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Improving Customer Outcome Testing

A practical guide for Boards

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Contents

Overview: the growing focus on customer outcomes

Where good conduct was once demonstrated primarily through adherence to policies, processes and rules, the Financial Conduct Authority (FCA) is focused increasingly on assessing the outcomes firms achieve for their customers. Rules-based compliance, in isolation, has given way to an outcomes-based approach involving a sharper focus on issues such as the treatment of vulnerable customers and the achievement of value for money.

"we [the FCA] are moving from a narrower compliance with the rules, to a focus on delivering the outcomes we want for the users of financial services."

Christopher Woolard, FCA, 2019

The FCA expects all firms to be able to demonstrate consistently that the fair treatment of customers is at the heart of their business model and culture. As far back as 2006 its predecessor, the Financial Services Authority, set out six customer outcomes it expected firms to strive to achieve.[1] These continue to set the baseline for how firms should treat customers and inform supervisory assessments of firms' conduct. But although the concept of customer outcomes is well established, in recent years senior FCA figures have consistently argued that the regulatory regime must evolve to take greater account of them. In 2020, the Chair, Charles Randell, argued that the regulator should *"focus more on consumer outcomes and it should require firms to do the same - and to show that they are doing it"*. These remarks echo the FCA's most recent business plan which identifies achieving a *"regulatory approach which focuses on outcomes"* as a key priority over the next one-three years. In a similar vein, Nikhil Rathi, the new Chief Executive, commented, in his response to questions from the Treasury Select Committee, that balancing innovation with consumer protection will require *"both firms and the FCA to focus much more, and more promptly, on the outcomes for consumers"*.

COVID-19 has heightened the focus on customer outcomes. Having taken extraordinary steps to protect and support individuals and businesses during the pandemic, the FCA wants to build on this progress to ensure financial services firms continue to treat their customers fairly. This has prompted it to articulate more clearly the customer outcomes it expects firms to achieve and, as the findings of its recent multi-firm review into coronavirus-linked forbearance make clear, it intends to monitor these outcomes closely.[2]

The FCA expects firms, and the Board and Senior Executives in particular, to assess and monitor the outcomes customers receive. Recent enforcement cases demonstrate its willingness to take robust action against firms that fail to deliver fair customer outcomes and highlight the crucial role that robust and accurate outcome testing can play in ensuring Board Members and Senior Executives have appropriate oversight of how customers are treated.

Outcome testing can provide firms with the evidence they need to demonstrate they have appropriate controls in place to assess and monitor customer outcomes and do so effectively and with appropriate frequency. Often, however, we observe systematic errors with firms' approaches to outcome testing. This report, which is based on our experience of performing outcome testing, sets out the common issues we observe and provides practical guidance to firms on improving their approach. Walking through the main stages of the outcome testing process, we set out key considerations and provide examples of the questions and challenges Board members and those responsible for customer outcomes can raise to assure themselves that the process is robust and fit for purpose.

1. https://www.fca.org.uk/firms/fair-treatment-customers
2. https://www.fca.org.uk/publications/multi-firm-reviews/coronavirus-linked-forbearance-key-findings

What is outcome testing, and what is it not?

Customer outcomes can be assessed using a number of internal quality controls. Outcome testing, however, refers specifically to a holistic review of a customer's journey to determine whether, based on their individual circumstances, they received a fair outcome from their financial services firm overall. In assessing whether the outcome was fair for the customer in question, outcome testing goes beyond traditional quality control methods (such as quality assurance) which typically test whether policies and processes have been followed.

Outcome testing may be performed to assess the outcomes achieved for customers throughout the customer journey, in specific functions (for example, complaints) or as part of product or service reviews. Depending on the scope and nature of the review being performed, outcome testing may consider factors including whether:

- the standard of communications and contact between the customer and the firm was appropriate;
- the firm obtained and recorded sufficient information to understand the customer's circumstances (including identifying indicators of vulnerability);
- products or solutions provided to the customer were appropriate and performed as expected; and
- the firm acted appropriately at critical points (for example, during the advice process).

In practice, firms may apply, as the initial basis of their assessment, high-level regulatory expectations regarding conduct of business and treatment of customers and/or internal standards. However, it is vital that outcome testing is more than just a detailed gap analysis against the FCA rulebook or a check for adherence with internal policies and processes. Firms may apply their processes correctly and still deliver an unfair outcome. Conversely, firms may decide that they need to adjust their standard processes or provide scope for exceptions to them in clearly defined circumstances in order to deliver a fairer outcome for the customer.

Another important and widespread misconception is that outcome testing is an assessment of customer satisfaction. Customer satisfaction may be indicative of a fair outcome. But firms need to be mindful that customers can be satisfied with an unfair outcome and dissatisfied with a fair one. Similarly, customers may be unaware what outcome they ought to have received.

Do

- Consider whether the customer journey led to a fair overall outcome based on the facts of the case
- Check that the firm's activity took into account the customer's individual circumstances
- Focus on whether the product, activity or response was right for the customer as well as whether a process has been followed

Don't

- Focus solely on adherence with policies/process as these may not deliver a fair outcome
- Limit the exercise to a gap analysis against detailed FCA rules
- Approach outcome testing as a tick-box exercise
- Assume that customer satisfaction is evidence of a fair outcome

How does outcome testing fit with other controls?

Outcome testing should be incorporated into the wider control framework so that it forms part of a continuous cycle of improvement to products, services and the customer journey. Firms' outcome testing programmes should be informed by a wide range of internal and external inputs including issues regarding the treatment of customers, external changes, the firm's own risk appetite and regular conduct risk monitoring. The results of outcome testing should, in turn, be used to identify and fix failings in the treatment of customers and confirm that necessary improvements are working as intended.

Whilst regular outcome testing of key customer interactions and processes is typically performed by the first line, the second and third lines may also use outcome testing to independently assess the effectiveness of controls and/or to identify thematic issues. Strong governance should sit around the outcome testing process to ensure that Board Members and Executives have adequate visibility of customer outcomes, can monitor action taken to address issues and provide direction back to the business based on trend analysis or concerns.

Figure 1: How does outcome testing fit with other controls?

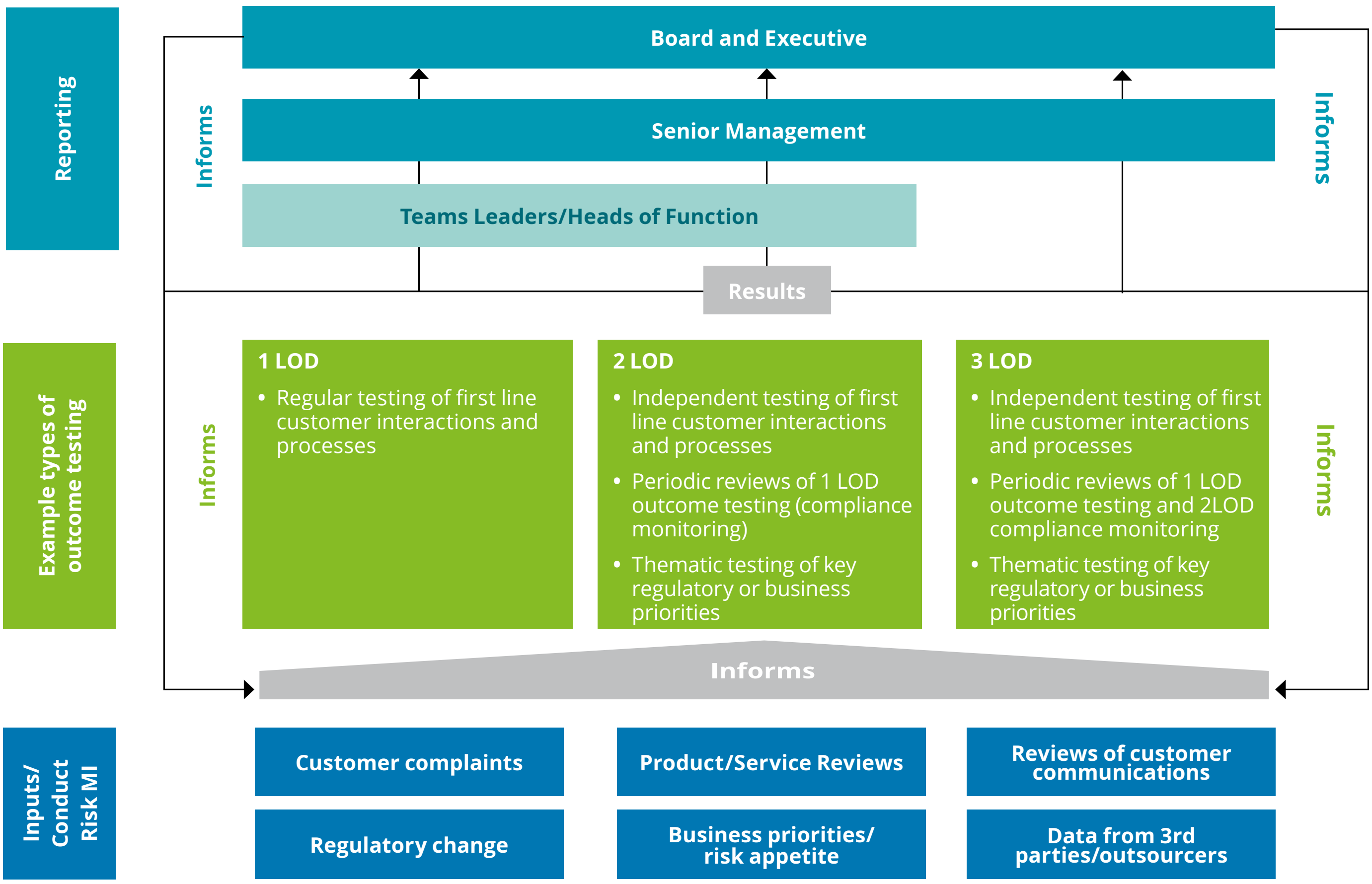


Figure 2: How does outcome testing fit with other controls?

We set out below an example of how outcome testing can be incorporated into the wider conduct risk framework for an insurer.

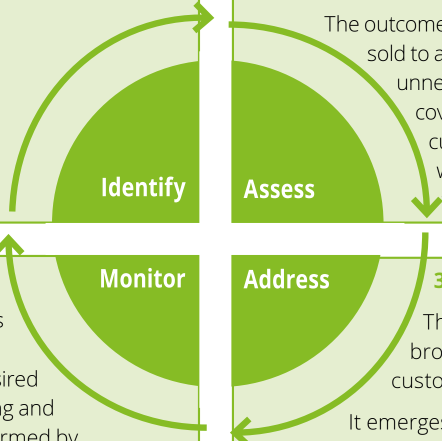
1. Identify

As part of its standard conduct risk monitoring, an insurer identifies a spike in cancellations related to its SME business insurance product. The product combines standard commercial insurances for SME businesses.

A cross-check against complaint data reveals a similar increase in customer complaints related to the same product.

Initial root cause analysis suggests that the cancellations and complaints relate to new exclusions to property damage cover included as part of the product.

To ensure that the new exclusions are being communicated during the sales process and the product is generally delivering fair outcomes for customers, the insurer decides to undertake outcome testing.



2. Assess

The insurer identifies a representative cross-section of the customer base for the product.

It undertakes an end-to-end review of the product sales process for these customers, including sales made by brokers acting under delegated authority.

Reviewers identify that sales staff at a major broker are not adequately highlighting the relevant exclusions to customers during the sales process.

The outcome testing also reveals that the product has been sold to a number of sole traders who have purchased cover unnecessary or irrelevant to their business (e.g. stock cover). During the calls, it becomes apparent that the customers in question do not appear to understand what cover they require and are subsequently sold the firm's most comprehensive product.

3. Address

The insurer investigates why sales staff at the broker have not been highlighting the exclusions to customers.

It emerges that despite call scripts having been updated to highlight the new exclusions, call staff do not put sufficient emphasis on them during calls as they believe it will "put people off" and they are worried this will reflect poorly on them.

Call staff at the broker are asked to attend additional training so they better understand the importance of ensuring fair outcomes for customers. The insurer reiterates to the broker that the performance of sales staff should be assessed on treating customers fairly, not achieving high sales.

A review of customer data reveals that approximately 100 sole traders have taken out the combined SME cover. The insurer undertakes an in-depth review of these customer files, identifying customers who have paid for coverage that they do not need. It writes to these customers offering to move them to more suitable cover and refund the excess premiums paid.

The insurer amends its call scripts and product documentation to ensure that SME customers only purchase the cover they require.

4. Monitor

The insurer requests that the broker undertakes more regular call monitoring to ensure the additional training of sales staff is having the desired effect. It asks for regular MI on the call monitoring and requests copies of call monitoring reviews performed by the broker's compliance and internal audit functions.

The issues identified by outcome testing are fed into the insurer's product review process to ensure the necessary changes have taken place and are working as intended.

The insurer continues to monitor regular complaints and cancellation data to confirm the product is now performing as expected and that no further issues have arisen.

The different methods of outcome testing

Based on what we have observed in the market, we set out below the different methods of outcome testing being employed by firms:

End-to-end outcome testing assesses the entire customer journey for a product, including all customer interactions, actions taken and documentation, to determine whether the customer achieved a fair outcome overall. End-to-end outcome testing is time and resource intensive. It can also be challenging to perform where aspects of the customer relationship are handled by third parties, for example, intermediated sales. However, end-to-end outcome testing is a key tool to identify weaknesses in the overall customer journey that may have been missed by other controls and testing. It is often augmented or focused by the ongoing review of core conduct MI to understand the outcomes being delivered to customers for specific products or services.

Fixed-period outcome testing is the most widely adopted form of outcome testing. Here, a specific time period is selected (for example, three or six months) and reviewers assess all interactions, records and documentation relating to sample customers during that period.

Point-in-time outcome testing is similar to fixed period outcome testing. However, rather than reviewing a specific time period, point-in-time testing assesses an individual point or aspect of the customer journey (for example, the initial sale) to enable higher volume of testing at potentially critical stages or interactions.

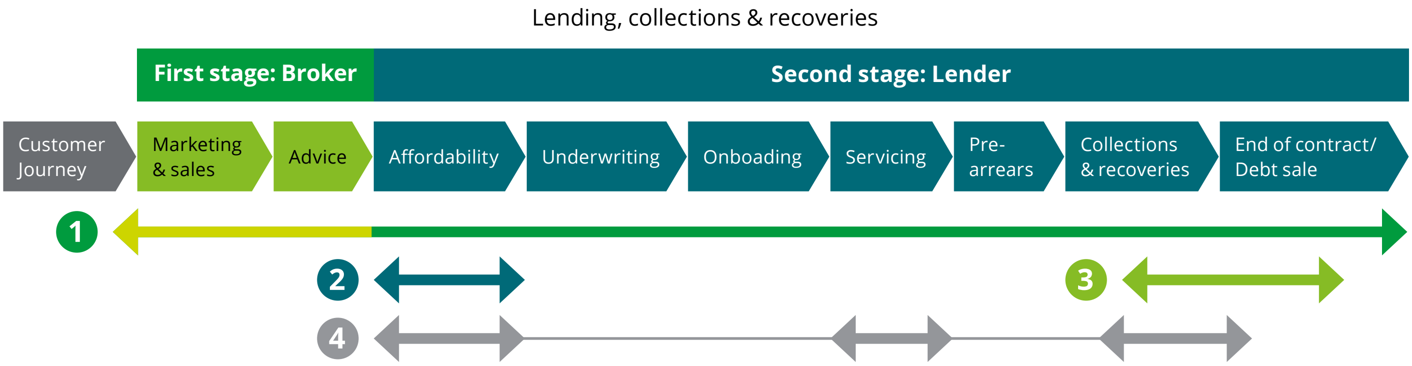
Thematic or "deep dive" reviews are helpful in assessing cross-cutting issues or areas of regulatory focus, for example, the identification and treatment of vulnerable customers. Thematic reviews may be either point-in-time or end-to-end reviews. However, a combination of both of these approaches is, in our experience, the best way of identifying thematic issues.

The different methods of outcome testing

We set out below how different types of outcome testing may be performed across a typical customer journey for a consumer credit product.

In this scenario, the initial stage of the customer journey (marketing and sales) of the customer journey is performed by a credit broker. The second stage is performed by the lender.

Figure 3: The different methods of outcome testing



1 **End-to- end outcome testing:** here the lender would review the entire relationship with the customer from the initial sale through to the current point in time or end of the contract. The review should encompass all customer interactions, records and documentation (including marketing material) for sample customers. This includes the records held by the broker and the interactions between the broker and the customer.

2 **Point-in-time:** here the lender would focus purely on the documentation, interactions and records related to the affordability assessment to determine whether customers received a fair outcome. If information relevant to the affordability assessment was collected at another point in the customer journey (for example, during the sale), the review should assess that.

3 **Fixed-period testing:** here the lender would review a set period of time (for example, 6 months) starting at the point at which the customer first entered the collections and recoveries process. Typically, fixed period testing would only look at interactions, records and documentation during the chosen period. The review would track the treatment of the customer for the set period, even if they exit collections and recovery during that time.

4 **Thematic review:** here the firm would perform testing at key points in the customer journey to assess whether the firm is delivering fair outcomes for vulnerable customers.

Improving outcome testing

Whilst there is no specific regulatory obligation on firms to undertake outcome testing, firms frequently use it as a means of assessing, monitoring and evidencing the outcomes being received by customers.

Based on our understanding of the FCA's expectations in relation to outcome testing, and our practical experience of performing outcome testing on behalf of firms, this section walks through the main stages of the outcome testing process, highlighting key considerations for firms. We also provide examples of the questions and challenges the Board and Senior Executives can raise to gain assurance that the outcome testing process is robust and designed with key supervisory priorities in mind.

The main stages of the outcome testing process

Sample selection
Choosing a proportionate, representative sample

File review
An independent review of customer interactions, electronic records and firm actions

Assessment and outcome
Reaching a decision on whether the customer received a fair outcome overall

Quality Assurance and Root Cause Analysis
Addressing subjectivity and identifying root causes

MI and Reporting
Monitoring and reporting outcomes

Sample selection

The first step is to decide how much testing to undertake overall. In our experience, firms' primary consideration, when deciding how much testing to undertake, is the availability of resource and therefore capacity within the outcome testing function. This can constrain both the coverage of the programme and the choice of methods used (e.g. end-to-end versus point-in-time). Rather than be resource-driven, the breadth of the outcome testing programme should be determined by a firm's risk appetite and be proportionate to the size and complexity of the business. This is crucial where Board Members and Senior Executives want to use the results of outcome testing to assure themselves, and the firm's supervisors, that customers are receiving the outcomes they expect.

In developing and agreeing the programme of outcome testing activity, firms will want to pay particular attention to likely areas of supervisory focus. For example, in response to COVID 19, the FCA issued guidance highlighting the customer outcomes it expects firms to achieve.[3] Accordingly, we naturally expect it to scrutinise whether firms achieved these outcomes, focusing on key functions (for example, customer contact and collections and recovery) or themes (such as the response to customers experiencing vulnerability as a result of the pandemic).

It is also essential that the outcome testing programme covers a sufficiently wide spread of products and/or product features, with particular emphasis on those that have the greatest potential to cause customer detriment and the most adverse impact overall. Firms may find it helpful to use a risk assessment framework to identify higher risk products/features for inclusion. The outputs and results from regular conduct MI and other types of assurance should also to feed into sample selection. To ensure that their testing is robust and does not miss issues during different points of the customer journey, firms should ensure that they use a combination of different methods (see page 4).

Having selected the focus areas and the method (or combination of methods) they wish to take on a particular review, firms need to identify an appropriate sample of customers. To provide a valid basis for extrapolating findings across the book of business, samples should be representative of the customer base as a whole. This includes vulnerable customers and, to assess any regional variation in the treatment of customers, those from different geographies. A lack of good quality customer data and analytics can frustrate firms' attempts to select a representative sample, requiring manual, case-by-case checking. Data or cluster analysis are frequently used by supervisors when undertaking their own outcome testing and can assist firms in identifying appropriate cohorts of customers.

	Key considerations	Key questions for the Board and Executives
Sample selection Choosing a proportionate, representative sample	• The proportionality of the outcome testing programme to the size and complexity of the business	• As a percentage of our customer base, how much outcome testing are we performing annually? How does this compare to figures for other forms of QA and first line testing? • Is our outcome testing programme designed to assess current supervisory priorities? If so, which ones? • Does our regular conduct risk MI feed into our outcomes testing programme?
	• Resourcing of the outcome testing function is driven by factors including the size of the outcome testing programme, the methods of testing to be used and the areas/products in focus.	• Are the teams performing outcome testing adequately resourced to execute a proportionate outcome testing programme? • Are we using an appropriate combination of outcome testing methods so that the full end-to-end customer journey is covered? • Is there sufficient coverage of products/product features, particuarly those deemed high risk?
	• The representation of the customer base across different demographics and geographies including customers who are vulnerable.	• How have we assured ourselves that we have included customers experiencing a sufficiently wide variety of actual or potential vulnerabilities e.g. health issues, life events, financial hardship etc.?

3 For example, see the FCA's Finalised Guidance Consumer Credit and Coronavirus: Tailored Support Guidance

File review

File review is typically the most time and resource intensive period in outcome testing as, to be performed accurately, all communications with the customer (whether by letter, phone, e-mail, webchat etc.) and electronic records should be reviewed in full over the defined timeline of the review (end-to-end, fixed period etc). Restricting testing to a small number of customer interactions means a review can provide only limited assurance about the quality of customer treatment. Reviewers need, therefore, to be given an adequate amount of time to conduct their review and firms should ensure that targets or timeframes around completion do not result in reviewers feeling pressured to "skim" the information available. Data analytics can be a powerful tool in helping firms process high volumes of information, flagging potential issues for reviewers to take a closer look at.

It is vital that the review is undertaken in chronological order. This helps prevent the reviewer's judgement being influenced by the outcome the customer eventually received (rather than the outcome they ought to have received) and ensures reviewers assess whether the firm's actions were appropriate at the time they were taken, based on the information the firm had (or should have had) about the customer. Reviewers should, however, note any changes in customers' circumstances throughout the period being reviewed and assess whether the firm identified these and responded appropriately.

Ahead of undertaking the file review, firms must ensure that reviewers understand specific areas of supervisory focus and that guidance and toolkits have been amended to take account of these. Guidance and toolkits should also be adjusted to take account of the specific stages of the customer journey.

	Key considerations	Key questions for the Board and Executives
File review An independent review of customer interactions, electronic records and firm actions	• The coverage of interactions with the customer and electronic records during the time period selected.	• What is our approach to file review? Are we checking all customer interactions during the relevant period? • If not, how have we assured ourselves that we are not missing key information? • Could investment in data analytics help us perform more thorough outcome testing?
	• The re-drafting of any guidance and toolkits to take into account the latest regulatory expectations and areas of focus.	• Do our reviewers understand the supervisory priority placed on issues such as customer vulnerability and fair pricing? • Are they able to identify them appropriately?
	• The time and freedom given to reviewers to examine each case thoroughly and in the right order.	• Do we set targets for the completion of reviews? • If so, do these allow sufficient time for reviewers properly to assess the information available?

Assessment and decision

This is the most challenging aspect of the outcome testing process as reviewers are required to use their judgement to decide what, based on the customer's individual circumstances, constitutes a fair (or unfair) outcome. In our experience, some reviewers lack the necessary knowledge, experience and confidence to make a judgement whilst others adopt an overly "tick-box" mindset. To avoid decisions being little more than an assessment of whether the firm adhered to policies, procedures and rules, firms must ensure reviewers have appropriate training and guidance as to what constitutes a fair/unfair outcome.

Inexperienced reviewers may fail to appreciate the material effect that seemingly small process or human errors can have on the overall outcome for the customer or lack the confidence to challenge the prevailing orthodoxy that the firm generally delivers fair outcomes. As a result, their decisions can paint an overly positive picture of the treatment of customers.

High-level targets which set the firm's risk appetite regarding fair/unfair outcomes can be a useful means of tracking, at senior levels, improvements or deterioration in the treatment of customers. However, proper oversight should be put in place to ensure they are not read by outcome testers as targets or "quotas" for the number files they need to assess as fair/unfair.

To assist with quality assurance later on, the reviewer's summary should be factual and concise and set out a clear rationale for their overall decision. In addition to noting any process/rule breaches and errors, they should note files containing insufficient information to make a decision as these may indicate wider issues around recordkeeping.

	Key considerations	Key questions for the Board and Executives
Assessment and outcome Reaching a decision on whether the customer received a fair outcome overall	• Reviewers' knowledge and experience of products and supervisory expectations regarding the fair treatment of customers.	• Is there a clear rationale for the reviewer's decision documented? • How experienced are our reviewers? • Do our reviewers tend to be quite junior or have they been at the firm long enough to understand our products and expectations regarding the treatment of customers?
	• The extent to which reviewers are encouraged to demonstrate independence of thought, critically assessing whether the outcome was fair, rather than rationalising the outcome the customer actually received.	• Do we provide any training or guidance to reviewers to help them arrive at a decision regarding what constitutes a fair (or unfair) outcome? • Have we, as Senior Managers, taken any steps to build our reviewers' confidence to the required level? For example, by communicating the value we place on outcome testing and the early identification of issues.
	• Oversight and governance of targets regarding the treatment of customers	• Do we set targets/risk appetite to monitor the treatment of customers? • Is there proper oversight in place to ensure the outcome testing function does not think of these as targets for the number of files to be found fair/unfair?

Quality Assurance and Root Cause Analysis

To overcome the inherent subjectivity in outcome testing, and potential inconsistency between individual reviews, firms must perform adequate quality assurance (QA). The most common forms of QA are sample checking and manager/peer review. However, case clinics and roundtables are also a useful means of identifying key themes, ensuring appropriate challenge of decisions/results and giving team members a strong understanding of the outcome testing process.

It essential that firms assess the root causes of any failings or errors to determine whether they were isolated incidents or whether they indicate widespread/systemic issues regarding the treatment of customers. When identifying potential root causes, firms should look beyond factors such as training, policies and procedures and systems and controls and consider the extent to which the firm's culture (and sub-cultures), business model and remuneration practices may drive poor outcomes for customers.

The results of outcome testing must be used to inform improvements to both the outcome testing process and to products, services and operations. We often identify weaknesses in the feedback process due to a lack of confidence and autonomy in the outcome testing function. In some cases, the outcome testing function expects the business to validate its findings, threatening the independence of its reviews. More commonly, outcome testing functions can experience resistance to their findings and are insufficiently empowered to require the business to act and to monitor action items to closure.

The culture and mindset within the firm can also act as a barrier to identifying and reporting issues regarding the treatment of customers. For example, firms may have a "good news" culture which discourages staff from raising issues. There may also be an a priori assumption that the firm generally treats customers fairly, resulting in resistance to, or disbelief of, adverse findings.

	Key considerations	Key questions for the Board and Executives
Quality Assurance and Root Cause Analysis (RCA) Identifying root causes and making necessary changes to policies, processes and procedures	• The range of QA methods used.	• Are we undertaking sufficient QA of outcome testing results? • Would a wider range of QA methods help us to better identify key themes and address potential subjectivity?
	• The extent to which results are fed back to the wider business and used to inform improvements to products and services.	• What themes are emerging out of our RCA? • Are we identifying issues beyond policies and systems and controls that need addressing? • What actions are being taken as a result of QA and RCA? • Are these being tracked? • Does responsibility for closing these actions sit with the appropriate teams?
	• The independence and influence of the outcome testing function.	• Does the business understand the priority the Board and Senior Executives place on addressing the issues identified by outcome testing? • Does the outcome testing function feel comfortable and empowered to raise issues regarding the treatment of customers? • Where the reviewer's view is challenged or overridden, what escalation, sign-off and monitoring processes apply?

Management Information

Supervisors expect firms to have in place appropriate MI to test, monitor and demonstrate – both to their supervisors and to themselves – that they are delivering fair outcomes for customers. In the absence of appropriate MI, firms will struggle to identify issues leading to poor outcomes and take effective action.

It is important that the visibility of outcome testing MI is not restricted to the first line or to conduct risk forums/committees and is used to inform operational and strategic decisions regarding the treatment of customers at various levels within the firm.

When reporting MI to senior committees, firms will, understandably, want to ensure that attendees are not burdened with cumbersome MI packs and so will summarise or aggregate findings. In doing so, however, they should be mindful that key insights can be lost. For example, presenting an overall figure for outcomes achieved across the business can obscure poor results in specific areas. Accordingly, when reviewing MI on customer outcomes, supervisors will expect the Board and Senior Executives to challenge the results. In particular, the Board and Senior Executives should be sceptical of, and challenge, results indicating consistently, unexpected or unusually high numbers of fair outcomes, particularly if any accompanying narrative indicates failings in specific areas or at key points in the customer journey.

Information on trends can help the Board and Senior Executives track improvements or deterioration in the treatment of customers, as well as giving them a basis on which to challenge results (for example, if the trend shows consistently high fair outcomes with little variation). Page 12 sets out some considerations regarding the presentation of MI at various levels of the firm.

	Key considerations	Key questions for the Board and Executives
Management Information Monitoring and reporting outcomes	• The frequency with which outcome testing MI is reported to committees other than conduct/customer committees (e.g. ExCo, Risk Committee, Board).	• What MI are we seeing on customer outcomes? Does it give us sufficient look through to different parts of the business?
	• The balance between information that allows the Board and Senior Executives to monitor overall trends in the treatment of customers and the flagging of specific risks, issues or failings.	• Is the MI we see consistently positive? Do we need independent verification of outcome testing function to explain why this is the case and whether they are adequately highlighting any areas of poor performance? • Have we preformed any deep dives on outcome testing MI?
	• The tracking of action items including individual/functions responsible for closure.	• Does the MI show the action being taken to address any issues? • Are we monitoring whether these are being closed in a timely fashion? • Is outcome testing MI used to inform the wider conduct risk framework and approach to quality assurance and testing?

Figure 4 sets out some considerations regarding the presentation of outcome testing MI to internal audiences at different levels within a firm

Board/Board Committees

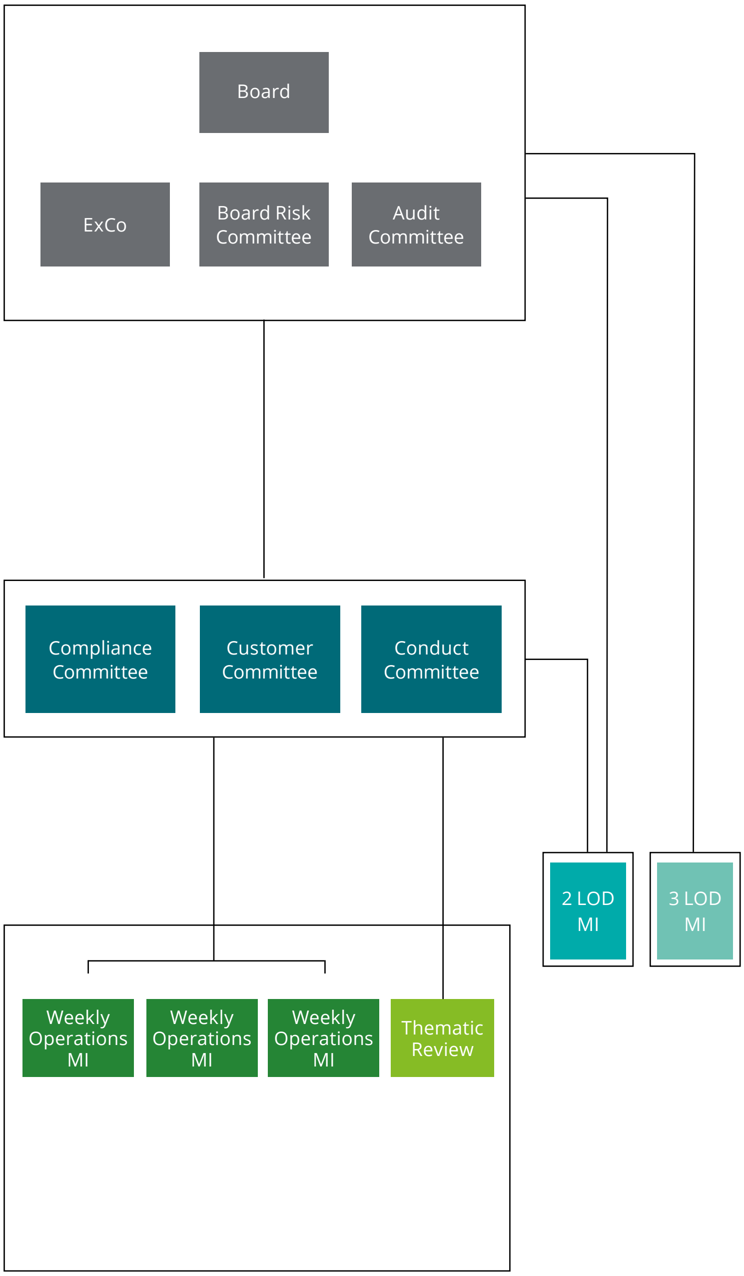
- Results of outcome testing should form a core part of any conduct, customer or operational MI. For example, using core metrics to report against conduct risk appetite statements.
- This may include aggregated figures of volume of fair/unfair outcomes across product categories and customer journey but should also include qualitative narratives on key themes, issues in specific functions, and trends.
- High-rated or widespread issues should be suitably reported or visible at this level to avoid underlying risks being lost in aggregation.
- Sufficient time should be allocated on the agenda to discuss points. Meeting minutes should demonstrate debate and challenge on specific MI and read across to other areas of agenda where relevant.

Senior Management/Compliance

- Detailed weekly/operational level MI may be complemented with aggregated information to identify key risks or trends across functional areas.
- For example, using core metrics to report against conduct risk appetite statements.
- Clear tactical and remediation activity is reported and considered for decision by those tasked with responsibility to manage customers on a day-to-day basis.
- Key trends from RCA are highlighted and actions identified and agreed.
- The results of thematic outcome testing or specific assurance carried out by the business is reported, as well as risk, compliance and internal audit MI.

Team Leaders/Heads of Function

- Team Leaders receive regular suite of MI in relation to areas of responsibility based on testing conducted. This may include:
  - Number of tests performed
  - Products/product features/teams covered
  - %fair/unfair outcomes across testing activity
  - Key trends and remediation types, including the number of customer files requiring remediation
  - Activity outside of appetite that requires escalation
- In addition, Team Leaders receive ad hoc MI from thematic reviews identifying issues in their area of responsibility.



Outcome testing: what can go wrong?

Carried out well, outcome testing represents a valuable opportunity to identify improvements in the treatment of customers. However, we have identified a number of common challenges and areas of weakness and failings that can seriously impair an outcome testing process. These include:

Subjectivity Subjectivity is inherent within outcome testing as the assessment depends on customers' individual circumstances. To address subjectivity within their outcome testing, firms must set clear standards for the collection/recording of evidence to support the reviewer's assessment and ensure they have robust QA processes in place.	**Culture and Mindset** Firms can approach outcome testing with the wrong mindset, viewing it as a "tick-box" exercise rather than a genuine opportunity to identify issues in the treatment of customers, and to improve products and services. The culture within a firm can also lead to an assumption that the firm generally delivers fair outcomes for customers, resulting in resistance to any adverse findings.
Resourcing Outcome testing is time and resource intensive and firms are often unwilling to commit the resource necessary to undertake a testing programme of sufficient depth and breadth. However, a proportionate testing programme can help with the early identification of issues, reducing the risk of costly remediation further down the line.	**Seniority and Independence** Outcome testing is often viewed as an extension of QA rather than an independent control in its own right. In addition, more junior staff can lack the confidence and gravitas to challenge the business effectively. Firms must ensure that they attach sufficient influence and practical status to the outcome testing function and that reviewers are empowered to challenge the business.
Firefighting Used regularly as part of firms' conduct risk management toolkit, outcome testing can help identify emerging issues in the treatment of customers. However, it is often only deployed once a risk or issue has crystalised, and as a means of assessing the scale of customer detriment that has already occurred.	**Incentives and remuneration** The findings of outcome testing can affect incentives and remuneration for first line staff, particularly where there is evidence of the poor treatment of customers. This can result in operational functions, and a general management climate, putting pressure on outcome testers to revise findings or to skew them to a more positive overall result. Firms must ensure that the outcome testing function is sufficiently empowered and independent to resist such pressure.

Case-study

The implications of a poor approach to outcome testing

Weaknesses in a firm's approach to outcome testing can mean that issues go undetected, resulting in poorer outcomes for customers, higher remediation costs and increased scrutiny from supervisors. To illustrate the potential implications of a poor approach to outcome testing, we set out below a composite case-study of some of the common practices we have observed in the market.

Reviewing the treatment of mortgage customers

In response to general regulatory concerns, a retail bank decides to undertake a review of whether its mortgage customers are receiving fair outcomes.

The outcome testing team selects the five most popular mortgage products for review and decides to examine the treatment of customers over a six-month period. The bank selects a proportionate number of customers in each of the products but lacks the data analytics capability to confirm what proportion of the sample is from different geographies or different demographics including vulnerable customers.

Reviewers are mostly ex-telephony staff who, having gained some experience in call handling, are encouraged to join the outcome testing team. Ahead of the review, reviewers are provided with a template setting out key aspects of the firm's policies and procedures regarding the treatment of customers.

Senior leadership are eager for assurance over the treatment of mortgage customers and request to see results within a few weeks. As a result of pressure to complete the review, reviewers are set a target of reviewing a minimum of one file a day.

The review is completed, and the results indicates that over 90% of customers received a fair outcome. The results are reported to the Board, which notes the findings.

Separately, using data and cohort analysis, the bank's supervisors request the files of five mortgage customers. The results of the supervisor's testing are at odds with the firm's results and indicate potentially significant failures in the treatment of mortgage customers.

The supervisor appoints a Skilled Person to examine the firm's approach to outcome testing and to test the outcomes being received by the bank's mortgage customers. The skilled person identifies the following issues:

- The decision to restrict the review to six months meant that the firm could not draw firm conclusions about the treatment of customers throughout the product lifecycle. The Skilled Person complements its fixed-period review with review of the end-to-end customer journey for a smaller sample of customers.

- The bank's inability to confirm whether the sample included customers from different geographies meant that it was unable to determine whether any variance in the treatment of customers resulted from differences in customer treatment between teams based at different locations.

- Under pressure to review a file a day, review staff only listened to a small numbers of calls with each customer. As a result, indicators of customer vulnerability were missed by both the original agent and the reviewer.

- The Skilled Person review identifies a small error in the calculation of interest for ten customers. This mistake was identified during outcome testing but the reviewers, failing to appreciate the effect that even a small miscalculation in interest could have on the financial outcome for the customer, rated the files as fair, nevertheless. As a result of the fact that the error was not highlighted in a timely fashion, the bank is now facing a larger redress bill.

- Despite knowledge of wider regulatory concerns regarding the treatment of mortgage customers, the Board and Senior Executives took the results at face value and failed to challenge whether it was realistic for the firm to achieve fair outcomes in such a high proportion of cases. The Skilled Person's review finds that customers received a fair outcome in a considerably lower percentage of cases.

COVID 19: assessing outcomes for mortgage customers during collections and debt recovery

In March 2020, the FCA introduced guidance requiring firms to offer payment deferrals to customers experiencing payment difficulties as a result of COVID-19. As these payment deferrals come to an end, many customers will require additional support. The FCA expects firms to review the end-to-end process for customers who require additional support so that they may "evaluate the fairness of customer outcomes overall". To ensure that they are delivering the outcomes the FCA expects[4] mortgage companies will need to examine factors including:

- Whether the firm contacted the customer in good time before the payment deferral ended and provided them with information about the resumption of payments and the options for additional support
- Where the customer was offered a short-term arrangement, whether it was broadly suitable for the customer
- Whether the firm considered a range of forbearance options, appropriate to the customer's needs and circumstances
- When agreeing arrangements to pay, whether the firm ensured these arrangements were sustainable for the customer and took into consideration their individual circumstances
- Whether the firm reviewed the customer's situation regularly to ensure their circumstances had not changed and the support remained appropriate
- Whether the communication channel(s) was appropriate for the customer, particularly the use of any digital channels/tools
- Whether any indicators of vulnerability were appropriately identified and whether the firm encouraged the customer to explain their needs and what support would help them
- If the customer demonstrated signs of vulnerability, whether the firm respond appropriately to the customer's needs
- If the firm was unable to reach a timely agreement with the customer as a result of their own operational difficulties, whether the customer was charged default or arrears charges if they missed a payment
- Whether staff training and incentives (e.g. encouraging customer service agents to deal with calls quickly) drove poor customer outcomes
- Where appropriate, whether the firm provided adequate information to help the customer understand the types of debt help or money guidance available

[4] In its Mortgage and Coronavirus: Updated Additional Guidance for Firms (November 2020) the FCA set out the following outcomes it wants firms to deliver:

- Ensuring that customer receive appropriate forbearance that is in their interests after consideration of their individual circumstances
- Firms support their customers through a period of payment difficultly and uncertainty by considering their other debts and essential living costs
- Firms recognise vulnerability and respond to the needs of vulnerable customers
- Firms have systems, processes and adequately trained staff, with any staff incentives aligned to providing their customers with the help they need
- Customers receive the support they need in managing their finances, including through self-help and money guidance. Firms should signpost them or refer them to debt advice if this meets their needs and circumstances

Using data analysis to aid outcome testing: Truevoice by Deloitte

To be performed accurately, outcome testing should analyse all communications- including all calls with a customer- over the chosen review period. This can be a laborious task requiring significant time and resource. Mortgage sales calls, for instance, are often more than an hour long and can contain more than 50 specific compliance points for reviewers to check, as well as assessing whether the customer received a fair outcome overall.

TrueVoice can help by automating, enhancing and guiding the outcome testing process. TrueVoice uses machine learning models, designed and built using input from our Conduct and Regulatory SMEs, to analyse behaviour and outcomes on customer calls. By processing up to 100% customer calls, interactions with compliance issues can be flagged to the attention of a reviewer and used in a risk based sample for testing.

TrueVoice can automate and assess compliance against specific requirements. For example, across a mortgage sales journey, it can assess areas from identification and verification through to expenses and disclosures. When content needs to be reviewed by an outcome testing professional, or for test-points that are harder to identify, areas of a call likely to contain segments of interest can be highlighted to improve a reviewer's efficiency. TrueVoice has been shown to reduce call review, providing a more efficient and effective outcome testing process. Thematic issues can also be identified by triaging calls according to different outcomes, such as evidence of confusion or customer vulnerability.

Conclusion

Outcome testing can equip firms with the essential evidence they need to demonstrate to their supervisors that they are achieving the customer outcomes expected of them, and that they have in place a robust process for monitoring and assessing those outcomes on an ongoing basis.

To ensure their outcome testing is robust and reliable, firms must commit to a testing programme of sufficient breadth and depth and ensure their testing functions are adequately resourced, trained and empowered to hold the business to account. Board Members and Senior Executives must adopt the right mindset towards outcome testing, interrogating results and ensuring that outcome testing is positioned within the firm as a genuine opportunity to seek improvements in the treatment of customers rather than a tick-box compliance exercise.

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Designed and produced by CoRe Creative Services RITM0699435