

A guide to Consumer Duty

What the Duty is, why it's here, and how M&G Wealth Platform is supporting Financial Advisers



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The overriding principles of Consumer Duty and key target dates



Cross-cutting rules



Firms must act in **good faith**



Firms must avoid **foreseeable harm**



Firms must enable and support retail customers to pursue their **financial objectives**

Four outcomes



Design of products and services



Price and value



Consumer understanding



Consumer support

Have you heard of the Consumer Duty? Of course you have. It's all anybody's been talking about. But what is it, what does it mean for you (we mean, practically), and how can we at M&G Wealth Platform help? This guide tells all.

At the heart of the duty are clear objectives: to ensure a higher and more consistent standard of consumer protection for users of financial services, and to foresee and prevent potential harm. It says that prioritising good customer outcomes must be as important to a board or leadership team as financial performance, risk and strategy.

All clear so far. But what does the duty mean – really – for M&G Wealth Platform and, crucially, what does it mean for you? First, an important question...

What's the point of this?

The main point to remember about the Consumer Duty is that it's not intended as an add-on to the FCA's rules, but to underpin all the rules. When you're thinking about the duty, bear in mind that it's the cornerstone of the regulator's strategy of setting higher standards and putting consumers' needs first. So it's worth spending a little time on where it came from and why it's here.

Does it apply to my business?

The duty applies across the regulated retail financial services industry. It's not just for Financial Advisers or retail investments – it applies, for example, equally to banks, general insurers and to the sectors that have newly come under the regulator's remit such as funeral plan providers. The principles behind it, therefore, have to be very broad to be applicable to all the sectors.



We want to bring the Financial Services Compensation Scheme down, reducing costs for you, particularly for small businesses. Ultimately, meeting these targets and embedding the consumer duty are in firms' interests too. And after some heavy lifting upfront, it should also mean fewer reactive rules created by us in the coming years.



Nikhil Rathi, FCA CEO,
UK Finance annual dinner,
16 November 2022

The problems the FCA is trying to solve are not actions like fraud and theft – the regulatory and criminal justice system already have mechanisms to deal with these sorts of activities. It's more about complex situations which might be described as legal, but not right. What does the regulator do when firms aren't technically breaking any rules, but any reasonable person looking at the situation would say it feels wrong?

One way to go about it is changing individual rules – which is time consuming, difficult, and can involve primary legislation. The FCA has for some time been aiming for what it sees as more effective 'outcomes-based regulation', on the grounds that on the whole, consumers don't care if a set of rules has been followed, they care about the outcomes they receive.

What's the new Principle?

It's more than just a single statement. The key principle is underpinned by a series of cross-cutting rules which are themselves based on four desirable consumer outcomes. But the overarching principle that drives the duty, the new Principle 12, is that a firm 'must act to deliver good outcomes for retail customers'. Your firm must be able to demonstrate that its purpose aligns with its obligations under the duty, that everyone in the business understands this, and that staff are able to challenge where they think the firm isn't delivering.



The Duty represents a watershed moment in our approach to the regulation of retail financial services and, as such, we will be looking for fundamental changes in how firms think about, and treat, their customers.



Therese Chambers, FCA Director of Consumer Investments, TISA Financial Advice and Guidance Conference, 21 March 2023

Key dates

By now, you should have appointed a Consumer Duty Champion – at Board level, if you have a Board – or otherwise at a sufficiently senior level to challenge and drive through the work necessary to comply. Firms were required to have had a plan in place since October 2022 to show how this will be carried out.

April 2023 – Manufacturers must complete all the reviews necessary to meet the four outcome rules for their existing open products and services by the end of April 2023, so that they can share with distributors by then.

31 July 2023 – Firms are obliged, for new and existing products and services, to comply with the Principle by this point.

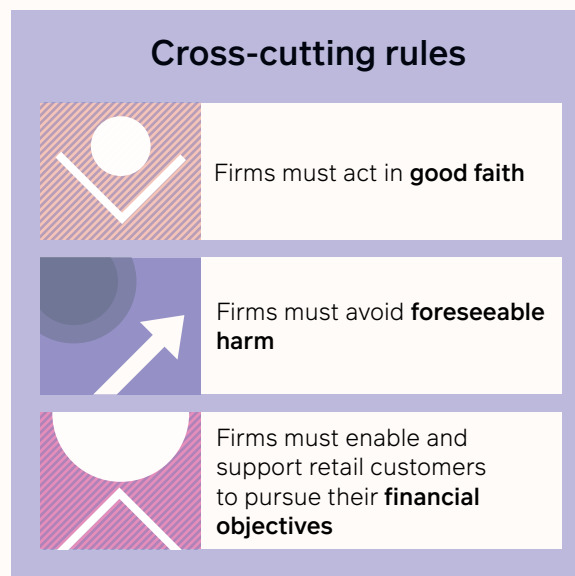
31 July 2024 – the deadline for closed products and services to comply with the Principle

How is all this different from Treating Customers Fairly?

You may be wondering how this differs from the existing Treating Customers Fairly rules. At first glance it appears that the new Principle 12 is covering much the same ground as Principle 6 (A firm must pay due regard to the interests of its customers and treat them fairly) and Principle 7 (A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading). The difference is that the duty goes much further – and to discover why this is the case, we need to look at the cross-cutting rules which sit below it.

Cross-cutting Rules

The three cross-cutting rules give more of a flavour of what the FCA expects firms to do. They spell out the standards of conduct the regulator wants to see to deliver good outcomes to customers, so they should underpin the firm's Consumer Duty strategy.



Acting in good faith

The FCA wants to see evidence of honesty, and fair and open dealing, which is consistent with what a client might reasonably expect. One of its main concerns is the imbalance of knowledge, expertise, and therefore potential bargaining position between consumers and financial services firms. It's still true to say that consumers are expected to take responsibility for their own choices, but they must have been dealt with openly and honestly if they are going to be able to do that. If, for example, there was evidence that a product was specifically designed to exploit consumers' lack of knowledge and understanding, that would be a clear indicator that the firm wasn't acting in good faith.



Avoiding foreseeable harm

There's an explicit requirement in the rules to avoid causing foreseeable harm to customers. This is more than just a reactive requirement – firms also need to take proactive steps to avoid causing harm to customers through their conduct, products or services where it's within their control.



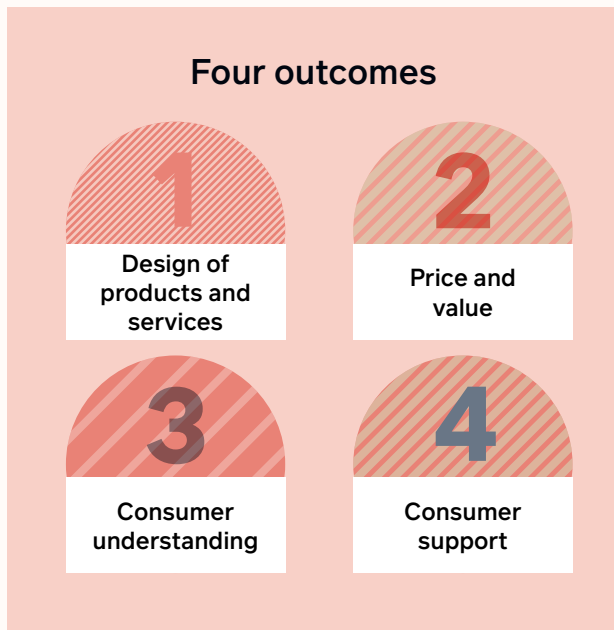
Enabling retail customers to pursue their financial objectives

The important point to note about this rule is that it covers the financial objectives of the consumer in relation to the financial product or service and applies all the way through the customer journey and life cycle of the product. Again, it means the customer needs to have the right information at the right time to take responsibility for their decisions.

Required Outcomes

Now that we know the overarching principle of the duty, and the cross-cutting rules that apply, what exactly does the FCA mean by 'good customer outcomes'?

These four broad headings have different requirements depending on whether your firm is considered a manufacturer (broadly, product providers) and distributors (broadly, advisers). Business models will vary, but if your relationship with a product provider or a platform involves any words such as design, influence, create, develop, manage or bespoke then you are likely to be a co-manufacturer and will have extra responsibilities.



Note on vulnerable customers

The FCA wants you to be particularly aware of the needs of customers in vulnerable circumstances. You can read the guidance for firms on the fair treatment of vulnerable customers [here](#).

Products and services

The key concept here is showing your client segmentation. Can you demonstrate how your target market is specified, in what the FCA refers to as ‘the degree of granularity necessary’? The FCA wants you to take time to understand what consumers may need from a product or service, and to be able to show the process you use, as well as the ways consumer needs can evolve and how that’s built into the service offering.

Firms should understand the products or services they distribute, have distribution arrangements in place for each product or service they offer, and identify or create a strategy around this. In addition, for firms distributing products or services that were not created by a firm subject to the rules for manufacturers, they must comply with the products and services outcome.

Practical help – segmentation

Financial Advisers often tell us that one of their most compelling challenges is how to service clients as individually and personally as possible – in a way that’s scalable and financially viable for their business.

With consultants NextWealth we have produced a practical guide which shows how segmentation has evolved – from focusing on level of assets to considering other factors, such as life stage and occupation. Written with the implementation of the Consumer Duty in mind, it shows how to implement segmentation as part of a centralised investment proposition and explores the potential benefits of segmentation and the questions you could be asking as you develop your approach.

Throughout, there are insights on segmentation trends, insights from Financial Advisers and tips from those who have done it themselves. The guide is available [here](#).

Once you’ve identified your target markets, the next step is to demonstrate how you check that your services and products are, and continue to be, appropriate. This would include any comparison and benchmarking services you use to do this. In particular, the FCA wants to see how you consider any clients that might find themselves in vulnerable circumstances, either temporarily or on an ongoing basis.

QUESTIONS YOU SHOULD BE ABLE TO ANSWER

- Have you defined your target market at an appropriate level of granularity?
- Are you happy that your products and services are well-designed to meet the needs of consumers in the target market and perform as expected. Have you tested that?
- How have you identified if the product or service has features that could risk harm for groups of customers with characteristics of vulnerability and what are you doing about that?
- How are you monitoring that products and services are being correctly distributed to the target market?
- What data and management information are you using to monitor whether products and services continue to meet the needs of customers and contribute to good consumer outcomes? What action is being taken as a result?
- If you’re planning to withdraw a product or service, is there any foreseeable harm and what are you planning to do about it?

Bearing all of this in mind, whilst the direct impacts for advice firms are limited, you will be required to work more closely with product providers (manufacturers) and supply them with the information they need to meet their own responsibilities. And if you spot an issue with another firm breaching the duty, you have an obligation under the FCA’s Senior Managers and Certification Regime to report this.

Price and value

In order to assess if a product or service provides value, you must consider at least the following:

- the nature of the product or service, including the benefits that will be provided or may reasonably be expected, and their qualities
- any limitations that are part of the product or service, such as limitations on scope of cover for insurance products, and
- the expected total price customers will pay, including all applicable fees and charges over the lifetime of the relationship between customers and firm.

We know from what the FCA has been saying, particularly in its Live and Local events with smaller firms, that this is an outcome which they will be focusing on particularly closely. You need to demonstrate your products and services are fair value. This includes all relevant costs and charges

the client is likely to incur. You also have to show how fair value is being monitored and reviewed on an ongoing basis and what action is being taken, if necessary. For example, have you benchmarked price and value against similar services to yours?

To be clear, this doesn't mean you have to offer the cheapest service or recommend the cheapest products. If you offer something your clients value, understand and are willing to pay more for – and can clearly demonstrate this – then you're meeting the requirements of the duty. But service in itself is not a differentiator.

Financial Advisers will be expected to ensure value for money for their own adviser charges, and also the total charge their clients are paying. All firms need to develop a process to achieve this, including collecting the required cost and charges information from providers.

QUESTIONS YOU SHOULD BE ABLE TO ANSWER

- Can you clearly illustrate how any product or service you provide offers fair value?
 - Can you demonstrate that the costs associated with the products and services you offer are clear to the client?
 - How do you monitor the impact of different pricing on different clients?
 - In what ways do you review the price and value of the products and services you provide?
-

Consumer understanding

The FCA renamed this outcome 'consumer understanding', rather than 'consumer communications'. This is to emphasise it isn't just about disclosure and documentation, but the whole process of engagement throughout the client journey. The FCA wants firms to support their customers' understanding by ensuring that communications meet the information needs, are likely to be understood by the intended customers, and equip them to make decisions that are effective, timely and properly informed.

It won't be enough to have a one-size-fits-all approach. Firms need to make sure communications take into account the characteristics of the customers intended to receive them. Things you need to be especially aware of include any characteristics of vulnerability, the complexity of products, the communication channel used, and the role of the firm in the process. If your business model involves interacting directly with a customer on a one-to-one basis, and for the majority of Financial Advisers it will, the most immediate way to get feedback is to ask them if they understand the information and have any further questions.

QUESTIONS YOU SHOULD BE ABLE TO ANSWER

- Do people have the right information at the right time to make decisions?
 - How are you testing your communications, especially when a decision has to be made?
 - If your value for money calculations show that your clients really understand they're paying extra for your particular expertise, qualifications and skills, can you provide evidence of that?
 - Do your communications encourage consumers to share information about any needs they may have?
 - And if you use a range of communication channels, are these equally effective, or are clients who use the phone getting a better service than those who email, or vice versa?
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Consumer support

The FCA wants firms to provide a level of support that meets consumers' needs throughout their relationship with the firm. Consumers should be able to understand the benefits of their products and services and be supported when they want to pursue their financial objectives. So firms have to ensure that they design and deliver support that meets the needs of customers. This includes those with characteristics of vulnerability (bearing in mind that people can move in and out of vulnerable circumstances).

Can customers use their products as reasonably anticipated? Appropriate friction in customer journeys (such as an option to get more information should the customer wish) should be included to mitigate the risk of harm and give customers sufficient opportunity to understand and assess their options. This needs to be balanced against

creating unreasonable barriers (including unreasonable additional costs such as switching fees) during the lifecycle of a product or service. All of these areas must be monitored throughout the lifecycle of the product or service, and a process put in place to address any issues that arise as a result of the monitoring.

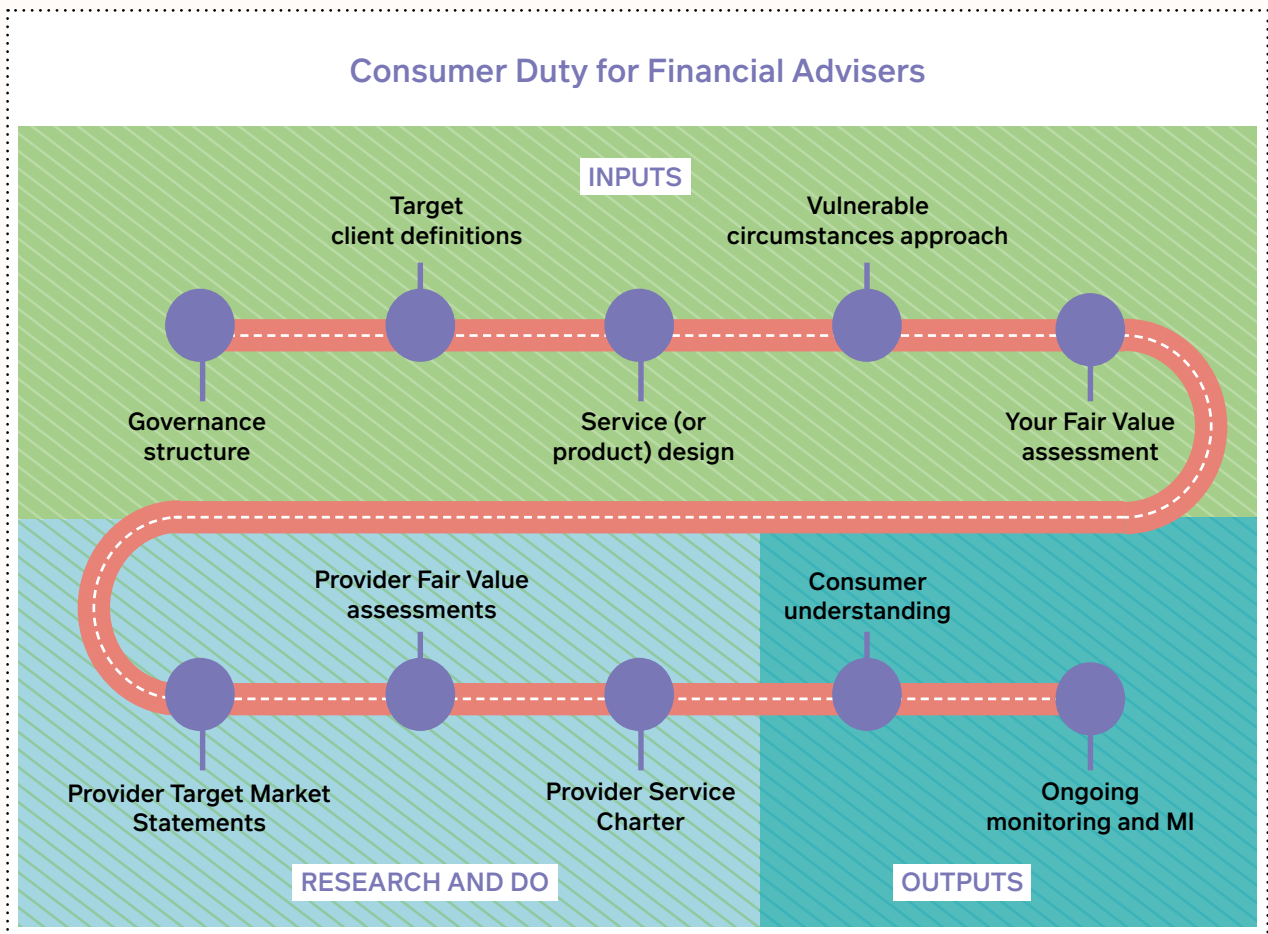
Is your support meeting clients' needs throughout the process? One thing the FCA is very keen to stress is that you should be able to demonstrate how the quality of post-sale or ongoing support is as good as your new client process. For both providers and Financial Advisers this means it should be at least as easy to switch or leave your products or discontinue your services as it was to take them on in the first place. If you pride yourself on your client retention and ongoing service then this is a particularly important area to evidence.

QUESTIONS YOU SHOULD BE ABLE TO ANSWER

- Are you effective at meeting customer needs regardless of the method of contact used and do you test this?
 - What assessment has the firm made about whether its customer support is meeting the needs of those customers with characteristics of vulnerability and how is this being measured?
 - Is it as easy to switch or leave your firm's products and services as it is to buy them in the first place?
 - How have you satisfied yourself that the quality of any post-sale support is as good as the pre-sale support?
 - What information are you using to monitor the impact your consumer support is having on customer outcomes and what are you doing with the results?
 - Are you monitoring outsourced or third-party service providers, and are you confident their services meet the consumer support standards?
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Putting a plan in place

Here is an example of how your plan for the Consumer Duty could look. Working through the various stages you see here will give you the key elements for complying with the duty. Many Financial Advisers will be well advanced in making their way through these steps, and if you're not 100% ready, they should give you a sense of how far you've got to go.



Everything's fine – or is it?

In October 2022 consultants the lang cat carried out a survey of adviser firms to see how well-prepared they were at that point. You can read about the results in the M&G Wealth Platform article [here](#). In summary, last October, 12% already felt it was 'job done' from their perspective, 7.5% confessed they hadn't at the time done anything to prepare, but most firms, to varying degrees, felt they had everything in hand to meet July's deadline.

But since then the FCA has also done a deep dive into firms' implementation plans, starting with the largest firms. What they found in their research ([Consumer Duty implementation plans multi-firm review](#)) was that some firms were quite far behind in their plans, given that the deadline for implementation is not far away. In particular, they found that there were three areas where firms were falling short:

Areas of concern

Effective prioritisation

To comply with the rules, you need to have a clear and demonstrable basis for what aspects of implementation work are being prioritised over others. Why are you focusing on certain parts of your plan? What you should be focusing on is where the areas of biggest potential consumer detriment exist.

Embedding the substantive requirements

There is a concern from the regulator that firms aren't taking this project seriously – or if they are, they are over-confident in their existing policies and processes. Are you definitely considering what data you need to monitor and provide evidence of outcomes under the duty, or simply repackaging existing data, without considering if you have any gaps?

Working with other firms

The report finds that some firms' plans are not considering closely enough the issue of working with other firms – and that they need to be prepared to share, and ask for, information up and down the distribution chain. If you are relying on data from other firms, you should check that this is going to be available to you in time for the deadline.

Where should your focus be in the next few months?

Taking a pragmatic approach, in a speech in February 2023 Sheldon Mills, the FCA's Director of Competition and Consumers, suggested that that your focus in the next few months before the implementation deadline should be:

- It sounds obvious, but is your product or service designed to deliver good outcomes for consumers, and can you show evidence of that?
- Have you identified and defined your target market and have you designed your communications with their needs in mind? Can consumers within the target market understand them?
- Are you sharing information with everyone else in your distribution chain? Information goes in both directions, so it could mean providers sharing data with advisers, and vice versa.
- Think about the 80/20 rule; for many outcomes 80% of the consequences come from 20% of the causes. What's really going to make a difference?
- In his speech Sheldon Mills also encouraged firms to spring clean any 'sludge practices' that are lingering on, giving the examples of any punitive exit fees or unfair charges.

What are 'sludge practices'?

If you've heard of 'nudge practices' to encourage people to make good choices, sludge practices are the opposite. 'Sludge' practices are activities of firms that exploit consumers' behaviour to make it harder for them to make the right choices (such as through excessive exit fees or unfair charges).

How M&G Wealth Platform is preparing for implementation of the duty

M&G Wealth Platform is committed to the principles underpinning the Consumer Duty and to delivering good outcomes for our clients.

Our culture

At M&G we have a customer-centric view because we think it's the right thing to do, not just because we need to comply with the Consumer Duty rules. So, we'll be helping you do that too.

We embed customer focused outcomes in colleagues' objectives.

What we've already done

When you deal with us you can be confident that we have completed the following to implement our Consumer Duty plan:

- Carried out a detailed review of our key customer journeys with a view to how identifying improvements we can make will support good outcomes for our clients.
- Examined each process to ensure we understood how each step could affect the outcome for the client and examined where foreseeable harm could arise.
- Our Platform processes stood up well to this, but there is always room for improvement. The process of review identified areas where we should be more vigilant in the interests of our clients and we have turned this into process improvements.
- Customer service is a high priority for M&G Wealth Platform and our business is built on core values of care and integrity. We treat customers, clients and colleagues with the same level of respect we would expect for ourselves. Our people have undergone extensive training to help them to put themselves in the customers' place.

Vulnerable customers

Everyone in our business needs to be aware that anyone can find themselves in vulnerable circumstances. That includes Financial Advisers as well as end customers. To help our people work with customers in vulnerable circumstances we have developed a knowledge hub they can use. We will connect with external support organisations for specialist help if we think this is necessary.

An adviser contacted us about one of their clients who had difficulty with motor skills which meant they struggled to sign a key document. Our team helped them to work out the best way of using digital signatures with that client instead.

Because we consider Financial Advisers to be our customers too, we are aware that they can also be facing difficult circumstances. We train our people to spot signs where Financial Advisers may be considered vulnerable themselves, and how we can help them and support their clients too.

Communication with clients

As part of the review process we've identified situations where we will need to communicate directly with the client more than is currently the case. The principles of the duty mean that we are expected to understand the full extent of the client journey, and we are being open with Financial Advisers about how our communications may change in future, with more direct contact with the end client.

M&G has a dedicated customer insight team who are working to learn about the way our products and services are used, and the way consumers and advisers interact with them. The more we understand about how the client uses our products and services the better placed we will be to enable them, and to support advisers, in achieving their financial objectives, avoiding foreseeable harm, and acting in good faith, the three cross-cutting objectives of the duty.

How M&G Wealth Platform will provide support to Financial Advisers

We are here to support you as Financial Advisers and help you in meeting your responsibilities to your clients through the M&G Wealth Platform as you complete your implementation plans and beyond. We're developing a [Consumer Duty information hub](#).

As a Platform provider we are focussed in particular on:

Fair value products and services

We have reviewed our product range to ensure that our platform services, when advised correctly, will lead to good outcomes for clients. Although Financial Advisers are responsible for the correct recommendations to clients, we must be sure that our products and services are fit for purpose.

Value for money

We recognise that we have a key part to play in ensuring that our clients receive the right products and services at a fair cost.

Target market

We are committed ensuring that products are aligned to our stated target market and will identify, and act on, issues related to clients identified outside the target market which may result in poor outcomes or poor value.

Conduct monitoring

The Platform is an intermediated service which is designed to support Financial Advisers in the management of their clients' wealth. This means that much of the responsibility for ensuring that the clients experience good outcomes rests with their Financial Adviser. But we recognise that there are times in the customer's experience where we, as service provider, should take steps, or ensure

better oversight of the outcome for the client. We understand that we have a responsibility to be aware of the experience of our customers and to take action if we foresee potential harm.

Responsive and accessible customer service

Reinforcing customer-centred culture, a detailed review of our operations processes has identified where we need to make changes to improve our customer service. We are committed to the changes we have already identified.

Foreseeable harm

We will continue to be on the lookout for areas with any potential for foreseeable harm and take appropriate steps to mitigate them.

The Platform has a range of planning tools available for you, see our [technical Hub](#) for details. We've upgraded our CGT tool to offer a simpler, clearer view on capital gains tax. This CGT tool helps to quickly calculate capital gains tax, test out different scenarios and generate reports for your clients in preparation for Tax Year End or when handling other tax related calculations.

You can also access our pension, bond and general planning tools developed by the technical experts at M&G Wealth.

For more information, contact your Business Development Manager or Platform Adoption Consultant. Or, email platformadoption@mandg.com

Quick reference library

From the FCA's [Consumer Duty site](#)

- [Finalised guidance July 2022](#)
- [Consumer Duty implementation plans multi-firm review January 2023](#)
- [Consumer Duty Dear CEO letters is co](#)
- [Speech by Sheldon Mills 'Call of Duty: How putting customers front and centre will help industry innovate' February 2023](#)

From the M&G Wealth Platform [Knowledge Library](#)

- [Inside Track on price and value](#)
- [Inside Track on products and services](#)
- [Inside Track on consumer support](#)
- [Inside Track on consumer understanding](#)
- [The Adviser's Guide to Client Segmentation](#)
- [M&G Wealth Technical Hub](#)



M&G Wealth Platform

Our platform, your way

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