


The new Consumer Duty in a nutshell

 11 June 2022

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First proposed in May 2021, the Financial Conduct Authority (FCA) have developed a new set of rules with the aim of raising the bar for the standard of care that firms provide consumers; with the final rules expected in July 2022 and implementation set for April 2023.

Though not an entirely new concept and there are many firms that already place consumers at the heart of their business model, there will also be those that fall short of the FCA's expectations.

The new Consumer Duty essentially consists of three components:

1. A new over-arching consumer principle
“A firm must act to deliver good outcomes for retail clients”
2. Three cross-cutting rules
Firms must take all reasonable steps to:
 - 2.1. avoid foreseeable harm to customers
 - 2.2. act in good faith towards customers
 - 2.3. enable customers to pursue their financial objectives
3. Four outcomes representing key elements of the firm-consumer relationship
 - 3.1. communications
 - 3.2. products and services
 - 3.3. customer service
 - 3.4. price and value

In the FCA consultation paper, they set out many reasons for bringing in the new duty and suggest for many firms the changes

“will require a significant shift in both culture and behaviour, so they consistently focus on consumer outcomes.”

Amongst the problems they aim to address are poor services received by consumers, products being sold that are not fit for purpose and the inadequacy of information provided by firms.

As strong advocates for policy wordings with good levels of readability, it is interesting to note the FCA wants to bring about a

“level playing field in which consumers understand how to use their products and services and receive the support they need to do so.”

If, as our readability study showed is often the case, a policyholder requires a postgraduate level of education to understand an average policy wording, it will be difficult for an insurer to satisfy such a requirement without making significant changes to their policy wordings and other materials as part of the customer journey.

Although there is still some uncertainty as to the scope of the new Consumer duty and its application (which may well be addressed in the July statement), it is highly recommended that firms review their processes and prepare for the introduction of the new duty at the earliest opportunity; given the timeframe for implementation and the likely consequences of a breach of such duty. Firms that fail to address any areas lacking in consumer focus may face problems further down the line.

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