Where offshore and non-UK firms play a direct to consumer role in the distribution chain (client services and administration for example), the UK manufacturer or other distributors may seek to place reliance on them for all or parts of outcome 3 & 4 activities evidencing compliance with the Duty. When placing such reliance, firms should consider the following:



Consumer Duty Implementation

What Boards should consider throughout implementation



1

Board Engagement, Strategic Priorities and Culture

Consider implications of the Duty on business model and strategy. Good outcomes for consumers should be central to their firm's purpose, culture, strategy, and business objectives. Consider how the macro environment may influence the firm's ability to deliver good outcomes (i.e. cost-of-living crisis).

2

The scope of the Duty on the firm's business, products and services

Implementation plans should be robust, ensuring a consistent approach across products and services. Scrutinise gap analysis, key deliverables and actions. Prioritise time-consuming activities and remediation of high risk products/services and closing biggest gaps.

3

Review MI, data reporting and testing

Understand what MI will be presented to the Board and committees to demonstrate good outcomes and identify any gaps in the data. Prioritise building out processes to collect the necessary information. Consider setting a risk appetite under each of the four outcomes.

4

Dependencies on third parties

Consider the need to collaborate with third parties and ensure MI flow up and down the distribution chain. Understand how third party dependencies will be managed.

5

Review governance arrangements, resourcing and training needs

Consumer Duty should be embedded and understood throughout the organisation. It should be considered in all relevant areas and discussions, including remuneration and other incentives. Consider training needs for all staff. Customer outcomes should be a key lens for Risk and Audit teams.



This publication has been written in general terms and we recommend that you obtain professional advice before acting or refraining from action on any of the contents of this publication. Deloitte LLP accepts no liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London, EC4A 3HQ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.