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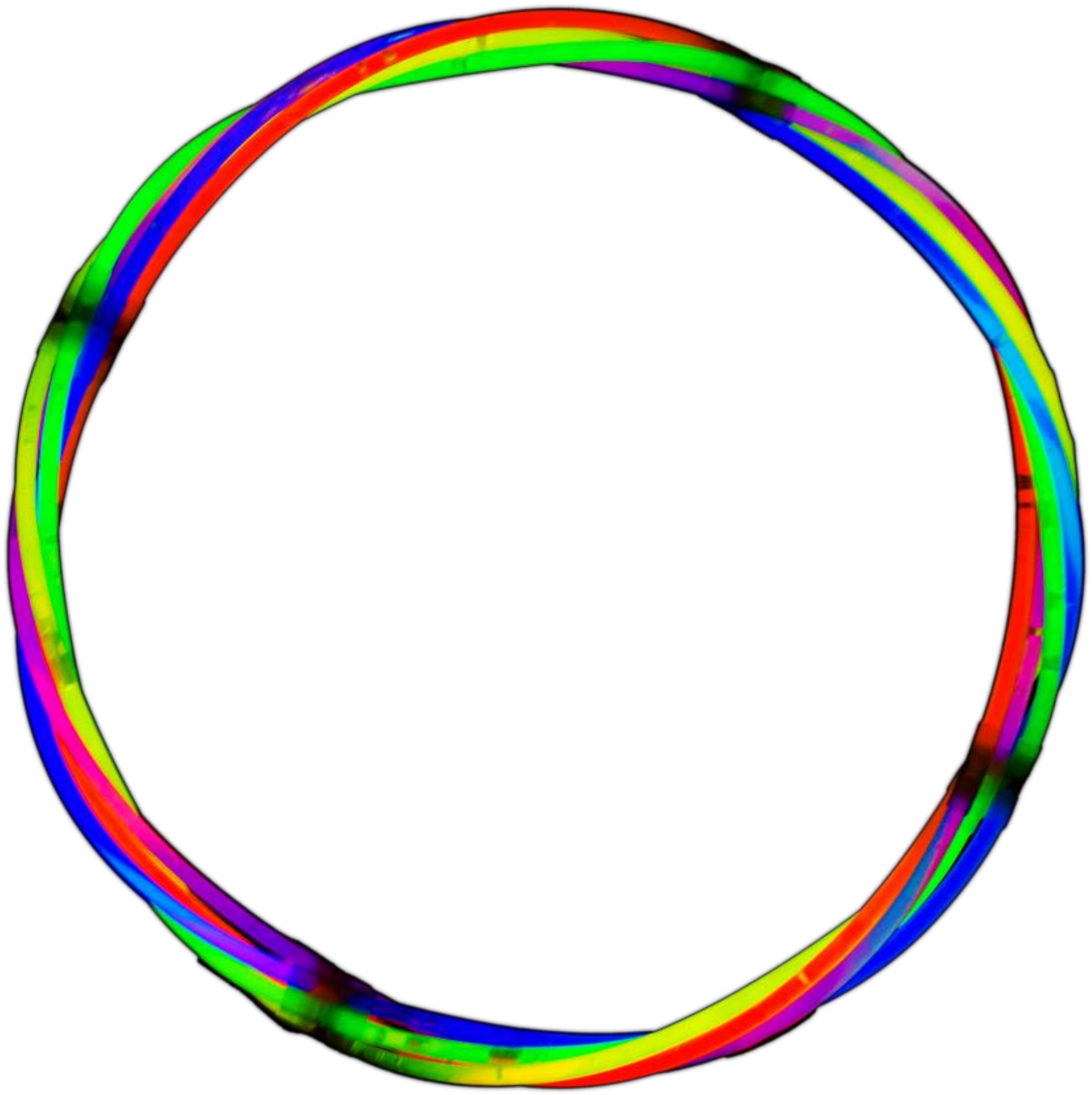

Consumer Duty

Duty Board Report Review and Priority Areas

December 2024

What is happening?

In December 2024, the FCA published the first annual Consumer Duty Board Report Review and upcoming Consumer Duty priorities for the remainder of 2024/25. The review covered **180 firms across retail banking, wholesale, insurance, payments, consumer investments and consumer finance sectors***.

The FCA analysed the reports and rated them against relevant rules and guidance in the following areas: governance and oversight, culture and people, each of the four Duty outcomes, vulnerability, third parties, data strategies, closed products, action plan and the overall assessment. This analysis led to findings in the key areas highlighted below.

In the following slides we summarise the key findings in each area.

Outcomes Monitoring

1. Clear outcomes focus
2. Good quality data
3. Analysis of different customer types

Governance

4. Clear processes for report production
5. Culture and future business strategy
6. Board challenge

Others

7. Sharing information across distribution chain
8. Effective action

What's next for firms?

- Firms should reflect on the findings and their relevance to their own Board report and Duty processes. They should aim to identify relevant learnings from the good practice and areas for improvement examples. Exchange of information through the distribution chain, approach to vulnerable customers, board challenge and data quality are areas where firms could learn from the examples and consider how to incorporate them into their own practices ahead of the next round of Board reports.
- Firms should use the FCA's 2025 Duty priorities to inform their own priorities. For example, insurance claims handling will be under scrutiny, so insurers should reflect on their data quality, outcome definition and monitoring, MI and board challenge in this area. Insurers should also consider how they are taking effective action to improve outcomes in claims handling and whether they have enough robust evidence of such action being taken. Other sectors can apply a similar thought process to their own prioritisation.

*The FCA included a focused analysis of **55 smaller firms** to understand their unique challenges in implementing the Duty. Each section of the review provides tailored considerations on how smaller firms can meet FCA Consumer Duty expectations. Our summary does not include key messages for smaller firms.

Key highlights of the Review: Outcomes monitoring

Clear Outcomes Focus

“Dedicated sections for each outcome detailing what good outcomes look like”

Good Quality Data

“Commentary on good outcomes supported by good quality MI”

Analysis of different customer types

“Consideration of different groups of customers including VC”

Good Practice

Clear Outcomes Focus

- Breakdown of good customer outcomes through a series of statements from the **customer’s point of view**, alongside relevant MI and planned actions.
- Inclusion of evidence of poor outcomes, such as poor value products and risk indicators, together with actions to address the issues identified.
- Inclusion of **illustrative examples of expected outcomes** for at least some products and some customer groups.
- Inclusion of profiles for customers that fell into different target market cohorts and demonstrating to the board they were receiving good outcomes.

Good Quality Data

- Effective use of a **range of quantitative and qualitative data** from internal and external sources, including comparator and benchmarking data.
- Clear commentary and data analysis.
- **Use of complaints data** including root cause analysis to explain trends and analysis of FOS decisions.
- Price and value data covering complaints on fees and charges, net promoter scores and customer perceptions.
- Profitability analysis including fees against costs of providing a product to justify fair value.
- Indication of how the firm **identified data gaps** and set out clear improvement plans to monitor outcomes better.

Analysis of different customer types

- Outcomes monitoring that allowed the firm to track whether different groups of customers were receiving different outcomes.
- Illustration of approach to **identification of VCs**, including using specialist teams and models to identify potential vulnerability and offering multiple ways to self-disclose vulnerabilities.
- Proactive use of data to **detect potential vulnerability,** for example by identifying income shocks.
- Details of increase in vulnerability disclosures customers made to the firm.
- Examples of firms providing flexible solutions to help customers with particular needs.

Areas for Improvement

Clear Outcomes Focus

- Failure to provide **clear definitions** of good outcomes across different products and services, or to include thresholds that were used to monitor MI. **Over-reliance** on the use of high-level claims, which lack the granularity to identify the needs of the target market effectively.
- Failure to provide the board with information on target markets, how they were determined or overviews of the target markets for the main products or services.
- Lack of rationale for setting MI thresholds at certain levels. A good rationale should allow boards to assess whether they are appropriate, reflecting the boundaries between good and poor outcomes.

Good Quality Data

- In some cases, limited references to the **types of data** being used and an imbalance between the use of qualitative and quantitative metrics.
- Insufficient data quality to justify conclusions or provide adequate assurance to the board.
- Insufficient analysis and commentary to accompany the data.
- Failure to include thresholds used to monitor MI, only relying on high-level claims. **Failure to justify threshold setting**.
- Lack of assurance that adequate data strategies are in place to track customer outcomes.
- Insufficient reporting to the board to assess products are delivering good outcomes.
- Lack of **baselining** against previous MI or explanations of outcomes that differed from firm’s expectations.

Analysis of different customer types

- Lack of analysis from fair value assessments to enable boards to conclude all types of customers were receiving fair value.
- Limited results showing data related to different groups of customers, referring to VCs as a “catch-all” category without assessing the specific needs of distinct customer groups.
- Misalignment between statements and conclusions in the board report and the MI provided to back them. For example, a firm describing its work to support customers while its MI indicated only 50% were receiving good outcomes.

Key highlight of the Review: Governance

Clear processes for report production

"Processes in place for producing reports for firms' governing bodies to review and approve within the necessary timeframe"

Culture and future business strategy

"Firms' commitment to effectively implement the Duty and the role of a positive culture"

Board challenge

"It was not always evident that there had been effective challenge from firms' governing bodies on the contents of the report"

Good Practice

Clear processes for report production

- Evidence of full involvement of **second and third lines of defence**, including independent assessments from both lines.
- Clear input from key business areas into the analysis including **departmental updates**.
- Timetable for producing reports allowed relevant business areas, forums and committees to be involved.

Culture and future business strategy

- Evidence of incorporating the Duty into the firm's business strategy and purpose.
- Good reports demonstrated how the strategy would ensure the delivery of good customer outcomes in the future.
- Description of how firms set a positive **"tone from the top"**, including how associated Duty requirements had been fed into executive scorecards.

Board challenge

- Good reports included details of requests from the board for **further information** on, for example, compliance with the four Duty outcomes, target market definitions or use of research testing on communications.
- Board challenge to firm to provide a clear plan to address issues involving vulnerable customers. Resulting actions were **allocated to a senior member** of management team.
- Inclusion of a tracker which showed requests made by the board throughout the year, including the rationale on data thresholds and progress on actions designed to address poor outcomes.
- Evidence of the positive influence of the Duty Board Champion. This took the shape of statements from the Board Champion, details of responsibilities and their involvement reviewing changes made.

Areas for Improvement

Clear processes for report production

- Some reports were produced almost **solely by Compliance teams** or dedicated Consumer Duty function. This risks the report missing the scrutiny of key stakeholders and results in lack of business ownership of any identified issues.
- Report should be produced with the involvement of relevant business areas, forums and committees.
- Report should bring together relevant data and insights on retail market activities to assess whether customers receive good outcomes.

Culture and future business strategy

- Lack of evidence on how future business strategy aligns with the principles of the Duty.
- Lack of evidence on how firm's culture was compatible and aligned with the Duty.
- Lack of evidence on how the firm will provide assurance, even when there was a clear plan to resolve issues identified.
- Some reports indicated future actions to align the strategy to the Duty but lacked details on ownership and timescales for taking action.

Board challenge

- Lack of effective challenge by the board on Duty Board report. Boards should not be seen as simply providing a **"rubber stamp"** for the report.

Key highlights of the Review: Information exchange and effective action

Sharing information across the distribution chain

"Lack of evidence that information have [sic] been shared between the firm and third parties across the chain"

Effective action

"Some action plans and improvements were not accompanied by further details such as timescales, action owners, and clarity on the data ..."

Good Practice

Sharing information across the distribution chain

- Clear overview of the **firm's third-party relationships** and description of processes in place to ensure relevant information was shared and received across the chain.
- Reference to repeated monitoring of third-party administrator calls including monitoring of call ratings provided by the third-party.
- Description of **foreseeable customer harm** that could result from third-party administrators (TPAs) failing to meet targets and early indicators of TPA failure such as delayed reports and payments to policyholders.
- Use of industry developed forms to share sales data with numerous firms across the chain.

Effective action

- Overall, good reports showed the firm's ability to assure the board that it had taken effective action to resolve issues and manage risks, supported by a variety of metrics from its monitoring. Actions were specific and measurable with clear owners and a delivery plan that is tracked through appropriate governance channels.
- Description of **changes made to the firm's data collection** to improve monitoring abilities and mitigate risk.
- Good reports included an evaluation of the effectiveness of the actions taken.
- Inclusion of **examples of assessments** which concluded that a product was not meeting customers' needs and was removed from sale. Examples of changes made to customer journeys or products to maximise value to customers.
- Inclusion of examples where a firm had reduced prices or increased benefits to customers to address value issues such as making an optional add-on insurance product standard to align with competitors, increase interest rates in savings accounts or remove minimum fees from certain products by a wealth manager.
- Inclusion of details about the improvements made to training frontline staff, explanation of improvements to systems' functionality to allow customers access to more tailored support.
- Description of changes to communications and reviews of their effectiveness.
- Evidence of the **executives seeking board approval** for additional funding to remediate harm following an internal audit report and including a clear plan with actions and timescales.

Areas for Improvement

Sharing information across the distribution chain

- Lack of evidence that good outcomes were being delivered through outsourced consumer support.
- Reminder that firms **cannot delegate responsibilities** under the Duty to third parties and are responsible for ensuring the support provided meets the Duty standard.
- Expectation that firms should include examples and appropriate analysis of the information being passed across the distribution chain that allows firms to monitor customer outcomes.

Effective action

- Inclusion of issues identified but without assurance that there was a clear plan to resolve the issues.
- Stating that action had been taken without **providing evidence** to confirm that the remediation had been effective.
- Lack of detail on how the firm had taken actions to address issues faced by consumers with vulnerable characteristics.
- Only referring to vulnerability in passing within the report with no mention of tangible changes made in this area.
- Lack of consideration of vulnerability in the assessment of closed products.

Consumer Duty Workplan

Sector	Priority Area	Timeline
Cross-sector	Review of **consumer support outcome** and supporting **informed decision-making**	Q4 2024 – Q1 2025
Cross-sector	Review of **treatment of customers in vulnerable circumstances**	Q1 2025
Cross-sector	Next steps on the Call for Input on the **review of FCA requirements** following Consumer Duty	H1 2025
Consumer Investments	Consultation on draft rules for **PRIIPs/CCI regulation**	Q4 2024
Consumer Investments	Further consultation on **Advice Guidance Boundary**	H1 2025
Consumer Investments	Firm-specific feedback and potential regulatory actions on **addressing poor identification of clients with vulnerabilities by wealth managers**	H1 2025
Consumer Investments	Engaging with investment platforms and SIPP operators on **concerns with the treatment of cash balances**	N/A
Insurance	Understanding insurers' **claims handling arrangements** and whether systems, controls, governance and oversight structures drive good consumer outcomes.	Q2 2025
Insurance	Market study into **pure protection insurance**	H1 2025
Insurance	Interim report on the market study into **premium finance**	H1 2025
Pensions	Review of **unit-linked pensions** and **long-term savings**	Summer 2025
Banking	Review of Retail Banking sector on **bereavement and power of attorney**, linked to a wider review on treatment of vulnerable customers	H1 2025
Consumer Finance	**Digital journeys assessment**: consideration of whether firms' digital tools provide sufficient help to consumers to understand credit agreements	H1 2025
Sustainable Finance	**Sustainability Disclosure Requirements and investment labels**: final rules on extending the SDR regime to portfolio management	Q2 2025
Payments and Digital Assets	**Clarity of FX pricing in payment services:** initial focus will be on money remittance services and account-toaccount transactions	2025

Key contacts and relevant insights

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Consumer Duty Insights

- Monitoring Consumer Duty Outcome: Key findings from the FCA's Multi-firm Review in the Insurance sectors
- Preparing the Consumer Duty Board Report
- Evidencing Consumer Duty compliance: shedding light on the FCA's data expectations

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