



Consumer Duty Readiness

Introduction

Following a period of consultation, the Financial Conduct Authority (FCA) has published its requirements relating to Consumer Duty on 27 July 2022 and stated that financial services firms which deal with retail customers will have until 31 July 2023 to apply the duty to new and existing products and until 31 July 2024 for those products and services held in closed books - urging them to get ready to prioritise the needs of their customers.

Consumer Duty regulation reinforces the guidance issued by the FCA in 2021 relating to vulnerable customers. The twelve-month period of readiness coincides with a period of high strain on the UK economy caused by COVID-19 variants, the war in Ukraine, and rising food and energy costs that have resulted in high inflation and a cost-of-living crisis. This strain is felt most acutely by the vulnerable, who can least afford a decrease of their real income or an increase in their debt as costs of borrowing rise. This only sharpens the need for firms to embrace the new regulation and ensure they use the remaining time wisely.

Requirements

Firms will be required to review their systems, controls, and processes throughout the entire customer journey and, in most cases, redesign these to ensure that they can fulfil the three elements of the continuous cycle below. This sharpens the need for firms to embrace the new regulation and ensure they use the remaining time wisely.



1. Identify where consumers may potentially be harmed and especially where financially vulnerable customers are at risk.
2. Take remedial action where necessary and embed any customer experience improvements.
3. Evidence that they have a real focus on delivering good customer outcomes, are putting customers first and that they are fully supported through the entire customer journey.

Best practice from the pandemic

We have recently undertaken research reviewing the measures put in place in the banking sector as a response to the COVID-19 pandemic and obtained reactions from both banking institutions and their customers. Our research included a customer survey, followed up by focus groups and one-to-ones. Through this, we identified that banking institutions admirably galvanised their efforts to support customers whilst simultaneously adapting to the practicalities of employees working from home and managing all the logistical, system and security issues that this entailed. Looking forward to Consumer Duty Readiness, and the responsibility firms have to support their customers with the cost-of-living crisis, there are some clear lessons to be learned. Although our research focused on the banking sub-sector, the lessons are relevant for firms dealing with retail customers who may operate in other parts of the industry such as wealth, insurance, business banking etc.



Below we have highlighted some key takeaways from our research using the same three stages of the cycle in our diagram.

Identification

We have found that banks were proactive and systematic in their use of personalised customer data, primarily where they have had current account type information or long-standing relationships, to pre-empt vulnerability and proactively reach out to customers. For example:

- Using adverse trend data to identify customers who had fallen behind on payments, increased overdraft borrowing, or had a deteriorating average balance on their primary account over time.
- Utilising pre-emptive contact strategies for customers employed in sectors worst affected by COVID-19.
- Using customer information to identify and proactively reach out to customers that may identify as vulnerable.

Treatment

The FCA put in place a suite of measures and banks often supplemented these with further initiatives to support their most vulnerable customers. For example:

- Providing additional support through partner organisations specialising in areas such as debt advice, addiction issues, mental health, and suicide.
- Proactively contacting elderly customers, NHS staff who had challenging work schedules, and customers with special needs.
- Establishing priority phone lines straight to an agent (rather than via Interactive Voice Response).
- Enabling priority branch banking hours and introducing 'in person' collections and/or deliveries directly to customers.
- Promoting community engagement and providing financial and digital education through social media.

Evidence

1. It was required by the FCA that banks evidence, 'the steps taken to identify customers who are vulnerable, or in need of help'.
2. The action(s) taken by the bank.
3. The outcomes along the customer journey (both from a bank and customer perspective).

To evidence these aspects, firms will need to ensure the availability of and have the capability to gather and present qualitative and quantitative data at a portfolio and an individual level.

- Our survey identified that 84% of customers were either very satisfied or satisfied with the interaction and treatment received from their bank during the pandemic.
- Furthermore, we found that 89% of requests for credit limit increases, and 96% of payment holiday requests, were honoured by banks.

However, whilst banks were able to confirm the number of customers spoken to and the number of payment holidays per product, there was, beyond Net Promoter Score (NPS), a lack of data to evidence outcomes from a customer's perspective. Given the positive outcomes from the survey undertaken, there is more of a positive story that can be told.

One area worthy of consideration is that 64% of customers surveyed said they had to initiate contact with their banking institution to start a conversation rather the bank pro-actively contacting them.

How we can help

Consumer Duty Readiness programmes

We have a structured approach to the planning and delivery of Consumer Duty Readiness programmes to ensure implementation ahead of the compliance deadline.



Our team

To discuss how Johnston Carmichael can help you navigate the current Consumer Duty challenges and get you on the front foot in meeting requirements or assist you with a wide range of strategic or operational challenges, please get in touch. We would also be happy to discuss findings from our recent pandemic research and opportunities for you to support your customers during the current cost-of-living crisis.



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