



An Introduction to Consumer Duty

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Disclaimer

The information provided is for guidance only. It is not legal advice and must not be relied upon as such. You are solely responsible for ensuring you meet the regulatory requirements for your business.

Introduction

In July 2023 the FCA is launching a new principle for businesses that will go above and beyond TCF. This is the new Principle 12, a new Consumer Duty.

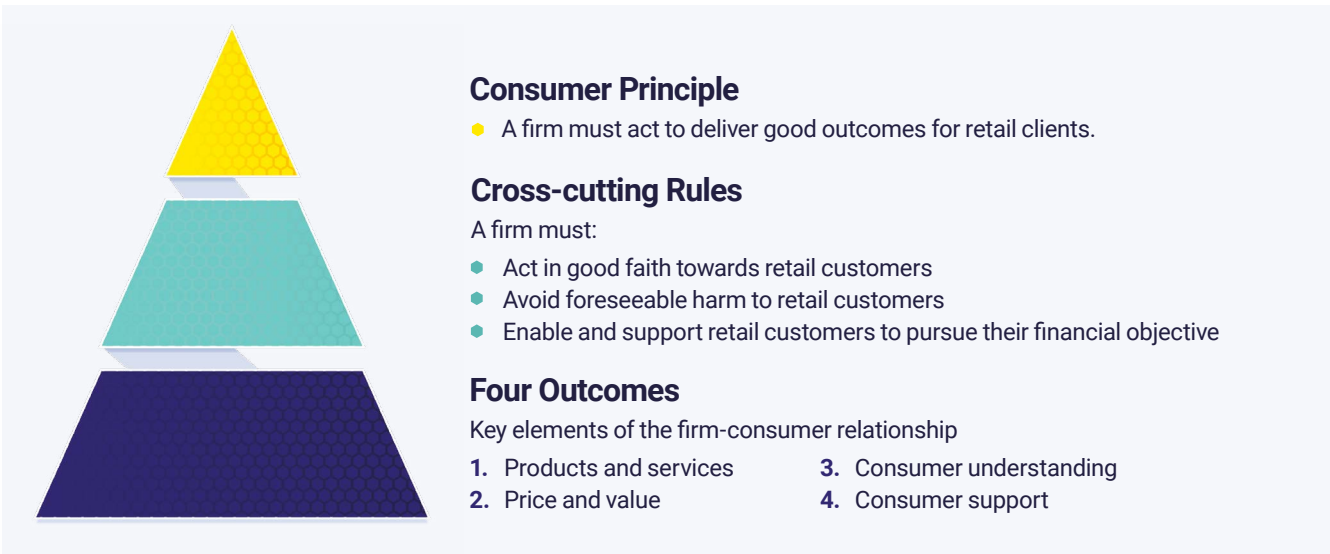
This is the biggest change the FCA has ever introduced, and every firm needs a plan for how it will meet the requirements. At Evolution Funding we want to support you in that process.

What is Consumer Duty?

As a principles-based regulator with a focus on consumer outcomes, Consumer Duty will now become a focus for all FCA-authorized firms.

There are three core elements to Consumer Duty:

The Consumer Duty



“A firm must act to deliver good outcomes for retail clients”

This is supported by the introduction of a new conduct rule. **“You must act to deliver good outcomes for retail clients”** and you must ensure everyone in your business is trained on this change.

The cross-cutting rules cut across all four of the outcomes and you should consider this when putting together your plan.

In our industry, the third rule **“Enable and support retail customers to pursue their financial objective”** is clear that we enable the purchase of the vehicle. However, you should also consider how you will meet and evidence the other two rules.

[Click to view - PS22/9 A new Consumer Duty & Finalised Guidance for firms](#)



Timeline

Consumer Duty

Key milestones



1

27th July 2022

Final rules and guidance published.

2

31st October 2022

Firms' boards (or equivalent management body) should have agreed their implementation plans and be able to evidence they have scrutinised and challenged the plans to ensure that they are deliverable and robust to meet the new standards.

3

30th April 2023

Manufacturers should have completed all the reviews necessary to meet the outcome rules for their existing open products and services so they can share with distributors to meet their obligations under the Duty, and identify where changes need to be made.

4

31st July 2023

Implementation deadline for new and existing services that are open to sale or renewal.

5

31st July 2024

Implementation deadline for closed products or services.

Key Milestone - 31st October 2022

We want you to be aware of this short interim deadline as you should have your implementation plan mapped out, scrutinised, and challenged by your board (or the most senior management of your business) by this date. You must be able to provide evidence you have done this, and it must be robust but achievable by the July 2023 deadline.


Key areas in our suggested implementation plan for consideration include:

- Producing a Consumer Duty policy and an annual report that identifies any failures and the actions taken. Produce MI to show you meet the four outcomes and keep a record of this work. You need to monitor customer outcomes (communications, complaints, etc.) and the report must state if your business meets the new requirements.
- As well as acting to deliver good customer outcomes, firms will need to determine and evidence whether those outcomes are being met.
- Document your price and value policy, outlining how the price your customers pay for the benefit of the product is fair value e.g., compared to current market rates.
- Ensure you have the right committee/sign-off from the leaders of your business.
- Updated conduct rules training for all staff to include the new Individual Conduct Rule 6, which requires staff to “act to deliver good outcomes for retail customers”.
- Document your procedures and review them periodically. Include your distribution chains and any findings or customer detriment.

- Make sure you have information from your manufacturers on the products you are providing to customers.
- Look at your financial promotions, including your website, and ensure they meet the Four Outcomes. We will keep our Financial Promotions Guide updated and support where we can. You can access this guide on our website: <https://www.evolutionfunding.com/public/compliance/>
- Consider your current customer services procedures – you should be as easy to deal with after a customer has made a purchase as before. What types of communication do you use, how do you support vulnerable customers, and can you create “positive friction” and slow down a process to give a customer extra time if needed?
- Consider the needs, characteristics, and objectives of your customers – including possible vulnerability – and how they behave, at every stage of the customer journey.
- You must take clear and measurable action in the two key control functions of Culture & Governance and Monitoring Outcomes.

Are you a Manufacturer or Distributor?

The FCA has provided definitions of each of these, which will be key to understanding what you need to do in your plan.

 <h3>Manufacturer</h3> <ul style="list-style-type: none"> ● Creating, developing, designing, issuing, operating, or underwriting a product or service would be regarded as a product manufacturer. ● More than one firm may be involved in the manufacture of a single product. 	 <h3>Co-manufacturer</h3> <ul style="list-style-type: none"> ● It is also possible that intermediaries may be co-manufacturers, for example, if they set the parameters of a product and commission other firms to build it. ● Where more than one firm is involved in the manufacture of a product or service. 	 <h3>Distributor</h3> <ul style="list-style-type: none"> ● Develop distribution arrangements for each product or service distributed. ● Get information from the manufacturer to understand the product or service, its target market, and its intended distribution strategy.
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We have investigated these definitions and think you should consider the following:

- Are you comfortable that you are a distributor of consumer credit products for yours or Evolution’s panel of lenders?
- Are you the manufacturer of any technology products on your websites?
- Do you co-manufacture any products or services with a third party, based on the definitions above?

We will continue to gather and share any new information on these definitions over the coming months, specifically in relation to our industry.

“If it’s not written down it didn’t happen.”

The FCA is becoming a more data-led regulator and firms must be able to provide evidence of customer outcomes if challenged.

We are working on the MI we supply to our dealer partners and will make any changes we can to help support you with this. We will also be looking at how our systems and controls can help you evidence that you meet the new requirements. Please speak to your account manager if there is any specific data you need, and we will try to incorporate this for you.

What does this mean for you as a limited permission firm?

Unfortunately, the new rules are the same for all authorised firms and make no allowances or exemptions for limited permission firms. They still expect all requirements to be met (including the implementation plan) and they have stated they will be checking on this with firms.

Evolution Funding is here to help

At Evolution Funding, we will continue to offer help and support to you as we work through our own plan.

As this is such a huge topic there are lots of articles, webinars, guides etc. on the internet. The FCA has also set up a separate area of their website for Consumer Duty where you can subscribe for email updates:



[Visit FCA website - Consumer Duty](#)

You may also find the following article useful:

[What firms and customers can expect from the Consumer Duty](#)

The FCA is also running a webinar on **1st November at 2pm** that you can subscribe to:

[Consumer Duty Webinar](#)

Supporting tools

You may find the following examples of Evolution's template and checklists useful to your own process:

Please note

These are by no means an exhaustive list and are only for guidance. You will need to understand and act upon the full and highly detailed FCA rules and guidance that the FCA has published in relation to the new Consumer Duty.

Example Plan template

Consumer Duty Project Plan							
Ref	Man/Dist	Process	Task	Actions	Dependencies	Current status	Completion date
1	Man/Dist	Review Consumer Duty rules and guidance, including timelines	Document the end-to-end Consumer Duty rules, include a process map with key stages and processes				
2	Man/Dist	Project plan	Document the project plan, include management responsibilities and timeline				31st Oct 2022
3	Man/Dist	Define business model					
4	Man/Dist	Lender, affiliates and other third parties	Discuss approach with your lenders, trade bodies etc and other third parties to gain consistent approach				
5	Man/Dist	Consumer Duty framework	Document the policy, include objectives, scope, ownership, approval. Include a high level process map				
6	Dist	Distributor Procedures	Distributor documented procedures, including periodic review				
7	Man/Dist	Information from manufacturer	Information on the product from manufacturers		Lenders		
8	Dist	Specific distribution strategy	Could be included 6, and should include any changes to the normal strategic distribution		Manufacturer information		
9	Man/Dist	Product Review information	The distributor must provide information to manufacturers if requested. Should include distribution chains				
10	Dist	Distribution review and findings	Periodic review process and report and findings or detriment to customers				
11	Man/Dist	Price and value policy and procedure	Documented price and value policy, this is the amount paid by the customer for the benefit from the product equals fair value				
12	Man/Dist	Update Financial Promotions					
13	Man/Dist	Document Customer service procedures					
14	Man/Dist	Document Governance framework inc Board committee ToFR	Update Terms of Reference document, consider updating remuneration and complaints procedure. Consider additional statement in statements of responsibility and job descriptions				
15	Man/Dist	Customer outcomes monitoring plan	Documented annual monitoring plan, independently testing the policies, procedures, assessments, communications, complaints, management information, reporting processes and reporting back in documented reports. The report must provide an opinion on whether the business meets the requirements in Principle 12 and whether customers have received any detrimental treatment				
16	Man/Dist	Management information	Define management information to meet the 4 outcomes				
17	Man/Dist	Record keeping	Define record keeping requirements				
18	Man/Dist	Board (or equivalent) approval	Approval of the framework, policies, procedures and action plans				
19	Man/Dist	Conduct rule 6	Communications, training, policies and employee contracts				

Example Checklist

1. Products & Services

Specify your intended target market for every product or service.

Include any consumers for whom the product or service is unsuitable.

Ensure that every product or service is well-designed to meet the needs of consumers

Make sure every product or service performs as expected for them (consumer research, testing, etc.)

Assess whether any of your products or services have features that could present a risk of harm to customers with vulnerable characteristics. If yes, what changes do you need to make?

Share and exchange all appropriate information with other firms in the distribution chain to enable all parties to fulfil their obligations under the new Consumer Duty.

Ensure each product or service reaches the specified target market in an appropriate manner.

Identify the data and management information that the firm will use to monitor the above.

2. Price & Value

Conduct assessments to ensure that products or services manufactured and/or distributed represent fair value - including information from other firms in the distribution chain.

Benchmark the price and value of products and services against similar offerings in the market.

Check that products and services are fair value to different groups of consumers in the target markets, including those with vulnerable characteristics.

Ensure that pricing is fair for each group individually in cases where different groups are charged different prices for the same product or service.

Clearly identify the data and management information used to monitor the fair value of its products and services and review this on a regular basis, taking appropriate action if it is no longer suitable for its intended purpose.

3. Consumer Understanding

Design, test and manage all customer communications to deliver good customer outcomes.

Assign the same amount of effort and standards as you do to generate sales and revenue.

Use appropriate insights and testing to ensure that customers have the right information to make the right decisions for the best outcomes throughout the customer journey.

Ensure that you research and test the effectiveness of communications and outcomes.

Adapt, develop, and test the effectiveness of customer communications, including satisfying the needs of customers with vulnerability characteristics.

Ensure, using testing, that your customer communications are equally effective across all communication channels used.

Produce data and management information on an ongoing basis to measure the impact of communications on customer outcomes.

4. Consumer Support

Ensure that customer service and support effectively meet customer needs and supports good customer outcomes on an ongoing basis, regardless of the channel of delivery.

This should be supported by testing customer outcomes across different channels.

Assess whether your customer support is meeting the needs of customers (including potentially vulnerable customers).

Check that the customer support you provide post-sale is as good and effective as the support provided pre-sale.

5. Controls: Culture & Governance

Make sure your business has a stated purpose which aligns with Consumer Duty and is fully embedded and understood throughout the organisation.

Promote an internal culture that consistently supports the delivery of good customer outcomes.

Make sure individuals throughout the organisation understand their specific roles in delivering the Consumer Duty.

Empower and encourage all staff to raise issues in any case where they feel the firm might not be acting in the interests of good customer outcomes and ensure you have the right culture to acknowledge and take action where needed.

Define good outcomes for customers using its products – short, medium, and long term.

Make sure your remuneration and incentive structures promote the right behaviour in your staff and deliver good customer outcomes.

Monitor changes in the market and external environments on an ongoing basis.

6. Controls: Monitoring Outcomes

As per the checklist above:

Monitor good customer outcomes at every stage of the customer lifecycle.

Identify any failings.

We hope you find this guide helpful as you navigate the new Consumer Duty. This is a huge change for the industry, but there is lots of support out there for you. We will be releasing updated guidance as the July 2023 deadline draws closer and if you require any specific guidance, please contact your Evolution Account Manager.

Evolution Funding Risk & Compliance Team