

CAPCO

CAPCO CONSUMER

CONSUMER DUTY: ARE YOU READY FOR
YOUR ANNUAL BOARD REPORT?



a wipro company

Firms have been extremely busy since they completed the implementation of the UK's Consumer Duty requirements for on sale products in July 2023. For most firms, Consumer Duty has continued as an ongoing transformation initiative focused on embedding the work delivered for Day 1 in addition to remediating residual instances of harm, further enhancing frameworks through more ambitious digital transformation, and managing the implementation of the policy for closed products.

While all this is ongoing, firms must also ensure they are prioritising their other regulatory commitment: Board approval by July 31 of a report on customer outcomes that evidences the organization's compliance with its obligations under Principle 12.

Firms should not underestimate the complexity of acquiring and consolidating the right data points to form a view of customer outcomes, nor the importance that the FCA will place on the artefact as evidence that a firm has taken their obligations under the Duty seriously.

In this paper, we explore:

- **What does the Consumer Duty Policy require and what has the FCA said about the annual report?**
- **What should the annual report contain?**
- **What considerations should firms be making when planning?**
- **How do we define good practice?**

Please reach out to our team to find out more about our suite of tools, templates, and data accelerators to ensure that your report serves as an example of good practice against your peers.



WHAT DOES THE CONSUMER DUTY REQUIRE AND WHAT HAS THE FCA SAID ABOUT THE ANNUAL REPORT?

Consumer Duty requires that firms must prepare a report that enables their Board to review and approve the following:

- The outcomes being received by retail customers and whether the firm is complying with its obligations under Principle 12 – to act to deliver good outcomes
- Any actions required to address risks or instances of customers receiving poor outcomes
- Whether the firm’s future business strategy is consistent with its obligations under Principle 12.

The FCA have confirmed that this report will form a key part of the evidence used to assess a firm’s ongoing compliance with the Duty. Firms must be able to provide the report, and the management information that sits behind it, on request.

The report represents a good opportunity for firms to demonstrate to the regulator that they have taken the implementation of the policy seriously and have also taken the right steps to have sufficient monitoring in place. Those that provide superficial reports without genuine data insights risk being an outlier when the FCA benchmark firms later this year.

WHAT SHOULD THE REPORT CONTAIN?

Firms should have been engaging their Boards throughout the implementation period since gaining sign-off of their Consumer Duty plans in October 2022, with most firms producing an ‘end of term’ report in July 2023 to demonstrate the completion of their Day 1 plans.

The key change for this annual report is the transition from a delivery focused report to a data-driven assessment of the quality of customer outcomes. The core components of the report should be:

- A data driven assessment of the outcomes provided to customers
- Actions taken and actions in-flight to address risks and instances of harm
- A summary of the firm’s business strategy in relation to customer outcomes.

The report should start with an orientation for the Board on how the firm defines and measures customer outcomes. This should include relevant definitions of good outcomes, harm, foreseeable harm and what contributing factors the organisation considers in categorising customer outcomes such as financial detriment, customer cohort materiality and characteristics of vulnerability.

It should also orientate the Board to the core frameworks on which the organisation relies to ensure that the risk of customer harm is managed. These may include – but will not be limited to – Conduct, Product Governance, Third Party Risk Management, and the Corporate Governance frameworks.

Data Driven Assessment of Customer Outcomes

This section should provide the Board with the right data and management information (MI) to demonstrate the overall outcomes being provided to customers.

Define your data sources. Providing a comprehensive view on customer outcomes will require the aggregation of data points from multiple data sources. Some of these will be metrics that indicate whether you are acting to deliver good outcomes, rather than specific customer data points themselves.

We categorise data sources into four areas:

- **Enterprise-wide grouped indicators** – these are data points that will give your Board thematic indications of whether you are servicing your customers effectively. These may include, but are not limited to: customer attrition, industry complaint comparison, Net Promoter Scores and customer redress volumes.
- **Operational indicators** – these are data points that demonstrate the operational hygiene of the key control frameworks that you place reliance on to prevent customer harm. These may include, but are not limited to: product lifecycle reviews completed on time, control effectiveness, training completion metrics, critical system outages.
- **Standard indicators** – these are data points that can be split across the FCA's four Duty outcomes and give a more detailed assessment of the organisation's performance in delivering good outcomes. These will vary across each of the four outcomes. These may include, but are not limited to:
 - **Product and services:** early product cancellations, product dormancy, sales suitability, complaints related to product mis-selling.
 - **Price and value:** price benchmarking, proportion of revenue generated from fees, product usage, complaints related to pricing.
 - **Consumer understanding:** customer response rates, customer actions rates, complaints related to communications.

- **Consumer support:** call wait times, customer abandonment rates, complaints related to customer service.
- **Customer outcome indicators** – these are data points that reveal the outcome received by a customer or group of customers within a specific journey. These are primarily outputs of Customer Outcomes Testing (COT), communications testing and customer surveys. The coverage of these data points is generally far lower than the other indicators in comparable customer sample size, however they must be given sufficient weight and visibility to the Board as they are the only metrics that genuinely evaluate customer outcomes.





Establish your reporting hierarchy. Critical to a successful MI pack is the aggregation methodology used to consolidate the multiple data sources. Firms must establish a data model that ensures that the hundreds of data points used are weighted in a way that provides a concise summary for the Board, while not introducing aggregation risk by inadvertently masking key areas of customer harm, or areas of focus such as the treatment of vulnerable customers.

Define your thresholds for good outcomes. Firms need to invest time in determining their thresholds across each data point for good outcomes, harm, and foreseeable harm. These thresholds need to be underpinned by evidence that justifies whether certain ranges adequately indicate a certain level of customer outcome. For example, if the metric is related to call wait times, then the established thresholds need to be based on analysis of how long a period often leads to customer abandonment or elevated customer distress.

Ensure customer cohort analysis. Historically, organisations have had a product driven view of their data estate. Firms should be able to segment their customer cohorts for higher risk products or journeys to be able to provide a specific view of customer groups based on static or behavioural characteristics related to vulnerability, age, gender.

An example might be to assess how much of a product's overall revenue is generated by punitive charges thereby indicating whether a product is disproportionately impacting a group of customers with lower financial literacy.

Assess data quality and coverage. Firms should also surface a view of the data quality being provided, including the currency of the data, the coverage of customers and products and the quality.

Actions taken and actions in-flight to address risks and instances of harm

This section should include all actions that have been completed to address known harms or risks of harm and the activities in flight to address harms that have not been remediated.

Use your Consumer Duty Programme. The Consumer Duty implementation programme itself will most likely be the primary vehicle for the remediation of harms identified during product reviews and journey analysis. This should include ongoing work to embed Consumer Duty across the organisation, including changes to product characteristics, pricing, removal of products or services, uplifts to customer communications or the digitalisation of journeys as well as issues identified through the review of closed products.

- Any update that includes project reporting should include information on what has changed for the customer, rather than ‘project management speak’ on milestones completed.

Zoom in on issues and actions. Within the organisation’s issue management system of record, issues that meet the criteria for harm should be included in the report, with the root cause analysis and status of remediation.

For example, a fee and mischarging issue due to systems errors may not have been identified through Consumer Duty journey analysis, but would certainly constitute a poor customer outcome that should be reported to the board.

- Any extracts from issue management systems should be reviewed and uplifted to ensure they are appropriate for board consumption. Issue owners often focus descriptions on the delinquency of the controls, rather than the customer impact.

A summary of the firm’s business strategy in relation to customer outcomes

This section should include the relevant parts of the firm’s business strategy and an impact assessment on customer outcomes. This should include those strategic initiatives that directly impact customers, and those where there is a material secondary impact on customer outcomes.

Include customer initiative. Where there are planned strategic initiatives with customer focussed objectives, include these for Board consumption. An example might be the delivery of a new app or chat service.

Include the downstream risks of strategic transformation. The Board should be able to evaluate in one place whether the firm’s business strategy has

material associated conduct risks. This might include plans for the withdrawal of certain services, such as branch networks and the mitigating steps the firm is taking. It may also include the key products that the organisation is relying on for growth, or material operational changes such as offshoring and outsourcing.

Don’t underestimate the importance of cultural change. Firms should speak to the considerable shifts made in their ways of working to improve customer focus. For most businesses, this will include significant overhaul as the focus will be to ensure the change is embedded and effective for all future transformation also.

WHAT CONSIDERATIONS SHOULD FIRMS BE MAKING WHEN PLANNING?

Engage your Board early. For many firms, this will be the first time that a comprehensive data set on the organisation's customers has been consolidated for review. Teams should therefore not expect to get this right first time. The earlier that Boards can get exposure to the data, the more remaining time there is available to course correct, provide a more curated view of MI, and to educate the Board on the relevance of different indicators. The Board champion should be a key stakeholder in the process – taken along the journey of improvement and serving as the voice of the Board in steering teams to provide the optimal level of granularity.

Pilot the MI. Aggregating the MI will be the most effective way of testing the data model and hierarchy, and exposing where you have greater or weaker data coverage. This will also highlight data quality issues early that can be rectified before reporting in anger. A full pilot of data requests, consolidation and presentation should be done well in advance of July.

Establish clear roles for 2nd and 3rd Lines of Defence.

Key risk stewards and internal audit must play a critical role in validating the inputs to the report and assuring the action plans articulated to the Board. Best practice is to have an independent assessment from your regulatory compliance risk steward and head of internal audit. This is of particular importance where firms have had issues and observations made by the 2nd and 3rd line testing teams throughout Consumer Duty implementation.

Run it as a project. As with all things related to Consumer Duty, transformation discipline is of paramount importance to ensure that the artefacts developed are of the right quality, with signoffs at the right stages underpinned by an appropriate book of evidence. Running the Board report as a project plan with key reportable milestones and risks is essential.

HOW DO WE DEFINE GOOD PRACTICE?

Firms should use the Duty as an opportunity to revisit previously accepted definitions of good practice. Noting that there is a considerable amount to do for the July deadline, firms can still use this goal post to identify areas of improvement and set a high standard for continuation post-July.

It is inevitable that firms, upon assessing priority, will end up with 'backlog' that needs to be worked on past their initial implementation. The Duty does not stipulate that

everything must be completed – and rushing towards the deadline with compromises in quality is certainly not in the spirit of the Duty.

Equipping your Board with a clear understanding of where they can expect to see a continuation of work – signposting both resourcing needs and timeframes will be imperative to painting an accurate picture to the regulator of next steps whilst allowing consideration for risk and harms until gaps are closed.

Figure 1: Areas to focus on when evidencing ongoing good practice

Embedding the changes into BAU

There will be significant focus on embedding the changes into BAU – ensuring that this hasn't been a one-off process.

The Board should speak to business areas as early as possible to challenge their embedding measures and be able to stand behind the steps that have been taken. Key business areas to target for this review could include (but are not limited to) training, third party, communications and governance.

Consistency across the business

Although there is a big focus on embedding the change, the report shouldn't neglect the importance of consistency in tooling and the improvements that have resulted.

Firms should showcase the transparency and insights that has been brought forward through use of coherent and logical tools.

An example of this is detailing the introduction of a baselined management level MI report across the business areas to promote wider availability of consumable information.

Prioritisation Framework

Firms will need to make a call on priority when considering gaps and improvements. Priority will vary for every business and agreeing a credible prioritisation framework that consists of important factors will ensure sufficient diligence when determining what's next.

Factors to consider include:

- cost to implement
- business value of change
- potential harm if not prioritised
- temporary workaround availability

What comes next is of even greater importance

Ensuring that controls and frameworks to mitigate change reverting back will be a key part of the Board report.

A vital area of interest for the regulator will be to see the Board's commitment to a journey of continuous improvement – all supported by regular MI to evidence steady, ongoing development over time.

SUMMARY

Firms must ensure they have a comprehensive artefact ready before July 31 to convey confidence to their Board and the regulator. They also need to consider what model they will adopt for the production and review of the report on an ongoing basis. Although the Consumer Duty Policy only stipulates annual approval by the Board, firms should nonetheless be engaging their Boards regularly throughout the year. Regular reviews should enable firms to show where customer outcomes are trending positively due to actions take across the organisation to further embed the Duty – and also where the continuous improvement to data and MI has enabled a sharper focus on customer outcomes.

CAPCO ACCELERATORS



ANNUAL BOARD REPORT

Tailored guidance, templates and frameworks to support Boards and Executives in understanding the outcomes their firms are delivering.



DASHBOARDS

Visualisations, guidance and best practice to support provision of rich, engaging and impactful insights into outcomes.



KPI AND DATA MODELS

Data definitions, libraries and metrics (quantitative and qualitative) that can underpin the reporting cycle and the ongoing continuous improvement of firms' outcomes data solutions.



OPERATING MODEL

Organisational design and processes to helps firms establish and embed the 'business as usual' monitoring and improvements of customer outcomes.

AUTHORS

Oliver Sharland, Executive Director

Michael Shand, Managing Principal

CONTRIBUTORS

Jean-Marc Sookun, Principal Consultant

Meera Solanki, Senior Consultant

CONTACT

Oliver Sharland, Executive Director

oliver.sharland@capco.com

ABOUT CAPCO

Capco, a Wipro company, is a global technology and management consultancy focused in the financial services industry. Capco operates at the intersection of business and technology by combining innovative thinking with unrivalled industry knowledge to fast-track digital initiatives for banking and payments, capital markets, wealth and asset management, insurance, and the energy sector. Capco's cutting-edge ingenuity is brought to life through its award-winning Be Yourself At Work culture and diverse talent.

To learn more, visit www.capco.com or follow us on Facebook, YouTube, LinkedIn and Instagram.

WORLDWIDE OFFICES

APAC

Bengaluru – Electronic City

Bengaluru – Sarjapur Road

Bangkok

Chennai

Gurugram

Hong Kong

Hyderabad

Kuala Lumpur

Mumbai

Pune

Singapore

MIDDLE EAST

Dubai

EUROPE

Berlin

Bratislava

Brussels

Dusseldorf

Edinburgh

Frankfurt

Geneva

Glasgow

London

Milan

Paris

Vienna

Warsaw

Zurich

NORTH AMERICA

Charlotte

Chicago

Dallas

Hartford

Houston

New York

Orlando

Toronto

SOUTH AMERICA

São Paulo

WWW.CAPCO.COM



© 2024 The Capital Markets Company (UK) Limited. All rights reserved.

JN_6059

CAPCO
a wipro company