

FCA warns firms over Consumer Duty readiness

AT A GLANCE

January 2023

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What's new?

- The FCA issued [findings](#) from its review into firms' plans to implement the Consumer Duty on 25 January 2023.
- The FCA identified issues with firms' preparedness to meet the implementation deadline and highlighted where firms should focus ahead of July 2023.
- In particular, it noted failings in firms' plans to adopt a risk-based approach to prioritisation, in engagement with the substantive detail of the Duty, and in interaction with other parties in the distribution chain.
- The review also identified examples in good practice in firms' approaches to implementing the Duty's core expectations, as well as set out detailed examples where firms need to take action in order to improve their implementation strategy.

What does this mean?

- The FCA assessed the implementation plans of 60 large firms, to provide it with a better understanding of firms' approach to embedding the Duty within their business.
- Overall, the FCA found that firms have understood and embraced the shift to a focus on consumer outcomes and have engaged in extensive work programmes to implement the Duty's rules.
- But it identified some key deficiencies across firms' plans, highlighting areas where firms need to improve their approach in order to meet the approaching implementation deadlines of the end of April and July 2023.
- In particular, the FCA identified three overarching areas of failings that firms' Boards need to focus their attention on:
 - *Effective prioritisation*: Some plans had not provided clear rationale for the prioritisation of implementation work, often not aligned to where the greatest risk to poor consumer outcomes could arise.
 - *Embedding substantive requirements*: Firms had not engaged sufficiently with the detail of the Duty's requirements, in some cases displaying an overconfidence in the adequacy of existing policies and processes.
 - *Working with other firms*: Firms' plans had limited focus on the need to engage and share information with other firms in the distribution chain.
- The FCA also set out its detailed assessment of firms' preparedness to meet the Duty's core expectations, outlining examples of good practice and areas where improvements are needed.
- *Governance*: While many firms have established robust governance frameworks, the FCA identified examples of limited Board engagement and scrutiny, where in some cases Board Champion appointments were delayed, were at an inappropriate level of seniority, or not aligned to FCA expectations.
- The FCA also noted failings in firms' engagement with risk and compliance and internal audit teams to provide assessment and assurance of delivery risk and controls effectiveness.

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- **Culture and People:** While some firms had included the Duty in their people and training strategies, in some cases there was limited evidence and assessment of how the Duty will be practically embedded into the culture of a firm.
- **Deliverability:** The FCA found some firms' implementation timelines to be unclear, with the rationale for the prioritisation of work often ambiguous and not aligned to areas of greatest risk to poor consumer outcomes. The FCA also called out firms' inadequate resource considerations, in many cases allocating implementation work to staff on top of existing roles, with limited dedicated resource and lack of consideration of any technology shortfalls.
- **Third parties:** Firms had not adequately assessed third party dependencies, the impact on implementation timelines, and their approach to exchanging information between parties in a timely way.
- **Substantive requirements:** The FCA highlighted deficiencies in firms' engagement with the substantive requirements of the Duty's four outcomes. The FCA noted that some firms had shown complacency or overconfidence about the ability of current initiatives or frameworks to respond to the Duty, with little evidence of how existing assessment frameworks will be uplifted to meet the Duty's higher standard.
- Some plans were also unclear on the methodology to conduct reviews of products/services, communications, and customer journeys against the Duty's outcomes.
- **Data strategies:** While the FCA noted some evidence of exploratory work to assess data and metrics, some plans showed limited consideration of how firms planned to source, package, monitor and govern the data required to monitor outcomes, as well as a longer-term strategy to utilise technology in order to advance functionality of their systems.
- The FCA notes in particular that for firms assuming to 'get by' with repackaging existing data, they risk not understanding the types and granularity of data needed to monitor and evidence consumer outcomes sufficiently, particular across different cohorts of customers.

What do firms need to do?

- The FCA's scrutiny will continue, with only a short time remaining for firms to conduct and complete reviews, in particular for manufacturers of new and existing products/services.
- Firms should take action now to address any deficiencies in their approach to implementing the Duty identified by the FCA. In particular, firms should be alert to the resource requirements to embed the Duty's expectations across their business, prioritising work in higher risk areas.
- Firms should carefully consider their data capabilities, including where technology can be leveraged to improve consumer insight and testing, as well as where longer term solutions could be developed to advance functionality in monitoring and evidencing consumer outcomes.
- Firms should have a clear understanding of their role in the distribution chain and should be engaging with other parties to gather the necessary information needed to evidence good consumer outcomes and mitigate risk of foreseeable harm.

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Next steps

The FCA will write to firms, outlining their implementation expectations and view of key risks and consumer harms in each sector. It will also send a survey to a sample of 600 small-medium firms to understand their progress. Deadlines for new and existing products and services remain as 31 July 2023.

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