

Consumer duty – seven key themes



All advice firms must decide what they need to do to comply with the new Consumer Duty rules according to the timescales set out by the FCA. Whilst not exhaustive, we've pulled out seven key themes that you should be considering as part of your implementation plans to help with your preparation.

1 Providing good client outcomes

The new Consumer Principle (Principle 12) requires all firms to act to deliver good outcomes for retail customers. At a basic level, this is asking: is everything you do the best for your clients?

To answer this, it's important to test every part of your business operations around the principle.

Spotting gaps in your client proposition

An effective way to do this is to review each part of your target market and client value propositions and identify any gaps or issues compared to the Consumer Duty outcomes. Then, try to quantify how material the gaps or issues are and what you need to do to resolve them. You should also consider each part of the distribution chain to really understand how they contribute to your client value proposition in line with this new principle.

It's key that clients receive good advice that is suitable for their needs and objectives, throughout their life cycle. For example, you could consider adding positive friction points into processes, to provide some breathing space to check your advice is meeting your clients' needs.



Top Tip: Add 'stop-and-think' points into the advice journey to ensure you're doing everything the Consumer Duty asks.



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2 Knowing your target market and how you're meeting their needs

A key theme within the new rules is ensuring that the diverse needs of your clients are considered at every stage of the customer journey. To do this, you firstly need to identify all your segmented target market groups and record this information in detail.

A good way to start is by creating client personas or client stories to bring your proposition to life. This is all about determining what clients' key 'inflection' points are (for example, marriage, divorce, retirement, reaching age 75, family members' births and deaths). You'll then need to show how your client value proposition demonstrates care towards your clients and good outcomes.

Assessing the value of your advice

Once this is done, you can move on to capturing your precise charging structure for each set of clients, laying out different customer target markets and segments, any differing fee structures, and the rationale for why your advice represents fair value. It's important to clearly match your costs for advice with the value it brings, ensuring your clients receive relevant and appropriate services that represent true value for money.

Providers are required to produce an 'Assessment of Fair Value'. This information will help you to clearly articulate and document the value of your proposition for clients and, where required, challenge the service providers you use. Knowing that your service providers are not due to go through significant structural change and have modern technology capabilities that allow you to focus on good client outcomes is an increasingly important consideration.



Top Tip: Create 'client personas' to map out and understand your different clients' advice experiences.

3 Delivering a robust and cost-effective investment process

The FCA has always required firms to document their centralised investment and retirement propositions - now is a good time to give this a review. In short, this means you need to demonstrate that your clients' projected returns, less charges, allow them to achieve their needs and objectives, within a level of risk that they are comfortable with.

To do this, it's crucial that your investment strategies are inextricably linked to clients' needs and objectives around your target market definitions. Your governance must be based on a strong statement of investment principles that is communicated to your clients.

It's important to question what your statement achieves in terms of real returns and what intellectual investment intelligence it's based on, ensuring that all parties involved in the investment process are fulfilling their Consumer Duty obligations.



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4 Providing clear and relevant client communications

This theme is about ensuring your communications allow clients to make effective decisions. To confirm this, you'll need to review all client communications and correspondence, including expected communications from third party providers and suppliers, and create a framework for client testing and understanding.

The FCA will look to advisers to simplify communications for clients where possible, whilst ensuring they are clear and relevant. It's important to consider the behavioural implications of communications, whether they're being sent at the right time, and whether there is consistency across communications over the same time frame.

Don't forget potentially vulnerable clients

You should also think about how you can identify clients with different characteristics and how their needs affect their financial journey, for example those who are vulnerable or temporarily vulnerable. And you'll need to consider different types of vulnerability and how to spot them. Finally, you'll need to consider how to prevent your clients from being exposed to investment and pension scams by ensuring they're aware of the risks and know what to do.

Client vulnerability and the potential for scams carry increasing prominence during the current cost-of-living crisis, so make sure you build these areas into your plans.

5 Supporting clients

In creating the new rules, the FCA has raised the bar in terms of ensuring customers are appropriately supported and are not subject to any barriers to advice or inconvenience when accessing products and services. This involves mapping out your client support framework and any firms you partner with, such as manufacturers and providers.

Demonstrating your support for clients

To ensure your service is supporting clients fully, you may wish to consider creating a client charter. This should state your promises for how you'll work with your clients and how you deal with all types of clients, including those who display different characteristics and vulnerabilities. It's also important to check you have consistency across the same target markets and that your fee agreements for different client segments represent true value for money.

Finally, you should also review the service standards and technology capabilities of providers to make sure your clients receive the service and support they need.



Top Tip: Create a client charter detailing your service promises for clients.

6 Creating the right culture

Where appropriate, the FCA will expect to see a cultural shift across firms. To create the culture they're looking for, you'll need to look at how your people, clients, communications, and language interact across all parties involved in the planning process.

You may wish to consider creating a statement of principles or simple code of conduct. Testing your employees and recording the results can help you to demonstrate that you're instilling a professional and supportive culture. You should also ensure your firm's culture links to, and is reflected in, your client communications (see section 4).



Top Tip: Create a code of conduct for all the colleagues within your business.



7 Evidencing compliance on an ongoing basis

As you'll have noticed, a key theme throughout Consumer Duty is being able to evidence that you're meeting – and continuing to meet – the new regulations. To do this, you'll need to create a clear monitoring and governance framework that is periodically reviewed.

The FCA will expect you to provide evidence and proof by documenting and recording your compliance, putting Consumer Duty at the heart of everything you do. A good way to start is by appointing a Consumer Duty champion in your business (noting that the ultimate responsibility sits with the individuals who carry SMF responsibility). You may also wish to make Consumer Duty a standing agenda item at every team meeting across your business so it's never far from your mind.

Technology can make your life easier

Exploring technological solutions to take on some of the heavy lifting can be a great way to reduce the pressure and workload for your firm. The right technology may also help you to analyse the management information and data you need in your governance framework in terms of:

- Client target market definitions
- Suitability and customer outcome testing
- Testing your communications and client understanding/support
- Supporting you with required data and management information



Top Tip: Appoint a Consumer Duty champion and add Consumer Duty to your regular meeting agendas.

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