0:03

Afternoon, everyone, and thank you very much for joining us for this, the second of our Consumer Duty Seminars this week.

0:11

This morning, my colleague, Teresa and Sarah, went through this high level overview of the consumer duty itself. And today, this afternoon, we're not going to do the first of all sorts of part of the dice, and, again, to continue to teach in the context of consumer credit products.

0:27

And May, Unclad Hughes, I'm one of the partners in the Finance and Regulate your team here at ....

0:34

And I'm going to be presenting this session together with my colleagues, ... Davis, who's managing and associate in the team.

0:41

And Jonathan Stewart, who is one of our compliance directors, to together by anything, to bring some tolerance of life to the consumer, the consumer duty in the context of credit.

0:53

So, I guess, without any further ado, if you could have the next slide, please?

1:02

And this is really, just to give a bit of context. It felt a bit cold to come straight into the session, without giving it a so acknowledging the broader context that we're dealing with. So this shows the architecture of the consumer duty and the bit that we're talking about today in the context of credit those three slices, which are highlighted in yellow. So, the four outcomes, customer, understanding price, and value products, and services, and customer support.

1:32

Now, we're not ready to be bothered with the rest of it.

1:36

It's really about those outcomes that we're really focusing on, And if I could have the next slide, please.

1:43

The one thing that I think is important to bear in mind, and I know Rosanna spoke about this this morning, but again, in the context of credit, super important.

1:52

We look very divergent market when we talk about credit and credit products.

1:57

And when we look at consumer duty for all participants, consumer duty is underpinned by the concept of reasonableness.

2:07

So, all of the issues that we talk about today, all of the, um, I guess, the questions of the challenges that we have, and the issues around implementation are underpinned by the notion of reasonableness and your solutions. Your approach to implementation will be focused on that now, when thinking about reasonableness. And we're talking about the standard that could reasonably expect the Prudent fan. So I guess that's a very sophisticated way of saying, what could we expect to the firm that was going about its business in, a in a proper, and sensible way.

2:46

And we're looking to compare that behavior with all this, carrying on the same activity in relation to the same product.

2:56

So if we're talking about lending in relation to cards, we're talking about, what would we expect to the reasonable reasonably expect for prudent lender, lending card products, as opposed to a broker or whatever?

3:09

And also, we need to take into account that target market. So, we're talking, we're looking about what would be reasonable in the context of the product, but also in the context of the customers that we're dealing with, the vulnerabilities and characteristics, which are presented by that target market.

3:26

So it's a relative assessment, I guess, is what reasonableness is really driving out.

3:30

Next slide, please.

3:33

And in terms of what we're dealing with today, then I'm going to hand over to TV. He was going to talk a little bit about Skype issues in relation to consumer credit products.

3:43

Skype isn't the minefield, the credit that it is in other areas, but there are still some interesting points and surveys and Toby will talk us through those.

3:51

But then, also, again, to look at the product and service outcome, which again tied to go pick up, then talk about price and value, will then look at issues around distribution. Separately. seven, we talk about Product and service outcome of that process. That value will be glad to talk to you about it from a manufacturing perspective, and then, I guess, scaping all of those issues up into a single and distribution session. Because I think looking at base in the context of distributors in itself is quite interesting.

4:20

Um, them pick up customer understanding, and Jonathan will put the end, looking at customer support, and confidence from reporting. That that's an area that we're seeing clients really sort of engage with and thinking about how they can capture that, governments audit, reporting, et cetera, in the context of their existing processes.

4:38

So, I guess without any chance for me to be able to you scope.

4:44

Great.

4:46

Thanks very much.

4:47

The first of the proper scope slides, please, right.

4:51

Say scone.

4:53

I mean, look, I'm just going back a little bit over existing ground but the FCA have made it very clear that they're aligning Skype of the consumer duty with the existing scope of their sexual sourcebook And also made it clear that that includes not just consumers but also SMEs doing activity that's regulated by the FCA.

5:14

And that point on SMEs was something that respondents had asked for clarity on.

5:19

There are some indeed challenged after the previous C P but the FCI of how far they've been very clear.

5:25

That is the approach SMEs being being in where they're already in retrospect, that's going to be the approach that the FCA against chiba duty.

5:33

Similarly, there was some challenge to the approach that we're proposing around sexual assaults books.

5:38

On the basis, that, it meant that the same customer might be a Skype for Some products and out of Scope for others.

5:43

Depending on whether that type of product or service is regulated for that type of customer on behind, the FTA quite rightly pointed out, that, you know, those differences already exist around the requirements for different sectors in the current rule, so that we maintaining the status quo to achieve a duty.

6:01

In practice, I guess, you know, what does that all mean for the purposes of what's in and what's our consumer credit?

6:08

And first up, I suppose, most simply LEP CCI regulated lending exam, that's very simple and again, clearly and simply unregulated lendings out. So I lending to limited companies, cetera lending to a borrower who isn't an individual for the purposes of the CCA.

6:25

So any borrower who isn't, as we put at the top of the slide there, it wasn't an actual person, a small partnership or an unincorporated association.

6:34

So unregulated lendings out.

6:36

Then you've got exemption thing. So exempt lending is also out. So, for example, in a consumer credit context, business purpose lending for over £25,000? Or high net worth lending? And any of the other various forms of blended. Those aren't subject to achieve a duty.

6:52

And again, that's something that the FCC has made more explicitly clear in the policy statement with the rule and guidance that specifically covers that point.

7:02

But I think it's worth saying, and we kinda cool down arrow next slide, really, importantly, for the purposes of credit related regulated activities in relation to exempt lending, that are themselves regulated.

7:14

So, for example, you can see someone that debt collecting, debts, admin, credit, broking around, exempt credit agreements, those in.

7:22

And, I think we think that despite the site muddying the waters by the FCA, perhaps in a policy statement, you turn to the material in bullets around the distribution chain.

7:32

A huge majority from associate perspective of brokers and intermediaries, and that credit context are going to be, firms, firms would need, really good rationale to decide that, that's in, their distribution chain, is out because of not having sufficient material goods for the purpose of, kind of Skype and the duty.

7:52

So, I guess the summary from this slide is that, to some extent, in a consumer credit context, it's fairly simple.

7:59

And if you're a firm with relatively limited products, fit, kind of, nice and neatly into that, in order out bucket, And you can work on that basis, I think the firms that are going to have trickier decisions to make, on Skype, but those, that have some quotes, that are in some that are exempt, and some of the drought, for example, or some that might be unregulated and out. You know, we know we've had conversations with people in the industry.

8:23

There's lots of thinking being done about whether actually in that scenario may be better to apply the GT more widely and treaties covering our scope products and services and SMEs are a very good example of that. You know, do you actually, if you have some party, the regulated longing to SMEs and some that's exempt lending to SMEs to treat all as such it steam duty? It's up and yeah, I mean, the FCA said in his ... letter On the fair treatment of resumes.

8:49

Which is obviously separately conceive of duty, but I said in that earlier this year that they commend firms who popped up, entry unregulated, SMEs is regulated.

8:59

So anyway, there were clear pros and cons to that in terms of economies of scale around effort, but also, though, the extension of regulatory protections where they're not technically required, and the time and cost associated with that. So, we know that firms are looking at that, and that's perhaps one of the more difficult with Skype.

9:13

The purpose of continued to contribute JJ.

9:18

Thus, if we can move on to the next slide, which is product and service design.

9:25

Sorry.

9:26

Thank you.

9:28

So, I think maybe it's worth me just say, at the beginning of this, that we've got a specific section a little later on on distribution, So what I'm focusing on, mainly as manufacturers, and really, for the purposes of Office, in terms of consumer credit, we talk about manufacturers.

9:43

It's likely today, Ireland, or if that's providing other regulated services. So that's a service or in their own right.

9:52

But first up, as was discussed on the session this morning, you know, manufacturers need to identify the target market of customers for whom the product or service is designed.

10:02

Now, that includes taking into account the characteristics, the complexity, the nature of the product or service.

10:09

Now, of course, in the consumer credit market, often, often it's true that our products are targeted relatively relatively broadly, I say relatively.

10:19

By that, I mean more so, than, I guess, some of the more niche, more investment type products in, for example, the wealth space.

10:28

Many of which also there obviously subject to consumer duty, but actually where a manufacturer might have a pretty limited target market of prospective customers getting that product is actually suitable. But even with, what I suppose we in the consumer credit market, think it was a relatively broad target market.

10:45

Actually, you can see quite quickly how you can narrow it down by asking yourself, the question, who is this product not? talk to people, and who might not be appropriate, and, or cause harm.

10:56

So you can see then how you might start to segment them off.

10:59

I guess if we use, for example, credit cards, different credit card providers are actually perhaps saint provided with multiple products. You might find themselves coming to conclusion.

11:08

Their target market is say small business lending where a guarantor is willing to provide security. Or, for example, for different product, the manufacturer, my needs.

11:17

That's their target market is consumers who are sub or near Prime maybe to go to ..., and they want a product with a low credit limit. So they can borrow a registry little amount that actually get support, help them make repayments, and gradually rebuild their credit rating.

11:33

And obviously, again, I've given examples their target market, which actually a relatively high level, obviously, the might then be much more in terms of data and analytics on what those customers look like, more specifically, what kind of criteria they fulfill.

11:48

So there's a target market piece, but critically addressing the consumer credit market.

11:52

And it is broad across the whole consumer duty, but critically, it's going to be factoring in the needs of vulnerable customers.

11:59

I guess the fact that will all be well aware from all of the work associated with the town and vulnerable customers in the last few years, and much more recently this summer, no customers can become vulnerable very quickly from one day to another, depending on circumstance and given the current economic conditions, favorable light.

12:15

The instances of particular vulnerability only began to increase.

12:19

As, you know, Unhelpfully time-wise as just us buttons are implementing, continuing duty roads.

12:26

So I think, you know, vulnerable customers absolutely absolutely key to how's that going to manifest itself.

12:31

Interconnect consumer credit context is going to manifest itself, and staff support the onboarding journey.

12:37

It's going to manifest itself in firms needing to look at how to adopt design techniques, kind of inclusive design techniques.

12:45

Which, I guess, will be, again, in a c.c.i.e.

12:47

context, more challenging, potentially, in that regulator journey, given how prescribed the c.c.i.e.'s, and the kind of how prescribe the content the documentation is.

12:57

But I suppose phones are looking at things like how to display the, PCI, the agreement, all the comments that go around, that, an application, that onboarding journey. And those will also want to, and are thinking about feedback loops. And looking at things like complaints, But also things like arrays data.

13:13

Then the target market itself, costs associated with those.

13:17

But also your creditworthiness and affordability policies and procedures sit alongside them, as well as new product design, what we got on there?

13:25

So there's going to be a need to look at your existing products and make sure that they're appropriate, target market to avoid, causing foreseeable harm.

13:34

And that will involve qualitative testing, and then you identify issues, funds needed to remediate those issues, to put them right into the book.

13:43

And again, but the regulated lending markets, so you have any prescribed comes into play.

13:47

That doesn't it because actually, you know, lots of the product design will revolve around the requirements for CCA and the subordinate legislation.

13:56

There are lots of requirements in terms of the product and service outcome which goes to, you know, distributors and posting information to them to say, We'll save that distribution section.

14:05

I think it's probably worth reiterating here on this slide that think hopefully the FCA pointed in its in its finalized guidance and it's a paragraph or a paragraph 6.8 for guidance.

14:18

It's pointing funds to a list.

14:21

Examples of material that they could use to show that they follow the provisions approach, which although it won't be applying to consumer credit funds, actually could be used as a startup percent in terms of how to look at creating a checklist for what to take off consider when you're looking to satisfy the products and services outcome. So, that's maybe something to look back on the right guidance.

14:43

I think it's also in terms of the Product and Service outcome, I've got it here up at a off the top left at about Would it be about 10 o'clock?

14:55

It's worth noting that the FCA clarified in the policy statement.

14:59

A point that was, I think, it really clear gap in the original rules around the application of the duty in the context of sold books and that's really relevant consumer credit given that so many lenders, style debts, you know, often charged off loans. And of course, there are lots of debt purchase firms in all markets.

15:21

We specialize in buying, servicing and collecting that debt.

15:24

Now, there were huge amount of questions from purchases, incentives, actually, of the CP around how the duty applied to so debt, whether a purchase was a manufacturer or not, because it wasn't the definition. And if so, how the purchasers post comply with the requirements.

15:42

What we've got now from the FTA is clarity that duty does apply in the context of so that box given the purchaser's weren't developed.

15:51

Um.

15:55

Realistically, given the data that's being purchased, would have been purchased at a time before continuing duty came into place.

16:02

Purchases won't have all the relevant information they need, it would have needed from the seller at the time of the sale, So what they're supposed to do, that's supposed to comply on the best endeavors basis, in terms of vacancy with G two requirements for anything that they bought before That you came into effect.

16:16

Been on an ongoing basis for books though, bought after. she was GT comes in.

16:22

Firms sending the data got to give appropriate information to the purchaser so that I can plug the duty. So that's around understanding product or service design and value.

16:30

What that means is, then, it may inevitably have quite significant effect on information flow requirements that go into consumer credit to sell agreements, and the drafting of supervision and the debt side agreements, as well. And to purchase. It needs to do due diligence, to make sure that they can live without ....

16:49

Continue with duty obligations around the product books, So, again, that's going to be significant in the context of the debt market, because of what's going to be needed upfront for sales take place.

16:58

So, that's a little bit of a whistle, stop through what I think some of the key issues are in the consumer credit market from a product and service outcome perspective, I think now, we move on to cloud is going to cover price and value. Next.

17:12

Thanks, TV.

17:13

Yes, and if I coach the next slide. Thank you.

17:17

So, I think it's fair to say that price and fair value has been probably the outcome, but most people have really honed in on anything except feels potentially the most of all. It tells like where.

17:33

Also, commercial imperative is being regulated. I think there are some interesting things that have come out of the policy statement.

17:41

The STA acknowledges that profit is OK, if you're not being forced into a cost plus model.

17:49

That profit is acceptable and that I'm not interested in regulating your reality in that sense. This is very much about the outcome of a consumer.

17:59

And I've just got a pair, I guess some key points of value outcome, and some of the rules that are associated with it, and I think it's just worth pulling smooth these out. So, yes, manufacturers must then she'll products provide fair value and in the context of the target market.

18:18

Now, in the credit market and the credit, markets are very diverse.

18:23

And I think therefore it's really important that lenders think about, no.

18:27

Am I in the right into subprime space? I'm looking at finance for very niche requirement is this.

18:33

No, is this loaned from the particular acquisition? What does that mean about my target market and what value might mean in that context?

18:42

So, thinking very much about what fair value will mean in the context of the product, as it is vital.

18:49

And that has to be a fair value assessment carried out of the product. And, again, that will flex according to the type of it we're talking about.

18:57

And that assessment needs to think about yes, and the price benefits and quality of products, and the characteristics of vulnerability within the market. And we'll drill into some of the issues that arise in respect to those issues. In a moment, we'll take this. Just one point. I wanted to flag on the distributed side effects. And type is going to talk about distribution much more in detail.

19:22

But there's this idea that distributor's must obtain enough information from the manufacturer to understand the outcome of the fair value assessment.

19:30

one of the things that were unclear in the consultation paper was just what that meant, How detailed it that needs to be.

19:37

And I think one of the things that we raised as a potential concern was the possibility of confidential information competition law type issues arising as this information was passed down into and distributes hands. They might be in receipt of quite a lot of GC information in that sense.

19:58

What's happening is that the policy statement makes clear that this is not a requirement, too.

20:07

But for lenders to pass on confidential information or sensitive information, this isn't a requirement for distributors to challenge the, the assessment that's been carried out by the manufacturer.

20:21

So here what we're talking about is the passing on of a high level summary of the Fair Value Assessment and the outcome of that Fair Value Assessment rather than there being any sort of substantive detail. So, I think that is, is really good news. And the, the policy statement.

20:40

Could I have the next slide, please?

20:44

Um, I'm not proposing to talk about this in too much detail. This would have been covered in the earlier session this morning.

20:50

What I do want to draw out there is that the concept to bound you, it's about balance, it's this idea of price and things that the customer gives up in exchange for the things that the customer gets.

21:02

So it's about a relative assessment of price paid, and price being non finance was one of the financial in relation to benefits gained, which can be financial or non financial.

21:15

And we already talked about getting into the hearts of the bargain between the parties. So looking at the balance of that. So, scale, if you like it at the bottom, which has been struck.

21:26

Could have the next slide, please.

21:29

So, I guess, drilling into some of the issues, which, and potentially a rise in respective credit, in particularly, now, suddenly, from the consultation paper, this'll, Ongoing feature of introductory offers was definitely questionable.

21:48

That was, talk about pricing.

21:52

Differences in pricing, needing to be objection, objectionable justifiable, object to be justifiable. And, certainly, there was some concern but where, pricing and was driven simply by a desire to onboard new customers that may be challenges around, and squaring the circle with consumer DT.

22:13

Now, what the policy statement makes clear is that introductory offers are not, per se, inconsistent with the consumer to take.

22:25

There is a requirement, those that those introductory offers are clear and transparent.

22:31

So being upfront about the nature of the interrupt, we are being upfront about the basics of weights.

22:38

And it would come to when it will come to an end, how it might be an offset cetera. So clarity and openness about that.

22:45

And what's important is that both the introductory offer and a standard position to go to proposition both represent fair value.

22:55

So, you need to assess the value based in the context of the incident itself, I'm in the context of the goatee position.

23:04

Now, what's interesting, I think, is whether that assessment needs to be a relative one or whether the assessment is of each of these two rates or positions in and of themselves, and I think that's something that people will need to think. Right.

23:21

And risk based pricing, yes. We knew under the consultation paper, the infant's all risk based pricing was potentially viable and that position has been maintained in the policy statement.

23:36

and the ca's expressed it: either: risk based pricing isn't inherently inconsistent with value.

23:43

The position is submits that within an inch of those. You know, what can we can the pricing methodology be substantiated as is representing fair value for all customers that are receiving and different pricing different price points?

24:00

But very importantly, doesn't need to think about the effect of risk based pricing where customers might have limited options.

24:07

So, is there potential for the pricing methodology to exploit the vulnerable position that customers for example, who are in a subprime position might find themselves? Is there a way in which the price differential can be justified and supported, which doesn't mean the app today.

24:27

The lender is just leveraging that vulnerability that the customer has.

24:33

Different prices for different products or different brands are permissible. Again, that's a policy statement. I think what's important here is the emphasis on the concept of difference.

24:44

So the FCA have said in the policy statement that different pricing right. You have products which are similar but different.

24:55

All Web products are white labeled with different and one's different arrangements. Different pricing can be sustainable, so long as, you know, are we talking about there being a real difference between the products?

25:09

So it's not just different pricing for the same project, but there is different pricing where there is genuinely a different proposition, alternative Mayweather talking about white labeled products.

25:23

If there's a pricing difference, can that be substantiated or supported on an objective basis?

25:29

So, if you have the same product proposition, but different pricing between white label Proposition A and B, if there is different costs associated with these two different competitions, for example, that in itself, could be helpful and value assessment perspective. So, there is a potential for this to be consistent with fair value. It's really a question of digging into understanding what is driving the difference?

25:56

I think what is difficult to support that is where you essentially have the same product just bought differently and priced differently.

26:05

Whether that's because it's sold through a different channel, or it's that they're separated by the passage of time. I think what you have, essentially, the same product, same costs, and just different pricing, bap bap becomes very difficult, I think, from a consumer duty perspective.

26:28

What was clear from the consultation paper, was that when you looked at price, it wasn't just the initial price, the interest rate, and it was all fees and charges including contingent charges that were associated with the product.

26:43

And that position remains the same.

26:46

I think what's interesting here is, you know, looking at how the pricing methodology for product has been settled.

26:54

And it's important. I think that there is no suggestion, that people are going out with a low interest rate and seeking to recoup profit.

27:02

three: for example, default charges.

27:04

Now, that sounds very old-school and many people on the call will say, Of course, we don't do that, but you do see some strange practices creeping in where people shuffle, um, the optics of that pricing around.

27:19

I think what's really important is the product's price transparently, and that sorts of practice, I think, will become more difficult.

27:28

Under the consumer tools, I think, again, we need to make sure that all fees, or charges, interest rates, et cetera, stand up on their own, in isolation, but also together as an entire proposition.

27:42

So, thinking about, you know, the charges that are associated with the interest rate, whether it's periodic charges, such as annual fees, whether that's service charges, charges for additional statements or whatever. How would those derived both individually, and then, together as a whole, How do they stack up?

28:05

I think that requires you to think about the frequency with which charges are incurred, and therefore, what that, what the interplay between the different lines of, of, of cost, the customer base?

28:19

Could I have the next slide, please?

28:27

Now, yes. Yeah.

28:29

As we said on the on a couple of slides ago when we're talking about cost and benefit, we're not just talking about financial cost and financial benefit.

28:38

The FCA does acknowledge that we need to look at the broader package of benefits, which lenders gift to the customers, but also, the broader package of things that customers give out.

28:52

What was very interesting is that there's a comment in the, in the policy statement, which says that they don't, the FDA does not expect them to quantify non financial costs and non financial benefits, but they are expected to be qualitatively assessed.

29:09

I think that is super interesting for me that just opens the door for this being a very subdued. It just validates the idea that this is a very subjective and process and there is going to be an element of, does this feel right? Does this not feel bad about it?

29:27

So what, it does mean that you don't have to necessarily part upon the amount against and we think that the customer gives up or everything that you give to the customer but it can go into the mix of just looking at the overall value of the product on a sort of non tangible qualitative basis.

29:48

The FCA does place a lot of emphasis on looking at the monetization of data.

29:53

You know, that clarity is something it has in its mind's eye around non financial costs and, therefore, making sure customers understand what you're going to be doing with that data. And thinking about how that impacts the value that they receive is going to be important, specific to call that later.

30:14

So, thinking about, you know, does this enable you to deliver a better service, or, is this purely about?

30:22

The third is financial gain, and how does that impact the dynamics of value?

30:27

Things, which absolutely going to the mix, and things like enhance support, do you off the greater convenience, you know, methods of servicing the accounts. And things that make it more accessible to customers will definitely be things to consider.

30:44

Flexibility, things like payment holidays or features which deliver flexibility to the customer, will also be items of non financial benefit, which will go into the pot of Value Assessment.

30:59

Some credit products are incredibly long, long running credit cards, charge cards can run over years, decades, in some circumstances.

31:09

And so thinking about when you carry out that fair value assessment will be important clearly.

31:14

And there will be a need to carry out this assessment at the outset of the development of the product, but it's relatively a the time. It might be something that firms decide to do annually.

31:26

Certainly, where product features are added or taken away, if it will be necessary to think about what that does to the dynamic value, and say, building button, too.

31:38

The process of product with vision will be, will be an important feature of moving forward.

31:44

We've talked about reasonableness. I'm not going to talk. It's a lot more. And I think what is interesting is that when you take into account, reasonableness, is based on the nature of the product and that and the size and complexity of the firm.

32:01

What that does for reasonableness is quite interesting because actually, when you then leave paintings like, the target market. You might have a relatively simple product.

32:11

Know, things like payday were pretty simple products, but that the target market, relatively credit poor individuals.

32:21

He had limited options, absolutely changed the dynamic of what might be reasonable. You might be talking about a population with limited sophistication around understanding financial services.

32:33

So thinking about what that means, from unreasonableness perspective, when assessing the value of the product that you're providing is going to be really important.

32:41

That's sort of Trump's Shing of the credits that will play a real role in all of this.

32:47

Um, that will be a requirement to monitor fair value, and the extent to which the product delivers the fair value. You're expecting it to live the life of the product.

32:58

And I think important, I'm gonna say too much about this, because Jonathan is going to talk about governance, and in the light later on, but thinking about what you expected.

33:10

The price to be, what you expected, value to be at the outset.

33:14

Compared to what you're actually saying, know, what? What's your profitability levels? What? How are customers engaged and behaving with the product? How are they using those non financial benefits?

33:25

Like is this really delivering the value that you thought it would do at the outset is going to be incredibly, incredibly important at the time Just to point unprofitability, the FCA has been really clear that profit is in and of itself a bad thing but what is going to be, well, I think, is going to be really relevant. Particularly, you think about the relatively subjective quality to this assessment.

33:49

It's thinking about things like PPI, is there an element of profitability around all of this, which just fails, difficult thing?

33:59

If we went back a number of years, and lots of the modeling, and the, sort of the financial proposition that KPI was, many people with now feel slightly uncomfortable with, with the way that product was run.

34:12

And, I think thinking about that, would we be uncomfortable and sharing this proposition with the regulator is gates be an important book in precise way of looking at some of these issues around fair value.

34:28

I'm now going to hand over back to tell you we can talk about issues of distribution.

34:37

Great.

34:38

Thank you.

34:39

We can move on to the first distribution slide or any distribution slide. Thanks very much.

34:43

So, but it's in the context of credit.

34:47

It's just worth thinking.

34:48

First off, who will be a distributor, they'll need to be analysis done on a case by case basis.

34:54

That the definition is a firm which offers, sells, recommends, advises on, arranges, deals, proposes or provides a product. Now, that really tracks, feels like it kind of uses article 25 kind of a range in introducing investments type language.

35:12

Rather than be what, perhaps, we achieve, credit context a bit more familiar with. In terms of, you know, brokers dealers introduces in the consumer credit market, that doesn't, when you hear that kind of list of the definition, the distributor re.

35:26

Anybody that much of a resemblance to the kind of language and parameters used in order to succeed in terms of the regulated activity of credit breaking.

35:35

But what the FCA have made really is that actually, there, It's deliberately brought.

35:40

So, really, I think you know, less what firms doing, very incidental, we think it's going to be an as a distributor now.

35:49

Fundamentally, one of the key points that is that lenders have got to develop a distribution strategy for their target market, and in doing that, they're going to need to think about what distribution channels are appropriate.

36:00

We're no different to credit context and everywhere else, I guess. You know, In the credit market, we're increasingly using digital jeopardy's, Took lady. That's going to the beach in terms of thinking about distribution channels.

36:11

But there are also, I think, in a consumer credit market, nuances for things like, things like install, a point of sale finance, and selling in the home.

36:21

Where actually, manufacturers are going to need to think really carefully about the journey and about how they're, how their distribution strategy is defined to make sure that they have, you know, a clear strategy, but also one that has the right kind of controls in place for retrospective.

36:36

So, lenders are then required to make all appropriate information available to distributors.

36:41

So the distributors can understand the product, can understand the target market, can consider vulnerable customers, identify the distribution strategy.

36:49

Make sure the product actually going to be distributed to target market and britney.

36:54

That is going to manifest itself within, in the contractual terms, agreed with your distributors. Often, those are going to be the firms.

37:02

You know, Currently, doing credit ranking regulates credit breaking often in relation to lenders products on the roads and the guidance in the duty about information flows and collaboration between the manufacturer and distributor, you know, I think the MI requirements in those agreements will need to be significantly changed. So there's a drafting exercise in terms of reviewing introducer of appropriate agreements, but also a practical piece around making sure operation needed a business is set up to provide that information in an accessible way to your distributors.

37:34

So distributed then, I've got to have distribution arrangements, and a distribution strategy for each product or service they distribute, and they've got to understand the lending products that they distribute so that they can mitigate foreseeable to customers.

37:50

Now, realistically, in the consumer credit market, there will be some brokers who are large, and who have been authorized firms in their own rights for long enough.

38:01

They will understand what those consumer duty requirements mean.

38:06

There'll be able to put in place processes and procedures to affect those problems.

38:11

Bart might come at challenges of unsophisticated distributors. There will be other credit brokers, will firms in the in the market that fit the definition of distributor.

38:21

... says, hey, we're either ready, very small, and unsophisticated or you haven't ever been authorized in their own, right?

38:29

And for them, my suspicion is they just won't be set up. Already, to be honest with you, have a clue about how to comply with these requirements.

38:37

So it feels as though, for those distributors, a lot of it actually will still fall pretty squarely on the shoulders of a lender to effectively hold his hand and educate them about what the requirements are and what they need to do to comply with ... requirements.

38:52

So that's something that's worth factoring in when it comes to price and value, which obviously plastics to distributors have got to ensure that their own charges are distributing the product, represent Bonnie.

39:04

And they need to make sure that they obtained enough information from the manufacturer so that they can understand the value that that product is intended to provide to customers. And they can then understand whether their distribution arrangements would mean the lending products stop providing fair value to customers. Now, a lot of the time in the consumer credit market, for the regulated ..., actually, a broker may not charge a fee directly to customers for their services.

39:32

Often I think it tends to be are kind of comparatively less complex or fatter Can distribution chain, then in some of the other markets, in terms of consumer duty, that might be in scope?

39:44

But what does often, not consumer credit market, is some form of commission payments between the broker.

39:50

So an example: lender might endometrial, you might pay a price comparison website, flat fee, for every cluster that introduced to it, that goes on, to enter into a credit agreement.

40:01

Now that commission isn't divorce and the price value analysis needs to be carried out on the product, because ultimately, then you would need to look at the impact that it may have on, or example interest rate, that it charges customers under the agreement.

40:14

I guess give another example in the market, but with a slightly different structure. For Buy.

40:19

Now, pay later, point of sale finance turned up, you've got lots of lenders that are not sent or low interest rate products, I don't usually pay commissions. The retailer, actually, it's the retailer.

40:31

Distributer paying a fee to the lender to reflect the fact that the finance provide, it actually helps promote, helps to drive the retailers sales.

40:40

But I guess there's a point there to be factored in around pricing and fair value in terms of whether that fee, which is underwriting, the lenders ability to offer finance at that low, 0% rate.

40:49

Whether actually that fee is funded by an increase in the price, the goods, the retailers selling. So the price and value analysis around distributors and commissioners, I think, likely to be quite challenging. Coin.

40:59

The distributors, armful of this, it will also be overlayed by, I suppose, one of the really key issues facing the market.

41:07

The credit market at the moment, which is Secret Commission claims.

41:11

Now it's not the, it's not the core focus of this session, and to be honest, there's an hour long session on steeper commission in its own right.

41:17

So, what I'm not proposing to do is dwell on it too much, but consumer credit lenders and brokers alike, will need to factor in as part of our consideration.

41:27

Consumer duty on commission, the extent to which they disclose nature and the amount of commission being paid, Which code.

41:36

Head off potential claims by customers, CMCS around the fact that that commission they've been Secret Commission.

41:41

So that's something that people should take into account when, when doing that analysis.

41:47

There's also a point around co manufacturers. I think, need to be thinking really tapping into consumer credit market about when it broke might be the underlying lending product.

41:56

So what are they crossing the line today.

41:58

Distributed, introduces business to be someone that's involved in the design or development of a product. Actually, initially, you might think, well, very rarely, whether they're gonna be a manufacturer of a lending product.

42:09

Most Norridge, I suspect that's right, but what about, for example, where you've got a really large retail site, who uses a single lender for offering point itself, finance, inadequate, working relationship? And they regularly discuss with the lender what that customer base lipsyte and actually what the needs of their customers aren't actually as a result What might suit the retailer?

42:29

And also what worked well for the lender in terms of product design to maximize the success of that product about the retailer.

42:35

Bronx iOS And also land You're in terms of uptake of the product.

42:39

I think there's a discussion to be out there on when, when, a, when a broker might become a manufacturer, and ultimately, you know, I think it probably comes down to control, find loads guidance talks about being able to materially influence the manufacture of a product or service. But, I think there is a question that needs to be looked at on a case by case basis.

42:58

Um, I guess.

43:02

The last thing that I would perhaps say is, the final point on this slide, which is that we do now have a scenario where, if I'm in the distribution chain, identifies consumer harm somewhere else in the chain.

43:17

And what it's got to do is, it's now got to raise those concerns both with the other party but it's also got to raise those concerns with the FCA. Like it it becomes aware of about, the distribution chain isn't complying with achievement teaching now. That's interesting because that's, of course, the general requirement by small firms on precedent, GT, but of course it isn't a concept that's completely alien to us in the consumer credit market.

43:42

But I suppose it does build on and go further than, for example, the approach.

43:47

The lender phones would already be taking to reviewing their brokers compliance under that 1.2 point 2 and 2.3 for kind of oversight and obligations. So, that requirement is another, and, again, it potentially quite significant point to take into account in terms of the distribution chain.

44:05

Firm's obligations under it. Because I do think that that's more than just that kind of 11 requirement. It goes further than that. Could be quite material.

44:14

That was all I wanted to say about distribution. I think, do we move on now to you again?

44:22

That's Toby. And thanks very much.

44:25

And the next thing we're going to look at is the customer understanding outcome. You know, this is it's very interesting, isn't it?

44:34

Just some credit products are pretty complex.

44:37

And we already throw out huge quantities of information to customers and, as a result of statutory obligations, and, therefore, thinking about customer understanding, is quite quite quite an interesting proposition. I think, now, this outcome requires you to produce communications.

44:57

Which support and enable customers to make informed decisions about their financial products and services.

45:04

It's about making sure the right information is given to customers at the right time. And in a way that they can understand.

45:12

Now, clearly, as I say, we've got lots of communications, documents, bits of information, that we are required to give to customers at different points in the consumer credit life cycle.

45:26

Um, and the important thing to remember is that this isn't just about looking at such and such documents. It's about looking at our communications as a whole.

45:37

It's letters, it's e-mails, it's marketing. It's all forms of information.

45:43

So I think the first point to say is, are all communications understandable?

45:50

Now, interestingly, in the context of credit and lots of documents that are required to produce very formulaic, they have prescribed content. They have prescribed order, they even have prescribed notices which have to be replicated, word for word.

46:08

Now, I think what's important is that we do what we can with these documents.

46:13

The FCA acknowledged that in the context of credit firms can be somewhat straitjacketed by the legislation and the regulatory requirements.

46:24

But it just flag that on occasion, and these requirements provide many a framework, and it's just them for lenders to decide how they fulfill the requirements of that framework, what information goes in, and how it's expressed.

46:38

Um, I think there is a working acceptance, that some of the language in prescribed notices that has to be included, you know, whether it's statements, now sizzle, Default, laces, or whatever are not what we are dealing with like them to be.

46:55

As the world is today, where we can improve the intelligibility of those documents, and clearly there is a need to do that. So, there is a need to engage with and review existing communications and have in place a process by which you can review them on an ongoing basis.

47:12

And, as you produce more material, is an interesting question about whether or not that inherently requires you to make use of that party agencies accreditation, eight entities, the Play language mission, obtain crystal marking, use organizations, such as high numbers, etcetera.

47:30

If you don't use those organizations to review and edit your documents, which, you know, there is no obligation necessary to do so, I think what is important is to be at least mindful of what these organizations are putting out.

47:45

so that you're able to reflect what those organizations are saying about understandable and comprehensible documents in the production of your own.

47:56

There is certainly, I think, I really am a good case for taking polls and thinking about whether now is the time to use these sorts of accreditation service. Says, I've taken clients through those processes recently.

48:09

And it's been a really interesting exercise, and it has led to a materially enhanced document at the end, nothing, small tweaks can have big changes. And so, it is time to think it is a good time to think about whether or not there is a role for obtaining accreditation.

48:28

Um, I think there is a statutory timeline to a lot of communications in the context of credit. We notice that we have to produce in a, we know we have to produce a PCI, and the credit agreement, we know that we need to produce statements at period at certain periods.

48:46

We know that now see, is all what they are.

48:48

We know that a default notice looks like tos and all of these have to be produced on a set timeline.

48:55

I think what's interesting though, is to step back from that and say, Should we be producing additional communications outside of that statutory timeline?

49:05

What is it that our data is telling us?

49:08

Know, if your data tells you that customers who draw down credit from their credit card, go on to display a certain, um, default behavior or a certain, a certain behavior, which suggests that drawdown is indicative of financial difficulties.

49:26

Should you be communicating with them, at the point, you see certain trigger behavior happen?

49:33

I think thinking about whether or not you should have documents, which better explain the strategy material you have to send, is also important.

49:42

So, really, a moment to step back, look at your data, across the customer journey, say, you know, where do we see peaks and complaints? What are those templates, where DBC key drop-offs, other data points which indicate that drop off these gate to happen?

49:59

If so, should we be intervening, or could we help with some more information.

50:05

And that's really about looking at the right information at the right time.

50:10

And I think there is a real need to look at that more holistic view.

50:14

It's not just about looking at the existing documents suite that we've got existing communication suite that we've got. But it's about stepping back and looking more holistically and saying, Is there more that we can do? Is there more that we should be doing based on the information that we have got?

50:32

The FCA and it talks about layering in both the consultation in the policy statement and in the finalized guidance. And, you know, thinking about whether or not there is a need to use different media to explain things to customers at different points.

50:49

You can see that when you send that, welcome pack, whether it's a card or a line or whatever, that there is value. It may be having a cover letter which draws out, you know, the key features of the credit products. You know, what's the amount of credit or credit limit.

51:05

When we first repayment D, what's the amount of that those repayment, But also maybe flagging the right of withdrawal, Thinking about how you may be call out and draw together key messages throughout the whole document suite. So, that the prominent and the customers got them into one.

51:23

A one stop shop, if you like, and summarized in a cover letter.

51:28

I'm thinking about whether or not you use different media to explain products.

51:35

You know, do you start using voice, A, there's animations or whatever to explain products, thinking about how you can use that and layer all the communication at the different at different points of the customer life cycle.

51:50

Um, I think, as well, thinking about who the target market is, is really relevant, Thinking about what information you should be giving and how.

52:01

Thinking about whether or not your target market has particular needs.

52:05

So, again, are the particular educational levels, which are indicated by your target market, other language, and language issues within your target market.

52:16

Is there evidence of financial difficulty within your target market?

52:19

Or know, if you're a subprime lenders that inherent in your target market and you're in your position, can therefore about what you need to draw the customer's attention about your product?

52:32

And I'm doing that more effectively.

52:34

Now, this doesn't necessarily mean new bits of paper. It may well be a way in which you reflect Tanya is the adequate explanations document doing. Really? What we need to do is the way in making it more meaningful and useful document in light of consumer duty.

52:52

Is that potential for having use case examples or examples, which illustrate particular product features?

53:00

You know, do you, perhaps, and have have some kind of explanation of how balance transfer works and how you do that in some kind of digital media rather than relying on the written word and thinking about how you can be put into life.

53:16

Understanding of what can be at times complex products when you're looking at cards in the various forms?

53:22

Um, I think then, you know, one of the interesting challenges in the context of consumer credit is undoubtedly credit cards.

53:33

You know, the FCA talks about how the level of understanding needed for a mass, a mass market simple product might be different from a more complex kind of targeted towards more sophisticated consumers.

53:48

Now, that's that's interesting. Right? But most part of mass market products aren't always simple. Credit cards are incredibly complicated and intricate products.

53:58

Thinking about how that is brought to life, I think, is, is, is it fail?

54:04

No, It's a real challenge. And that's maybe why you think about, perhaps illustrative examples. Use case scenarios, et cetera to bring the product to life.

54:14

Could be really useful explaining the interaction between the different interest rates are promotional offers and then what then happens. Thinking about how that can also be gift than color to be made more intelligible to consumers.

54:28

Testing and testing has to happen. This is seen as being an advanced testing requirement.

54:36

The FCA talks about, you know, trying out your customer comes in advance with customers to establish whether or not they're hitting the right market in terms of intelligibility and understand the ability.

54:47

Well the FCA does talk about is it's important to learn and develop and adopt ... McKinney invitations as you learn more about what works and what doesn't.

54:56

And what's really, really useful is the FCA has said to as you learn as you get more insights if there's things that you want to share with us about the outcomes of your testing them. Please do because that can then inform their approach to regulation. So, a bit of a request for feedback if people are prepared and happy to give it.

55:16

That's a bit of a whistle stop tour around customer understanding. I'm now going to hand over to Jonathan. He's going to take his I'm going to.

55:29

Thank you. Claire. I'm conscious. I've got four minutes to go through the remaining slides if we could have the next slide, please.

55:36

And basically what the FCA have said is that they expect funds to provide a consistent level of support that meets the consumer's needs throughout the relationship with the fan. So, what do they really want you to do is, they want you to monitor the customer journey the hallway through, take into account that you are, identifying areas of weakness, potential new customer servicing offering. And where that, you know, where that's the case, is really to effectively take reasonable steps to address that. So, ultimately, that's what they're looking for, If I could move to the next slide, please.

56:17

So, looking at this now, obviously, looking at the the customer support journey, there are a number of things that we need to do. Is, you know, again, looking at all interactions with the with the consumer meeting, the customer's needs using the product as regulated Yuri, except anticipated apologies for that, and realize the benefits are not face unseen barriers or cost. So what we're looking on the barriers and costs, if you can see it sort of the 10 o'clock side, it's make general inquiries or requests amended or switch products transfer to new product provider submitted, claim, make a complaint, et cetera. Or can slate or terminate the relationship. one of the things that has been really difficult from the CCA perspective for from a customer base is is that early repayment has always been quite horrific for a customer say.

57:14

It's about taking the CCA requirements, but also amending them to give the customer a very easy, you know, journey should that be something that they wish to do. There are lots of other bits around here that, you know, we can cover. And I'm more than happy to take questions via e-mail.

57:31

As I say, I've got to try and whistle through this quite quickly If I could have the next slide, please.

57:39

Just some additional guidance of what we're looking at, again, is just, is the appropriate standard support. Ensure that your customer support doesn't harm your customers. What they are talking about, things that slow service, poorly designed customer interactions. I always find that when I won't mention what type of product, but whenever you want to make an amendment to a product or a general enquiry takes forever to get through to, speak to somebody. But if you want to cancel and you ring up, boy, they answer that phone pretty quickly. I will take you through whatever priceless is to to achieve customer retention, that sort of thing that we're looking to eradicate.

58:19

It's the that sort of thing to make sure that the customer can access either equally as efficiently sludge, practices needs to be identified And remember amended With friction remove where possible, accessibility and vulnerability needs to be considered. Obviously, vulnerable customers potentially may not have the same. Accessibility requirements, especially for lots of journeys are online. Oversight of customer service is key looking at any third party outsourcing and, again, as Toby mentioned earlier, if you identify any consumer due to affect failings by any outsourced service provider that needs to be rectified and, you know, reported to the FCA. And if I could just move on to the next slide is a couple of key points I wished to cover on governance and next one again place.

59:12

So, basically, again, from a culture perspective, the FCA are wanting to ensure that governance is, you know, is takes interfax, consumer GT as they did with TCF.

59:28

They need to make sure that, you know, staffer know, the incentive staff have performance reviews, the management frameworks. All of those good things take into account that, in a consumer duty, wanting to make sure that the, you know, consumer duty is built into firm strategy, its governance leadership, it's people policies right throughout the, you know, throughout the organization. From, from C suite, right. The way down to sort of the most junior members of staff, from a reporting perspective. At that point the first report report on consuming duty is due in July 2024. Although by October 22 23 the board must have approved the implementation plan on consumer GG, so that no. So I should say by the end of October sorry to to ensure that that is the it's approved and can be given to The FCA should not be needed again. If I could just move on to the next slide, please.

1:00:33

So, governance and accountability. This is a bit of a tricky one.

1:00:39

There needs to be a consumer duty champion for banking and insurance and enhance fansites. They are quite requirement to have an eye net and generally the FCA.

1:00:53

Well that person, the ..., be responsible for Consumer GT for core fans.

1:01:00

Again dependent on the structure of the fun, There may be an item place. If that is the case, then they will need to take response be consuming GT. Otherwise, it's a nomination to somebody in an SMS function. And, for a limited permissions from this, can be quite difficult. But, again, where we're looking at, I guess, different corporate structures, again, if you have an iron at great, needs to be passed on to them. Otherwise, it's the SMS 29 who would generally be required to take that responsibility forward. So, yeah, there's, there's a lot of things that needs to be done. Again, you will get the slides afterwards. I will re-iterate if anybody who wishes to discuss anything on here with me, please drop me a line because I'm happy to go through it with you in a bit more detail. if I could have the next slide, please.

1:01:59

Moving on to some of the things that the Cloud was discussing around communications and that there is a requirement to test communications. And we've really looked at sort of four different methodologies that can be used. And this is what the FCA have also said that they can use.

1:02:15

So, looking at sort of experimentation, controlled trials, comparison groups, et cetera, that's a quite difficult.

1:02:24

Once put forward British, you need to have a large group participants, and, you know, for, like, I even say, statistical statistical significance.

1:02:34

So, that's really quite a, a very detailed way of looking into this. Customer surveys is another option that you can use it, again, looking at quality, based on your question design, but you need to ensure that you're eliminating bias. So, you're not kind of trying to, and not, you know, encourage the customers, or consumers to give you a positive outcome when that's not necessarily what they have.

1:02:59

Customer interviews. Again, you need to look at that from a structured or unstructured basis. And, you know, from that, in that you can elicit more in-depth understanding of your customer belief again. You do need your expertise in sampling construction on the structured questions and analysis of unstructured feedback is key, and that perspective. I'm finally probably the, one of the easiest way is focus groups, and just looking at breadth of understanding. That can give you subjective rather than objective opinions, as to say, that's probably the relative to the, one of, the easier ways to look at it. So, just moving on to the next slide, please.

1:03:42

Again, covering this very, very quickly, you need to monitor your data across all.

1:03:49

Also, all work streams.

1:03:51

Everything that's affected by consumer duty needs to be monitored. So, that can be looking, as we say, business persistence, distribution of legacy products, et cetera. I'm not going to go through all of these in detail because, again, I'm conscious of time. But that, there's lots and lots of different areas that do you need to be addressed when looking at consumer duty from a monitoring perspective. And if I get the next slide, please?

1:04:23

I guess this is the, that the sneaky element with consumer jiechi roles coming in, it's also change the Coke on requirements.

1:04:34

That now consumer duty will be response well for ... and we pulled out, I guess, the main ones that you were looking at, again, is that you must act in good faith towards you, reach our customers, must avoid foreseeable harm to retail customers, must enable and support retail customers to see that financial objectives And, finally, we must act to deliver good, cast, good outcomes for retail customers. If there are any breaches of Coke on, that does need to be reported to the FCA as would be for any standard cocom breach. So, again, apologies that we have run over.

1:05:16

I think that brings us to the end of the session.

1:05:21

I'm handing back to class, because I'm not sure if we've got time for Q and A, or F anything further to be taken from that.

1:05:32

Now, fortunately, we've, we've had a couple of questions, and we haven't got a lot of time to study them.

1:05:38

I think, just, very quickly, there was one on.

1:05:43

Try saying, differential pricing of the same product. The same cohort of customers.

1:05:50

Don't think that's a problem.

1:05:51

I think if I talking about sort of risk based pricing and that's what's causing the differential, then, know, but if what we're talking about is essentially the same product patched at different prices and marketed as a different product when it's not really the same, The same catalog of customer that, to me, feels somewhat problematic. What I would say is if any of you have got questions, then please do feel free to drop the TV. Myself or Jonathan all three of us align. Our contact details are on the screen, and you will get the slides, smile out to you. Feel free to drop us a line and we're more than happy to discuss any aspect of today's session, or any questions that you've got.

1:06:31

Just really mindful that we are over time, and want to keep you all we need, is a, but thank you very much for joining us. Hope you found it useful, and take you dial in for the remainder of the sessions that are relevant to you. Have a great day, everybody.