



Supporting Our Distribution Partners Through Consumer Duty

April 2023

For Intermediaries Only

Introduction

On the 31 July 2023 the new FCA Consumer Duty rules take effect. As part of these new rules all product manufacturers, like us, must review our products and services to demonstrate how we are acting to deliver good outcomes for consumers. We are committed under the new Duty to provide information to our distribution partners by 30 April 2023 on our products and our expectations of our valued distributors.

As an FCA regulated broker you also have responsibilities under the Consumer Duty rules which may include such things as:

- Reviewing your broking service and fees to assess fair value
- An overview of your sales process to identify where the needs of customers (including those experiencing vulnerability) are identified
- Documenting your customer journey and assessing it against the new consumer principle cross cutting rules, and 4 customer outcomes to demonstrate that you will continue to deliver good outcomes

To help support you, our valued distribution partners, we are providing you with suggestions and information which you can use to help with your own arrangements towards evidencing good outcomes and compliance with the new rules. There are also a few expectations we have of our distributors to ensure we continue to work harmoniously and together can deliver the best possible outcome to consumers in every case.

What are our obligations and what we have done?

We have undertaken a value and product assessment and have concluded that our product offers fair value for all our target market. We have also identified that customer vulnerability does not restrict or limit the benefit received from our product, and our distribution and governance strategy is suitably robust to identify and support such customers.

We have also considered how to monitor and measure customer outcomes. We already have a regime of monitoring and testing which we believe meets the necessary requirements to allow us to identify and evidence good outcomes. However, in support of this we now require the recommendation letter and suitability report for each case placed with us. Also, we may, from time to time, request further information from you.

Fair Value of Our Products

From our assessment we believe our product offers fair value when compared to the market both in terms of fees, costs and charges. As part of our support to you as our distribution partner we are sharing with you our product sheet and tariff of charges. This information is available to you to help further understand our product but also may be used to help you demonstrate how you act to deliver good outcomes. Such things to help with evidencing this could include:

- How the product is introduced as a solution based on the needs and circumstances of the customer, which have been identified through your sales process
- How the product is sold in accordance with our distribution strategy, and our intended target market
- Training that you provide to your advisors on our products, and how this training is documented as part of CPD
- Documenting how you review your sales process and how you will act to avoid foreseeable harm, allowing customers to use the product as they would anticipate
- How you will respond to requests for information and data from us on an ongoing basis

Customer Support and Communication

Consideration for how you communicate with customers including how new material is created and approved for use, and how existing communication strategies are monitored and improved where necessary. Points to consider could include:

- How the right level and nature of customer support is used and in which situations
- Ensuring all communications are written in clear and easy to understand language and contain all the necessary information
- How changes are made to communications, for example, when the needs of the target market or the target market itself have changed

Our Expectations of You as a Distribution Partner

We see working with you as a true partnership. As such we are keen to ensure you have all the information and support from us that you need to fully understand our expectations of our products and how they are sold to our target market. Much of this information is provided within the attached product information documents.

However as with any effective partnership it is a two-way street and requires input from both sides. Our partnership with you is no different, and requires input from you primarily in the form of:

- Distribution strategy - how do you intend to distribute our products and services and ensure that they are recommended to customers within our target market to meet their needs. We also require you to maintain a distribution strategy which demonstrates you have processes to:
 - o Avoid foreseeable harm to retain consumers
 - o Support management of conflicts of interest
 - o Ensure the needs and objectives of the target market are duly considered
 - o Monitor the effectiveness of the distribution strategy to ensure you have evidence to support the delivery of good outcomes
- Vulnerable customers - how do you identify vulnerable customers and ensure that they are not prejudiced in any way as a result of this
- Complaints - how do you identify and manage customer complaints and, where necessary, what is the process for handing off complaints to us
- Data and MI - from time to time we will need certain data and MI from you to assist with our obligations under the Duty. This may be in the form of data or information about a complaint or to assist us in considering target market customer behaviours or trends. In the spirit of our partnership, we would expect this information to be provided in a comprehensive format in good time

In working together and considering the above we, as an effective partnership, can continue to deliver the best quality products, services, and good outcomes to all our customers in every case.

What This Means to You

In the context of your relationship with us, we are committed to provide you with information to support which includes our attached product information documents. As a consequence of this we have identified some areas that you may wish to consider in implementing the Consumer Duty in your own firms.

Customer Journey

Undertake a review of your customer journey as a way of helping demonstrate your commitment to good outcomes, such a review could include:

- Review your sales process, and consider each customer interaction point to ensure that, at every opportunity, you are acting in a way that supports the delivery of good outcomes
- Review your training, especially to do with marketing, financial promotions, communications and vulnerable customers
- Be mindful of the differing needs of consumers in your target market, paying particular attention to those with characteristics of vulnerability, and how your communications and sales process can accommodate them
- Ensure all customers are fully apprised of the features, benefits, and risks of any product that is being recommended so they are able to enter into an agreement from an informed position

Background

Since assuming responsibility for UK financial regulation in 2013, the FCA have been looking at ways to continually monitor and mitigate the risks of unfair treatment of consumers and harm they may experience.

As part of this the FCA has been working closely with consumers, product providers and distributors, trade associations and consumer working groups, plus relying on its own supervisory work and enforcement action as a way of gaining detailed insight into the design, delivery, and value of products and services in the UK Financial Services market.

Undertaking this work the FCA has identified significant risk of harm or detriment to consumers on an industrywide basis, due mainly to;

- Products designed with the interests of the firm in mind, before those of the consumer
- Pricing that is considered unfair
- Communications that were difficult to understand, were unclear, omitting critical information, or were misleading
- Poor customer service before, during, and after the point of sale

Consumer Duty has been introduced as a way of putting the consumer at the forefront of how firms design, provide, and distribute financial services products and services in the UK, and the standards of service and support consumers can come to expect.

Consumer Duty means exactly that. The Duty of Care that a firm has towards its Consumers throughout the entire customer journey.

Consumer Duty & TCF

The term 'Treating Customers Fairly' (TCF) was first introduced by the Financial Services Authority (FSA) in 2001 as part of moving towards principles based regulation to replace the previous more prescriptive regime. As part of this initiative the FSA set out 6 outcomes that act as a benchmark for minimum standards for the treatment of customers, which was adopted by the FCA and remains in place today.

As financial services and the market in which they are offered have evolved, there is now a greater need to shift the focus for firms away from a process driven regime of tick box compliance, in favour of putting the needs and circumstances of consumers at the front and centre of every aspect of designing, distributing, and servicing financial products and services.

TCF centred on having a written policy and process in place, with success for the firm measured on having these documents available and up to date. But it was very much focussed on an 'inside-in' perspective with little or no consideration for the outcome experienced by the consumer, and no way of measuring whether this was a good or poor outcome.

Consumer Duty aims to ensure that the needs of consumers are put first without exception, and that products and services offered are designed to meet those needs, and are delivered in a way that is completely clear, transparent and representative of fair value.

As such, as of 31 July 2023, the new Consumer Duty rules take effect and will replace the current TCF, including Principles 6 and 7 which will be dis-applied from this date. However the FCA are not removing them altogether, and encourage firms to continue to refer to these two principles as an early 'litmus test'. If firms are not meeting the existing principles 6 and 7 the FCA are of the view that they are most definitely not meeting the Consumer Duty rules.

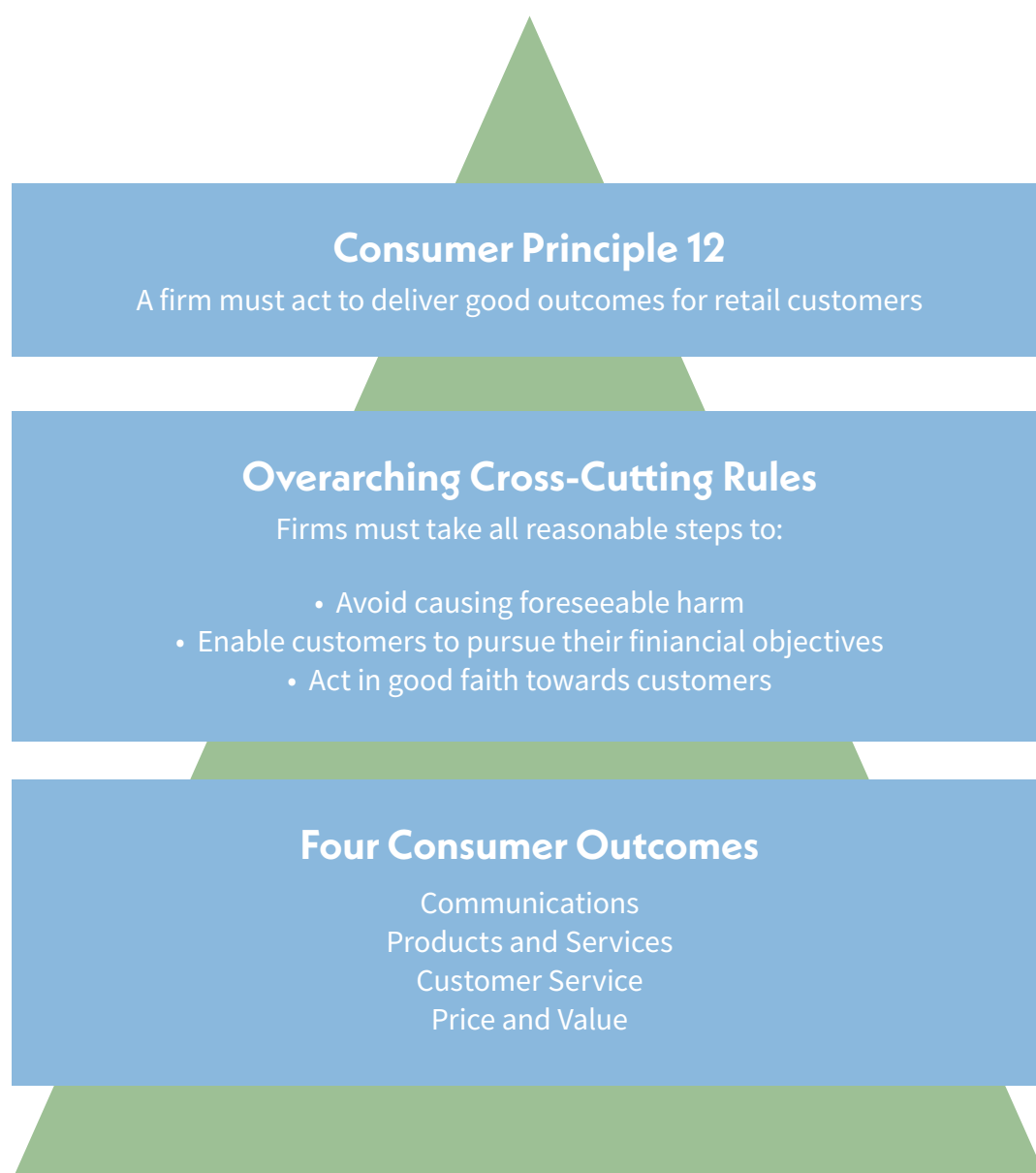
All firms are expected to be ready to comply with the new rules as of 31 July 2023, and will be held to account on that basis after that date.

The good news is that the standards and rules for Consumer Duty are 'forward looking' and will not apply to historic dealings with consumers.

What is Consumer Duty?

Consumer Duty is described by the FCA as a “paradigm shift” in its expectations of firms offering financial services in the UK, requiring most firms to undertake a significant range of cultural changes in order to put the customer front and centre of every part of the design, implementation, delivery, costing, and service surrounding financial products and services in a way that has never been seen previously.

In practical terms Consumer Duty consists of three key components:



What is Consumer Duty (Cont)

1) A New Consumer Principle 12 - A firm must act to deliver good outcomes for retail customers. This new principle 12 applies to all activities involved in the delivery of products and services to UK consumers. This includes (but is not limited to).

- Product design
- Pricing
- Strategic planning
- Distribution arrangements
- Advertising and promotions
- Product literature and contractual terms and conditions
- Fees or charges
- Resource planning
- Customer service
- Remuneration and incentives
- Individual customer interactions

The customer must be the first and primary consideration when looking at all the above, with a specific focus on identifying the potential risks and harm, and proactively mitigating to the extent of achieving good customer outcomes in every case wherever possible.

2) Over-arching Cross-Cutting Rules - designed to apply at a high level to all the activity a firm undertakes, as a way of maintaining focus on the consumer. Under the cross-cutting rules, firms must;

- Avoid foreseeable harm to retail customers
- Enable and support retail customers to pursue their financial objectives
- Act in good faith towards retail customers

Whilst it may seem that these are high level and lacking in detail, it is critical that firms consider each of the above throughout the various stages of product design, delivery, and support. But it goes deeper than just focussing on the products. This applies to every aspect of the conduct of the firm which relates to the regulated activity, including the overall compliance and governance framework.

3) Four Consumer Outcomes - which focus on the customer experience and all matters which have a direct or indirect impact. These four outcomes are:

- Products and services
- Price and Value
- Consumer Understanding
- Consumer Support

The four outcomes are applied when testing or monitoring the outcome for the consumers. When assessing whether a customer has experienced a good outcome the firm should measure against each of the four outcomes to determine whether there are any shortcomings or improvements that can be made.