

0:02

Good Morning, everybody. Welcome to the third of our AAG Sessions on Consumer Duty.

0:08

We did a overview session yesterday morning, and about this time, covering the home of the consumer duty.

0:15

And then we're running a series of seven product specific sessions throughout this week.

0:20

This one is looking at current accounts savings. So if you're in the wrong session, then that's the time to depart.

0:27

This afternoon, I'm doing a bit of advertising here. We've got an insurance session this afternoon.

0:32

Tomorrow, we've got asset finance and mortgages, and then we've got commercial banking and payments, I think I've got those in the wrong order, but if you want to register for any of them, then obviously, please do.

0:48

If you want to ask any questions, then please add them to the chat room and the three of us will pick it up at the end.

0:55

In this session on County Council Savings, we aren't actually dwelling on governance and the senior managers regime mainly because of the types of clients that are unlikely to be on this call.

1:07

For some of the solo regulated firms, we aren't doing a little bit more of that, because obviously, for them, that governance and senior manager stuff is a little bit more new.

1:16

Therefore, they are going to have a bit further the space to go than the rest of you.

1:22

I'm Sarah Herbert on the compliance director in the Financial Regulation team here at NIJ.

1:28

I'm joined this morning by Sophie Skelton, Rebecca Hickman, managing Associates in the team.

1:34

If we could go to the next slide, please.

1:41

OK, we're going to do a very, very quick reminder, just in case there are people on the call today, who didn't join this, sort of the longest session yesterday.

1:50

Consumer duty, A quick overview. We've got Principle 12 there, in the, in the middle of the screen, a firm must act to deliver good outcomes.

1:58

Retail customers, having added to the principles, bring 12, some crosscutting rules underneath that, firms that, in good faith, to avoid foreseeable harm.

2:08

The first, a retail customers to see the financial objectives, all three of those cross cutting rules are all embedded in the code of conduct, and we'll be train dogs to cocom related stuff.

2:23

What we're going to concentrate on today are the, for segments above the outcomes.

2:30

So, firms are going to have to regularly monitor their outcomes, The customers are delivered to, the customer has, delivered by the product selling.

2:38

Where there are issues identified by the firm, it's expected that appropriate action is taken.

2:43

This actually brings in a burden that you currently don't have, so, you're going to be doing far more monitoring of these. four, I have to come. Seamless support. Consumer understanding, price, and value, and product and service.

2:56

They've added something quite nasty in, which basically says that if you self identify issues in terms of Forseeable consumer harm, then you've got to enter into mediation and redress exercise with those customers. Following the rules and deaths.

3:12

When there hasn't actually been a customer complaint, just mentioning that one. We won't dwell on that today.

3:18

That's a sneaky little thing that they've managed to get in, where your own monitoring is going to trip you up into mediation and redress skins.

3:29

It's just something to be mindful of.

3:32

Can we have the next slide, please?

3:36

OK, so there's some important points to make an upset about reasonableness.

3:40

Um, the consumer duty is underpinned by a concept of reasonableness.

3:46

So, principle 12 and the obligations must be interpreted in accordance with the standard that could be reasonably expected or prudent firm.

3:56

What is reasonable depends on the nature of the products.

3:59

The characteristics of the consumer, then irrelevant market, understands role in relation to that product or service, but we just wanted to put that out there, so, we bear in mind as we go through for the customers that we're talking about today.

4:14

These are max market products, current accounts, savings accounts, and you're going to have a whole gamut of customers are actually in these product sets. So, you're going to have everything from high net worth, very sophisticated through to incredibly vulnerable.

4:31

I think that for these products in particular, we've got a reasonableness test.

4:37

But I think you're going to have to assume that, you know, quite a lot of all of this is going to be applicable to the consumers in these in these subsets, OK, Next slide, please.

4:51

OK, the agenda that we're going to run through today, as I said, we're going to look at before outcomes, and we're going to look at the poor outcomes through the lens of the product that you guys represent.

5:01

Though, Becky is going to look at the product and services, some of the complex issues and some of the treatment products.

5:07

I'm going to have a look at pricing, assessing Valley \*\*\*\* to count, closed portfolios.

5:13

So she's going to look at customer communications, and Becky's cancer could conceive of support.

5:18

So without further ado, I'll pass over to Becky is going to look at product and services.

5:23

Thank you guys. I'll be back for pricing.

5:26

Thanks Sarah.

5:27

Please can you move on to the next slide and the one after many title pages. Thank you.

5:35

And as you will be aware, one of the outcomes is products and services and this means that all products and services need to be fit for purpose.

5:46

The FCA want them to be designed to meet the needs, characteristics, and objectives of a target group of customers and then distributed appropriately to that target group.

5:57

So, what does this mean? Well, let's break it down a little bit.

6:01

First, you need to think about your design considerations with a product or service.

6:07

And before you do that, you need to identify your target market.

6:11

So, who is your customer base?

6:13

In some cases, it's going to be fairly easy, because you perhaps designing and creating a current account for students or graduates.

6:22

However, it's not always going to be easy to identify your target market, particularly if you're looking to launch a mass market conch account or savings account.

6:32

The roles require firms to identify the target markets up to sufficiently granular level.

6:38

However, the FCA have set in the guidance that if the product is simple.

6:44

This market, this target group can be quite widely defined.

6:49

So if the product is simple, I think this means that you can consider things such as the risk profile that targets income levels, which, depending on the threshold, requirements, could create actually quite a wide and large population of customers.

7:04

However, if the current count includes an overdraft and there are high overdraft fees, then the target market should be refined to exclude customers with perhaps lower income levels below a threshold or setting credit histories.

7:19

Next, firms will need to consider the needs, characteristics and objectives of customers in that target market when designing the product.

7:28

So, in doing so, it's important to take account of any additional or different needs or characteristics of that target market.

7:37

So, for example, if you know that your customer base is always going to fall, perhaps at an older age demographic with an online only access product, be appropriate.

7:48

Probably not.

7:50

Therefore, you need to think about what costs there are, not only for opening the account, but also ongoing servicing and closing the account, and whether they are reasonable.

8:01

I'm going to discuss the cuff under the customer support outcome a bit later.

8:07

Some more kicks on good sabbaths and going to count closure.

8:14

That said, while characteristics of groups within the target market should be considered, it's important to note. And this is the question we get asked, but it does not mean that you have to focus on individual customers. The assessment is on a target group level.

8:32

And ultimately, we need to remember that in designing products, essentially, there is this overarching, reasonable doneness test that that Sarah mentioned.

8:41

Firms must consider what is reasonable in the relevant circumstances, in relation to the nature of the product and the characteristics of the customers in that target market.

8:53

But this process of designing products, I think, can also become a little bit cyclical as the more complicated a product and its features, The more difficult it is likely to be to explain what the material conditions are or the limitations of that product, without risk of customer misunderstanding.

9:13

Therefore, the more complicated the product, that's almost going to drive the target market rather than the other way round.

9:21

As Sophie's going to explain in a moment, it will also become appropriate to test customer understanding of product, but this test shouldn't just exist for customer comms.

9:31

The testing of customer understanding really needs to take place in the design phase as well, and this is one of the things you'll need to be able to evidence has taken place during the design phase to show good governance.

9:44

Finally, in the design stages, firms should consider vulnerability.

9:49

It's important that characteristics of vulnerability are considered at all stages of the design process, including the idea generation of development, testing, and launch and review of the products.

10:02

I don't think this is particularly new, the guidance on fair treatment of vulnerable customers that the FTA has previously issued already covered this.

10:12

However, I think what we now have is a much firmer stable and the expectation I do actually think there's probably some benefits in it for firms as well because assessing the needs of the group at the outset will it, the, in the long term, reduce the length of time to market. And perhaps the cost of delivering a product. If you're only looking at issues of accessibility at a later stage. And then having to, retrospectively design the product.

10:42

So, as I say, products and services, it's about identifying the target market, designing product for that target market, and then ensuring that you're distributing the product to that, that target market, and the expectation is that firms will ensure that the intended distribution strategy, it's appropriate for that, that target market.

11:06

So, they do say that the less complicated a product, you know, an easy access savings account, for example, the less particular distribution strategy needs to pay.

11:16

On the other hand, complex products, such as structure deposit, with perhaps interests, linked to market infrastructures, may need advice to accompany the sale if it's sold to customers.

11:29

You also need to think about the merits of online channels, the same branch, and distribution channels. And again, that will be driven by who your target market is.

11:39

Finally, just on this design phase, I just wanted to mention that these aren't just obligations that you need to think about at the outset when implementing the duty, they, these considerations need to be thought about through the life of a product.

11:55

There is a Reg A There is an obligation to regularly review where the products and services meet, the identified needs, characteristics, and objectives of the target market.

12:07

You need to review your distribution strategy on a regular basis, and also conduct reviews to ensure that products and services have been distributed to customers in that target market are not sold to the wrong people.

12:20

And finally, governance around all of this, how do you demonstrate good governance around all of this stuff?

12:27

For example, do you have a product approval committee for the approval of new products ahead of launch?

12:33

If not, it might be something that you want to look to put in place, but it doesn't necessarily need to be a meeting committee.

12:41

You could instead have a governance framework that ensures oversight the key areas within the business, such as product, credit and risk, marketing, legal, compliance, finance.

12:55

If you do already have a governance process, does it only oversee launches of new products or does it also oversee the material changes, two propositions and also the withdrawal of products?

13:09

If not, then it needs to going forward.

13:13

Could we move to the next slide, please?

13:17

Because one of the questions we get asked the little bits is, How does all of this stuff apply to close products?

13:25

And the answer as well, The duty does apply clothes products, just not in the same way.

13:31

As I've set out on the slide, there's no requirement for firms to have a target market, and there's no requirement to have a distribution strategy for that product or service to that target market, and that's simply because the products are not on sale. But it doesn't mean that the other aspect for the consumer duty don't need to be thought about.

13:48

So, you need to think about the design of the product during the consumer duty implementation phase, and whether it's appropriate for have you got a target group, and whether it's designed appropriately for that target group, and then continue that review on an ongoing basis.

14:04



And you also need to conduct the fair value assessment, then the customer, and set binding assessment as part of that product governance.

14:12

So, an area where I thought it could be interesting to look at, or how all of this plays out, is with savings accounts.

14:24

I'm particularly off sale, say, a savings accounts. And one of the key questions you need to be asking yourself is, are those products still appropriate for the customer? Great.

14:34

Did they still present value for money, for example?

14:38

Is there a site called loyalty penalty? And by this, I mean, does an existing customer receive a lower interest rate because they've had that product for years, as opposed to the right that you are now offering new customers?

14:52

And, if so, what do you need to do about this?

14:55

It may be appropriate to move customers to a more appropriate account, with a better interest interest rate.

15:02

I think little has been said, though, about the interplay of Open bank and getting the consumer duty, and even less how open finance could lend itself to helping firms ensure good outcomes.

15:15

However, in my view, I think some thought should be going into this, and how open banking and soon open finance solutions would be able to help customers assess whether they're getting a better deal and move around, or could get a better deal and move around.

15:31

That's improving competition, which inevitably is going to lead to better outcomes as firms will be competing harder to offer better products for customers, or at least that's the theory behind it.

15:44

I think open banking over finance could help them also get the better insights to help them deliver better outcomes for customers. For example, by having a better idea of affordability, or the eligibility of a customer for a particular product, before then offering them a more appropriate product.

16:02

So, my view, I think, open Finance could not only be beneficial for customers, but it could also be a key tool in helping firms achieve aims of customer duty, particular couple of the cross cutting rules such as avoiding foreseeable harm and helping customers achieve their financial goals.

16:22

Can we go to the next slide, please?

16:27

Thank you. And, I just wanted to mention here as part of the Bear, the Products and Services section that Ancillary Products says, it's a tricky area, and one that I think we get a lot of questions on at the moment, and in relation to current accounts, savings accounts.

16:48

We really need to think quite carefully about what could be ancillary products to, to that, that proposition, because a Current Account and some authentic Savings account actually is a group of lots of different services.

17:04

You have to deposit taking activity, but you also have the regulated activities of conducting payment services, such as payment transfer transactions, whether the intra UK, or cross border, and Payment transactions are regulated activities, so they're also caught by the consumer duty.

17:21

But what about some of the unripe Unregulated activities that take place with a current count? And the key one in my mind that I think needs to focus is with currency conversion services.

17:32

And I think these come into play where you have a current account, and possibly a savings account, that office and foreign currency transfers, or cross border transfers where you are conducting, as the account provided, the currency conversion service. Now, the currency conversion service in itself is not regulated.

17:53

But I think it gets pulled into the scope of the consumer duty by the definition of ancillary product because it is a, it is an activity which is being held out for the purposes of the regulated activity.

18:07

in order to conduct a foreign currency transfer. You need to perform the currency conversion step as fast.

18:15

So then, I think, in my view, currency, as I say, it would be brought into scope of the regulations. And it needs thinking about, then, in the context of all of the outcomes, not just your product design, but also price and value, and the customer support outcomes in particular. And also, customer understanding. How easy is it for them to understand the pricing mechanisms, for example. And I'm going to talk about a little bit more about price and value in the context of payment services and currency conversion

services tomorrow, and tomorrow morning session, so a plug for that. But for now, I'm going to hand a that, too, I think, Sarah, who's going to talk about price and value.

19:00

M: Always.

19:03

Always amazed that I managed to sort of turn both my audio on my video back on again, so apologies. OK, the Price and Value Act come to the next slide.

19:14

So this is a balancing act, which is what we've tried, we've tried to show. So, you have the time of a price paid by the customer, over the lifetime of the product.

19:23

The Income and profit generated, which could be from a minority of the customers, especially when you look at pre current accounts, You look at the customers who actually end up paying for the current account.

19:34

And you've probably got in that grid vulnerable customers, the cost incurred by the firm, and the economies of scale and market rates available to the firms.

19:44

Then, you've got the value equation benefit derived by the customer, the quality of the product, the barriers I got to accessing the product, the characteristics of the project in annual ongoing support.

19:56

So, for example, if you look at the cash isis and things like that, how active are clients and managing those kind of accounts.

20:03

And similar products that are available in the market.

20:06

And to balance both of those parts of the spectrum.

20:10

I'd actually agree to come up with the answer at the bottom that this is fair value.

20:15

So, there's quite a lot of variables that need to go into the fair value assessment, which you're going to have to do.

20:24

And the Issue that people have, goatees, that, People have got an awful lot of these products.

20:30

I mean, there's a lot of them on sale.

20:32

Um, you've got, as Becky was saying, you've got clothes books as well, that you need to think about.

20:38

So, there's, there's a lot to do in the price and value equation.

20:43

And there's a lot to do in the price value equation in terms of timing, by when the final rules came out. Everybody went, Oh, good.

20:50

They've given us an extra three months for new products.

20:54

Add an extra year for closed books, I'll look at that in a bit of detail in a moment.

20:59

Um, if we look at the next slide, please.

21:05

I've pulled this out, because it's the sort of thing we get asked, a lot of questions, I just want to put it out there, that they don't believe that differential pricing between new and existing customers necessarily causes home setup.

21:23

You can still offer enough upfront discount. You can still market can still pull people in on special deals, but they must be clear transparent, and they are acceptable, They've actually gone into print saying that.

21:35

But you've got to be able to justify.

21:38

Both new and existing customer content are receiving and continue to receive five Alli.

21:45

So the rules don't prevent cross subsidies providing our fair.

21:50

The consumer duty does not prevent them selling similar products, differing prices across various brands, as long as fantasist retained.

22:00

That means, if you are selling a similar product across various brands on different prices, you have to do a fair value pricing assessment across every single product, to which there is a slightly different price being applied.

22:15

Have Joel. They've basically said that in any retail products.

22:20

If you get yourself into a position where you've got any price, woking practices similar to those in GI, then they've actually gone into print things. That will not meet the requirements of the duty.

22:32

So if you decide that you're going to allow legacy portfolios to subsidize new business office, and that's how you get to you about your commercial equation, forget, conservative.

22:45

Do you get to your commercial equation, by saying: we can actually continue to only pay these customers, this low interest rate, but we're going to attract and hire more exciting interest rate, because the the prevailing market conditions at the moment mean that we can do that?

23:03

Then, thank you.

23:05

When you get down to your fair value assessment, the way in which your allocating cost on product means that you're allocating more cost to your legacy portfolio and less cost to your new business. They will actually deemed not to be profitable.

23:21

So, there's some stuff here, that, although, we're not, we're not talking about GI, but I've said to everybody, the GI sector have been grappling with this since about, since the, the Katie, the customer complaint, the went in from into competition commission. So that's sort of about 5 or 6 years.

23:43

There is tons of stuff around, on what the, F, C, I think about GI fair pricing.

23:48

The reason I mentioned GI and you're saying, oh, hold on this current account and savings. They are mass market products, and mass market products available to everybody in the market.

23:59

And what they've sent about is quite interesting, in terms of making sure that you've got that learning from that factor, in terms of applying it within your particular product sense.

24:14

Next slide, please.

24:18

OK, so you will need to undertake a fair value set of all products.

24:23

Now, from sale products, you've got to have done that by April 23.

24:28

In order that any distributors of products can take advantage of the fair value assessment that you've done and understand what they've got to do.

24:37

Now, I think four current accounts, there's not really that much of a distribution chain.

24:42

Say you might sort of convince yourself that you could give yourself a little bit longer to look at those. savings, cancer, they're all distribution chains.

24:50

Unclos, portfolios.

24:52

I've got to be done.

24:54

Now, there's no date given for ...

24:56

portfolio for the fair value assessment, but that assessment got to be done in time for those failures to be complied by July 24th.

25:06

And the reason I'm saying that, if you haven't got a lot of time, if, for example, as Becky said earlier, the assessment throws up any issues that you need to deal with, then you've got to still be able to deal with that by July 24th.

25:22

The assessment needs to be detailed and reviewed the pricing of the product, and the allocation of fixed prices just mentioned, the cost of funds, the profitability.

25:31

Are the segments of the portfolio paying more or saving worse than others?

25:36

So we're into kind of charges or charges, for example, on current accounts.

25:42

Um, you need to consider looking at if you've got charging structures on your current accounts, where those charges are currently being allocated.

25:54

There is a good example in the finalized guidance. It's a credit card example, but it doesn't matter. It's still applicable.

26:02

It's a credit card example of credit card default charges being applied to a very small segment of a credit card portfolio.

26:11

And that, and the profitability of that card gen being generated by, though, by those customers.

26:20

And I think when you look at current accounts, there must be some sort of read across, that you've got current Cads where the vast majority of people don't pay, what type of people are. they probably your higher and higher demographic people who are not paying because they're managing their accounts perfectly OK.

26:38

Then you've got suasive vulnerable people who are paying.

26:41

And I think some of that is going to be problematic to look at when you then overlay close portfolio on top of that dormancy. along with those kinds of things that you need to deal with.

26:52

What happens to dormant accounts when I know eventually they get, they get moved off, but it's a question of what will profitability generating from them, whilst they set the time, does not go into your overall value assessment.

27:05

The one thing I would mention that it does stay in the finalized guidance is for open portfolios, you need to look at a product by product level.

27:16

The closed portfolio. Yes.

27:18

I think Becky said further back, if a closed portfolio, if you don't need to consider the target market, you don't need to do annual profit movies, but you do need to do a fair value review.

27:27

So when you do the fair value review on close portfolios, you can do that at a aggregated product level and aggregated portfolio level, pulling together similar types of product.

27:39

But it still needs to be done.

27:42

Um, the frameworks that you use, we'll need to stand up to regulatory scrutiny and be robust.

27:49

You can expect the regulator to be asking to see your fat, your price, and value assessments.

27:55

We've recently been supporting the same reflector no sector that everybody is really familiar with, weeping supporting them, They have to put their authorization applications in by 29 September last year.

28:07

And they would do to be to get determination in time from the regulatory deadlines to the 29th July this year.

28:14

The first week in June, the FCA sent out to every single person who had applied for authorization. A fair value questionnaire that was quite detailed.

28:24

Couple of couple of pages of exile come up for a couple of tabs with Excel.

28:30

They wanted it completed within a week, and they wanted to understand how they had actually got themselves comfortable at fair value was in Play.

28:38



They've also amended.

28:39

You will see the variation of permission pages, where they said: anybody who applies for an authorization, or a variation, will be asked questions about consumer duty and the implications of consumer DVT.

28:52

So if you're thinking of doing any variations, permission, you're going to have to have this stuff in place in order to sort of answer their questions, because they will come back to them.

29:00

The value that customers obtain from non financial benefits, such as data sharing, banking, also needs to be quantified and reflected in the assessment.

29:10

So that's quite significant, um, for the closed and legacy portfolios.

29:17

This is going to be complex and problematic in terms of the scale and the numbers of current account saving products that you that you've amassed over time.

29:28

The timing of the completion of this assessment support July 24 delivery.

29:33

The possible discovery of, as I said at the beginning, you've got this horrible thing about, pool seeable can see my home.

29:40

So, if you find foreseeable can see my home in Pockets portfolio of them, are you going to be doing back to in terms of price and value and the remediation of that home?

29:50

Becky's point, you know, poor folk changing, changing product, moving, customer of product, A new product B, And I'm pushing that all through, So that is something that will need to be done.

30:03

In order that, all of that work can be done before July 24, which I know sitting here in 22 sounds like a long way away.

30:12

But in terms of migration and customer contact excises and stuff like that, I'm pretty sure it's it's quite a type timescale, and I'm now going to hand over to SoFi who's going to talk about Siemer understanding.

30:29

Thanks, Sarah Robin. Hi everyone, and thank you for dialing in. It's good to see you. Say, I'm talking to the customer understanding outcome, and an amazing T, the next slide, I've put on the screen there, an amendment that was made to the customer, understand angles between consultation, and then the final publication of the rules in the policy statement.

30:54

The original proposal, was that communications would need to be likely to be understood by the average retail customer intended to receive them. Now, in the final rules, the Reference T average customer has been, for me, say firms, will now need to ensure that communication is unlikely to be understood by customers in that target market. And that's a significant change. And what the FCA has done there is to increase the standard that's required by firms between consultation and publication of the final rules.

31:28

And, I think that's important Contacts tab, say, my understanding from conversations across the industry and all say, some comment tree in the policy statement is that consumer organizations had expressed concern to the FCA as part of the consultation process. That developing communications with reference to the average customer would mean that we were all acknowledging that there was a significant proportion of customers who didn't understand the communication.

31:58

And the FCA was convinced by that lobbying effort and is, therefore, update its rules accordingly. Now, moving on to the next slide. Of course, the difficulty with that is that for a large number of current account and savings count products that intended to be mass market products. And in the finalized guidance on consumer GT, the FCA explains that research has found that one in seven adults have literacy skills at or below. That is expected of a 9 to 11 year old. And the FCA explains that he expects firms to take those characteristics into account, See that reading H into account and communicate information. And I think this is really sort of the crux of it in a simple away as possible to support understanding for those customers.

32:45

Say, how to fans go about tackling that in the context of current account and savings accounts? And, well, moving on to the next slide. I think the way I've been approaching this is to think about, what are the key things that we really need customers to understand about a particular product proposition, where, if they don't understand today's product features, it could cause foreseeable harm. Say, for example, for current county, have we done the best we can to simply X to simply explain how much customers will be charged when they use that debit card board. We know, when, you know, the numerous examples of the regulations being concerned over, customer understanding of foreign exchange fees over the years.

33:31

Of the key points to draw out to customers, I think, all, whether, or not the deposit account is paying interest, especially in an environment where we've got interest rates increasing, and how quickly the customer needs to report an unauthorized payment to obtain a refund. So, that 13 month deadline how much the customer will be charged if they accidentally overrun into an arranged overdraft and the level of FSCS protection that they have. And when I'm helping firms now to design, for example, mobile banking application screens for current account and products. It's these sorts of disclosures that we're

trying to make in a byte size way as they click between screens and I think that's some of the key sorts of disclosures that you can pull out to assist customer understanding.

34:19

I think we can all say prioritize work day age from a consumer GT perspective by thinking about which communications are most likely to cause harm if they are overlooked or misunderstood. Say, for example, that might be a notification at the end of a fixed rate period on a savings account or an E to the variation to increase charges and then what we can do is prioritize reviewing those communications first from a customer understanding perspective.

34:47

Moving to the next slide and in in the finalized guidance on consumer GT, the FCA has set out the types of questions that firms can expect to be asked when they're interacting with the FCA in relation to the customer understanding outcome. And I wanted to just spend a bit of time focusing on a couple of days say the first question and the FCA says one question Firms can ask themselves is whether they are applying the same Standards to ensure that communications are delivering good consumer outcomes as they do to ensure that communications help to generate sales and revenue.

35:24

The example the ... gives there is whether firms conduct consumer testing of communications to determine an effective approach to maximize sales and then they say if, say, you should use testing capabilities and will equivalent sounded to test other aspects of customer understanding.

35:40

Now given that there's now a testing obligation sitting in the consumer GT rules. I'm not actually sure that that's what the most helpful example in a couple of others spring to mind. Say, for example, if one uses visual attention software or eye tracking studies when designing marketing communications. And I know from talking to marketing teams that they often do use that sort of software.

36:07

I think this question and then you know, raises a question for firms as to whether they should be also using that software to help design of the communications such as their Statements of Account or the nature of variation.

36:21

And of course, what that software is doing is it's helping firms to predict which parts of a communication a customer will be drawn to reading fast and that's important because research that the FCA refers out to in the finalized guidance has highlighted that. Customers often rely more heavily on the first piece of information they encounter, when they then go on to make a decision. And equally, I think if a firm sends reminder e-mails to customers, he haven't responded to a marketing communication. It raises the question now in my mind as to whether a firm should then be sending reminder e-mails to customers, where we can see they have an opened and in lifestyle signification, such as a nature of variation in the online banking.

37:04

Moving onto the next slide, the FCA expects firms to be able to talk to how it's going about testing the effectiveness of its communications.

37:15

And I've got a few thoughts on that, say, I think, increasing the chance of customer engagement and understanding of communications in both, both, firstly, and I think this is often sort of overlooked, very involved, the design and the layout of information. I think that's really critically important and then secondly, and perhaps more obviously, includes thinking about the choice of words we use and sentence length. Now, then my experience, I would caution putting too much reliance on readability grades that are being given by computer systems.

37:51

They are a useful guide as to how easy a communication is to understand And the I agree with a comment that's been made by Fabric Finance. He, the FCA link out to and they're finalized guidance on consumer GT and they say it's important not to get obsessed with readability grays and I would agree with that say in my experience, those computer systems can tell you a document is reading age second 11. But all that the technology is doing is simply looking at sentence length. Say checking each sentence has a sentence length of less than 15 words and the lens then at each word that's used in that sentence And in my experience, when you then they as a human being set and read the communication end to end, although it might have told you it's a reading age of 11 actually the communication can be very difficult to navigate.

38:41

And And my concern would be that when the FCA, you're considering customer understanding. Precisely. What they will do is sit down with the document and read the end to end. So, I would just caution putting, sort of, all of your reliance on readability Grade being given by computer systems, And I think what that does then do is it emphasizes the importance of customer testing.

39:03

So, wherever appropriate, now, under the ..., will be required to test communications before communicating them. And I've been involved over the years in a number of projects to rewrite banking terms where firms have already used custom attesting to provide insight. And although it can feel like a real, nice and my sort of big players don't underestimate the value of it. And I really do agree with what the FCA say that you know, we're all financial services and we'll work in financial services or financial services professionals with seeked and the way these products work we can look at a disclosure and think that it's really straightforward and easy to follow. And actually, when you then start testing those communications with your target market, quite quickly, it can become apparent that there are areas of misunderstanding.

39:59

And so, I think the testing is really important. ensuring though, that the testing is run well will require specialist research expertise because you will need, for example, to avoid any Sample bias and the FCA.

40:13

A very, very high level has started to talk about that and the number of different testing methodologies, and it's finalized guidance for this bit of a starter for 10, 10, NASA fans.

40:24

What I'd say is, my suspicion is that actually some small amendments can make really a big difference to customer understanding and engagement on a name, and that's point. That's been put forward by plain numbers as well, and plain numbers across referred out to you from the finalized guidance. Say, for example, if you're e-mailing a customer to explain the nature of variation is now available to view an online banking. The subject header of the e-mail should make clear why you're contacting the customer. Say, for example, it might say, We are changing your current Account charges, rather than saying something really vague like, You have a new message from your bank or an H that variation is ready to view, and I suspect those small changes can then really increase the chances of customers engaging with the knowledge and all say, and understanding it.

41:14

Well, else, can we do to test the effectiveness of all communications. While I think monitoring complaints information is important, I think if you've provided a document digitally, so in online banking or mobile app, or as part of an application journey, if you can monitor how many customers have opened, that document will provide a helpful insight as to whether customers are engaging with your communications or not. And there'll be other MI that you're collecting, such as how quickly your customer clicks through and they bought banking screen.

41:45

Can they possibly read the disclosure you've made, or have they clicked through to quickly, do we need to add more friction into the journey? You'll want to set expected customer responses, and then got the management information on that.

41:58

So if a communication requires the customer to take action, so let's say at the end of a fixed rate period, on a savings account, how many customers then go on to take action? And if we've sent a communication out to a customer and then we're frequently getting customers and who have received that communication ringing in with the same question, it might suggest, actually, the communication hasn't met the information needs of customers and there might be lessons to learn for next time.

42:25

And then just a final couple of points for me and in the finalized guidance the FCA explains that fans might want to train, can see my communications champions in the principles of good customer communications. So, the idea is that these would be employees. He can review communications from a consumer angle, but also really just help bands to develop and maintain best practice. There are organizations, say, I've already mentioned plain numbers and that can provide that sort of training to staff and we know we know the team at plain number, so if we can sort of help re-introduce she, then please do reach out to me. I'm very happy to do that.

43:02

And then, just, finally, it's a reminder, rarely. So, there's already a memorandum of understanding in place between the FCA and the Commission for Quality and Human Rights and that makes clear that it's already today likely that a breach of the Equality Act will be a breach of the FCA, existing principles for businesses. Firms have a legal GT and the FCA make this point in the finalized guidance under the Equality Act to anticipate the needs of disabled customers and provide reasonable adjustments to enable them to use the service and say, just to really re-iterate, it re-iterate and emphasize the importance of staff being trained on that. That is non negotiable and a priority. And with that, I'm going to hand back to you that G, to discuss the consumer support outcome.

43:52

Thank, say Faye. And if we can move on to the next slide, please. We're nearly there now. So the final outcome is customer support.

44:01

And one question all firms can ask themselves is whether they are applying the same customer support standards to deliver good outcomes for customers during the life of the product, and to enable the closure of the account as they do to help generate sales and revenue in the first place.

44:19

So for example, firms need to make it as easy to switch a product, or leave a service, or make a complaint as it is to buy the product in the first place. And the quality of the post sales support during the life the product should be as good as presales support.

44:36

So just as accessible and justice responsive customer support as presales support.

44:44

So how you sell the customer, the product in the first place, and this outcome, again, as well as really the entire duce, needs to be considered on the basis of what is reasonable, depending on the nature of the product and the characteristics of the customers.

45:03

I think it's also worth noting at this stage that this outcome needs to be read in conjunction with other roles that covers specific elements of servicing of customers.

45:13

Say, for example, with complaints this, this outcome needs to be read in conjunction with the disk Rose, OK?

45:21

So, ultimately, I think with this outcome, a key concern of the FCA is with Fledge Praxis and that's it.

45:28

Those are practices that create unreasonable barriers or make it more difficult for customers to act in their interests whether that's making a complaint or closing diarra count.

45:40

So, I thought it would be helpful in this instance, to look at this outcome in the context of a couple of examples of trickier areas. So, the first one I wanted to look at is switching. Please, could we move to the next slide.

45:57

So, how easy is it for a customer to switch their account to a new provider?

46:02

Most current account will be subject to the payment accounts regulations, and therefore we'll use the Current Count switch Sabbath.

46:09

That doesn't mean you don't need to do anything as an outgoing PSP. It's still worth considering whether there are any internal practices that make this switch more difficult.

46:19

Even if you are operating within the mandatory time limit for information sharing, say, for example, is it difficult to close the account? What's the account closure process like?

46:30

But with savings accounts which are not payments account, they don't meet the definition of payment accounts to pause.

46:37

There is no parent account Switch SEBAS.

46:41

Say you should be asking yourself there in that context where the customers face unreasonable barriers to exit on both accounts and this could be to a new provider or even to a new account interface.

46:54

So, the things that you should be looking at can include unreasonable additional costs associated with switching or closing your account.

47:03

The lack of contact channels.

47:05

So, are the same channels for contacting your thumb available but terminating or switching the product as are available for opening the account in the first place?

47:18

If not, I think it's hard to justify this unto the consumer duty.

47:22

one can easily say potential challenge.

47:25

If a product can be opened online or by phone, it can be serviced online or by phone, but perhaps to close the account, you have to go into branch.

47:35

Another fact that to consider is whether the process for switching, ending the agreement, is particularly difficult.

47:43

Our customers being passed around different departments when they pull up to do this, are that longer wait times, compared to onboarding wait times, but telephone channels.

47:54

These are the type of things that you'll need to be able to assess and make sure, do not take place.

48:01

And, finally, are the practices that could make it difficult for customers to get their money out, perhaps because of the payment options that are available to the process that need to be followed in order to two, initiate that payment from the account?

48:17

I mean, other than the copy are about the practices along these lines, as well, that needs to be considered.

48:24

And I, actually, on this slide, another key consideration, is with exit phase.

48:28

So, if there is an exit fee, perhaps, because the customers wanted to terminate during a fixed term period.

48:37

It's more likely to be reasonable if that exit fee corresponds with the costs incurred by the firm for terminating the agreement tally. Say, for example, your funding costs, for example.

48:48

Um, I would say as well that in some circumstances and this is the point that the FCA make barriers or friction points can actually be helpful to mitigate the risk of customer harm and support customer outcomes.

49:04

So, there is actually positive friction and negative friction, which is talked about in the consumer duty which we have been asked about.

49:13

So, if we, I wanted to just look at a second eight key area with payment issues, I thought it'd be helpful to talk through a scenario where the payment goes wrong, for example, because of fraud, either AP fraud.



49:28

And this is because while you need to ensure sufficient support is available, as I say, it can also be that step, it's designed to prevent forward.

49:39

So, add friction into customer journeys can actually benefit customers.

49:45

So, the consumer duty guidance strongly suggests that customers should be provided with the right information and give it appropriate time to make important decisions, enabling them to understand and assess the options that are available to them, including any risks.

50:02

And in my mind, it's really builds on what we're seeing come through, works such as the Contingent Reimbursement Model Code for how firms should help prevent IPP Ford.

50:12

In fact, the FCA, even site in that guidance that use of appropriate warnings and confirmation of pay messages and processes, oil, and searching sorts of it, friction into payments, initiation journey online all or via telephone channels could actually be beneficial to customers and evidence of good practice.

50:35

So why you need to be available for customers, your wait times, don't need to belong actually. If you make the process on the telephone, a little bit more tricky to make customers think about the action they're doing, that can be helpful.

50:49

So, um, one takeaway I would get from this is that if you're not already signed up to the CRM code, I would recommend looking at the rules as indicative of good practice in relation to your treatment of IPP forwards.

51:05

I don't think it's just a false anymore that's looking at the code for guidance. It's also clearly the FCA because they they use bits of it in the guidance.

51:14

And while I'm not suggesting that compliance with the code is all you need to do, um, I do think failing to try and meet those standards as a minimum is as is likely to indicative of falling short to the consumer duty assessment.

51:31

Finally, I think one final point to mention on this is that at, and on this outcome, is that in the context of availability of support, as well as ensuring customers have equal support, pre, and post sale, to help with complaints, closure of payment, closure of accounts, and pam payment tissue.

51:51

Um, firms also need to consider what support they offer for bespoke queries, such as perhaps if a customer has security or virus concerns, particularly where you're offering online or .... This is something that is actually called out in the guidance.

52:11

And I also think that, practically, um, under-resourced, customer helplines, or servicing lines, um, could be, are problematic for firms where you are disproportionately focusing on presales rather than pro sales.

52:30

And what this means is that I think you need to look at them and the resourcing of your post sale servicing as well as your presales surfacing to make sure that the resources are fairly distributed. So you're able to deliver an equal service, and that might mean retraining staff, for example. And there's obviously going to be a cost to that.

52:54

In terms of practical action from all of this, I mean, firms, consideration of friction points should be such that it helps you justify and evidence, the customer benefits of any additional steps in the customer journey and whether this amounts to positive friction, or bad friction.

53:15

Say, for example, any. I would recommend conducting analysis of customers uses of products and services, root cause analysis of complaints. Your abandoned call rates.

53:28

The speed.

53:29

It's to answer telephones, average wait times, and as well as satisfaction surveys as well from your customer support emulation to your customer support statuses.

53:44

So that's all I wanted to say on the customer support outcome. We've got six minutes left at the session, so we wanted to leave five minutes for questions, and we've done that, say, well done enough, because that doesn't happen very often. Say, if anybody has got any questions, can you put them in the chat? Now? We're also going to work through the questions that have already been added to the chat.

54:10

There is one question already in the chat, which I will read out, and then I'll answer. That's OK.

54:15

So, this says, will fair value assessment needs to be completed individual product level, or the product group level of offending the fair value? These foreclosed products?

54:25

You can do it at the product group level on sale product. It's expected to be done at an individual product level.

54:32

The only area where we've seen a slight variation on that isn't the Fair Value assessment.

54:39

It's in product governance and in the FCA paper, referred to mortgage products.

54:44

Not low current savings but mortgage products whereby you might be actually just changing the variable right.

54:51

They've basically said they're not expecting that then have to go through a full product assessment but in the main, they will be expecting you to actually undertake by values of the product level.

55:07

That's one of our questions that we've got.

55:15

Um, one question for Sophie. Sophie filled with the ..., does not tend to camera.

55:23

Um, can you explain a bit more detail, the types of testing we need to do on customer comes?

55:31

And how we prioritize the customer calls that we've got?

55:37

Yep, so, I, I, I'm of the view that it's important that undertake testing with customers in that target market. Say, when I've helped firms to do this before that's involved and getting a group of customers together. And as I say, there are third party agencies who can help with this, to the extent that you got your reading specialists internally, to make sure there's no bias in the sample, and so on. And what they tend to do is to get the customers to read through communication, and to then ask the customer questions about that communication to, to test their understanding of it. What that will likely do is, that, showed that all areas of misunderstanding, and then it's then back to sort of copy editors, and legal teams to redraft these communications.

56:32

You then go back into the customer testing, with a different set of customers, Ask the same questions, and see if you increase your, your customer understanding. And so I think that's really, I think that is a really important piece of the jigsaw puzzle. You know, it does sort of otherwise beg the question. How

can you know your communications are being understood? If you haven't done any testing of that. And I think then, documenting, And, from an audit perspective, the testing you have done, sort of, the actions you've taken off, the back of it, are really important. And, but that, you know, that all of the things I think firms will need to be doing.

57:11

on top of that say, you know, monitoring complaints, thinking about whether or not customers are actually opening documents that have been provided in online banking. And, as I say, setting expected, customer responses. And then gathering management.

57:27

Information on days, say, you know, was privy to something, recently, Barbara firm had sent out a communication to customers and then had a lot. a lot of customers remains for you to the call center, about the communication with sort of common misunderstandings coming through. And I was helping the firm to navigate how to deal with all of these calls coming through to the, call center. But, I think that's sort of what we're wanting to try to avoid, is to make sure you stop all these calls coming through in the first place. Because you've done appropriate testing at the communication to check that, actually, you average J blocks customer, and your target market is going to be able to understand that.

58:08

Do we have any more, any more questions from the participants were a thorough? We can't see any of you.

58:14

You're kind of you're just, you're just a number two if we don't know who any of you are but I just got another question.

58:21

Erin and the NaN we've got less. Can you explain why the FCA used friction in two different meanings? And you're right, It does seem a bit contradictory.

58:31

Doesn't it mean positive friction but then negative friction? Friction, bad friction, what does it actually mean?

58:37

Well, I think if you think of these in the context of they cross cutting roles, a firm must be able to support retail customers to pursue their financial objectives. So you need to be able to be responsive to customers to help them make payment, to have them close their account if they want to leave, to move to a different provider. But you've also got an obligation to help.

59:00

Let's see, Help avoid the saleable Harm for Retail Customers And that's where I think, you know, friction can be positive, because if they're conducting a payment and you could and it harm is perceivable because you're aware of and types of ... being common, insect and contact. Then then you have an obligation to put that type, that type of positive friction into the, into the customer journey to make or help

the customer really think about whether this is a transaction they want to undertake. And I think that's the difference, it's those competing cost-cutting role objectives.

59:38

OK, we've got some additional questions coming through as well. I've got a question on packaged bank accounts and will all the package services deemed to be Ancillary Services.

59:50

The FCA actually comment on this within the guidance and they say for example, that one of the indicators of fair value is things like planes ratios on some of these ancillary general insurance packages that are added into banking account. So, when you look at your fair value, you should be looking into all of that as well.

1:00:15

That's just, that's just come in, in the last couple of seconds, and when now I'm afraid out of time.

1:00:21

Thank you very much everybody, for your, your attendance and your aura.

1:00:26

You are participation, thank you very much.

1:00:30

Keep an eye by.