

0:02

Good afternoon everybody, Welcome to our products session, or more just. So this is the same for think of our focus sessions, or Consumer GT this week where we're gonna be looking at the impact of the consumer duty requirements on mortgages in particular. Some of the tricky areas and what we're saying firms are struggling with and help you navigate through the arts.

0:27

I'm joined today by. Jonathan Stewart is one of the Senior Compliance Directors in our compliance team and I'm a startup or aren't. Those of you who don't know, I'm a partner in our Financial Regulation tape. So I'll take the first half of the session and then Jonathan is gonna look at some of the monitoring and testing and governance requirements, particularly for mortgages towards the end of the session.

0:51

So, if you could move on to the next slide, please.

0:57

We've been running, across the suite, the sessions, including the ... session, on Monday. So, I'm not going to spend a lot of time taking you through the general principles of the consumer duty. However, I thought it would be how helpful for those of you who aren't able to join those sessions, just to get a really high level summary of the principle, which is new Principal 12, must act to live a good outcomes to remap retail customers.

1:23

The crosscutting rules, as a firm must act in good faith towards retail customers. A firm must avoid foreseeable harm to retail customers, and that's a firm must enable and support retail customers to pursue that financial objectives.

1:37

That principle and those cross cutting rules that then underpinned by four outcomes.

1:42

So, first of all, the product and service outcome, and essentially ensuring products, a fifth purposely designed and distributed to meet that aim.

1:50

And the price and value outcome, they're looking at the relationship between the price, the customer pays, the full benefits, they can, we expect to obtain the product, and then the other two outcomes, so customer understanding, to help customers make informed decisions and ensuring communications meet their needs. And also, consumer support to support customers realized the benefits of products and services they buy.

2:14

And we're going to look in quite a bit of detail as to how that applies in the context of war, which is a particular.

2:21

Next slide, please.

2:24

It's important point to make at the outset and we've set this at the beginning of each product specific session, is that the consumer due to the cross cutting rules and the outcomes are underpinned by the concept of reasonableness. And what that, what reasonableness means in that context is that the principal and the obligations on prem to A, why we have all rules and guidance.

2:49

Setting out the expectations on firms in relation to the consumer duty must be interpreted in accordance with the standard.

2:56

That could reasonably be expected, but prudent, carrying on the same activity in relation to, say, Product, I'm taking appropriate accounts for needs some characteristics of retail customers, based on their needs and characteristics of retail customers and the relevant target market.

3:12

And what's reasonable depends on the nature of the product or service, characteristics of the customers in the relevant target markets.

3:20

Or individual customers where you're dealing with a bilateral engagement in relation to the, and then the firm's role in relation to that product or service.

3:31

So if we look now at some of the trickier issues in relation to mortgages, move on to the next slide.

3:38

There are a number of cheer issues, is start to unpack the rules for boxes and will share my thinking on summit on some of these as we go through. So first of all, Question of Skype. In the next slide, we'll look at some of the aspects of that.

3:52

But, in particular, the application of the consumer duty rules to fix sample consumer, unregulated by slats, and large business speculates mortgage contracts is caused some confusion, so I'll help you navigate that Distribution.

4:09

So the mortgage market, as we all know, is a heavily distributed markets in the UK, and the requirements on manufacturers, distributors in relation to those, just distribution arrangements significant. And this is significant amounts of work. We'd expect manufacturers to, distributors need to do in relation to those distribution arrangements to get ready for implementation as part of the implementation program. And we'll look at some of those applications as well.

4:38

Pricing.

4:40

The standard retail mortgage pricing is SSH relatively, Sam says, you have concessionary rates. You have application of product fees payable, upfront, you'll chips cavity repayment charges during that session, right period, and then moving to refresh rewrites. And in some cases, that are based on the variable rates of the of the lender. And albeit that's recognized sort of standard approach. That's really, really typical product proposition in the mortgage market.

5:11

It does need unpicking and, of course, we've seen its mission, CMC, challenges in relation to applications of SPR the FTAs. Obviously, over the last couple of years, heavily focused on the impact on mortgage prisoners said, there are some things we need to embrace pricing. And again, we'll talk about that in a minute. And closed products, given the longevity of mortgage products and firms likely to have products and portfolios closed products. Now, those will be in Skype seem a duty and albeit there are slightly different requirements which we'll look at. And, we've obviously seen complexity with live, or transition, in relation to how you make changes to closed culture, to existing mortgage contracts, and some of those issues raised their heads.

6:04

Again, so, that's something to check out.

6:07

Um, products and services, there are some relatively complex products and services in the mortgage market. And ensuring that there's a sufficiently granular target market is really important. I'm thinking particularly there around, for example, lifetime mulches or mortgages, which are designed for customers with adverse credit histories, and also some first time fire mortgage products. Some of those products they sell some products and services, where actually the assessment of the target market, price, and value in various, out the outcomes, and raise particular issues, to think about customer communications. And a couple of things to say about this.

6:51

The first days most ... continue to remain quite long documents, and Client Hard customers navigate. And actually using the consumer TT gives an opportunity to really rethink how they design the ... terms and conditions to better serve customer needs and information needs.

7:14

There are also really key touch points with customers in relation to them, opportunities where firms need to think really carefully about how to communicate, what the indicating, and most notably, the, where customers coming to Stanford concessionary right periods. If they're in an interest, only caught up in the coming to an end to the mortgage term, to think about the communications around that. And then, of course, arrays and forbearance. And I say that against a backdrop, if you will increase in the cost of living in the real focus from a regulatory perspective around that. And finally, I've mentioned as well, mortgage portfolio transfer several new rules, which we didn't have an original consultation papers.

8:01

And within the final pieces around expectations on five sellers and purchases of product portfolios, which would include mortgage books. So, there are some important things to think about in the context of those transactions, so we'll look at those if we have time at the end.

8:19

So, if we move on to the next slide, Skype's, just let it wait for it to come up.

8:27

So, I will take you through the different components of that.

8:33

What the FC I've said in the final papers is that they want to consume at each success around the existing perimeter of the handbooks. So when we get into more opportunities that present some very interesting points to be aware of, and the first is that M cop obviously, applies to regulated mortgage contracts. That part of them cope the rules on financial promotions, and I'm called three A. actually, the application is broader than just regulated m.o.o.c.s contracts. It applies to unregulated by slats, probations as well. So what that means is, if you're in Skype ... three A, even why you haven't got a Regulator contract, but those financial promotions, you are also in scope, the consumer duty.

9:23

So, that's the Pedestrian's, think about, there's obviously a turn off, that I'm cope while you're dealing with a large business customer, so you're not within the ... rules, where you have overregulate sculpture, that you're dealing with a large business customer. And because that is out of Scope of M call. Yesterday. Has been very clear that you're out of Skype.

9:44

If the consumer to each of those customers as well of consumer buy to lets say by virtue of the regulated activities, alter the way that all flows into our regulatory perimeter. The consumer due to technically does not apply for ... GT effort, consumer buy to let where you're dealing with registered by slap her however I'd expect, but those of you who are doing consumer products, that you're likely to be adopted.

10:14

The same approach in applying a consumer duty, lanced those products, as well, albeit, but they're not technically Skype, I say, not technically and Skype.

10:24

Consumer parts, let financial information would be in Skype of M .... So, you would be in Skype that fit for the purposes of operations if those products, but otherwise.

10:35

So, what the other points cooler is unregulated ... for National Lendings Skype? And what that sense for some firms is Square.

10:44

Where today, you largely adopt the same customer treatment for your unregulated flights, flats, and the regulated mortgage contracts you may want, operationally the process expected to apply.

10:58

Seem to do to lens bytes lat. But, technically, they are out of scope.

11:04

So that's what I wanted to call out.

11:08

Skype, there is one of the points that the FCA tool in the papers and it relates to the regulatory perimeter whereby a buyer of a portfolio of regulated mortgage contracts can acquire title to those assets and not themselves be regulated where they appoint to regulate itself. So it's one type of regulation to administrator. Now they don't.

11:36

the FCA have reach into those types of firms because they are not authorized valon an exception within the Fund regulated activities order.

11:47

However, what they do say is they would expect those firms to apply the same principles and be caught fire. the consumer protection from unfair trading regulations 2008. This was a similar point they made when we were looking to hold up the cope it.

12:04

Payment holidays, etcetera, that something, they made the same point that, say something to be aware of.

12:10

What they do also then say is the regulated administrator, in that scenario, would have the obligation to apply the GT as appropriate importunate to the Administrators function.

12:25

I think that leaves a really difficult question for ... as the authorized firm in that relationship whether surfacing on behalf of an unauthorized entity in relation to how to apply consumer GT. And particularly, when you look at products of, surprise, value outcomes, are those outcomes, which fall within the ... at ... function, and what, therefore, just administration do about them, I think, not present some really interesting questions.

12:55

If we could move on now to the next slide, I wanted to talk to you a little bit, spouts product and service, and the outcome and product sets, context, the mortgage market. And, as I've already mentioned, the mortgage markets, it's a heavily distributed market.

13:13

So, there's a large proportion that's of m.o.o.c.s originations down far distribution networks.

13:23

Alongside that, it's worth flagging that the mortgage distribution, the nature of mortgage distribution tends to be that it's quite a flat distribution model with flat distribution chains.

13:35

So, we don't have the complexity that we see in other products where you have quite complex distribution change with the number of links in that chain. Largely, a mortgage distribution arrangement would be a flat arrangement with the manufacturer.

13:49

And a distributor, and I've pulled out on the slides here, that the points I talked about, actually at the first session, on Monday, in relation to the requirements of both manufacturers and distributors.

14:03

What I think highlights for this audience is that firms you will need to review your agreements to ensure that across the distribution chain, the requirements of the consumer duty or map in relation to the information close. And the adaptations, measures, that might be required in relation to product service by some value.

14:26

As you look to implement the consumer duty, now, I don't underestimate the scale of that task.

14:34

As something, as you said, it's a heavily distributed market, and then, you know, a number of manufacturers on the call will have a large number of distribution arrangements that fit within a framework. And an easy approach by which to implement this with your distribution network is going to be really, really key.

14:52

And important as you look to implementation and it's worth calling out one of the Interim Milestones that the FCA pulled out from the latest papers around the need for manufacturers.

15:07

To share the information, a product target, market products, and services, price, and value perspective that you're required to do for new and existing products. With that distributors for April 2023, to ensure that the July 22, 23 deadline for implementation for new and existing products is met.

15:28

So you know that there is a lot to do in a relatively short period of time.

15:34

one area for manufacturers to think about ... is particularly ramps triggering up, a new product review.

15:43

The rules require that from a product and service perspective, a product review, is required for the approval of the product, and also for any significant adaptations product. Now it can be unclear what the

products classed as new products for mortgage products. And within the non handbook guide, ... has issued some guidance on this context of autism in particular, where firms law should usually priced product, but with the same features as other products that were already run through a product's critical process. And the examples you see I get is that most mortgage lenders offer deals from a limited period only. Replacing them from time to time with new deals with different interest rates. And provided that the other terms and conditions, including other elements.

16:33

The charging structure, such as early repayment charges, remain the same deal to deal, that there isn't a requirement to run those the dalles through a product approval process, again. So, I thought that that's quite an interesting wants to pull out for this audience.

16:51

If, if we could move on to the next slide, please.

16:57

I've called out there, as I said, they said the um, the requirements I talked to on the session at the beginning of the week, in relation to the requirements for distributors, Which of course, then flow into the distribution agreements, which I've mentioned is key area for mortgage, that will the mortgage market, which will require review to implement consumer GT rules.

17:20

If we could move on then to the next slide, I thought it would be helpful to call out some of the, the main areas of consideration for mortgages on the product and service outcome.

17:34

Certainly, the areas where I've been speaking client spouts, so I've mentioned distribution agreements, just scale of that task, given the heavily distributes heavily that the nature of the distribution of the mortgage market and the number of those types of contracts that will be in place will need, would be.

17:54

And Target Markets, a lot of milk chairs and a lot of you on the on the seminar today will have what are mass market products, you know, the mass market mortgage products and, and I think there are there is a distinction between that's mass market product and more specialist products.

18:13

So, I've mentioned already, more specialist products that do require I think, a more detailed consideration of target market.

18:22

So, first time buyer products including joint or a sole proprietor and later life lending products. Lifetime products, real products and also higher credit risk products.

18:38

And what I would say about high risk credit higher credit risk products as of course, they have been subject cuts, quiet, place consideration by the FCA already and that's one area I think all of those are areas actually where I could see the FCA having a real focus on going forward to consume a GT lens.

19:00

I've mentioned on here identifying co manufactures, how the way in which the manufacture distributor requirements apply is a different problem.

19:12

So manufacturers, to distributors, that firms also need to identify whether they're a co manufacturer. So you may have an arrangement where one or more firm is responsible for the manufacture of a product. And in that scenario, UK.

19:28

Manufacturers and where while you are a manufacturer, it's really important that you arrangements between the other K manufacturer a really clear on why responsibility, the different aspects of the consumer duty set.

19:42

Now, in terms of the mortgage market, things to think about, when we talk about this, we talk about, you know, the best example of K manufacturer arrangement may well be a white label product, where actually, you know, that the parties to that white label product have influence over the product design, the price of the product.

20:03

It becomes more ambiguous, where potentially you have some funding arrangements where a funder potentially has influence over the nature of the product To sign, you need to be quite careful in relation to arrangements like that that you're not shipping in, to being a co manufacturer.

20:21

Or if you are a manufacturer, that, you are properly reflect that within your commercial agreements with some the other co manufacturers, so something to watch out for, um, Coast products. I've got this on here.

20:37

Just to flag that close products crosser within scope, the consumer duty. So these are products that are no longer on sale that you have customers who are sitting in these products, which for a mortgage product is, you know, really likely you'll have you taken the longevity.

20:55

Mortgage, you know, you could you could well have a large number of customers sitting in close products and you need to operate and review, process to assess And rightly let's see whether any aspect of the product results from the firm not complying with the crosscutting rules. So there are obligations on the relation to those closed products. Now what the FCA saying like I did since she can creep in doing that with you. Similar products or services together to do that while you're looking at those products.

21:29



But importantly, you do you need to push these to consume a GT lands and particularly think about whether the clays product facts group secreted tell customers and target market with characteristics of vulnerability. and whether they are adversely affected by an aspect of the product.

21:49

I've always also meant, I've already mentioned the difficulty. If you do identify changes that you need to make to your clothes products. That we saw this when we were implementing transition from leibel. Actually, make changes to mortgage products come from difficult.

22:06

You, you may not have the power to make changes to the terms and conditions, or if you need to meet customers on alternative products, you may well trigger the need to provide advice. So this is not straightforward. I completely appreciate that. And those are things to to be live, too. And.

22:26

Again, in the context of them closed products, it's worth calling out the Vested Rights Provisions for Closed Mortgage products.

22:33

So where you push a closed products through consumer duty with you and you, you identify, you know, potentially that you need to change product original suitable fracture or the price is right. What's the rules say is that that does not impact vested rights in relation to that, that product. So those are payments are ready to answer the product? So that for me and a mortgage would be the product arrangement. If that would be paid in trust that's already being paid. It's not you're not triggering a sort of a historic retrospective remediation relation to those sums.

23:14

Another example is remuneration for sepsis wholly or partially provided on contracts. So, if you historically applied these charges, that paste consumer duty rupee, which I think satisfied C, G T Test. There's no obligation to be found those fees and charges assuming they complied with TCF and I'm called, et, cetera.

23:35

So, that's just something to be aware of, if we could move on to the next slide, please.

23:43

Um, looking then. And the next one is looking then at price and value of C, this is the balance between the title, pies, pastries, cosmos, life, products, the income and profit generated, from customers, the costs incurred by the economies of scale, market rates.

24:03

And then looking at that as the benefits derived, but the customer characteristics of the product, or ongoing support and similar products.

24:15

And in the market, and it's looking at this balance between price and value, If we could go onto the next slide, phase, there were two examples, Or a couple of examples, actually, I want to call out here, and I'll come to SVR on the next slide. But for now, let's talk about lifetime mortgage products.

24:34

So, the what I think is really interesting and, well, I would say to all of you, who are looking at ... books, is have a look back to the portfolio letters, the FTAs published, and historically, the CIO letters that they've been publishing in, relation to move to second, charge, more, which is lifetime objects. Because actually, that gets a real indication of where potential areas of concern or potential areas of challenge from, consumer duty perspective may arise. So a good example is lifetime mortgages.

25:08

The FCA in their portfolio letter called out the impact of rising cost of living and concern consumers in that portfolio who are facing financial stress, may be more susceptible to purchase unsuitable, equity release products. And also, again, within that lifetime portfolio letter yesterday identified, that a lifetime will purchase are increasingly being so young borrowers.

25:35

There's an expectation that firms would have effective monitoring frameworks in place to ensure that products are sold to, identify, target, market, and deliver a positive outcomes to customers, so I think that's really good examples.

25:49

That portfolio letter was published before the new consumer GC rules come into force but clearly, you know, it that, that sort of commentary. I think it's a real insight into where the FCA is going to be focused. Where it's going to be looking.

26:05

I've mentioned also higher credit risk products, so sub sub prime products, second charge products, an area of a sub awardee much to it. Quite extensive regulatory scrutiny already and what the FCA flag of their papers or ... GT is that they've done.

26:23

That supervisory work has highlighted some practices by most firms to lead to potential, or have potential to be significant Humped Boris in financial Difficulty.

26:33

So where for example, the ongoing payments for makes less, they accrue interest, causing the outstanding balance, too, escalate, and the effects can be exacerbated where firms add unpaid fees or charges to the balance which also accrue in chess.

26:51

So again, you can see, is they give an indication of the types of practices That they're really interested in relation to that, That type of that type of product. I've mentioned first time buyer proposition. So the type of product that we see in the market now, joint or a sole proprietor chad, equity, shut appreciation products. They are designed for very particular target markets and it wouldn't necessarily be appropriate for a borrower who was eligible for a mainstream product to end to end up with that type.

27:27

So funds doing those types of proposition, you do need to be very careful in relation to the identification of your target market and making sure those products, being distributed customers within that target market.

27:42

So, that's, I think, if we move on to the next slide, I'll talk a little bit about suppose that SVR and so cross subsidization price walking and now, what I would say, a couple of observations.

27:56

So first of all, the FCA's stated They do not believe that differential pricing between new and existing customers necessarily causes harm, Offering upfront discounts, which clarity, transparency, acceptable, however, the firm needs to be able to ensure that, just by that, faith for new and existing customers and both are receiving value. Now the rules don't prevent cross subsidies between products.

28:21

Providing they are far and the consumer GT does not prevent firms selling similar products, different prices across various brands, as long as the furnaces retains. But what they've also said, is there any retail products, which could be deemed to have price, walking practices similar to GI, will not meet the needs seem duty or not meet. The requirements of this could seem GT. Now.

28:46

That's particularly, rather than where we've got incentivized rates reverting to SVR, which of course, is very prevalent feature of the mortgage market, and most mortgages have an initial incentivized rate, either fixed or variable. That refers to a variable rate after a period of time.

29:05

So the SVR being a typical refresh rates, and whether when considering whether a mortgage offers fath ali.

29:14

Firms need to consider the overall price of simple page, including any discounted rate sees charges and the refresh rate applicable. Now, the ACIP made it clear in the non hampered guidance, that that does not require, sounds to me, like designing products.

29:29

That, with that, said, that standard variable, right, or repairable rights, such as SPR, and the Vatican, still be delivered by an approach which introductory rate lower than the the rates for his late pay.

29:42

Bart's price will keep some groups of customers can lead them making significant payments that do not like .... Now, what will come on and talk about customer communications and customer support? one area that I think is really important, and it's scenario the ..., and the existing rules, and cope in relation to thought the FCI of said, relatively recently. That still needs to be done. Is customers who've come to dance?

30:10

Just concessionary, right period. And Revert Entourage, VR and tight move.

30:15

And, actually, from a customer, customer support perspective, it feels like, it's certainly the sense I got from the FDA cometary, is that, is an expectation that more needs to be done in relation to those customers.

30:26

So, I'll move on now to customer communications.

30:32

On the next slide, Sorry, I couldn't see him on standing, sorry.

30:36

So, I've put on the slide that the amendment that was made can see my understanding rules between the original consultation and the final publication of the policy statement. And the original proposal was the communications would need to be likely to be understood by the average retail customer, intends to receive that communication.

30:58

A final scraped away. They've moved away from reference to average customer and that was made on the basis of feedback from the consumer groups. He said, Well, that's actually, you know, having an average customer, you are knowing that, I'm actually a number of your communication swipe the understood by a number of your customer base. Assuming you've got customers within that population may be uncomfortable circumstances.

31:20

For example, so, where we, where we went up with its status, all on south side, the communications are likely to be understood by retail customers.

31:32

That's a significant change. And what the FDA has done there is increased the standard that's caused by firms between consultation of publications on rules. And having said that, though, I do think it's clarified what the expectations on firms are, because there was real apple ambiguity in relation to what we meant by an average customer.

31:55

What if an average customer chain, just from big, not being vulnerable circumstances, being vulnerable circumstances, how you do, how do you deal with that. So, albeit in a stick shift, actually, I think, has helped clarify, clarify what the expectation is, that we move on to. The next slide, please. Of course, the difficulty with that is that for large number of mortgage products, then tended to be mass market, and then the finalized guidance on consumer duty. The FC, I've got the crank up, that they highlight that one encephalitis set, an adults have literacy skills. Literacy skills at or below those expected of a 9 to 11 year olds.

32:36

And what the FCA explains? This expects fence to take these characteristics into accounts and communicate information in a simpler way, as possible to support understanding of the products. So, in terms of if we go to the next slide, please. In terms of customer communications, To move just a couple of things.

32:56

What's louts festival is we've obviously got a regulated journey for m.o.o.c.s, is anyway, we've got an SS. We've got contents, or spin off that needs to be provided. An offshoot That's all you need to comply with act. That's all been designed to enhance customer standing. And so actually, a lot of this, in a sense, is dealt with, in those documents. The flip side of that is that those mortgage conditions, the actual Ts and Cs cells still tend to be very long, pretty dense documents. And actually, the type of customers are unlikely to engage with, so I think firms need to be asked.

33:34

A couple of asking themselves, a couple of questions.

33:38

Festival, Is there anything that's not covered in basis that we really think it's really important for customers to be aware of?

33:45

Now it might be things like, you know, deep the need to ensure the property and what that means. Or it might be more detail around an ability to report a mortgage. I often find those types of concepts tend to be dealt with a relatively high level In the East Cicero. and actually ....

34:04

Now it's not important information needs to be bought, bought upfront. And I think Mortgage is actually a really tricky one customer culture perspective, because you're balancing to see what can be relatively complex concepts.

34:21

For example, property apps need to ensure you've kept the appropriate received lights, against the need to ensure customers really understand the product, or service that, there, that the obtaining, and I'd also say in this context as well. Number of firms may well run Ts and Cs, apply best regulated products and unregulated products.

34:43

And again, that's, that's another area to think about from a consumer perspective, and how you're pushing those types of documents to a consumer GT LAN.

34:53

So there's some, there's some, there's some things to think about, that slightly conscious of time.

35:00

So, if we move on to the next slide, please, and this is a point we've made at all of the product sessions. Customer call them as well. Questions firms can also themselves is whether they apply the same standards to ensure that communications that have been good outcomes as they do to ensure the communications helped generate sales. Revenue is a really important question to ask yourself and the FCA gifts.

35:27

For it as an example where a firm conducts consumer testing of communications to determine an effective approach to maximize sales, they should be using those testing capabilities of an equivalent standard to test out the aspects of consumer on starting to show good customer outcomes.

35:44

So, really, really important things. Very important question to ask about.

35:52

If we could move on, finally, to the last outcome, which is the consumer support outcome.

35:59

Now, this includes consumers support for during and after any sale of products, and also applies to support, which does not relate to a particular app, a specific product itself.

36:11

And so the requirements for the rules, you need to ensure that customers do not face on reasonable barriers when they want to make general inquiries requests. A mental switch product, transfer to a new product provider, or access a benefit. Which product is tempted to buy or make a complaint? And if we could move on to the next slide, please.

36:31

I thought it would be helpful to call out in this context, those areas where I think the McKinsey maturity perspective certainly see as a high priority on the FTAs. Sort of rage are an agenda, and no surprise on this, the cost of living crisis. What that will mean for mortgage customs.

36:49

What that will meet the m.o.o.c.s is for parents, and the expectations on terms in relation to that relation, supporting customers in financial difficulty. We saw that encoded with will know this is a continuation, and, of course, you know, the cost of living crisis.

37:06

This is really high up on the sea ice rate else. That's one area. And I've talked about switching at the end product term.

37:15

It's worth calling out. The mortgage market review, did highlight that this high levels of consumer engagement. Currently over three quarters of customers switch to a new mortgage deal within six months of moving on to refresh rates. The number of MOOC, just not mortgage borrowers, not switch that Dale, who could save money by doing so, has declined quite significantly since 2016 that the FCI

did identify as part of the rupee that there are still borrowers who could save money by switching them or page.

37:46

You combine that with the cost of living crisis and you can see actually that will continue to be an area of focus for the FCA and therefore lenses needing to ensure that you're doing everything you can to support customers, move to better deals, move to a better rate, not settle on a more expensive it's product.

38:08

I've also flagged on that.

38:11

Interest only products, and how you treat customers, is, coming to the end of the mortgage term, is nothing new in that. You've got obligations already, but again, it's an area or see. The consumer duty perspective possibly needs no more more scrutiny a bit more consumer GT lands. on.

38:31

The final point I've got there is X, Please friction. This is the point about ensuring that customers free to move, that it's easy and accessible for them to move product and therefore just think about your exemption process, your remote process, all of that sort of stuff, falls into that. That sort of category. So, that's what I wanted to say. And I'm going to hand over to Jonathan now, who's going to talk a little bit about governance.

38:56

And then, hopefully, we'll have, I've talked about too much, sorry, maybe 10 minutes, 5, 10 minutes, at the end, for some questions.

39:03

So, please do drop them into the chat, and we'll pick them up at the end, Jonathan ...: thank you, Arizona. If I could move to the next slide, please.

39:12

one of the key issues within the consumer duty, the FCN is raised is cultural. Not just time from the top, but from bottom-up as well. And what they're really looking as, things that they've come across is things like cultural purpose.

39:29

And that's looking to the, you know, the acting to deliver good outcomes for your customers is reflected in strategies, board strategies, product strategies, getting the relevant governance around, looking at things like looking at this.

39:46

The leadership of people policies reflects a consumer duty and particularly incentives, which will cover, let me get to the people point, but this is at all levels within the firm for stop. So, it's something that needs to be looked at from, you know, just wider. From a product perspective.

40:11

Looking at people and people policies that, you know, the FCA again are expecting firms.

40:16

Must ensure that staff incentives, performer management, and remuneration structures really, that deliver consistent levels of customer outcomes. You know, if you're in ...

40:30

staff to, know, financially enticing, should I say, staff to, know, sort of sell products, and then, the products need to be suit suitable, need to meet the customer's requirements and need to meet the outcomes? That presenter has just gone, Right?

40:49

On a leadership and governance perspective, as well, what what's been thrown out, and Principal 2, 8 8 is that it needs to be consumer duty needs to be central focus of your risk management, and also your internal audit processes. So, as these are being developed throughout, you know, you need to consider not just looking at compliance with the duty, but how you're managing the risk, and the risk management perspective, and also the internal audit these, these points going forward.

41:21

Then, finally, I guess, on this point, it's just a real reminder is that, you know, from a reporting perspective, obviously, the end of October of this year, the implementation plan needs to be completed and approved by Board and should be available to the FCA, should they ask for it?

41:43

I would the first consumer Duty Board report is not expected, however, until 20 July 2024, so, that's just a high level summary of the culture. If I could move to the next slide, please.

42:03

No, yeah, that one. Thank you.

42:04

So, so, looking at again, continuing on the governance and accountability, um, I think the first thing that we want to discuss, that needs to be a consumer juicy champion For dual regulated firms like would know the FCA. I have states and they really think that should sit with a ....

42:25

Um, but then for, if you move into solo regulated firms, again, for an enhanced fund, that would all say needs and the champion would need to sit.

42:36

Again, relative to the iron age level.

42:39



If you're a core fan, that really depends on your corporate structure.

42:45

You may have I nuts, as part of your structure, may know if you don't, then the consumer gizzi champion will need to be nominate.

42:56

Um, know, you sort of will need to take, you know, take over responsibility from an SEO perspective on consumer duty, and if for a limited permission. Again, just to make sure we're covering all basis. Again, it does depend on your corporate structure. However, again, it would likely to be need to nominate somebody who is already an SMS to take responsibility around that.

43:24

The f.c.m.

43:25

can made it very clear that from a governing perspective, that the board is responsible for Consumer GT and that sort of embedding it throughout the firm as appropriate, and they will hold senior managers accountable. To me this, through SM and CR, know, where you've been allocated the necessary responsibilities. So, again, it's really important.

43:50

The SMC are statements of responsibility, reporting, guidelines on the sort of organizational maps. Everything is clear, So anybody who is taking that responsibilities knows, he's taking those duties, on behalf or on your behalf, and that you're getting the relevant ...

44:12

to demonstrate that you are adhering to the, to the consumer duty's requirements.

44:19

Um, again, the border equivalent body is, is nice to ensure the consumer duty is being considered, all relevant contacts, So not just on your governance and remuneration policies, delivering good outcomes for your customers is, as I said, previously, looked through the risk, an internal audit lens. But it's considered right the way through the customer journey.

44:46

So, that will be from potentially an introduction or a direct approach to Customer, Right, the way through to the, the completion of the Mortgage.

44:58

So, I'm that kind of covers. I've covered the whole bits around governance and accountability. If I could move to the next slide, please.

45:10

And one of the points that Rosanna was discussing earlier, around customer communications, which has been highlighted in the, in the policy statement, is, How do you do it? What do you do? How can you really understand, you know, what?

45:25

What your customers actually understand?

45:27

The FCA are kindly pulled together for different scenarios. So, I'm just going to run through these briefly, say, obviously, the first methodology that you can look for supporting your communications.

45:40

And understanding is, experimentation controlled trials and comparisons between groups, and this will give you a direct measure of the level of understanding that, you know your customers have.

45:55

However, in doing this, it's really, really complex.

46:00

It's got to ensure that you're designing your, I guess you're testing your questions and everything like that. To ensure that it covers a very large group, Michigan Middle, not data, to be able to pull that together to ensure that you can, you can get statistical significance. So that's really quite key.

46:20

Customer surveys is the next method, the FCI of suggested. And that's, you know, quality based on question design. And elimination of bias bias is really key to make sure that that's an illuminating when designing the customer. So they don't want to be asking leading questions. Don't want to, know, from customers to give you give you a response to opt in, to the phones behavior.

46:48

And, again, when looking at the sampling methodology around this, it's has to be neutral, and, again, requires expertise.

46:57

But, I guess the advanced, the previous method, is that you can use smaller groups, and, you know, you'll access out to, customers, can be online, or e-mail, sort of things, as it's a bit easier to two, to carry out. the third one around customer interviews.

47:19

Again, you know, the use of structured and unstructured questions, what that was found that it's like, you know, it can elicit more in-depth understanding of what your customers believe, and their understanding of the product, and understanding the communications again.

47:34

where, the complexity, where that comes in, It's around the sampling, around the construction of you structured questions, but also, again, as I say, go back, sorry. Going back to the structure questions, again, making sure that they're not leading and there's no bias. And, secondly, that the it means really quite detailed analysis of your unstructured feedback. So, again, you know, that's a bit of an easier way to go through.

48:05

And, finally, what the FCI of sentence, you know, the focus groups are, probably the easiest way that you can get an understanding of your communications.

48:16

Customer understanding from that perspective.

48:20

And, you know, it's a very convenient way of doing it, but, again, it does, require expertise, and interviewing techniques. And also, managing group dynamics.

48:30

Because ultimately, in a, in a group, you will always gets, individuals are more happy to speak than others.

48:38

And, therefore, it, that needs careful handling, to make sure that, you know, the people that are quite possibly, the ones that don't understand what's being discussed. If I could move on to the next slide. But, just whilst we're talking on data and looking at everything, and I'm conscious of time.

48:54

Um, so, data monitoring again.

48:58

And this is not just talking around direct customer understand, laying the snow.

49:06

What they say of stages of funds will need to be able to provide evidence of their monitoring and assessment of these outcomes, and any resulting actions on request. And what I've covered in the, in the timeline, it's not, It's only in The graphic above is just some examples of types of data that you should be looking at, the types of information that you should be receiving. And, you know, consumer duty needs to be considered in all its base. I won't go through these in detail, because, again, I'm slightly conscious of time, just examples. There are, you know, outcome reviews, behavioral insights, compliance reports, file reviews, and so forth.

49:47

So, it's not an exhaustive list, but, you know, there are many, many different ways that you need to get the right data, to be able to, to monitor, that you're getting you out, you know, adhering to the requirements of the consumer duty.

50:03

And if we could just move to my final slide, before I hand back to Rosanna briefly, one of the things that has not been made that clear is that in implementing the consumer duty is kind of has now slid into the requirements of kokand.

50:21

So what we're really saying is you know, Coke on effects all staff within a firm except for an auxiliary staff, and therefore, let you know, you will need to provide training.

50:31

You will need to provide sort of some monitoring to ensure that staff understands the consumer GT, unless you can see that the, I guess, the, the Coke on rules that have been pulled out.

50:43

If we do find any breaches, you do need to report that to the FCA but also remedy any breaches and they have to demonstrate what you've taken into control in order to be able to, you know, remedy any breach that you have found.

50:57

So that's a very whistle stop tour around the governance and accountability.

51:03

Now, I'm going to who is going to talk about books.

51:06

Yeah, I'm not gonna say, I'm a huge amount that books actually up or talent purchase the product books, just because of what's up and see some really, really good questions coming in. So I want to make sure we bought an uptime to get through as many of those as possible that there are new rules that came out in the life to such papers that weren't in the original consultation around, expectations on sale, and purchase, put up books now, of Excel and Mortgage. Portfolios is pretty prevalent, you know.

51:32

A lot of there's been a lot more export paleo self transfers over the years, and it's, you know, it's relatively active market. So, I did want to cover this very briefly, and really just cool out, see if those of you looking at those types of that type of M&A.

51:47

There's now obligations based on sellers in relation to the information that underpin to aid they need to said this act. obligation sellers need certain information.

51:59

two purchases and then this obligations on purchases in relation to the ... diligence they need to do on those products.

52:06

And there are also then obligations on purchases in relation to how they comply with the rules in relation to those books that they've acquired.

52:16

So, upset that the detail largely set out on the slide there. So we will circulate these events to take time if you, if you're looking at that sort of thing, to look through that, and I'm of course, happy to pick up any questions if anybody's got any offline in relation to that. So I'm going to move on now to some of the questions. Got some really good questions. really, really challenging me with some of these. So, um.

52:41

The first one What level of detail to lantus have to fight breakers in respect to price value of assessments cannot be high level?

52:51

And can it be provided to ...? Well, I think the arched second question is really easy. So, yes, I think it can be provided to brokers to say, I don't see an issue with that. In terms of whether it can be high level. So, it's fetched customer, but really depends what you mean by high level. I mean, there are expectations in relation to the sharing of information, and it needs to be sufficient to allow the distributor to ensure that it's a pay themselves, a satisfying the right distribution obligations from a consumer perspective. So, I think from a lender perspective, there is a tension between, you know, making sure that you're not ever comply, But at the same time, recognizing you may get pushback from your distributors, that you know that they need this information as well, to satisfy their own obligations.

53:40

So, for me, high level, doesn't feel the right standards. I think it needs to be more granular than that. But I'm sure across markets, as this sort of works through, there will be different approaches.

53:56

We've seen that course, or all of these rules largely replicated on what we happen, It insurance already in inputs, and actually, we've seen quite a different children approach, and that's still even working its way through now in terms what that sort of standard information sharing it. So, do you think it will be, it will be a number of years before we get to a point where there's sort of a commonality if I'm standing.

54:20

But, as I say, I think, high level feels that high level to me. So, I think it does need to be relevant. Granular. Next question, would you view interest only Mortgages as products or just a feature of the most product? That does really interesting question. I mean, my view on that, I think, can interest only product is a product. I think it's got a very different target market, potentially, to a standard repayment mortgage. I think there were a number of aspects of antitrust only moves the ability to make it sort of fundamentally different to a repayment mortgage, and for that reason, I'd say it is a different product that's my behave. I don't know, Jonathan, if you want to add anything.

55:08

Um, yeah, it's, it's quite a tricky one to answer, To be honest.

55:14

I think the, on an interest only mortgage is obviously that there are certainly, potentially, more risks for a consumer, in terms of their understanding of what they're entering into is purely only the injuries that they're paying off.

55:30

But I would say, yeah, it's, I'm an agreement. You resemble, I think, is A is a product. Say.

55:40

It's good. classical SoFi.

55:44

OK, next one, How do you define a Clay's product, same, basic product?

55:51

Same, basic product, different fee, structure's own product? Right?

55:56

So, a closed product is a product which isn't on sale to new customers on the 31st of July, 2023. So if you have a product that's as legal as the originator, the sort of, you know, the entity that's undertaking the regulated activity, of entering into that product, regardless of your funding arrangements.

56:19

Look at you as the originator, the person I'm taking the regulated activity of entering into product.

56:25

If that product is on sale for that dates, then that is an existing product. That wouldn't be a closed product, A closed products product, which is not on sale at that date.

56:37

Now, woertz, so I think the funder question sort of slightly sets in the background. That eat, you need to look at the product is U is the length of the originator.

56:49

You've raised a very interesting point around same basic product, different fee structure.

56:57

I think that is a really interesting question.

56:59

And actually this, I can see some of you would see, particularly in the context of the guidance, like cool doubts, as to what amounts to a new product, where you've got different pricing. I think actually, that does a really interesting question around, you know what, what you see is closed products, and a new product. So.

57:21

What I would say, if you're in tau, I probably treated as an existing product because their compliance obligation symbol and therefore, you would be even less risk of being criticized in relation to how you've implemented the adjacent gets really interesting.

57:37

Really interesting points.

57:39

Um, that's a really good question. Is there an expectation or firm should offer products switch and I think some thoughts.

57:48

But if you don't, you do see that you have, I challenge in relation to protect those customers coming up, sitting on a reverse.

57:58

We write at how going forward to ensuring that no dot product remains, No remains, pipe hooks them in your target market when actually, you know they may well benefits maybe ... and when I look at all of the FCA cometary. Now of course that they've been talking about this for a number of years now, if you read that fresh with the consumer to see that as you can absolutely see that population customers against a backdrop of rising cost of living where he was allowed to know that actually that could be better served by different products. I think this is the radius and friction. So, now, I don't think this obliges firms to offer products, which, it doesn't say that, and I tried to keep those thoughts.

58:44

Where you don't offer products switch, And why you have customer sitting on the right. You know, actually, they'd be, they'd be better served by taking that product elsewhere. I think that is quite, That's, that's, that's, that's a difficult assessment for you. And how's that?

58:58

Do you support customers and communicate with customers to help them in that context?

59:03

And that actually moves on to another question that's come in in relation to that comes, which is, in terms of being covered Cheng a customer to switch deals? Is there a tension between consumer due to GPA requirements in relation to marketing and servicing messages?

59:23

At this, of course, was an area of significant industry pushback or feedback through the consultation and the FCI in the final rules as large pushed onto the carpet. And said, you deal with a soft semester. That's not a marketing issue here, and I think fats.

59:42

I think the issue is still there, and I think to something that fence will need to work through, is that looking at those columns to make sure that you're sitting on the right light side, service versus marketing message. Now, I'm conscious that we really are up against time. I haven't answered all of your questions, but I will make sure to follow up with those of you whose questions haven't answered. So you'll hear more from me. And thank you everybody for joining today. We still got two more sessions during the course of tomorrow on SME products and asset finance, so pleased to join us for those. And any questions, please do follow up without like Keith again.

1:00:22

Thank you, bye.