

CAPCO

DUTY OF CARE:
PREPARING FOR THE UK'S NEW CONSUMER DUTY



Recognising that some firms have not been driving a fair and competitive market, the introduction of a new UK Consumer Duty by the Financial Conduct Authority (FCA) will set higher expectations for the standard of care that financial services businesses provide to consumers and is expected to precipitate a significant shift in culture and behaviour among providers.

The Financial Conduct Authority's Consumer Duty is intended to require firms to consistently focus on consumer outcomes and put customers in a position where they can act and make decisions in their interests. As the FCA notes, the Duty "will add to the range of regulatory tools we use to meet our strategic objective of making markets work well" and represents "a paradigm shift in our expectations of firms in retail markets".

Industry feedback from an initial consultation in May 2021 and the second CP21/36 open consultation, which kicked off in December 2021 and closed on February 15, 2022, will inform a Handbook of rules and guidance (currently in draft) which is set for publication by July 31, 2022. Impacted firms will then have nine months – until April 30, 2023 – to implement the changes required by Consumer Duty package of measures.

CONSUMER DUTY OVERVIEW

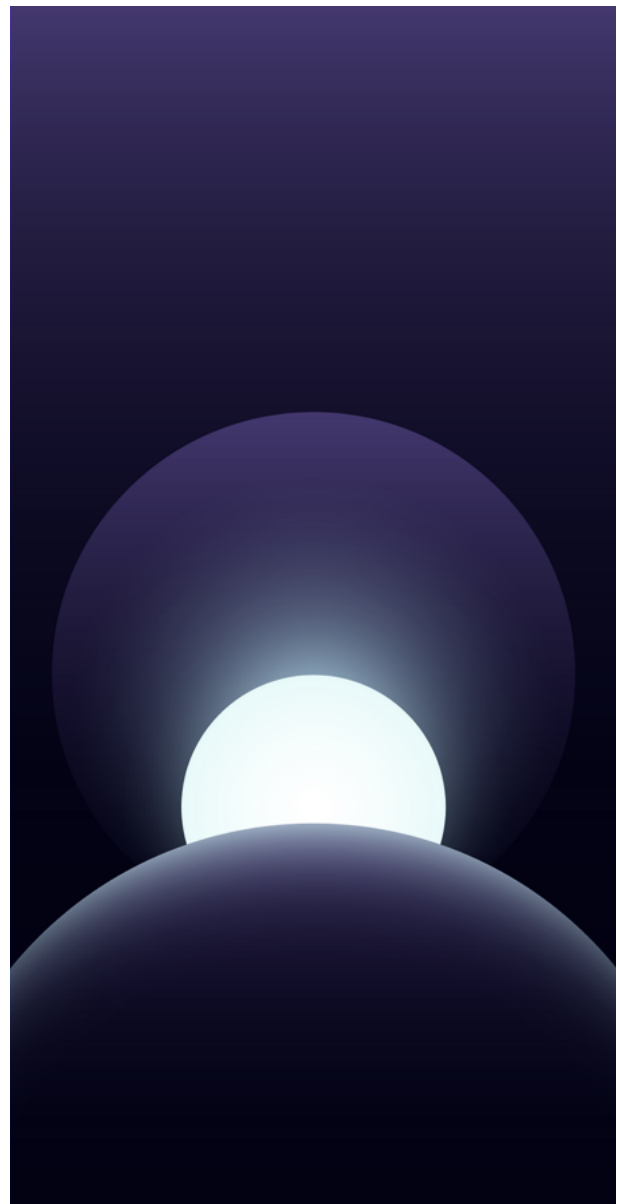
The Consumer Duty is designed to prevent customer harm and root causes thereof, thereby reducing the need for post-harm remediation. While, as noted, the Handbook is yet to be published, at this juncture the general 'direction of travel' of the new regulation and the heightened expectations placed on firms are highly unlikely to change.

There are three layers to the proposed Consumer Duty:

1. A **Consumer Principle**, as part of the FCA principles setting the broader expectations and tone from the regulation. The Principle signals a shift in expectations from delivering fair outcomes to retail customers to delivering good outcomes
2. **Cross-cutting rules** which translate the overarching expectations into rules. The current language requires firms to take all reasonable steps to avoid causing harm, enable customers to pursue their financial objectives and to act in good faith towards customers
3. **Four desired outcomes** that clarify the expected relationship between firms and its customers:
 - a. Communications – firms must ensure their communications consistently support customers by enabling them to make informed decisions about products and services.
 - b. Products and Services – firms must ensure that all products and services sold to consumers are fit for purpose. They must be designed to meet consumers' needs and be targeted at the consumers for whom they are designed.
 - c. Customer Service – firms must provide a level of customer service that meets consumer's needs throughout their relationship with the firm. Customer service should ensure consumers can realise the full benefits of the products and services they buy, and

ensure that they are not hindered from acting in their own interests.

- d. Price and Value – firms must ensure that products and services are fit for purpose and represent fair value, on the basis they meet consumers' needs and objectives.



CONSUMER DUTY IMPLICATIONS

Firms must demonstrate the consideration of good customer outcomes from strategic planning, designing products and services, and commercial decisions through to day to day customer service. Critically, it will be a test of culture.

An expectation of getting things right first time will put a greater emphasis on testing for good customer outcomes prior to making changes or launching new products and services. It will also put a greater emphasis upon ongoing testing of existing products, services and operations to deliver good customer outcomes – and on adapting as required for the benefit of customers. Robust data, feedback loops and the ability to make rapid changes in products, distribution, communications and operations will be key. In light of the Senior Managers and Certification Regime, demonstrating evidence of reasonable steps towards these goals will be essential.

Given the anticipated short, nine-month implementation period, firms must begin work immediately and will likely take a deductive approach to their preparations: defining, describing and quantifying ‘good’ outcomes from the firm’s services and processes is a sensible starting point for firms to then commence a gap analysis between desired and current states. The changes ahead will require significant shifts in organisational culture and practices and will result in increased expectations and scrutiny over firms. As a result, we would expect Boards to be involved in defining ‘good’ outcomes across the firm’s services and process at the outset.

At this stage, it is likely that members of first and second Lines of Defence will be prioritising time-consuming tasks to ensure

they are correctly positioned for the introduction of the new requirements. Example activities could include:

- Gap analyses on existing policies, processes, and products/services
- Defining data requirements and building data systems and dashboards to provide appropriate Management Information (MI)
- Developing a prioritised programme of change to adapt policies, processes and products/services – and resulting system and technology changes – to meet firms’ Consumer Duty obligations
- Training staff on the new requirements and organisational culture
- Ongoing monitoring and evaluation of actions towards customers, feedback, and product/service suitability

Commencing preparations immediately if not already in motion would be wise. For many firms the transition to ‘good’ customer outcomes likely presents a significant task, as does shifting the focus to ensuring that those outcomes are consistently delivered. Initial change programmes and projects must factor in embedding these disciplines into ongoing ‘business-as-usual’. This will be the new normal.

PRACTICAL STEPS AHEAD

Long-term success will be heavily predicated on effective management of the implementation period. The FCA is transforming into a more data-led, agile, innovative, and assertive regulatory body, and it is therefore key that firms focus on optimising their data capabilities and technology strategies to deliver required outcomes.

We recognise those outcomes will not be 'one size fits all', and accordingly recommend firms adopt an iterative and collaborative approach to:

1. Understanding the gaps between current practices and desired outcomes

2. Identifying priorities

3. Developing appropriate plans to implement the required changes and then translating into 'business-as-usual' processes

Firms will want to optimise the use of data and technology to demonstrate that the Consumer Duty is being successfully implemented. Examples of this include, but are not limited to, developing appropriate MI suites to measure and achieve outcomes, and Artificial Intelligence (AI) solutions to generate a real-time view of customer interactions over time.

CAPCO'S INSURANCE PRACTICE

Across our consulting, digital and technology arms, and with a team highly experienced in Vulnerable Customer strategy and delivery and regulatory change management, Capco has the capabilities required by firms to identify priorities and plan for major transformation programmes.

The insurance, savings and investment Industry is faced by a number of challenges including digital transformation, increased expectations of transparency, ways of working, the increasing role of data, as well as mitigating the impact of regulatory change and rising cost pressures. With our focus on enhancing capabilities and talent, alongside our existing strengths in digital and modern technology architectures, Capco has a strong offering to help our clients navigate these challenges and opportunities.

Capco's Insurance Practice has a team of experts in risk and regulation, data and business consultancy to support your needs around the Consumer Duty. Our Insurance team has a wealth of experience in supporting clients efficiently meeting regulatory-mandated requirements with expertise in strategy development, gap analysis and governance/ policies, as well as data frameworks to support regulatory reporting. Our Insurance domain offering is underpinned by our capabilities within consulting, digital, technology, and data, providing end-to-end services to unlock value at an enterprise level.

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Capco, a Wipro company, is a global technology and management consultancy specializing in driving digital transformation in the financial services industry. With a growing client portfolio comprising of over 100 global organizations, Capco operates at the intersection of business and technology by combining innovative thinking with unrivalled industry knowledge to deliver end-to-end data-driven solutions and 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 Innovation Labs and award-winning Be Yourself At Work culture and diverse talent.

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