



Consumer Duty:

What brokers need to consider to successfully deliver implementation

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In their review of Consumer Duty implementation plans, the FCA highlighted that many firms had embraced the new regulation and were making good progress in delivering their plans. However, some firms' initial efforts appeared superficial or non-existent, and others seemed overly confident that their existing systems or processes would be sufficient to comply with the Duty.

FCA Executive Director, Consumers and Competition, Sheldon Mills said in a speech on 22 February, "You still have time to deliver. But you must act now. The deadline of 31 July will not be moved."

RWA (part of the UKGI Group, and one of Aviva's compliance proposition partners), has provided the following detail about what firms need to be considering in order to successfully deliver the implementation of the Duty, and provided examples of the MI that can help demonstrate each outcome:

The Consumer Duty implementation deadline for open products and services is 31 July 2023, with a closed products and services deadline of 31 July 2024.

So, let's quickly remind ourselves of the basics of the Duty.

The Consumer Duty introduces the new Principle 12 (the 'Consumer Principle') which requires firms to 'act to deliver good outcomes for retail customers'. This is supported by three cross-cutting rules relating to retail customers: 1) acting in good faith 2) avoiding causing foreseeable harm and 3) enabling and supporting financial objectives.

However, the Duty sets out four key outcomes, and these are perhaps where firms need to focus their attention – on the detail of getting it right and being able to demonstrate that. If firms achieve that, they will meet the requirements of the cross-cutting rules and will be acting in line with the new Principle 12.

The four required outcomes involve:

The governance of products and services

Price and value

Consumer understanding

Customer support

In addition, a new individual conduct rule will also be introduced to reflect the requirement of the new Principle and the higher standard of the Duty, providing individuals with a responsibility to deliver good outcomes. Firms should consider what training they need to arrange to ensure staff have the necessary skills, tools and confidence to act in the best interests of the customer.



What do firms need to do?

To successfully deliver the implementation of the Duty, firms will need to outline schedules of work to be completed, in line with the four consumer outcomes, with measurable goals and achievable deadlines. It is likely that every firm will need to make at least some changes to ensure they elevate current standards and practices and demonstrate they are equipped to meet the FCA's new expectations.

Identifying key Management Information (MI) will be vital to establishing areas for change. Firms should be able to recognise where groups of customers are receiving poor outcomes and rectify the issue, whilst also being able to evidence why they have implemented the chosen solution and how this will improve outcomes for the groups in question. Firms should also learn from their findings to understand what caused these problems, allowing them to act sooner in the future or implement processes to prevent reoccurrence.

So, let's look at a long 'to do' list, starting with high level governance and oversight and running down through each individual outcome; we'll cover suggested actions and the MI that might help firms measure and demonstrate that the right customer outcomes are being achieved.





High-level – now and ongoing

- Ensure that the interests of your customers are central to your culture and purpose and embedded throughout the organisation.
 - Ensure your strategies, governance, leadership, and people policies (including incentives at all levels) focus on delivering good outcomes for customers.
 - Make good customer outcomes a key focus for important areas such as Risk and Internal Audit functions, not just for sales and customer facing areas.
 - Put a Consumer Duty Champion in place, who, along with the Chair or the CEO or your most senior management, ensures that the Duty is discussed regularly and is properly considered.
 - Review and approve, at least annually and at Board / most senior management level, an assessment (annual report) of whether you are delivering good outcomes for your customers.
 - Consider and evolve metrics to better engage with customers and more appropriately meet the levels of monitoring laid out in the Duty.
 - Have clear plans which set out what they mean for your businesses and the changes you will likely need to make.
- Define good customer outcomes in the context of your business:
 - target measures for improvements;
 - key metrics;
 - outcomes measures (e.g., satisfaction index scores, retention rates and customer feedback).
 - Identify and manage any risks to good outcomes.
 - Highlight where consumers are receiving poor outcomes, understand the root causes and demonstrate how they have been identified and acted upon to address issues leading to poor outcomes.
 - Where required, adapt and change products / services or policies / practices to address risks or issues.
 - Build on and uplift existing frameworks:
 - product governance, product value assessments;
 - communications and operational support.
 - Write a short Consumer Duty Policy “we have reviewed and enhanced our existing policies and procedures”.
 - Consider and evidence staff training and MI oversight.



The governance of products and services outcome

If an insurance intermediary is meeting the requirements of the FCA's product oversight and governance rules (PROD 4.3), it is likely well on the way to meeting the requirements of this outcome. However, be mindful of the fact that PROD 4 covers insurance products – it does not cover consumer credit products generally. Although there are requirements in relation to the assessment of the value of premium finance when distributed in relation to an insurance product, there are no requirements currently in relation to the assessment of third-party retail premium finance products from an overall product assessment and target market perspective. Such products, from a products governance and oversight perspective, will also need to be subject to a product governance and oversight framework to meet the requirements of this outcome under the Duty. In reality, for insurance intermediaries, this is likely to be a straightforward exercise.

Under this outcome, firms should:

- identify open and closed products;
- risk-prioritise open products for review;
- build on existing product governance and assessment frameworks;
- review the granularity of information used;
- align product design and management to target market needs;
- engage with customers who have been through a claims journey;
- where required, adapt and change products / services or policies / practices to address risks or issues;
- review available General Insurance Value Measures data where relevant.

Example MI:

- 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 data
 - Claims rates, not proceeding and declines
 - Claim amounts
- Complaints received about the product or service
- Mid-term adjustments



The price and value outcome

As with product and services governance, any insurance intermediary meeting the requirements of the FCA's 'fair value for a reasonably foreseeable period' requirements under PROD 4 is likely well on the way to meeting the requirements of this outcome. Again, though, be mindful of the fact that PROD 4 only covers insurance products and not premium finance.

Any separate, third-party retail premium finance products that you provide will also need to be subject to a separate fair value assessment to meet the requirements of this outcome under the Duty.

Real change in value might be evidenced by reductions in commission levels or by products being withdrawn from the market.

Under this outcome, firms should:

- consider what fair value means in your own business – activities, costs, business model, products, services, customers;
- make sure there are no hidden or unexpected costs;
- consider non-price factors – reasonable relationship between costs and benefits;
- Consider whether products and services offer fair value to different groups of customers, including those with characteristics of vulnerability or with protected characteristics;
- consider diverse factors when assessing fair value;
- avoid re-stating data without analysis, context and a conclusion;
- review available General Insurance Value Measures data where relevant.

Example MI:

- 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



The consumer understanding outcome

This outcome is about more than simply ensuring that communications are clear, fair and not misleading. Firms need to evidence what is understood by customers and that "...Communications equip Consumers to make effectively, timely and properly informed decisions." Understanding needs to be evidenced by communication testing for clarity, presentation, engagement, relevance, simplicity and timing.

Under this outcome, firms should:

- ensure all communications (written verbal etc.) are understandable and understood;
- develop new communication standards: reading age, comprehensibility, layout;
- ensure product terms and conditions are set out in simple language wherever possible, or are available in other languages;
- improve call centre scripts to better inform customers;
- review customer information consistency at your distributors;
- develop a greater communications testing capability including testing pre-release, post-release and existing content;
- tailor communications reviews to the complexity of products;
- incorporate marketing data and customer behaviour into ongoing monitoring activity;
- ensure that communications about how to cancel a policy or complain are at least as clear as those used to sell the policy; clearly set out cancellation rights and how to make a complaint using clear signposting;
- test that financial promotions are landing with and engaging the intended target markets.

Example MI:

- 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
- Claims – rates, not proceeding, declines
- Customer feedback sought/testing



The customer support outcome

To achieve this outcome firms will need to consider specifically how customers interact with their process to assess understanding, ease of use, ease of understanding and unreasonable barriers. In line with the principle of the Duty, firms need to ask themselves whether their support is achieving good outcomes for customers, whether the support they provide is the right thing for customers, rather than asking themselves ‘what do we have to do to meet the Rules’.

Under this outcome, firms should:

- consider journey mapping;
- ensure call waiting times not unreasonably long; the quality of support provided is monitored;
- review and improve customer journeys to better support customers in vulnerable circumstances, with new notification mechanisms for any additional needs;
- include a focus on those who have suffered bereavement or fraud;
- provide information and support via the channel of customer choice; expand your support channels;
- review the steps (number, nature, accessibility) in your support processes to assess whether these help or hinder good outcomes;
- include call waiting times, resolution times, first contact resolution rates, call transfer accuracy metrics and quality and complaints themes in the metrics you collect to monitor customer support.

In relation to claims support, firms should:

- produce clear and robust conduct management information, which enhance their ability to identify and address delays in the claims process;
- have records of policy wordings that are easily accessible for claims handlers, avoiding delays for customers;
- adequately identify vulnerable customers and take a consistent approach in dealing with the needs of vulnerable customers;
- tailor customer communications to the intended recipient;
- tailor quality assurance reviews around the full customer experience and not just on the financial outcome of the claim.

Example MI:

- Performance against SLAs
- Feedback analysis (TrustPilot / Google etc.)
- Analysis of Cancellations and MTAs
- Vulnerable customers data – numbers, complaints
- Analysis of SLAs for any 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



Need further expert help?

The UKGI Group's businesses have helped hundreds of firms with their regulatory compliance challenges; we know what good looks like.

Our Consumer Duty Gap Analysis service has specifically helped firms to identify those areas for change; providing documented evidence of the work that the firm has done to implement these changes, ahead of the new Rules and Guidance coming into force. We are also developing management information tools designed to showcase how the Consumer Duty is embedded within a firm's behaviours and practices.

Contact UKGI Group today for more information: Email info@ukgigroup.com

Additionally, the **Aviva Development Zone** provides access to courses on the Consumer Duty to help staff understand the new regulation, as well as soft skills courses, such as communication skills, to help with implementation.

To find out more and take advantage of a 14-day free trial, visit <https://mydevelopment.zone/>.

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