



Fairer
Finance

Meeting the Consumer Duty

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Background



Fairer Finance is a ratings agency, consultancy business and consumer group with a mission to create a fairer financial services market.

We do this by campaigning, publishing our unique ratings – and by working with companies who want our help and expertise to do better.



The Consumer Duty

The FCA's second Consumer Duty paper was published in December 2021, confirming its intention to introduce new rules in 2022/23.

The Duty will place a responsibility on firms to deliver good customer outcomes, and to evidence that it is doing so.

The FCA will also require firms to evidence that they are offering fair value to customers.

The final rules are set to be confirmed in late spring/early summer of 2022, with a proposed implementation date of 30 April 2022.

The Consumer Duty

The Consumer Principle will be underpinned by three cross-cutting rules. Firms must:

- act in good faith toward retail customers
- avoid foreseeable harm to retail customers
- enable and support retail customers to pursue their financial objectives

They must do this by ensuring they meet four key outcomes:

- products and services are fit for purpose
- consumers receive fair value
- communications support and enable customers to make informed decisions
- firms provide a level of support that meets customers needs.

The FCA's expectation

CP21/36 says:

“We would expect a firm’s board, or equivalent management body, to consider a report from the firm assessing whether it is acting to deliver good outcomes for its customers which are consistent with the Consumer Duty, at least annually.

This assessment should include:

- the results of any monitoring that the firm has undertaken to assess whether their products and services are delivering the outcomes that they expected*
- new and emerging risks to good outcomes for consumers*
- any evidence of consumers or groups of consumers who are not achieving good outcomes and an evaluation of the impact and the root cause*
- any evidence of consumers or groups of consumers who have characteristics of vulnerability and are not achieving good outcomes*
- actions taken to address any risks or issues, and*
- whether the firm’s future business strategy is consistent with it acting to deliver good outcomes under the Consumer Duty.”*

Our approach

Our framework assesses whether firms are providing both good customer outcomes and fair value, and aims to help them prove it – not just to the regulator but also to customers and other external stakeholders.

Using a combination of our own data, data provided by the company and interviews with senior stakeholders, we will provide a clear picture of how a company is performing in terms of the Consumer Duty's four key outcomes.

The report will highlight any identified emerging risks which could lead to poor outcomes for customers.

The final output will be a report with a grading on a 5-point scale, along with clear actions required to meet best practice.

Firms who receive top ratings will have the option to use the accreditation in their marketing.

Our assessment



Our customer outcomes and fair value assessment of products looks at:

- Adequacy of product features for target market
- Benchmarking of product features, rates, fees and charges against the wider market
- Assessment of clarity of the customer acquisition and application journey
- Assessment of customer feedback
- Assessment of customer proposition and communication post-purchase – incl. customer communications, and customer portal/app where relevant
- Assessment of complaints processes and validation of feedback loop back through to product design teams and acquisition journey
- Assessment of processes to ensure fair treatment of vulnerable customers.

1. Product

How does the product compare to other similar products on the market?

What we'll do:

- Benchmark all product features (fees, charges, rates, flexibility) against market leading rates as well against a selection of the market's largest providers.

What we're looking for:

- To provide a clear assessment of how the product compares to competitor products on all features and price

Output:

- RAG-rated table showing how product features relate to the wider market.

2. Customer needs

Does the product meet the needs of the target market and customers who are buying the product?

What we'll do:

- Define needs of customers who buy the product
- Interview product teams to understand internal product governance processes
- Assess product features against defined needs

What we're looking for:

- Products meet core needs of all customer groups
- Ensure firms are clear which customers the products may not be suitable for, and see evidence of processes to prevent these customers from buying the products.

Output:

- RAG-rated table showing how firm performs against best practice

3. Customer acquisition

Does the provider give adequate information to customers in the acquisition journey?

What we'll do:

- Analyse all customer marketing and online application processes, to include:
 - Marketing literature
 - Information on website, customer application journey
 - Customer literature (offer, Ts&Cs, letters etc)
 - Broker onboarding processes (where applicable)

What we're looking for:

- Ensure the company provides a clear picture of the benefits and pitfalls of the product to new customers

Output:

- RAG-rated table showing how the firm performs against best practice.

4. Customer experience

Does the provider deliver what the product offers on paper?

What we'll do:

- Analyse clarity of all post-purchase customer touch points such as apps/portal, communications
- Analyse customer polling data against competitors
- Analyse customer pain points and processes and governance for ensuring good outcomes for customers at these moments.
- Analyse vulnerable customer processes

What we're looking for:

- Ensure communication is clear post-purchase, particularly at key moments such as rate changes, end of term, default
- Ensure customer polling indicates customers are largely satisfied with their experience

Output:

- RAG-rated table showing how the firm performs against best practice.

5. Continuous improvement

Does the provider have the mechanisms set up to learn from poor customer experiences and make improvements?

What we'll do:

- Assessment of complaints data and root cause analysis
- Assessment of complaints trend analysis and process for ensuring improvements are made in response to emerging trends

What we're looking for:

- Ensure the firm is using complaints experience to understand areas of consumer misunderstanding and detriment.
- Verify that there is a culture of continuous improvement in the business.

Output:

- RAG-rated table showing how the firm performs against best practice.

6. Value

Is the company selling its products in a way that ensures customers can make an informed decision on price?

What we'll do:

- Assessment of how customers compare prices with other providers/products by distribution channel.
- Interview head of pricing to ensure fair pricing practices are embedded.

What we're looking for:

- Customer has access to other similar products when purchasing – and can be deemed to have made an informed decision on price
- For products bought in non-comparative environment, customers are supported to understand market price, or validation that company's price is market competitive.

Output:

- RAG-rated table showing how the firm compares against best practice.

Rating



Firms will be graded on a five-point scale on a sector basis. These ratings can be used internally, or also displayed externally to validate that they are offering good customer outcomes and fair value.

- **5 – Excellent:** The firm does everything in its control to deliver good customer outcomes and fair value across all products in this sector. Its products meet customers' needs, and customers are helped to understand any product limitations. Its customers understand the price they could pay for a similar product from an alternative provider.
- **4 – Good:** This firm delivers good customer outcomes and fair value across all products in this sector to most of its customers. However, there are some areas where it needs to make improvements to ensure customers understand the limitations of its product, and to be sure that customers are aware of the price they could pay for a similar product from an alternative provider. To receive a Good rating, firms must commit to making these improvements.

Rating

- **3 – Fair:** The firm delivers good customer outcomes and fair value across most of its products in this sector. A number of yellow flags have been raised around product quality, customer experience or price – and the firm has committed to improving these to provide greater certainty that all customers are receiving fair value.
- **2 – Improvement needed:** This firm does not consistently offer good customer outcomes and/or fair value across this sector. At least one red flag has been raised in the assessment process.
- **1 – Inadequate:** This firm does not offer good customer outcomes and fair value in the sector. The assessment raised a number of red flags. There is a risk that a significant number of customers do not understand the product limitations and are not buying in a price competitive environment.

Output

We'll deliver our assessment in a powerpoint presentation, and provide firms with a RAG rated results scoreboard – with clear recommendations on what is needed for the firm to progress to the higher levels.

We'll clearly lay out yellow and red flags for each sector.

We would carry out the assessment annually – but firms could improve their rating across the year as yellow and red flags were addressed.