

Consumer Duty - How prepared is the advice sector?

May 17, 2022



As part of the FCA's continuing drive to place the consumer front and centre, the forthcoming Consumer Duty aims to drive a fundamental shift in the industry mindset. Going beyond Treating Customers Fairly and PROD, firms will be expected to place customer outcomes at the centre of their operations and most importantly, monitor and evidence that they are doing so.

This Citylogue shares our recent research amongst advice firms and highlights the support they need to help ensure readiness for Consumer Duty.

Background

The forthcoming Consumer Duty encompasses all the main areas influencing outcomes for retail customers: product and services, price and value, customer understanding and customer support. The new requirements will impact across the advice landscape, with distributors as well as product manufacturers in scope.

Final rules are not due to be published by the FCA until July this year, and firms only have a few months to implement any required changes, ahead of the planned April 2023 deadline. So how prepared is the sector for the changes ahead? In particular, have advice firms started to think about Consumer Duty and how it may impact them, and how can product manufacturers support them?

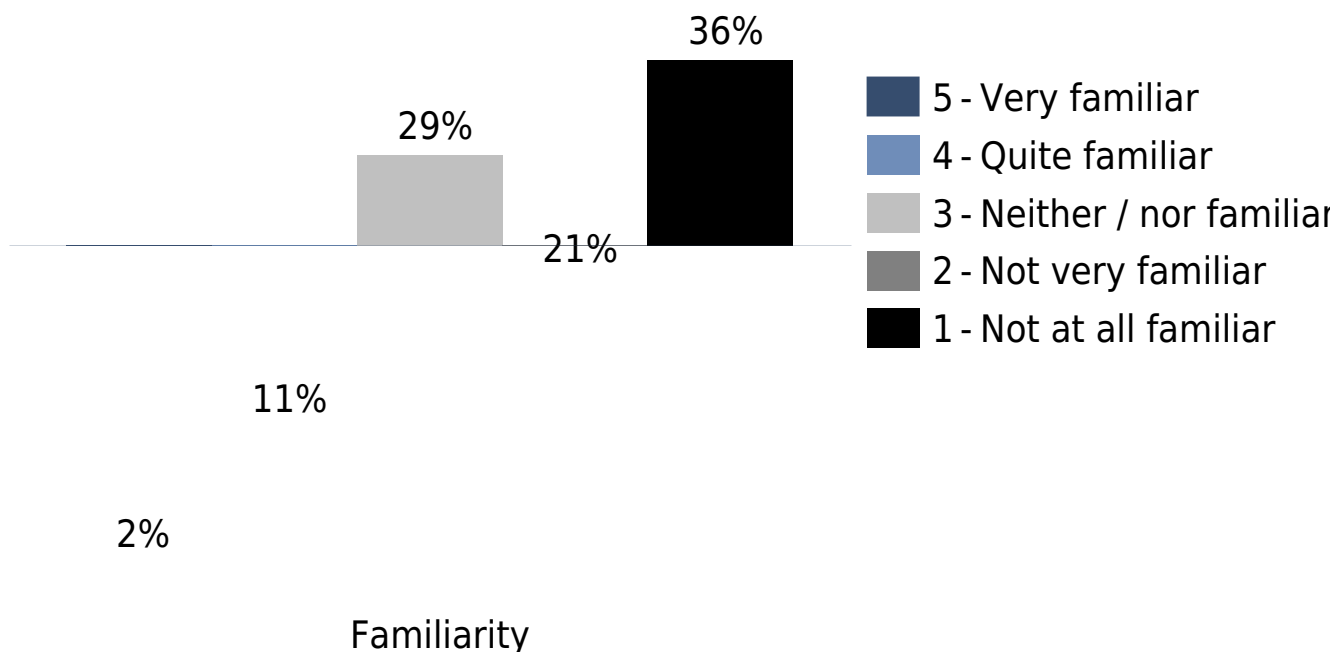
What's Required?

While the implementation is expected to be iterative, the first step industry players are expected to take is to conduct a substantial gap analysis to understand if organisational processes are set up in a way that support and enable good consumer outcomes. Processes and governance will need to adapt to ensure compliance. Firms will then be expected to report on how these outcomes are received by customers. This means that every step of the customer journey throughout the product lifecycle will need to be assessed and monitored. Focus will be placed on ensuring that information asymmetries, consumer behavioural biases and vulnerabilities are not exploited.

This is clearly going to create a huge amount of additional work for product manufacturers, from reviewing product and service processes, to ensuring that communication materials effectively identify clear target markets and that language used in key customer-facing documents aids customer understanding and decision making.

The new requirements will impact across the advice landscape. Distributors as well as product manufacturers are in scope for the new regulations. Perhaps unsurprisingly, given the lack of clarity around what the new regulations will actually require advice firms to do, **our recent adviser research revealed a concerning lack of preparation for Consumer Duty**. Advice firms feel that they are unfamiliar with what is required and believe that the onus is very much on providers to respond to the requirements. This suggests there is much work to be done in supporting advisers over the next few months, and this will largely need to come from product manufacturers. **Just 13% of financial advisers say they are familiar with the regulation.**

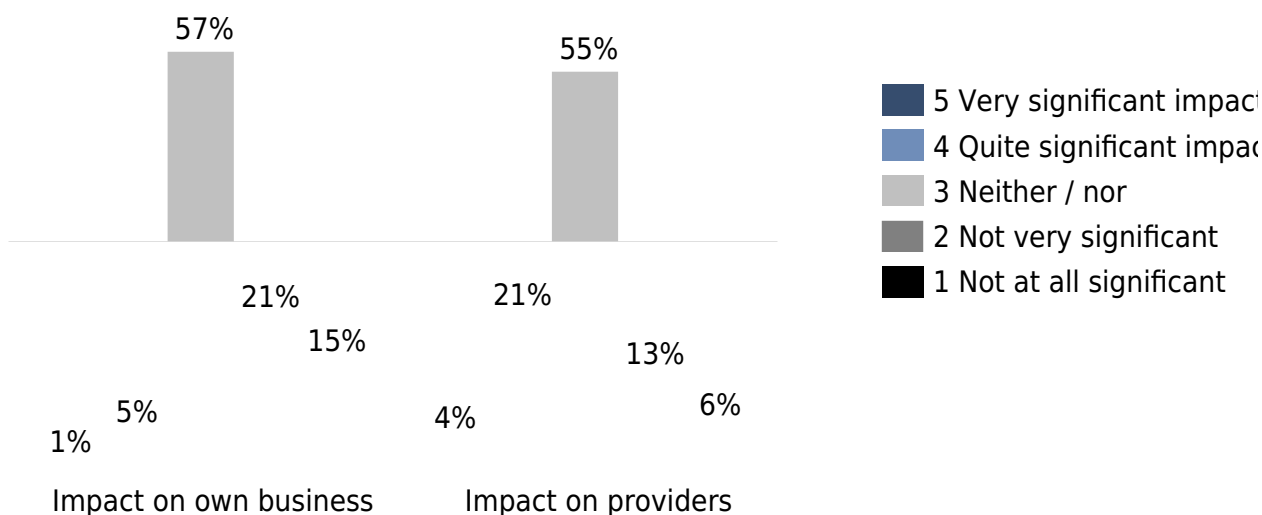
Exhibit 1: Familiarity with the Consumer Duty regulation



Q1: How familiar are you with the forthcoming Consumer Duty regulation?
Sample: 334 Financial advisers, Mar 2022

While being supportive of the overarching principles of the regulation, there is a sense that the financial advice community has been extensively regulated in the recent years and therefore, perhaps unsurprisingly, financial advisers believe the regulation will have more impact on product manufacturers than their own businesses (25% impact on providers vs 6% impact on adviser businesses).

Exhibit 2: Expected impact of the Consumer Duty regulation



Q2: What impact do you expect this regulation to have on your business?
 Q3: What impact do you expect this regulation to have on product providers?
 Sample: 334 Financial advisers, surveyed in May 2022

Source: NMG Consulting

Getting Ahead on Communications

Communications is just one area of advice that product manufacturers will need to review to ensure that their materials used by advisers are clear and understandable for retail audiences. Firms may need to set up new processes to test consumer understanding. In recent months the qualitative research team at NMG has developed a framework for communications testing that goes beyond the TCF and PROD requirements, to explore what we see as the new requirements from the Consumer Duty, including understanding of possible outcomes and understanding of available choices. It is likely that existing consumer-facing materials do not currently cover all the new requirements. It is a good time to check that materials also cover target market definitions as per PROD requirements and reinforced by Consumer Duty - in our recent review of asset management investor documentation there is a variable approach to this.

Although advisers feel they are already focused on good outcomes for clients, there will be additional need for product manufacturers to help them evidence this across the advice process, from product research due diligence to ongoing reporting requirements. Consumer Duty will have significant ramifications for the whole industry and despite the focus on product manufacturers, the effects will certainly be felt further down the chain.

Note on methodology:

NMG surveyed 334 financial advisers including financial planners, wealth advisers, protection advisers and other advice segments via our in-house Adviser Panel.



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