

Bullet Bulletin

We are trying something different, a short summary of recent items that have caught our interest and we think will be relevant to our network. Let us know what you think in the comments and please feel free to share!



FCA Review of Consumer Duty Board Reports: Key Themes and Insights

Yesterday, the Financial Conduct Authority published the findings from its thematic review of the first annual Consumer Duty Board Reports created by 180 regulated firms. The review focused on identifying good practices and areas for improvement across various aspects of the Duty's implementation. Overall, the FCA found a spectrum of approaches to reporting, with some firms demonstrating strong compliance and others requiring **significant improvements**.

Key Strengths:

Examples of good quality Consumer Duty Board Reports demonstrated the following:

- **Clear outcomes focus:** The best reports showcased a clear understanding of good outcomes for customers across different products and services, using illustrative examples for board review.
- **Robust data and analysis:** Strong reports utilised high-quality quantitative and qualitative data, including benchmarking and competitor analysis, to support their conclusions.
- **Customer segmentation:** Leading firms demonstrated effective monitoring of outcomes for different customer groups, including those with characteristics of vulnerability, with specific examples and targeted actions.
- **Transparent reporting processes:** Top-performing firms had clear, well-documented processes for producing reports, involving relevant stakeholders and incorporating input from various business areas.
- **Emphasis on culture:** Strong reports emphasised firms' commitment to a positive culture that supports the delivery of good outcomes, highlighting initiatives like staff training and remuneration alignment.

Key Areas for Improvement:

Conversely, where some Consumer Duty Board Reports commonly fell down, included the following areas:

- **Data quality and interpretation:** Some firms lacked sufficient data quality or failed to provide adequate explanations alongside their management information (MI) to justify conclusions about customer outcomes.
- **Distribution chain oversight:** Some reports lacked evidence of information sharing and monitoring across the distribution chain, particularly regarding third-party relationships and outsourced services.
- **Customer segmentation analysis:** Several firms failed to adequately consider the outcomes for different customer groups, especially those with characteristics of vulnerability, often treating them as a single category.

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- **Board engagement and challenge:** In some cases, evidence of effective board challenge and scrutiny of report content was lacking, raising concerns about their role in ensuring compliance.
- **Action planning and effectiveness:** Some reports outlined issues and risks without providing clear action plans with specific, measurable, achievable, relevant, and time-bound (SMART) goals, ownership, and evidence of effectiveness.

Specific Challenges for Smaller Firms:

While the FCA acknowledges that smaller firms face unique challenges, it expects them to meet the Duty requirements proportionally to their size and resources. The FCA's feedback highlights the following tips:

- Utilising accessible data sources like customer feedback, complaints, and insights from the Financial Ombudsman Service.
- Engaging external experts for advice on effective actions and tailored support for individual customers.
- Fostering a positive culture aligned with the Duty principles through staff training and clear communication.

Focus Areas for Future Reporting:

The FCA has highlighted a number of focus areas for future Consumer Duty Board Reports. These include:

- **Defining good outcomes:** Firms should provide clear and measurable definitions of good outcomes for different products and services that they provide, supported by appropriate MI thresholds with robust justifications.
- **Data strategy enhancement:** Firms need to continuously improve their data strategies to track customer outcomes effectively, addressing data gaps and ensuring data quality.
- **Strengthening distribution chain oversight:** Firms must demonstrate robust monitoring and information sharing mechanisms across the distribution chain, particularly with third parties, to ensure consistent good outcomes.
- **Focusing on vulnerable customers:** Firms need to go beyond general statements and provide detailed analysis, specific actions, and evidence of effectiveness in delivering good outcomes for customers with characteristics of vulnerability.
- **Demonstrating Board engagement:** Reports should provide clear evidence of active board challenge, scrutiny, and ownership of the Consumer Duty implementation, ensuring robust oversight and accountability.

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Key Quotes from the FCA:

Some of the key soundbites from the FCA, which we think are particularly relevant and which we have been echoing to clients over the past few months include:

- **Regarding board challenge:** *"Effective challenge is essential for the board to ensure that the report evidences the firm's compliance with its obligations under the Duty. The board should not be seen simply as a 'rubber stamp' for the report."*

Getting your Consumer Duty Champion's role clearly defined, and properly coaching and priming the governing body for review of the report is critical to success, as is clear and structured processes for record keeping (particularly detailed minutes and the capturing and subsequent tracking of actions arising from discussion).

- **Focusing on vulnerability:** *"Some firms presented limited results showing data related to customers with different characteristics of vulnerability, sometimes treating it as a 'catch-all' category rather than assessing the specific needs of certain groups of customers."*

Many firms in the sector have challenges with their vulnerability data and it is an area where we know lots of firms are currently putting in work. Tracking the progress of improvements in vulnerability data is critical and being able to assess outcomes in the target market linked to different classifications of vulnerability, or groups who may be more susceptible to vulnerability is important.

- **On smaller firm data limitations:** *"We recognise that smaller firms may lack the sophisticated data strategies of larger firms and be more limited in the range of MI they can access."*

The principle of proportionality is key. I often talk about not only the size but the structure of firms being important when considering how you pitch data and MI to the governing body. I think a key test is how close members of the governing body are to the day-to-day running of the firm and the individual customer transactions which occur.

Concluding Remarks:

This publication from the FCA is undoubtedly helpful. As we wrote earlier in the year, we found many firms were grappling with the challenge of how to pitch their Consumer Duty Board reports, and this should help next time around! It's important you analyse the quality of your own report against the FCA's output to see where you stand. Making sure you have a clear process in place to produce and approve the report is critical! The deadline for the next annual report is only just over seven months away, so will creep up on us all quickly!

If you would like to chat anything through on Consumer Duty Board Reports, please reach out to me at paul.godsmark@auxillias.com or one of the team, or visit www.auxillias.com/contact

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