



Financial Planning

## THE BASICS – WHAT IS THE CONSUMER DUTY?

To help provide you with an overview of the ongoing changes in legislation and give a greater depth as to why you may have seen processes and planning change in recent times, we have provided an overview of Consumer Duty to assist your understanding.

The FCA believes that retail financial services markets do not always work well for all consumers and has found cases where firms have not acted to support their retail customers or prevent foreseeable harm. For example:

- Firms selling products and services that are not fit for purpose or are not designed for the consumers they are being targeted at.
- Firms selling products and services that do not represent fair value where the benefits consumers receive are not reasonable relative to the price they pay.
- Firms providing poor customer support that hinders consumers from taking timely action to manage their financial affairs.
- Firms exploiting consumer loyalty or inertia.

The FCA wants all firms to put their clients at the heart of their business, offering products and services that are fit for purpose and which they know represent fair value, something we feel we have constantly strived to do.

The FCA intends to do this by introducing a new Consumer Duty. The new Consumer Duty is a package of measures with three main elements:

### The consumer principle

A new consumer principle 'A firm must act to deliver good outcomes for retail customers' has been inserted as a new Principle 12 into the FCA Principles for Businesses Sourcebook (PRIN).

### The cross cutting rules

These are rules that outline the FCA's overarching expectations of firms. Under the cross-cutting rules, firms must:

- Act in good faith towards retail customers.
- Avoid causing foreseeable harm to retail customers.
- Enable and support retail customers to pursue their financial objectives.

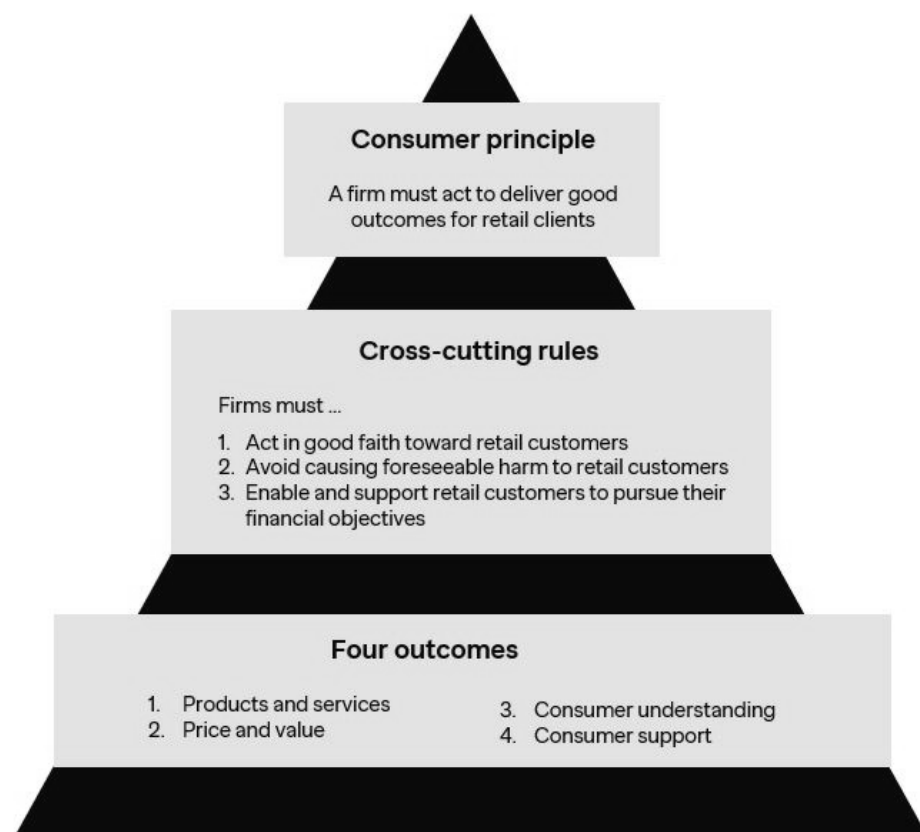
## The outcomes

The Four Outcomes build on the Consumer Principle and the Cross-cutting Rules and represent the FCA's expectations of the firm in its customer relationships:

These are:

- Products and services  
All products and services to be fit for purpose. This means designing them to meet consumers' needs and targeting them at the consumers whose needs they are designed to meet.
- Price and value  
Products and services are fit for purpose and represent fair value, not just because they meet clients' needs and objectives but also in relation to the price they are offered at.
- Consumer understanding  
Clients should be given the information they need, at the right time and presented in a way they can understand.
- Consumer support  
Firms to provide customer service that meets clients' needs throughout their relationship with the firm.

The FCA is clear that the new consumer duty represents a 'significant shift in culture and behaviour' and a 'higher standard of care and expectation'. The Regulator expects all senior managers to be clear about the changes in culture and behaviour that it expects the Consumer Duty to bring about.



## **Implementing the Consumer Duty – Key milestones**

### **30 April 2023**

Manufacturers (Providers) were required to share key information with distributors (Advisers) three months ahead of the implementation deadline to enable all firms to comply with their Consumer Duty obligations in time.

### **31 July 2023**

This is the implementation deadline for new and existing products and services.

### **31 July 2024**

This is the implementation deadline for firms to apply the Consumer Duty in respect of products and services held in closed books, for example legacy products that are not being sold or renewed.

## **Reasonableness and proportionality**

All firms have the same responsibility to act to deliver good outcomes for retail customers, but there will clearly be differences in the capabilities of a firm depending on its size and activities. The Consumer Duty is underpinned by the concept of reasonableness. What is expected of firms under the Duty will be interpreted considering what is reasonable given the circumstances, including:

- The nature of the product or service being offered or provided (for example the risk of harm to customers)
- The characteristics of the retail customer(s) (for example their degree of financial capability)
- A firm's role in relation to the product or service (including the firm's role in the distribution chain)

## **How the Consumer Duty fits with other regulatory requirements**

In addition to the Consumer Duty framework (Consumer Principle, cross cutting rules and consumer outcomes), firms still need to comply with other FCA rules when applicable.

## **What the FCA expects from firms**

Overall, the FCA expects firms to:

- Put consumers at the heart of their business and focus on delivering good outcomes for their customers.
- Provide products and services that are designed to meet customers' needs, that they know provide fair value, that help customers achieve their financial objectives and which do not cause them harm.
- Communicate and engage with customers so that they can make effective, timely and properly informed decisions about financial products and services and can take responsibility for their actions and decisions.
- Not seek to exploit customers' behavioural biases, lack of knowledge or vulnerability

- Support their customers in realising the benefits of the products and services they buy and acting in their interests without unreasonable barriers.
- Consistently consider the needs of their customers, and how they behave.
- Continuously learn from their growing focus and awareness of real customer outcomes.
- Ensure that the interests of their customers are central to their culture and purpose and embedded throughout the organisation.
- Monitor and regularly review the outcomes that their customers are experiencing in practice and take action to address any risks to good customer outcomes.
- Ensure that the firm's board or equivalent governing body takes full responsibility for ensuring that the Duty is properly embedded within the firm, and senior managers are accountable for the outcomes their customers are experiencing.

At HSP we have always put our clients' needs at the core of our business. We have of course, taken steps to ensure all our processes are well documented, to enable us to monitor client outcomes and continually challenge ourselves to always give excellent standards.