



FINANCIAL SERVICES INDUSTRY

DELVING INTO DATA: THE NEW CONSUMER DUTY ACROSS INSURANCE, ASSET AND WEALTH MANAGEMENT

Introduction

The UK Financial Conduct Authority (FCA) unveiled new rules this year aiming to improve how financial institutions treat retail customers in a sector now worth some £170 billion – a move it called a “paradigm shift” that marks a return to outcomes-based regulation.

Much has been written about the Consumer Duty, but an important aspect to hone in on is the role data and analytics can play in the successful implementation of the duty. In this paper, we look at:

- What prompted the introduction of the Duty and what it means for insurers, asset managers, and wealth managers
- How data can be leveraged to successfully comply with the Duty’s requirement to “monitor and evidence”
- Practical guidance for businesses looking to either start their data journey or enhance their existing data strategy

Businesses don’t have much time to act; all retail financial services must be compliant by 31 July 2023 for existing and new products, and by 31 July 2024 for closed products. However, it’s not too late. A rapid data assessment can provide business leaders with a clear understanding of gaps against the Consumer Duty requirements and provide specific immediate actions.

A paradigm shift

The FCA set out the final rules and guidance for its new Consumer Duty in July, which aims to establish more robust and clear consumer protection standards for retail financial services and require firms to put customer needs first when designing, selling or advising on products and services¹.

At the head of the Duty is the principle requiring firms to act to deliver “good outcomes” for retail clients, which intends to represent a higher standard than the existing Principle 6, which calls for firms to treat retail customers “fairly”. Firms not only need to deliver good customer outcomes, but to prove and understand how those outcomes are being met. However, the practical application of this and what ‘good outcomes’ look like will likely take on different shapes as the Duty is rolled out.

The FCA cited concerns around limited consumer trust as forming part of the motivation for proposing the Consumer Duty, something that has also been reflected across markets in recent times. Last year, the Penrose Report also identified low customer trust as a significant issue in financial services and beyond², with recent research by IT consultancy GFT showing that 48% of those surveyed lack trust in their banks to help them manage their finances during a recession³.

Under the Duty, firms must consider the needs, characteristics and objectives of their customers at every stage of the customer journey. It also makes clear that it aims to help the most vulnerable in society – the FCA put estimates at 28 million in 2021 – and that it will lean heavily on the use of data to measure firms’ success.

¹ <https://www.fca.org.uk/publications/policy-statements/ps22-9-new-consumer-duty>

² Penrose Report

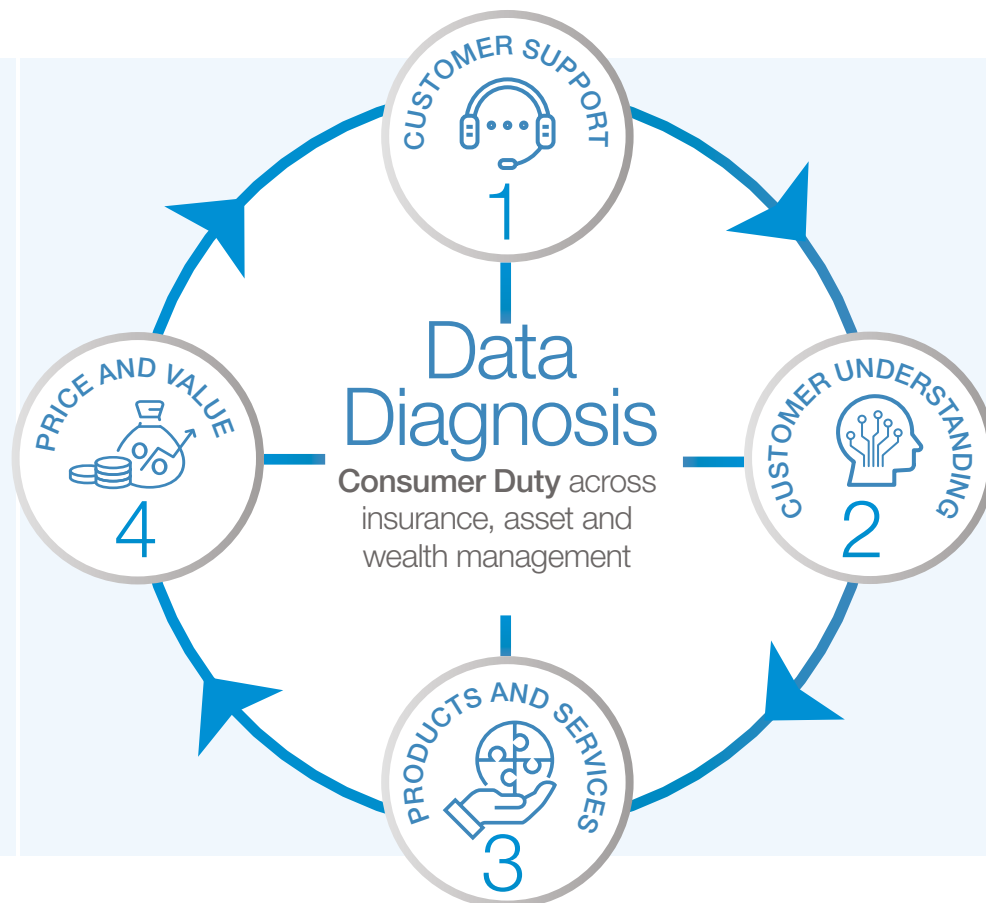
³ [Low trust amongst banking customers as recession looms \(gft.com\)](https://www.gft.com/low-trust-amongst-banking-customers-as-recession-looms)



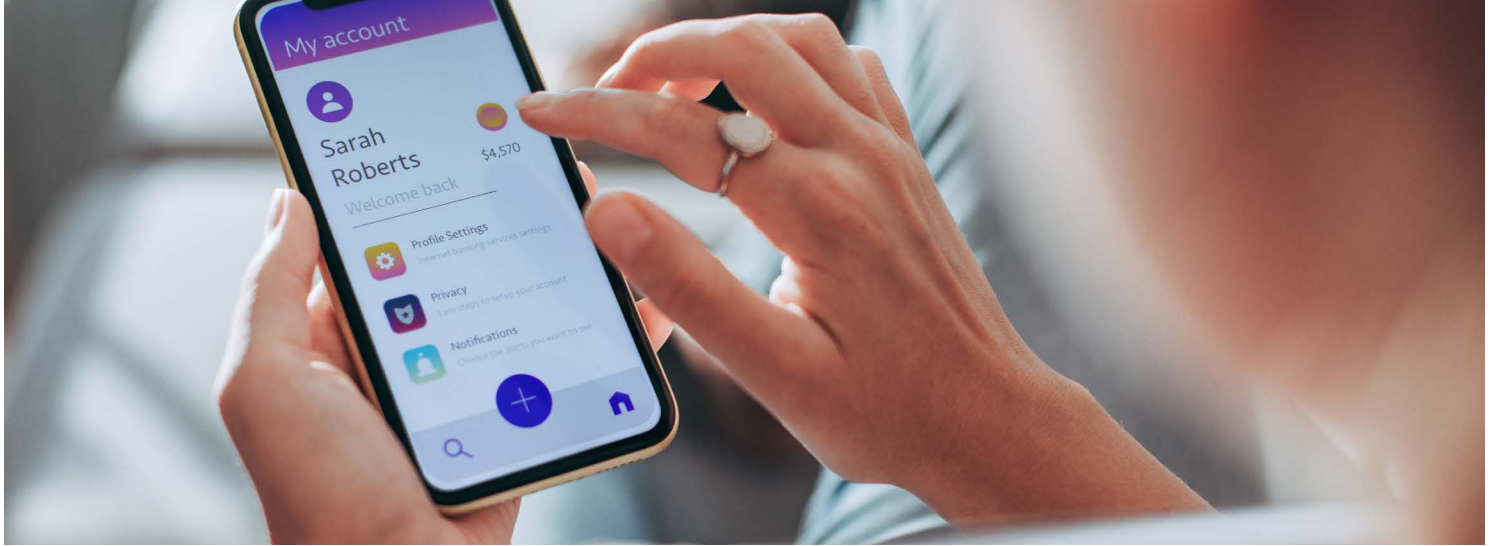
Data and Duty

On the ground, firms have recognised technology and data as key facilitators of Consumer Duty delivery, with a recent survey finding 48% of firms' decision makers confirming they plan to invest in technology to develop and deliver more personalised and targeted communications, and 41% having plans to invest in technology in order to access customer data and insights⁴.

The existing approach to data governance and the maturity of analytics capabilities will vary by business; some will have a very clear data strategy and supporting governance, while others will be at the nascent stages of their data journey. What is evident is that data will support all businesses in successfully implementing the Consumer Duty and the four building blocks demonstrate this.



⁴ [Consumer Duty: Business Burden or Golden Opportunity? White Paper — Moneyhub](#)



01 Define what “good outcome” means –

The FCA has left “good outcome” open to interpretation and some businesses may well choose to meet the basic requirements, however it’s a good opportunity for businesses to step back and define good outcomes within the scope of their products and services.

02 Establish agreed metrics (and supporting data) –

Once “good outcome” is defined, the required metrics and supporting data must be established. For some businesses, this will initiate a much-needed data audit across the organisation to understand existing data, assess potential gaps, and agree an action plan. In more mature businesses, it is likely that the relevant reports and supporting dashboards are already in place; the focus will therefore be on selecting the key metrics that can be presented in a consolidated view to key stakeholders, including the FCA’s proposed Consumer Duty “Board Champion”.

03 Design the supporting operating model –

In many large organisations, there are now established Data and/or Analytics teams with the required skills and tools to ensure the Executive and Board teams have the relevant MI (Management Information) to hand. However, many insurers, asset and wealth managers have under-invested in data teams and analytics tools.

For these businesses, it’s important that they design an operating model that will allow for the development of the relevant, but without creating cottage industries of multiple, siloed data analysts. Businesses that are able to develop self-serve business intelligence (BI) will be best placed to meet the Consumer Duty monitoring and evidencing requirements without notable increases to operational headcount.

04 Embed robust data governance –

Key to the Consumer Duty is that the monitoring requirement is ongoing, and businesses must set up the required governance in such a way as to be used in a scalable and effective way. The most mature businesses will have a senior stakeholder in the business with oversight and accountability of data, with additional headcount to maintain governance and consider opportunities to proactively leverage analytics to deliver strategic initiatives across the business.

Focusing on Outcomes


The Consumer Duty's scope spans four separate areas: price and value, customer understanding, customer support, and products and services. We look at each outcome and how data can be used in delivering the outcomes.



Price and value

The price and value outcome looks at the relationship between the price and the overall benefits of a product or service, meaning firms should consider overall value, as low prices do not necessarily equate to fair value.

Insurers will need to analyse the cost of insurance premiums for the policies they sell and consider if they reflect fair value. In the FCA's general insurance pricing practices research last year, it found the "price walking" practice – which increased renewal prices for a loyal consumer over the price paid by new customers – results in some customers making hefty overpayments that do not represent fair value⁵.



It is vital for firms to place greater focus on tracking and quantifying the customer journey post-sale. For example, general insurers should look to have full transparency of total premiums paid by a customer over time and track alongside the different claims journeys customers have encountered including a breakdown of settlements made for those claims. This visibility would showcase the return being received on a customer level – something not traditionally reported on today – and shift the dial towards fairer pricing and value.




Customer support

Under the Duty firms must deliver an appropriate standard of support that meets the needs of retail customers, ensure customers can use the product as reasonably anticipated, and

see that customers do not encounter barriers when contacting the firm, amending or switching products, submitting a claim or making a complaint.

While firms are already expected to ensure customers don't encounter unreasonable post-sale barriers under the FCA's existing Consumer Outcomes, the new Duty offers greater detail. After the Covid pandemic lengthened wait times at customer contact centres, this has only been exacerbated as the subsequent cost-of-living crisis has meant more customers looking to cancel or switch services.



At our recent [client dinner](#) attended by senior leaders in Financial Services, there was consensus around the importance of data in delivering customer support. From driving insights to provide appropriate support for vulnerable customers, to assessing the focus areas for training and supporting internal contact centre staff, data can be used proactively to better optimise performance.

Across the industry, there is an opportunity to ensure data can be shared (whilst maintaining GDPR compliance) to reduce the burden on financially distressed customers who may identify as vulnerable. In many instances, customers are having to engage with multiple businesses to relay the same information which ultimately leads to a less positive experience and outcome for customers.

⁵ [Guidance for firms on the fair treatment of vulnerable customers | FCA](#)

Focusing on Outcomes (Continued)



Customer understanding

customer intended to receive them, are timely and are tailored to the audience, taking into account any potential vulnerabilities.

The Duty also requires firms to ensure that customer communications meet the information needs of customers, are likely to be understood by the average

Insurers will need to give extra thought to the ability of customers to comprehend the nature of the policies they are buying and the remit of the cover, alongside any details of any exclusions or endorsements which may limit or remove cover. Firms should make any proposed changes to the cover at the point of renewal very clear, to ensure customers are up to date with the scope of the cover.

To optimise their compliance with the Duty, firms could look to leverage existing, or indeed establish an A/B testing capability to trial communications on small subsets of customers to enable selection of optimal communications – this same logic could be used to build on existing marketing mix modelling capabilities. Harnessing analytics capabilities to monitor customer segments and analyse the outcomes of specific communications will also ground customer outcome analysis in facts rather than subjectivity – a risk we think firms could be exposed to.



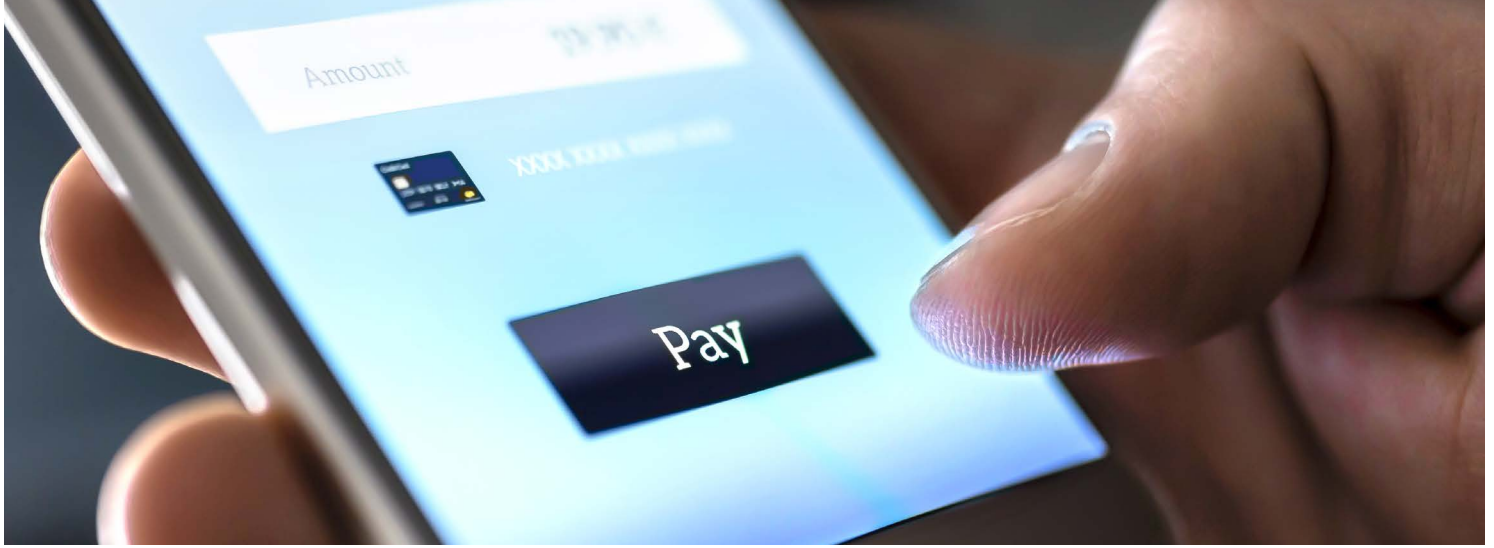
Products and services

on vulnerable customers⁶. The manufacturers of products are required to ensure that the design of the product meets the needs, characteristics and objectives of the target market.

The Consumer Duty's rules on products and services reflect existing product governance rules that come under MiFID II and the FCA's own existing guidance

Firms will need to ensure that they have the right customer segmentation models and needs discovery process in place. Data and analytics will be critical throughout the development and distribution of products and services from establishing customer needs and potential behavioural biases through to expected product performance.

⁶ [Guidance for firms on the fair treatment of vulnerable customers | FCA](#)



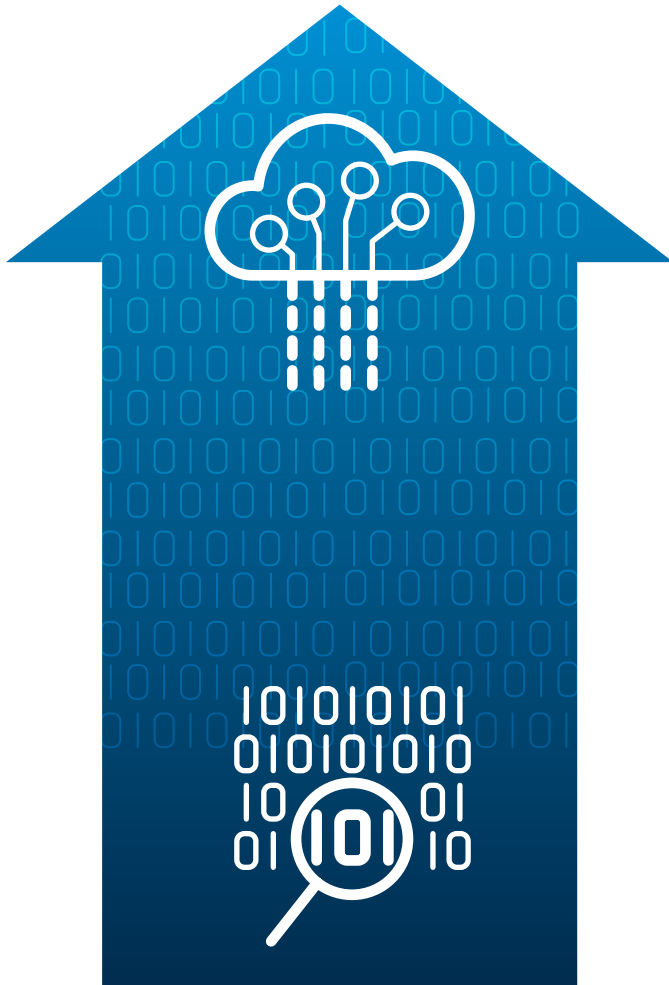
Data on the rise

In summary, we believe that data will play a defining role in a business' ability to comply with the Consumer Duty.

The pressure on firms to make known the data sources that inform their views extends to social media, which has rapidly become the preferred channel for consumer communication. The FCA wants firms to be monitoring such channels in order to pick up on the build-up of issues in their early stages, and to ensure the standards of their "customer communications, customer service and product positioning" are in line with the Duty.

In line with its commitment to becoming a data-driven regulator, the FCA has been explicit about their own desire to use technology to monitor firms.

In its effort to measure firms' successes, we can expect the FCA to steer clear of hiring thousands of new supervisors to carry out inspections. Instead, it will monitor things like complaints data to ensure particular sectors are moving in the right direction. It will develop data suites for each portfolio of products and each sector to gain an understanding of how the firms are implementing the Duty, and supplement its monitoring of compliance with survey work.





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