

Consumer Duty: Financial Conduct Authority (“FCA”) highlights areas of improvement

📅 28 March 2024 👤 Tim Johnson

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On 20 February 2024 the [FCA released findings](#) identifying good practice and areas for improvement.

The [FCA has also published the results of a survey](#) it commissioned in Autumn 2023 where 634 firms were asked question on their implementation of the Consumer Duty to provide context for the FCA's future work.

Some of the examples given in the FCA's findings cite particular markets or products. Whilst recognising that they may not apply to every scenario the FCA has stated that firms of all sizes across retail sectors will benefit from considering them.

Examples of good practice given include:

- Paying attention to service level metrics for call abandonment rates and conducting root-cause analysis of complaints and customer satisfaction surveys to take action to improve standards.
- Turning off productivity targets for customer service staff if someone is identified as vulnerable. Encouraging staff to take time to provide a bespoke service catered to that customer's needs.
- Updating staff bonus structures to ensure that incentivisation is in line with the aims of the Duty.
- Increased emphasis on consumer research and testing to help ensure products work well.
- Enhancing benefits of products and services to improve value. For example, the FCA has seen improvements to the benefits offered by products and services by some insurance firms. It refers to the widening of definitions of certain terms in policy wordings to cover more eventualities, new benefits such as physiotherapy and virtual medical care and increases to cover limits at no additional cost.
- Capping fees for long-term clients and waiving fees entirely where firms could not justify the product's cost.
- Working with experts to improve communications across different channels and increase customer understanding of their products and services. Examples given include simplifying language used and changing the layout and presentation of content, to improve clarity and boost customer understanding.
- Updating customer interaction materials, such as call centre scripts, and delivering training so that staff are better equipped to support customer understanding.
- Reviewing customer journeys to remove negative obstacles and 'sludge' practices that make it more difficult for customers to act in their own interests. The FCA refers to firms making changes to enable customers to exit products through a wider range of channels.

Areas of improvement identified (amongst others) include:

- The Consumer Duty being primarily driven by a firm's risk and compliance colleagues and not being discussed at Board level. The FCA is clear that firms need to ensure that the focus on good customer outcomes is understood at all levels, in their strategies, leadership and people policies. It is not just a matter for those in risk and compliance teams but for everyone involved from product design through to post-sale support.

- Firms identifying no vulnerable customers in their customer base. The FCA is clear that 50% of us will be classed as vulnerable at some points. This means that it is likely that every firm will at some point deal with customers in vulnerable circumstances. The FCA is concerned that firms are not thinking widely enough on vulnerability.
- Taking a generalised approach to vulnerability – such as classing all consumers over a certain age as vulnerable. Whilst age is relevant to vulnerability, the FCA expects to see tailored support reflecting individual needs.
- Failing to track vulnerable customers across multiple product sets.
- Not sharing information effectively across supply chains. The FCA wants firms in the same distribution chain to share relevant information with each other to assist in addressing issues to prevent customer harm and deliver good outcomes. For example, manufacturer firms need to inform distributors of the characteristics of a product or service, its target market and the value it is intended to provide to customers.
- Firms that are unable to explain their remuneration practices and how they are proportionate to the work they do.
- Being unclear with customers about what charges apply, and when. The FCA suggests providing worked examples of product and service costs as one way to improve customer understanding.
- Not having robust systems to protect customer personal data from fraud or cyber attacks. The FCA has stated that it expects firms to have robust systems and controls to avoid causing foreseeable harm to customers and to provide prompt and appropriate support for victims of fraud.

What this means for insurers

It is clear that data and evidence are key across the FCA's consumer outcomes. For example:

- The development of new data and metrics to better understand customers is identified as good practice. The FCA states that firms should not assume that they can just repackage existing data and that it wants firms to think seriously about what information they need to really understand customers outcomes and issues.
- Firms must be able to identify where particular groups of customers, particularly vulnerable customers, receive poorer outcomes than other customers and take action to address this.
- Firms need to be able to show that products offer fair value to retail customers. Firms should not solely rely on assessment of similar product offerings in the market.
- The ability to refine data and monitor capabilities to track customers who may have bought a product or service despite falling outside of the target market is stated to be good practice.

Sheldon Mills, Executive Director, Consumers and Competition at the FCA has said in a recent speech on the [Consumer Duty](#) that whilst an impressive 37% of advice firms have reviewed or changed their fee structure since the Consumer Duty was introduced, many fair value assessments are not relying on solid data and other credible evidence to justify a products' value to retail customers.

Closed products will come under the scope of the Consumer Duty at the end of July and many firms will find compliance to be a significant challenge, due to poor customer data resulting in difficulties in evidencing that good outcomes for consumers are being delivered. Under the Consumer Duty, closed products are ones that were sold before 31st of July 2023 and have not been marketed or sold to new customers since.

The FCA is focused on clear communications to increase customer understanding of products and services, for example by simplifying language used. We have been partnering with insurer clients and the University of Nottingham for years to identify and replace low frequency words in policy wordings. Our collaboration with the University of Nottingham used readability scores and other analytical measure to access how capable various policy wordings were of being understood and to what percentage of the population.

Contact our team about how we can assist you firm with the [Consumer Duty](#), including our unique customer testing product.

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