



At-a-glance: Improving customer outcome testing

A practical guide for Boards

Who is this report summary for?

Against a backdrop of heightened regulatory expectations, we set out below practical guidance for Board Members and other Senior Executives on strengthening their firm’s approach to customer outcome testing.

Why does outcome testing matter?

The FCA expects firms, and the Board and Senior Executives in particular, to assess and monitor the outcomes their 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 firms have appropriate oversight of how customers are treated.

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 expects firms to continue to treat their customers fairly.

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 that they do so effectively, and with appropriate frequency. Often, however, systemic challenges and errors can impede firms’ approach to outcome testing.

The information set out below provides the Board and Senior Executives with an understanding of the outcome testing process, FCA expectations that attach to it, the pitfalls that can occur, and the key questions and challenges they can raise to assure

themselves that the process is robust and fit for purpose. More detail can be found in our full report, Improving Customer Outcome Testing | A practical guide for Boards.

What is outcome testing?

Outcome testing is the 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. Outcome testing therefore goes well beyond traditional quality control methods which test mainly whether policies and processes have been followed.

Outcome testing does:	Outcome testing does not:
<ul style="list-style-type: none">• Consider whether the customer journey led to a fair overall outcome based on the facts of the case.	<ul style="list-style-type: none">• Focus solely on adherence with policies/process as these may not deliver a fair outcome.
<ul style="list-style-type: none">• Check that the firm’s activity took into account the customer’s individual circumstances.	<ul style="list-style-type: none">• Limit the exercise to a gap analysis against detailed FCA rules.
<ul style="list-style-type: none">• Focus on whether the product, activity or response was right for the customer as well as whether a process has been followed.	<ul style="list-style-type: none">• Approach outcome testing as a tick-box exercise or assume that customer satisfaction is evidence of a fair outcome.

Outcome testing: what can go wrong?

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

Subjectivity

- Subjectivity is inherent within outcomes testing as the assessment depends on customers' individual circumstances. To address subjectivity, firms must set clear standards for the collection/recording of evidence to support the reviewer's assessment and have robust processes in place to ensure consistency between reviews.

Culture and mindset

- Some firms approach outcome testing as a "tick-box" exercise rather than a genuine opportunity to identify issues in the treatment of customers. There can also exist an a priori 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 wider Quality Assurance rather than an independent control in its own right, whilst 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.

Fire-fighting

- 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 crystalized, 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 front line staff resulting in 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 to resist such pressure.

Improving customer outcome testing

We set out below the key stages of the outcome testing process and some 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.

Sample selection

Ensuring that the outcome testing programme is proportionate, and samples are representative of the customer base

- Is the scale, sampling, frequency, and coverage of our outcome testing programme appropriate to the size and complexity of our business? Are we satisfied that it is not being driven, in practice, by the amount of resource available in the outcome testing function rather than the size and complexity of our business?
- Is our outcomes testing programme sufficiently risk-based in terms of putting enough emphasis on products that have the greatest potential to cause customer detriment?
- Does our regular conduct risk MI inform our outcomes testing programme?
- Do samples include a sufficiently wide spread of customers from different demographics and geographies, as well as vulnerable customers?

File review

An independent, in-depth review of customer interactions, electronic files and firm actions

- Are reviewers given the time, authority and independence to examine a customer's file thoroughly and robustly?
- How do we satisfy ourselves that they are sufficiently independent in mindset and approach?
- Are reviewers checking all interactions with a customer?
- Do our guidance and toolkits take account of current FCA priorities and expectations (e.g. expected outcomes stated in COVID-related guidance, treatment of vulnerable customers etc?)

Assessment and outcome

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

- How experienced are our reviewers?
- How are we satisfying ourselves that they understand our products, expectations regarding the fair treatment of customers and what constitutes a fair (or unfair) outcome?
- Do we provide adequate training in this regard?

QA and RCA

Identifying root causes and making necessary changes to policies, processes and procedures

- Do we regularly check whether the root cause of any poor customer outcomes we identify is related to wider issues such as our culture, business model or the remuneration of our staff?
- Is the outcome testing function sufficiently empowered, independent and confident to challenge the business? Is the function ever pressured to change its findings?
- Where the testers' view is challenged or overridden, what escalation, sign-off and monitoring processes apply?
- Are the findings of outcome testing ever met with resistance from the rest of the business due to a prevalent assumption that customers generally receive fair outcomes?
- Are the results of outcome testing fed back to front-line teams to drive improvements in products and services?

MI and reporting

Monitoring and reporting customer outcomes

- Is the MI we see unrealistically positive? If so, why?
- Do we need independent verification of the findings of the outcome testing function to explain why this is the case and whether they are adequately highlighting any areas of poor performance?

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