

## Inside FCA Podcast: Explaining the Consumer Duty consumer understanding outcome

**OI:** Hello and welcome to the Inside FCA Podcast. I'm Ozge Ibrahim and in this episode I'll be speaking to FCA Consumer Policy Manager, Richard Wilson about the consumer understanding outcome in the new Consumer Duty. The FCA wants firm communications to support and enable consumers to make informed decisions about financial products and services. So I'll be asking Richard what is expected from firms ahead of implementation of the Duty in July 2023.

Hello and welcome, Richard.

**RW:** Hello.

**OI:** Can you explain the consumer understanding outcome in the Consumer Duty?

**RW:** Yeah, of course. The consumer understanding outcome is about how firms communicate with their customers. So, in a nutshell, we want consumers to be given the information they need at the right time and presented in a way they can understand so that when they're applying for, say, a loan or taking out insurance or making an investment, they can understand enough about the product, say how it works, its benefits, risks and costs to be able to make good decisions. That's really important because we want consumers to be in a position to make informed decisions and choose products and services that best meet their needs. And this will go a long way in supporting good consumer outcomes and avoiding situations where consumers experience poor outcomes. And it should be good for firms too, as it will reduce complaints and the need to deal with problems in the future and should really drive that healthy competition we want to see as a regulator.

**OI:** And why is this outcome necessary?

**RW:** So, we think this outcome is really important because we want consumers to be in a position to make informed decisions and choose financial products and services that best meet their needs. And so this will go a long way in supporting good consumer outcomes, which is a key part of the Duty and avoid situations where consumers experience really poor outcomes.

And it should also be really good for firms too, for instance, reduce complaints and the need to deal with problems after they emerge. And it should help to drive the healthy competition that we really want to see as a regulator and should benefit firms as well because they won't be competing against other firms who are perhaps misleading or manipulating consumers with their communications.

**OI:** And how do the requirements relate to existing obligations and disclosure requirements?

**RW:** Yes, so we know that there are already lots of disclosure requirements across different sectors in our rules and in legislation that are designed to help support consumer decision making. And obviously firms should continue to comply with those sector specific disclosure obligations. But then, under the Duty, what firms need to do is to take a step back, consider their approach more holistically and ask themselves is there more we need to do to support good customer outcomes? So, it might mean, for instance, rethinking how some of those mandatory communications are presented to make them more effective. So, this might mean taking a layered approach to communicating so, considering how to package up the information they provide and really help consumers navigate through, perhaps with some signposting.

It could also mean providing simple, plain English explanations of any complex technical informational or industry jargon that's in the mandatory communication. We know that this type of language - more complex language - can confuse consumers and cause them to disengage, so there's opportunity there to make those communications simpler. And there's a lot of research showing how simplifying information, making the key points easy to access and digestible can really improve customer outcomes. And we cite some of this research in our guidance that we published on our website.

**OI:** So, you're talking about quite tailored communication there. Should they meet the individual needs of each customer?

**RW:** I think it's important to say that we don't expect every single communication to be tailored to meet the individual needs of each customer. That's simply unrealistic. But we do expect firms to consider the information needs of target recipients. So, to taking things into account, such as what is the purpose of the communication? Who is it going to, what do they need to know? How can we engage those particular customer's information that's relevant to them? What we've seen in the past is firms write really generic communications probably for operational efficiency. The problem is, those are the communications that are often overlooked because it's not obvious to the customer why they are addressed to them, and they have to wade through lots of text to find information that is relevant to them. So, communications like that are really unlikely to work to improve customer understanding, and therefore to improve outcomes for consumers.

So it's about firms understanding their customers and targeting communications appropriately to make them relevant and engaging.

**OI:** And what considerations should firms give to vulnerable customers?

**RW:** Well, linked to the previous question. Again, it's about firms understanding their customers so recognising that some will likely be in vulnerable circumstances and thinking about what they can do to support good outcomes for them. This might include processes that allow for communications to be issued in a larger font or in Braille or in another language where appropriate. But could also just include giving customers extra time and a call say, to digest information and helping them to understand it. Also, we highlight in our guidance the fact that financial literacy is relatively low across the population. So, if a firm is communicating about a mass market product, for instance, we want them to recognise that and simplify communications where they can, to help understanding and support those good outcomes.

**OI:** What do you mean by that kind of product?

**RW:** So, I think, to where firms are producing products that they're selling across wide group of consumers, they shouldn't assume that consumers are sophisticated or have a good understanding of financial products. We set out in our guidance how, actually, the average consumer has quite poor knowledge of financial services and finds it quite difficult to deal with more complex communications. So, firms should consider that when they're communicating, when they're producing really any product and service, but particularly ones like a bank account or insurance that's available to all consumers.

**OI:** And do the FCA's requirements differ depending on the channel. So, for example, do you have the same expectations for a product sold face-to-face as opposed to online?

**RW:** So really we want communications to be equally effective, regardless of the channel used. So, whether that's digital, face-to-face, over the phone, we don't want firms to focus on making one channel work well at the expense of another, because this would likely lead to a situation where customers using a particular channel or channels get worse outcomes than others. So, firms must deliver good outcomes through all the channels that they operate. This might mean thinking about how to deliver information differently. For example, one works well in a face-to-face setting may not necessarily work well online, and vice versa. So, in our finalised guidance in chapter 8 we set out a lot of information in this area, so firms should think about that when they're testing and monitoring activity across different channels.

**OI:** And do these rules apply to existing customer communications?

**RW:** So, from the 31<sup>st</sup> of July 2023 the rules will apply to existing products and services that are open for sale or renewal. This means the rules will apply to all communications relating to those products and services from the 31<sup>st</sup> of July. It doesn't matter if these are newly drafted communications or ones that have been issued for some time, they will all be covered. So yes, the existing communications will need to be reviewed by firms before those rules come into effect in July 2023 to make sure they meet the new standards of the Duty. But firms should pay particular attention to those communications that customers rely on to make decisions. This is often where consumer harm stems from, and this is where the rules really bite. So, focus first on those communications that are really essential for protecting consumers from foreseeable harm.

**OI:** What expectations do you have around testing for consumer understanding? So are there any specific factors firms should consider?

**RW:** Yeah, so testing communications with consumers is obviously the best way of discovering if they are understandable as you want them to be. But it's not the case that every communication needs to be tested before it can be sent out. So, in our rules and guidance, we set out various factors for firms to consider when deciding whether it's appropriate to test consumer understanding of a communication. So, key things to consider include sort of the purpose, context, timing and frequency of the communication. So, does it prompt an important decision? Could it impact lots of consumers? Is the issue covered particularly complex and difficult to convey? So, those are important things to think about.

Also, the needs and characteristics of the customers the communication is aimed at. So, are there more consumers in that group who may struggle to understand the communication, are those consumers with characteristics of vulnerability for instance. And obviously firms will also want to consider the urgency of the communication as well. So, is it important to get that communication out quickly? Is it more important to do that than to take the time to fully test it before the first communications start going out? We don't want testing to get in the way of communications being timely, obviously, but we do think testing is really important.

**OI:** And how often should firms be testing communications?

**RW:** So, we haven't been prescriptive about how often communications should be tested. Again, encourage firms to think about the factors I've just mentioned like how important is the communication, how many consumers will be using it? What will the impact be? And obviously, they need to keep monitoring communications as well to make sure that they are being effective. And, I suppose, where they see problems, that may be the time when further testing should be prompted if they're going to make changes to the communication to try and improve it, then they'll want to perhaps redo the testing at that stage.

**OI:** Does the FCA have different expectations depending on the size of the firm then?

**RW:** Yes, we often get questions about what our expectations are for smaller firms. Obviously, we know smaller firms don't have the same testing capabilities and same resources as larger firms, and our rules and guidance are designed to flex to these differences and apply in a proportionate way, depending on the type of firm in question. So, we expect firms to take a proportionate approach in this area, so as a rule of thumb consider any testing of communications or marketing you do for a purpose of maximising sales and revenue. And you should have a comparable approach to testing communications for the purpose of ensuring they support good outcomes.

So, for example, if you put lots of effort into testing all your sales literature, but not into your after sales communications that help people to use the product and know what to do if things go wrong, then that probably won't meet our standards. We do provide examples of different approaches firms could take to testing in chapter 8 of our Finalised Guidance. So, if smaller firms are perhaps, you know, unsure about what approach they could take, they could have a look there and see some of the examples and ideas we have.

**OI:** How should a firm go about checking that consumers understand their communications?

**RW:** So, a question we also get asked is what kind of questions should firms be asking to properly measure whether customers understand what they've received the communications from the firm. So, we think the goal should be to elicit accurate measures of understanding in an objective way. For example, if the aim of a communication is to convey to the consumer what the cost of the product is, then an objective follow-up question would be just simply, what was the cost of the product? If the aim was to explain certain product choice option, an objective question might be, please explain the options available to you? So, you're sort of asking the consumer to explain back what they've heard, you know, you could ask them to choose the product most suited them to explain why.

So, this type of approach, I should give a proper sense of the actual level of understanding for example, just asking customers if they understand. We know there can be significant differences between customers perceived and actual understanding of financial information. And I think we all know that if we are asked whether we understand there is often a knee jerk reaction to avoid feeling foolish and just say yes, regardless of whether you really get it. So, asking those objective questions can really get to the to the heart of the issue.

**OI:** And does the FCA have a specific and set requirements in terms of documentation or evidencing of consumer outcomes?

**RW:** So, the answer to that is in short, is no. We haven't set out a prescriptive list of the types of evidence or data that we want firms to be monitoring and checking and using as their evidence that they're delivering good consumer outcomes on this understanding outcome. As I said earlier, while some existing disclosure requirements can be fairly descriptive, and firms should continue to comply with those, the Duty itself is outcomes based. And so, it's about figuring out what works best in practice in each firm's different area, depending on the products it's selling, the type of business it has and the types of customers it has, and then testing, learning and improving over time as well.

That said, we do include a range of good practice examples in our Finalised Guidance on the metrics firms can use to monitor and evidence good customer outcomes. So, we suggest things like customer response rates to communications, analysis of responses to communications during the customer journey, things like take up rates and switching rates, following on from communications that have gone out.

Claim rates for insurance products and others where consumers need to make claims and also relevant complaints data as well. So, there is a whole range of data that we think that firms will have, already have as part of their day-to-day business, that they can use to monitor consumer understanding and really evidence that what they're doing works and is delivering good outcomes for consumers.

**OI:** And how will the FCA be supervising and monitoring firms on this outcome?

**RW:** So, we've set out in our policy statement how we plan to supervise the Duty more broadly so firms should expect to be asked to share their implementation plans. They may have been asked this already, maybe also asked to share board papers and minutes with supervisors and be challenged on the contents to show that, you know, boards and management bodies are scrutinising these plans that are really focused on the Duty. And for fixed firms we have dedicated supervision teams who have already requested those plans and are feeding back to firms on what they've seen, and you know they'll focus on the Duty outcomes in their usual engagement and meetings with the firm.

But for firms without a fixed supervisor will engage, obviously on a more targeted risk basis. And we'll use some of that engagement whether that's with a fixed or with the flexible firms to probe firms on what they're doing on the consumer understanding outcome. So, our published guidance includes some example questions that firms might expect to be asked by the FCA.

These include things like, how does the firm adapt its communications to meet the needs of customers with the characteristics of vulnerability? And how does it know these adaptations are effective? How does the firm ensure that its communications are equally effective across all the channels it uses and how does it test that? And we might also ask about the data and the feedback the firm plans to use in its ongoing monitoring of its communications. So, those are the kind of things that we'll be following up and firms might be asked by the FCA as they prepare to implement the Consumer Duty.

**OI:** And finally, Richard, what should firms be doing now to ensure they are ready for implementation in July 2023?

**RW:** Well, naturally, they should carefully consider the rules and the guidance and work out what, where they need to make changes to meet the standards of the Duty. They should then make sure they've got a programme of work in place to deliver those changes to meet the deadline, that they've got proper governance and oversight as well of those, of the work. Firms should be thinking about prioritising that implementation work where appropriate based on the risk of poor outcomes, and their assessments of where they're likely to be furthest away from the Duty standards.

So, as we've mentioned earlier, focus your testing where, on the communications that are most important for consumers in terms of making choices, avoiding foreseeable harm and prioritise in that way. And finally, I say, it's important to remember this isn't a one and done. It's not just about preparing for July and then leaving it, it's about setting in place ongoing arrangements, governance monitoring to make sure that you are monitoring your communications to consumers, reviewing what their impact is, looking at that data I mentioned earlier and making changes where necessary. So, it's an ongoing requirement or an ongoing process.

**OI:** Thanks for your time today, Richard. You can find more information on the new Consumer Duty on the FCA website, including Finalised Guidance and a policy statement. And our podcast series on the Consumer Duty will explore the different outcomes expected of firms ahead of implementation. I'm Ozge Ibrahim, thank you for listening and join us again soon on the Inside FCA Podcast.

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