

THE CONSUMER DUTY
THE INSURANCE INSTITUTE OF ABERDEEN
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HELEN DEAN, HEAD OF INTERMEDIARY CONSULTANCY, NORTH



COVERED IN THIS SESSION

The Consumer Duty

- Requirements Re-cap
- The scope of the Consumer Duty
- Four Outcomes – a reminder
 - Governance of products and services
 - Price and value
 - Consumer Understanding
 - Consumer Support
- FCA developments
- Ongoing Monitoring and Management Information (MI)

LEARNING OBJECTIVES

By the end of this session, you will be able to:

- Define the key elements of the new Consumer Duty rules, scope and timelines for implementation
- Identify the FCA's recent publications and explain the areas of focus and associated considerations, including the importance of monitoring and MI

RE-CAP OF REQUIREMENTS



SUMMARY OF REQUIREMENTS



- A Consumer Principle – the new Principle 12: A firm must act to deliver good outcomes for retail customers
- Three ‘cross-cutting rules’:
 - act in good faith towards retail customers
 - avoid foreseeable harm to retail customers
 - enable and support retail customers to pursue their financial objectives
- The ‘four outcomes’:
 - the governance of products and services
 - price and value
 - consumer understanding, and
 - consumer support

Milestones

Consumer Duty Key milestones

1

27 July 2022:

Final rules and guidance published.

2

31 October 2022:

Firms' boards (or equivalent management body) should have agreed their implementation plans and be able to evidence they have scrutinised and challenged the plans to ensure they are deliverable and robust to meet the new standards.

3

30 April 2023:

Manufacturers should have completed all the reviews necessary to meet the outcome rules for their existing open products and services so they can share with distributors to meet their obligations under the Duty, and identify where changes need to be made.

4

31 July 2023:

Implementation deadline for new and existing products or services that are open to sale or renewal.

5

31 July 2024:

Implementation deadline for closed products or services.

SCOPE OF THE CONSUMER DUTY

Products and services sold to ‘Retail Customers’

..(other than PRIN and COCON) an individual who is acting for purposes which are outside their trade business or profession

In PRIN and COCON..

in relation to activities to which ICOBS applies, a policyholder or prospective policyholder;

In relation to any other activities, a customer for the purpose of that activity;

Where a firm is involved in a distribution chain, any person who is, or would be, the end retail customer in that distribution chain but is not a direct client of that firm.

THE FOUR OUTCOMES – PRODUCTS AND SERVICES

All products and services for retail customers to be fit for purpose, designed to meet customers' needs and targeted at those customers

Manufacturers to:

- Design products and services that meet the needs and objectives of target market
- Implement a robust approval process
- Ensure an appropriate distribution strategy for the target market

Distributors to:

- Understand the products and services, target market and distribution strategy and distribute appropriately

All to:

- Consider any customers with characteristics of vulnerability
- Regularly review products and services so they continue to meet target market needs and objectives

THE FOUR OUTCOMES – PRICE AND VALUE



Consumers receive fair value

Manufacturers to consider:

- Nature of product and/or service including benefits and quality
- Limitations that are part of the product and/or service
- Expected total price consumers will pay during lifetime of policy and/service; and
- Characteristics of vulnerability

Distributors to ensure:

- Distribution arrangements are consistent with product and/or service providing fair value

All to:

- Take appropriate action where products are found not to be providing fair value

THE FOUR OUTCOMES – CUSTOMER UNDERSTANDING

Communication must support and enable consumers to make informed decisions with information provided at the right time, presented in a way they can understand

Communications to:

- Meet the information needs of customers
- Are likely to be understood by the average customer who communication is aimed at
- Enable customers to make decisions that are effective, timely and informed
- Be clear, fair and not misleading and accurate
- Be appropriately tailored to the information needs of the customers they are aimed at (including those with characteristics of vulnerability)

Firms to:

- Check understanding
- Monitor, test and adapt communications

THE FOUR OUTCOMES – CUSTOMER SUPPORT

Firms must provide a level of support that meets consumers' needs throughout their relationship with the firm

Firms to:

- Provide a standard of support that meets the needs of customers, including those with characteristics of vulnerability
- Customers can use products as reasonably anticipated
- Ensure there are no unreasonable barriers
- Monitor whether they are providing an appropriate standard of support

FCA DEVELOPMENTS AND KEY AREAS OF FOCUS



FCA ENGAGEMENT TO DATE

- July 22 – Final rules and non-handbook guidance
- Sept 22 – Dear CEO – Our expectations on cost of living and insurance
- Jan 23 – Multi-firm review of implementation plans
- Feb 23 – Dear CEO – Implementing the Consumer Duty in the General Insurance and Pure Protection sectors
- March 23 – Dear CEO – Implementing the Consumer Duty in Credit Brokers
- May 23 – FCA findings in relation to Fair Value Frameworks



FCA ENGAGEMENT TO DATE CONTINUED



- Inside FCA Podcasts - The 4 Outcomes
 - - Authorisation
- Sector based webinars
- Various Speeches
- Live & Local Events
- More to come – firm specific

CONSUMER DUTY PLANS

Effective prioritisation

Embed substantive requirements

Working with other firms

Key areas of FCA focus

Effective Product Governance

Customer Communication

Claims processes and outcomes

FAIR VALUE FRAMEWORKS

Collecting and monitoring evidence

Appropriate analysis of consumer outcomes across groups of consumers in the target markets

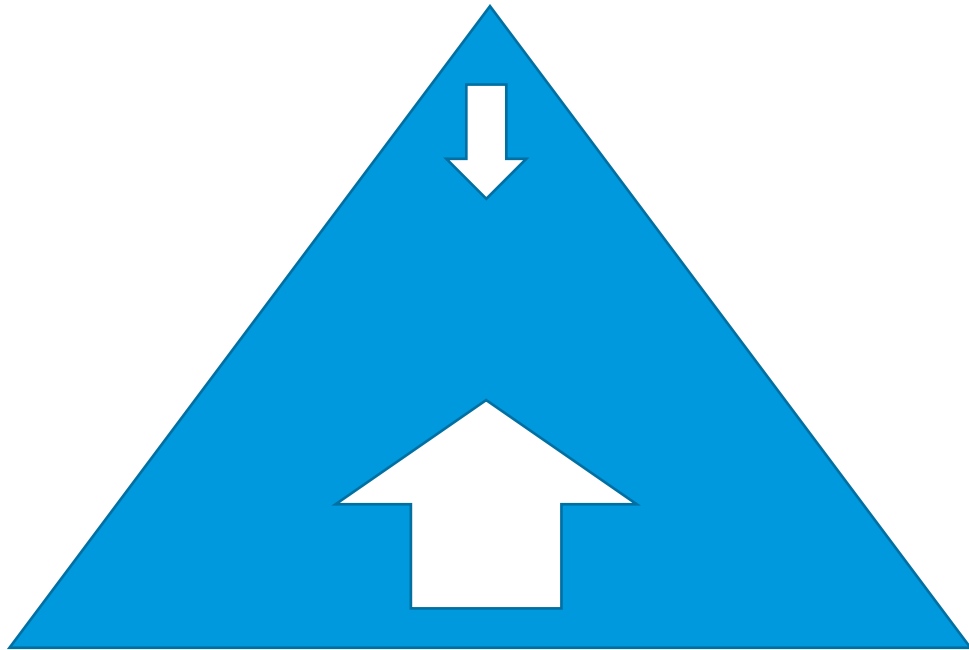
Key areas of FCA focus

Presenting fair value assessments in a way that enables decision makers to robustly assess whether products are providing fair value

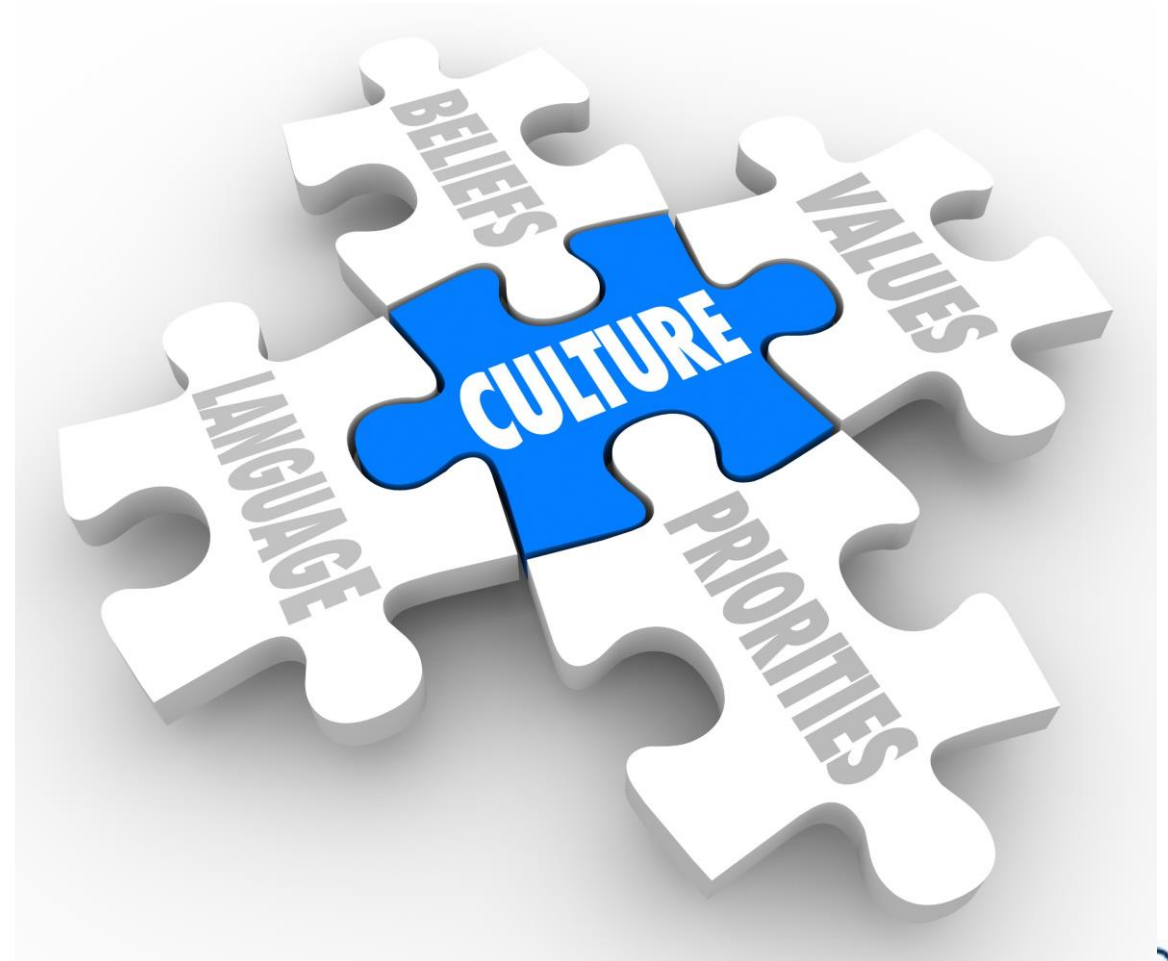
Clear oversight and accountability of any remedial actions

CULTURE

Tone from the top



Driven from bottom up



TRAINING PROGRAMMES

- **Who** - All relevant stakeholders – SMFs, Management, Staff, Third Parties, ARs
- **What** - Training programmes or single briefings
- **How** – Face to face, online, briefings, internal or external facilitators
- **When** – now onwards



GOVERNANCE

- Senior Manager Consumer Duty Champion appointed
- Senior Management understanding and sign off Consumer Duty Plans with accountability
- Project Group/Committee that meets regularly
- Effective Product Governance arrangements
- Embed the importance of the Duty within the business
- Challenge and adaption of work and outcomes

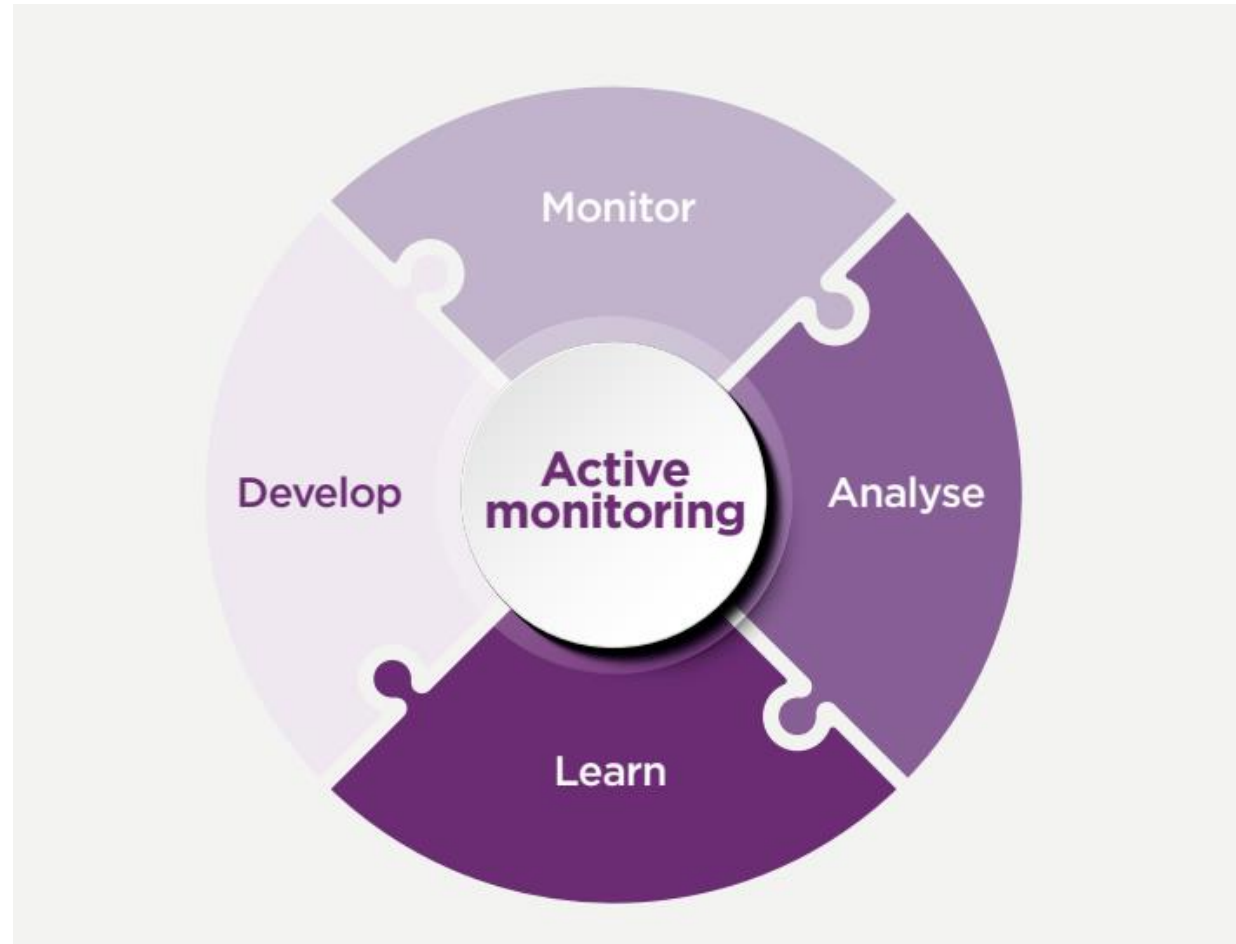


RECORDING AND REPORTING

- Robust monitoring, consider internal thematic reviews
- MI gathering, collation, analysis, reporting and action
- HR, training & competence, remuneration and incentive policies
- Post implementation, ongoing monitoring, analysis and reporting



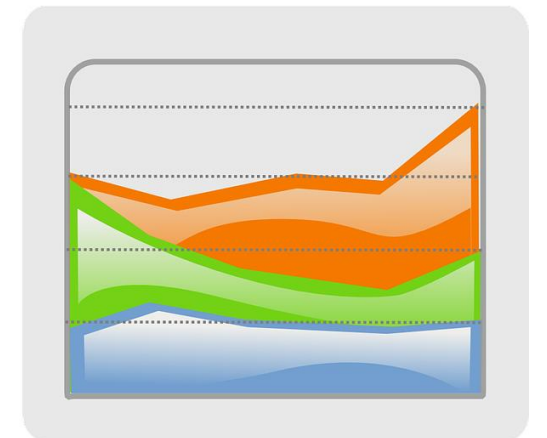
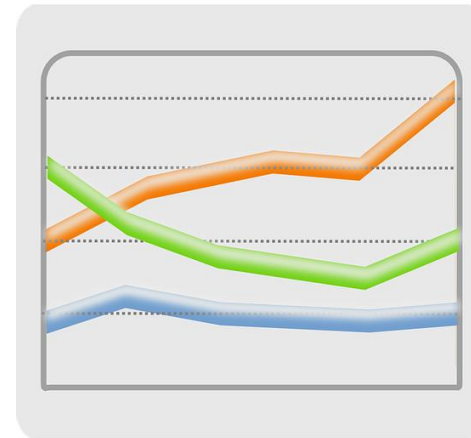
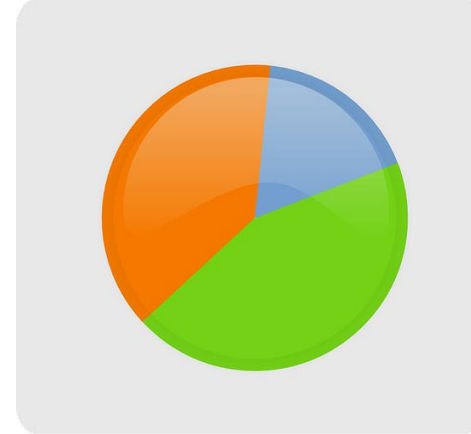
MONITORING



Source - CII – A Practical Guide to Consumer Duty: Insurance

MANAGEMENT INFORMATION (MI)

- Products and Services
- Price and Value
- Customer Understanding
- Customer Support



MI – PRODUCTS AND SERVICES

Example MI - not exhaustive and determine suitability for your business

Outcomes of product reviews	File review and quality assessment outcomes
Manufacturer value assessments	Output from testing and outcomes
Defined target markets	Market research
Cancellation rates and reasons	Query rates and types
Claims rates, not proceeding and declines	Complaints received about the product or service
Claim amounts	Mid-term adjustments

MI – PRICE AND VALUE

Example MI - not exhaustive and determine suitability for your business

Outcomes of product reviews	Not proceeding with quotes
Manufacturer value assessments	Claims volume and frequency
Cost of providing services/acquisition costs	Claims, not proceeding, declines
Expected loss ratios	Complaints – cost and fees
Review of fees and remuneration	Market research
Cancellation rates	FCA Value Measures Data
Renewal rates	

MI – CUSTOMER UNDERSTANDING

Example MI - not exhaustive and determine suitability for your business

Renewal lead times	Alternative documentation available e.g. braille
Documentation and financial promotion sign off rates	Complaints
Query rates	Output of communication reviews
Sales and Support monitoring	
Customer feedback sought/testing	
Claims – rates, not proceeding, declines	

MI – CUSTOMER SUPPORT

Example MI - not exhaustive and determine suitability for your business

Performance against SLA's	Feedback analysis (TrustPilot/Google etc)
Analysis of Cancellations and MTA's	Vulnerable customers data - numbers, complaints
Analysis of SLA's difference between sales and support lines including claims and complaints	Complaints
Claims – rates, not proceeding, declines	Review of breaches and incidents
Output of communication reviews	Call/website drop off rates
Testing/customer feedback	Alternative documentation available – Braille etc
Query rates	Renewal rates

VULNERABLE CUSTOMERS

- Remains key focus
- All firms will deal with customers with vulnerable characteristics
- Should be considered in all parts of the product life cycle, including design, distribution, communication and support
- Does the firm understand the needs of potentially vulnerable customers
- Effective training required
- Clear processes and escalation routes
- Appropriate MI to capture whether potential vulnerable customers are achieving the right outcomes



CONSUMER CREDIT

Don't forget, Consumer Credit is captured by the Duty in its own right.

Think about:

- Products you offer and why
- Remuneration received
- Conflicts of Interest
- Clarity of information
- Ongoing support
- Monitoring, MI and reporting



APPOINTED REPRESENTATIVES (ARS)

- Don't lose sight of ARs
- They are captured



ANY QUESTIONS?

LEARNING OBJECTIVES

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