

0:02

Good morning, everyone, and welcome to our Consumer Duty session on banking products. And those of you who've already dialed into a number of these sessions during the course of this week, will recognize some of the face his hair. That, for those of you who don't know me, I'm a Santa Bryant's. I'm one of the partners in the Financial Regulation team. And I'm joined today by Rich, Small, but should you on Wave, so everybody knows who you are?

0:26

Is one of my fellow partners and financial regulation, and Jonathan Stewart. He's one of our Senior Compliance Directors and the Financial Regulation team. And this is really interesting session to be giving today. It's a time when the economic impacts of storing energy bills on businesses is top of the political agenda, and to think about, actually how that translates into what all you're all thinking about in relation to the implementation of consumer duty. There's so much to talk about, Not sure, we've got to do justice to it in an hour.

0:59

Well, I would say is we covered in session one on Monday, giving a general overview of consumer, if you want to table, to go on mute, please, if you're not speaking. If you weren't able to join that session, we can let you have a recording of that, just e-mail me, my contact details with the slide deck, and we can send that across. We can send that recording across, and I'm not pasting that today. We go through the content of that session. What we want to do today is really focus on the impact consumer duty on, particularly SME products, and some of the more complex areas.

1:38

We put in the chat, we will do in a second the chat box, the link for this afternoon's session, as well, if you haven't registered for that, are interested. That's our final product focused session, and we're going to be looking at asset finance. So, if you aren't signed up to that, and I'm interested, please do put your reach out and I'm gonna enriched. And also, if you've got any questions, you know, the drill, if you've been on these full, that put them in the chat box. And we will leave some time at the end to pick up on those. So if you've got any questions, please drop them in as we go along and we'll pick them up at the end.

2:13

So, and if I could go to the next slide, please.

2:18

They said, it wasn't good to do, focus too much on what we covered in the first session, but I do always think it's helpful just to set out what the framework at the Consumer GT is. At the beginning of these product fake sessions, just rehash. So we have it all.

2:34

In our mind as we look through.

2:36

So what we have is the principle In the principles business principle 12, the affirm must act to deliver good outcomes for retail customers. Now, that nutrient pool is supported by first or a series of cross

cutting rules, those three cross cutting, all sitting at the bottom of that pyramid, the festivals that firms must act in good faith.

2:59

Secondly, that firms must avoid foreseeable harm.

3:02

And, finally, a firm must enable and support customers, see that financial objective. So, those are the rules. And then, what we have is for outcomes, and the first outcome, product, and service.

3:15

So, that's essentially ensuring products, fit, purpose, and designed to meet the aim.

3:21

Outcome to price and value, probably the most controversial of the different outcomes, that's looking at the relationship between the price, the customers pay, and the overall benefits they can be.

3:33

expect to obtain from the product.

3:36

Outcome, three, consumer understanding. So, that's helping customers make informed decisions and ensuring communications meet the information needs of customers and then, finally, consumer support.

3:48

So, support customers to realize the benefits of the products and services they buy. Now, I just, I always mention that it's important to call out, this is that all flow down into code. It's ..., code of contract doctoral for senior managers and the MCR regime. So it has a reach in to senior managers bar that reach as well.

4:12

So, if we move on to the next slide.

4:16

Reasonableness, and I do think this is important in the context of SME that we do think about this as we think about what the obligations of consumer duty commercial banking products that consume a GT is underpinned by this concept of reasonableness. And what that means is more rules around what that means and guidance within.

4:38

They published rules and guidance by the FCA.

4:41

And what they say is that, the new, the obligations and Pin to A So, these are the rules and pin.

4:49

The new principal trial must be interpreted in accordance with the standard that could reasonably be expected to be prudent, Carrying on the same activity in relation to the same product, and taking appropriate account of the needs and characteristics of retail customers, based on the needs and characteristics, retail customers, in the relevant Target markets, or individual retail customers, just context requires.

5:13

And looking at that concept, reasonableness, we can hold three things in our mind: festival: the nature of the product and service characteristics of cost. Consumers in the relevant target market will enrich your customers. And I think that's really important when we think our SME actually characteristics of those customers. And are they more sophisticated? I think that's a really interesting question. And we'll explore that a bit more as we go through. And that's what does that, allow us to set a slightly different standard, or not. And then, of course, for firms, role, in relation to products and service, which is the distribution chain. So I wanted to just mention, we will note, as well.

5:51

If we move on to the next slide, I think, particularly first, MA in commercial banking products and consumer duty. I think it's worth looking a bit of scene setting on what we've seen A, for quite a long period of time now, in relation to the increasing regulatory focus on the treatment of SMEs by financial services firms. So we've seen this space pre, during and paste code. It's a real increased scrutiny of the markets.

6:20

Really starting in the wake of the global financial crisis, particularly in light of the FCI investigation identified failings in the georgi report and treatment of SMEs.

6:34

They identified failings in the sale of interest, right, hedging products, unsophisticated customers. And then also, the findings from the H boss, Wedging Forte, but also since the global financial crisis and the problems exposed as a result of that.

6:50

There have been developing themes of increased SME protection within the financial services space. That had manifests itself in a number of ways, even pre coded.

7:00

So, we'd seen the extension, for example, of the false jurisdiction back in April, 2019 to larger SMEs and the increase in the maximum award back then, from 150 K to 300.

7:15

We've seen the establishment of the business banking resolution service. So, that was established in response to commitments made by the banking industry following the walk review in which the need from an independent service was identified to resolve eligible, historic and current complaints from SME businesses that had previously not had access to independent review. And also, the lending standards principles and now a recognized industry code of conduct for S MCR purposes as of February 2020.

7:47

And the code is something today that the FCA consider and how senior managers not rather than employees Undress, MCR discharging. That's that duties.

7:57

So, even pre K, but we've seen a lot of activity and focus and direction of travel from the regulator in relation to the regulation of financial services provision to SMEs. And of course, we then had Covariates and the Government, well, the Government Support provided. and the regulatory a play on that, particularly in relation to bounce back lanes and the regulated activity of debt collection in the context days. And, of course, during periods.

8:28

There's ... significant challenges fresh, sonny's, there are a number of ... letters at the time.

8:35

And also, we've seen An increased focus from the recovery's and forbearance Perspective on the most recent SEO letter back in June 20, 22 this year. So, if we look back at the ..., letters focused on SME lending, around the time of cave, it says that the first one was setting out the. and the expectations on firms take reasonable steps.

9:06

Along with the poor to ensure that senior managers, senior managers, with responsibility for small business lending at SGI, charging that duties, suitably and responsibility suitably.

9:18

And, again, in July this year, there was a Dear Child letter from the FCA.

9:24

The FTA considered undertaken with you, looking at bank stems, controls and processes, collection, and recovery of SME debts, reviewing against the rules, covering four protections principles. And they found several failings, including gaps and policies, sieges staff training, not adequately covering conduct requirements, manual interventions within systems, making slippery, delivery of fair outcomes, difficult, and poor recordkeeping.

9:53

Just name a few.

9:55

There are a number of recommendations and if you're not close to those recommendations and they're looking at consumer duty in the context of SMA and particularly on the credit side, I really, really recommend you take a look back at that letter because you can see immediately where the FCA is going to be looking for firms to ensure consumer duty is um is absolutely weaved through the price system. And alongside that, the CEO letter in June and which was focused on consumers, states and also highlights that that the rules and also apply to small business customers. And that the FCA spec expectations, the contents of that latter would also apply to SME.

10:40

customers who are fighting similar challenges in relation to the cost of living crisis.

10:45

So that's a bit of scene setting but I think it's really important as we come into talking about SME, commercial banking products, and consumer GT. And, because what I would say is if we maybe move on to the next slide.

11:02

And certainly, historically, the sort of financial services provision to a greater or lesser extent within firms has not had such a consumer land supply to it, whether that's in relation to the drafting additions or reviewing the customer journey. There's obviously been a huge amount of folks on that for shoot, truly consumer products in recent years, but actually, SME and commercial products, session on the tail of that. And I do think there's more progress, need to do that, and we can come and look at that, when we look at the, when we look at the outcomes, as well. And I've also set out what I see, some of the other trickier areas for firms are, in relation to implementation of consumer TH resume, type products. And we'll see you on the next slide, I'll talk to you three myself, Richard, will talk you through the scope of the application of ... duty. And you'll see that it's a different test from an SME perspective, depending on which product or service the customer has.

12:07

Therefore, the say the same firm, so the same customer of yours can be in Skype, consumer duty for one product, the out of Skype consumer duty for and not the product. Because the way the Skype and consumer duty work is it sits around our current regulatory perimeter and regulatory rulebooks, and obviously, that's quite complex framework of application, dependent on the nature of the customer, dependent on the nature of the product. And even within products, the nature and size, will dictate whether they're in Skype routes escaped, seem a duty. So the best example of this, is payment services, where you're in Skype consumer duty. For example, if you're a microenterprise. Now, of course as a firm grows that may live longer be a microenterprise and therefore how do you deal with those customers?

13:00

And equally, you may have a large customer that sitting just on the boundary of, you know, close to being a micro enterprise, but not being a large corporate and actually a drop-down.

13:11

So they may not repeat and Skype, but then they, they dropped down into Skype and you can see immediately that creates complexity for firms and how they implement the consumer duty requirements.

13:25

I've mentioned already that state financial service products have tended to receive less of the consumer lands.

13:31

And, the other point, I think it's worth calling out, which is one that does it's not just one relevant resume.

13:38

It's one rather than for Should all products from a consumer perspective, is the reach of the application of consumers duty to accelerate activities. And these are activities which unregulated activities that are not within the regulatory perimeter. And they're not within Skype consumer duty, but there aren't salary to something which is within Skype, and therefore, that brought into Skype and not do genuine anything, to some ambiguity, in relation to what that means.

14:07

An edge expect, there's definitely ambiguity, in relation to what that means, particularly with this population, given the night the fact that some products and services inside and outside the regulatory perimeter, say customer. So, those are some trickier issues that I wanted to call out if we move on to the. Next slide, please.

14:29

So Skype, and the next one, please.

14:32

So this is not what it says on the tin.

14:39

Not sure what this slide isn't quite right. It has got look just at the top. I'm very sorry. So Skype is not what it says on the Tin Skype. It's, this is not just consumers. So consumer duty does not just apply to consumers under the normal definition of the term paying customers who are actually pepsis outside that trade business or profession.

15:00

It's application as much bluewater than that.

15:06

And so, sure, if we talk about it, talk about how that, then, applies.

15:12

And it follows, as I say, the regulatory perimeter. Today and the perimeter of the handbook, say consumer credit, for example. Consumer credit, actually, the framework of the regulated activities. Consumer credit is relatively complex. You need to start off thinking about what type of customer have you got.

15:32

And it will only ever apply if you've got a natural person a small partnership or an unincorporated association. If you've not got that entity type, you will not be in Skype consumer duty.

15:45

Once you've got that entity type, then depending on what you're doing, will drive whether you're in Skype and image duty, So lunging, the actual activity of lending money to customers.

15:58

That only applies where you've got a regulated credit agreement, so if you're lending on exempt agreements and resume, the best example of that is, the business pops this exemption, if you rely on that business peptis exemption. And you will end, you're not in Skype, Consumer GT.

16:15

The other one that sometimes we see, within sort of SME business lending, parts of firms, is the high net worth exemption. Again if you exempt you're not going to be in Skype for lending. However the reach of some of the author Exemplary Credit activities credit, breaking that, adjusting to counseling debt, collecting data admin a whiter than just regulated credit agreements, and they do apply to exempt agreements to.

16:40

So, you do need to be quite careful, and if you're essentially the rule is if you're giving a credit related regulated activity, you're going to be in Skype with consumer duty, and that also bites into bounce back loans. So those of you here to bounce back lanes will remember that. that regulates the regulated activities order was changed through ... to introduce a new regulated activity for debt collection on bounce back lanes. So, normally you don't do the regulated activity, or debt collection if you're collecting on your own, that's, but what they did was they change those rules. So that way you're doing debt collection, bounced back loans, albeit the entrenched bounced back. Right, next activity, you're doing any collection activity on bounced back loans. You're going to be in Skype, and you're going to be in Skype or consume at each of those activities. Deposit Taking, shape deposit, taking, follows, the ..., definition of banking customer, in terms of who's in Skype seem a duty.

17:40

So, that's, Consumers, Micro Enterprises, small charity, is a natural persons acting and capacity as Trustee, if, that, trustee is acting for purposes outside that trade, business or fashion.

17:54

So, that's deposit taking.

17:56

An investment applies to business conducted with a customer who's not professional client as set out in corpse, which is going to look at it in a bit more detail around that insurance Skype follows position and I hope so! The duty doesn't apply to re-insurance contract, re-insurance contracts, Large Risk sold commercial customers.

18:19

Rather contracts of large risk where the risk is located outside the K and neither does apply to X two cities connected with the distribution of group insurance policies or the extension of those policies to a new member, mortgages. And, just follows and cop, and it doesn't apply to unregulated light lattes.

18:39

Those of you who joined the ... session yesterday, you'll know it's not quite straightforward to start because it does potentially apply.

18:46

To unregulated bites led to the extent of the application of ..., three A, which is at the financial information rules. That if you're interested in that, I suggest you watch our walk, your session, which we could send you a link to. And then finally, payment services and the money. That duty applies to business, business conducted with consumers, micro enterprises, and small charities. So that's what I wanted to say about Skype. And I'm going to hand over to Richard now, he's gonna look a bit more detail, it, potentially some more complex types of products the SME firms might take where you had a percent potentially more complex considerations. So Richard, over to you and I'll come back. When we get to Q&A at the end. Please do drop your questions into the chat. Thank you very much.

19:39

It should, I don't think you're on, even though, take yourself off.

19:46

I'm an alum, YouTube. Can you hear me?

19:50

Yes, we can hear.

19:52

All right. So thank you. Excellent, Good.

19:55

As you just heard from rosanna, SMEs are clearly in the CIA's cross has this is something that is important to them. And I'm going to go into that in a minute.

20:04

But when I was asked to to prepare for this presentation, I thought about investments, thinking about it from your perspective.

20:13

This is, I think, probably slightly needlessly complex, but it is an incredibly complex. However, the way it's set up, umpteen consultation papers, discussion papers, guidance from the FCA.

20:26

I've tried to boil it down a list of the sort of products that I would expect.

20:32

Typically, in a typical commercial banking products that you would probably provide in one form or another to a variety of needs.

20:39

Um, I'm trying to boil it down rather than going through each product and saying, Is this in scope isn't enough, is enough to describe? It's a little more complex than that. So, I've come up with what I think.

20:49



It's a fairly sensible three part test to determine when somebody comes to you what you think isn't that somebody comes to you and says, We want following what we need help with the following.

21:00

You need to determine, does continue maturity applied.

21:03

I think if you can answer no to any of the following three questions, um, then the answer is: continue maturity doesn't apply.

21:12

I'm going to run through these briefly at a high level and then that threatens some level of granularity in a second.

21:18

The first one, first one, is, is the product.

21:21

Is it a regulated activity or specified investment?

21:25

And when you look at some of them, the products I have on this list here.

21:28

For example, global trade and receivables finance, well, generally speaking, letters of credit, factoring etcetera, is outside the perimeter, fence out of the regulatory perimeter and not particularly interested in this.

21:40

And as a result right there, you can stop and say right. This isn't something FCA regulating.

21:45

Therefore point, we'd like to proceed to the second question.

21:48

You look at wealth management, securities and derivatives trading structured products. Those are all things firmly within the FCS Cross Hazardous within the perimeter.

21:56

What can you might with derivatives and structural products stop and ask yourself? Is this something that should be going through retail? Or somebody's in the first place?

22:04

Separate discussion. You look at advisory services: well, investment advice, corporate finance, I am aware.

22:12

Of course, it arguments corporate finance and some guys, this isn't within the perimeter.

22:18

These pumps, generally foreign exchange, things like spoke before X is generally outside of the perimeter, is based on current, is, of course, within within scope.

22:30

Then you look at Insurance was on is just mentioned, that I would also recommend State Francis didn't want just an excellent session yesterday, covering insurance, short sponsor, available to you, if you need of a particular presentation.

22:44

The one thing mentioned what what was Ana mentioned earlier.

22:50

It is important to understand, the definition of an ascending follows you individual source books, and therefore, the definition of an assembly will be different for insurance purposes and it will be for cops purposes.

23:04

The rest of the services on here to my mind are winning cogs.

23:07

And therefore, follows the Constitution.

23:09

So that's the first question. Is the product a regulated activity or specified? And the answer is no rhapsodic duty.

23:16

If the answer is yes, then we need to move to the next question.

23:20

I'm sorry, this is typical lawyer speak. But, is the wholesale market exclusion unavailable?

23:26

So the answer to that is no. It's not available. Then frankly, again, we're outside of the scope to maturity, and that's a slightly complex products as a second.

23:38

The final one is, is the customer SME with consumer duty offset voltage tests slides later?

23:45

We'll get to that.

23:47

If at the end of the day, the answer toward these questions is yes.

23:51

In other words, we are within the scope of consumer duty.

23:53

Then there was a sort of question, why to put it another issue? we need to think about?

23:59

Are you the manufacturer?

24:00

Are you a distributor, do you have mature the influence of the retail customer outcomes, And then you have to work out to, you know, what, what exactly the responsibilities are, portion at basis.

24:14

But for the outcomes, we need to achieve consumer duty.

24:18

Next slide, please.

24:23

Sorry, I mentioned the wholesale market exclusion, one of the issues that came up during the consultation process, it's a number of respondents for a number of people, commented on the process.

24:36

Consultation paper felt that, as originally drafted, is consumer duty with too broad and court, what would otherwise be clear the wholesale products start to, which no, As the US, the US call it, you know, big, big boys market, not not something for retail.

24:53

So, as a result, they've included a specific exclusion.

24:57

For wholesale market products, I put you on the first bullet, whatnot Executioners.

25:01

So, products or services that are not designed for retail customers are not within scope duty.

25:07

Only marketed unapproved distributions and non retail customers, IE, professional eligible counterparties as to finding clubs or, a minimum denomination or otherwise minimum investment, £50,000 to the function instrument.

25:23

And the products are not provided to another firm under an arrangement between them as part of a distribution chain for a retail product or service.

25:33

Obviously, the FCA set incorrectly classifying a product or service as non retail with the aim of avoiding the duty and then distributing, distributing it to retail customers of the SMEs would be in breach of the duty.

25:48

This is the bit I got I was mentioning earlier about materials influence.

25:52

The consumer duty only applies to the extent that a firm is responsible for determining a maturity, influencing retail customer outcomes, and even where it doesn't apply, your obligations on funds must be interpreted proportionately in a manner that reflects the firm's role in the distribution chain and its ability to influence retail customer outcomes.

26:12

The last thing that I think is quite important to mention this is a reference to outcome.

26:16

What our products and services Jonathan's going to come to in a moment, were farmers already subject to laws on product design or assessment to find you complying with these rules.

26:27

Complying with these rules will also satisfy relevant parts of the consumer duty.

26:32

Other words, for a lot of the products I've mentioned, cross three might be relevant. If you satisfy port three, you are deemed to satisfy the outcome, one of the consumer due to some products services.

26:43

So in practice, what does all that mean?

26:46

So, if you, as a financial institution, designed and structured retail, use locally, in Skype, if, on the other hand, you have a wholesale instrument of some sort that a third party independent independently uses as a component and a retail product, you are not in Skype.

27:07

If, on the other hand, you've designed that, but knowing fully well that it's going to be used when used by a third party as part of another products that's going to go to retail, lifetime of use, then you are in Skype and then what we have to do in a second work out what your responsibility is rigid.

27:27

Another example for example, might be a fund manager.

27:30

Suspect many of you are from management towns.

27:33

Supposing you have an institutional only font that's not subject to ...

27:36

to consumer duty if without your involvement, a third party retail fund to funds invest in that fund.

27:44

So, it's your fault, for retail facing font decides, to buy some of your funds and interest in your funds for its retail consumers, customers.

27:54

On the other hand, if you know that that's going to be the case in your marketing it, to know that the ultimate end user is going to be retail, your marketing, as such.

28:04

Then, of course, your within Skype Duty.

28:08

Might I have the next slide, please?

28:13

So, I mentioned manufacturers, distributors and mature, so What does that mean? So, a manufacturer It's a fund that creates develops designs issues operates or underwrites products, or services, service.

28:25

Those people will be regarded as product manufacturers.

28:28

Um, distributors are defined as persons that offer, sell, recommend, advise on proposed, provide a product or service.

28:37

Then the consumer duty across all of that applies to firms that have a material influence over what determines retail customer outcomes.

28:46

So, for example, consumer duty applies to firms that can influence material aspects or will determine the design or operation of retail products or services during the price or value, the distribution of retail products and services, preparing and improving communications, print and communications.

29:03

But onto the issue, retail customers are engaging with customer support from retail customers.

29:09

Now, whether I'm not sure it influence exists, would depend on the extent to which the firm is in privacy, practice exercising discretion, consumer outcomes.

29:18

Where it does apply, the extent of a firm's responsibilities under the duty will depend on the firm's role and the extent of its influence of a retail customer outcomes.

29:28

The level of responsibility depends on the firm's actual role and influence.

29:33

It has in practice rather than just set out on the contractual terms with the FCA.

29:39

You can papers what you like, but at the end of the day, they will look at what is actually happening and how the arrangements function in practice to determine the level of responsibility.

29:51

Firms that can determine the maturity of branch, which are customer outcomes need to consider the end customers in the distribution chain whether or not they are direct client fun. This is particularly important for manufacturers.

30:02

Many manufacturers' products may not ultimately ever speak or have anything to do with the underlying client.

30:10

But that doesn't matter.

30:11

You still need to consider, the end customers are, and then have regard to the outcomes to Trump's speech amendment.

30:20

If I might have the next slide, please.

30:26

Right.

30:26

I set out in some excruciating detail, the rather dry definitions of what small and medium sized enterprises are, for the purposes of cult site.

30:38

This is quite an interesting one. During the consultation process, there was a degree of debate as to whether SMBs, soon maturity, at all.

30:47

Should they be called out of consumer duty and if someone should be.

30:51

But, as Rosanna sort of pointed out, at the beginning, not just thanks to the panel. And I think that there is a strong sense at the regular arrangement of the government. The SMEs are a vital part of the economy and need to have the protection that retail customers have. So there was no, in the end of the day. So they can see a wall scratching SMEs have.

31:13

There was also some degree of discussion as to whether we ought to have a single unified definition of an SME on one level would make things a lot easier.

31:22

On the other hand, that's not the way the rule book. It's currently structured.

31:26

It's a handbook, it's a definition, good reason, varies between the different source books, depending upon the nature of the products.

31:35

So, we have ended up goods consumer duty with exactly the same situation.

31:39

So, it's very important that you determine when you're looking at a commercial banking product, which will book, does it fall under, and then you look to to define, what is a small or medium sized enterprise. I put it down here, either run through it other than to say, there is obviously a difference between sport for clients and others.

32:01

It's the source of the street in the handbook, conscious of time. So, I've got to skip over this.

32:07

Next slide, I would note again. Be careful of insurance because it isn't.

32:14

Could we skip a couple of slides, please?

32:19

one more.

32:24

Sorry?

32:30

That's fine.

32:31

I was gonna then talk a little bit about sort of a few other issues that have come up.

32:38

one, obviously there's an extraterritorial point here.

32:41

The FCA obviously understands that they can't require overseas fountains to comply with the consumer duty.

32:48

That said, they have put UK distributors of non UK products or notice that they must take all reasonable steps to understand the product and service, the target market in which the value it provides to ensure that it will be distributed appropriately.

33:05

Someone's slightly Hollander, If you're a UK distributor of a non UK manufactured product, you really have to take extra care.

33:13



The FDA has also cool that quite interestingly, the agent is client rule and cogs obviously, that stands but the EFCA has made it very clear that firms must look through that arrangements in the underlying and retail client is.

33:29

So you can still treat the agent as your client, but that doesn't mean when you're considering the outcomes that you consider them for the agent.

33:38

You've got to think, who will attend the client, we know who they are, and does this serve the purposes of satisfy the outcomes.

33:46

Next slide, please.

33:52

Right, Rosanna has already mentioned disease, um, she's particularly mentioned the ... report, historical issues of interest rate hedging products and there were these two letters of reference in the major points here.

34:08

The bottom line is the NCI, it's very, very focused on they're extremely focused, but the right outcomes are achieved.

34:18

This is or paramount importance for the economy.

34:22

They've mentioned here, in the July 12, 2022 digit China letter, that in relation to collections of recoveries, that number or customer outcomes, they have reminded firms their obligations balance into consideration on Principle six, treating customers fairly.

34:42

They also, interestingly, at some point, the waveforms of uptake treat certain customers as if they were SMEs.

34:50

We took the unregulated credit agreements here.

34:54

The phones will not be their own style set themselves, from the center.

35:01

There's also the charge sensitive matter.

35:05

Short Chief Executive of 16th of June also mentioned about the rise of the rising cost of living.

35:12

And they refer back and not to the treatments or guidance issued him with respect coronavirus.

35:18

Years ago, I'm saying that actually, that still remains in the present circumstances, cost of the crisis.

35:24

That remains relevant.

35:26

The FM makes it very, very clear that these expectations also apply to SMEs or small business customers.

35:34

So I think that rounds out what I wanted to say on this, I'll hand over to Jonathan, just to re-iterate, estimates are very much in yesterday's class.

35:44

Thank you, Richard.

35:46

So if I could move to the next slide, please.

35:49

And just straight into the next one as well please.

35:52

And so very time limited on this and as quite a lot to cover with the the four outcomes and then we will briefly touch on monitoring and governance. So I guess outcome number one is arrange products and services and split this into into two different sections as of C one that we're looking at now the requirements for manufacturers and one that will look at the requirements for the distribution.

36:22

So what the FCA saying basically what they're wanting you to do is have a robust product. Approval process. As you can see in the first column? I'm going through that. It's, it's, you know, it's following it through from sort of design At the idea if it's a new product or even just reviewing the, you know, the product journey from if it's an existing product. But one of the things that is really key and really important to pull out and this is is target market.

36:55

It really needs to meet the customers and the consumer's needs which again, as you know, Richard and Rosanna have both been discussing is particularly tricky in the SME market. But, some of the considerations around this, again, need to include vulnerable customers.

37:16

And, again, with, you know, that's within the target market.

37:20

And, again, with that, it can be that, you know, a limited company with one sole director could be much more vulnerable than, you know, than a slightly larger, larger corporate. It's about being able to identify those customers as well. But, with the product approval prices, again, it's designing irrelevant risks, and what you're going to do about mitigating them, you'll need to be able to document this. Ensuring that, designing the product is a pro Bono said, yes. I had a problem with my sound, just, as I was, just I was. Just actually somebody has asked a question in the chat, which this might be a really, really relevant time to pick it up. And now, the question is what is your view on how regulators would expect firms to remain dynamic?

38:09

On what segment, SME clients fits a micro enterprises, SME, large, corporates. And the example, given, there's some relationships held minimal, and the firm may not have access to that data to make that decision. So, they may not know, the data will start to determine whether or not they said it's a micro enterprise or not. Now, I think it's really good question. And, it's one I know a lot of firms are grappling with. My view, and particularly as we look at the last post, product and service outcome, is that what this outcome or cause you to do is to identify your target market. Now, if you have a product that your target market is micro enterprises, small businesses, you should ensure that you satisfy these outcome or comments in relation to that product.

38:55

Now, if, when you have, if within that customer segment that you're that that products distributed to, you find, for example, that you have. Everybody's large corporates, well, what you've done is you've treated something, can Skype, potentially didn't need to be in Skype. But equally and I think I'll go back to a point that Richard made on an earlier slide, if actually design a product for non retail customers say people outside that consumer duty perimeter.

39:25

That actually what happens is that a lot retail customers are getting that product. Then actually, you need to do something about that, too.

39:33

You know, you've got obligations to do product reviews on an ongoing basis. So that's how I'd see that waiting for you, And I don't know in the context of what you're talking about here, Jonathan. Whether you have any other thoughts on that?

39:46

Um, yeah, we as we all know that the definition of, you know, SMEs is is quite wide and varying and definitely agree that you know where you are.

40:00

I guess where you've got a primary and a commercial product but if it's being sold to retail customers, you really need to put that through the consumer GT lens to make sure it's appropriate. Make sure you've considered or the customer journey, as well, you know, as we were discussing. So, I don't really have ultimately that much more to add into it to what you've been saying was I know it's definitely an area that needs to be really focused on and really considered when going through the, you know, the product approval or the product review process to make sure that you are meeting your target market.

40:34

I mean, that is really key and that's something I think the FCA will, will be very hot to look at as as this goes forward.

40:42

Sorry.

40:43

OK, sorry, I won't interrupt and interrupt whenever you like. And say, I mean, we've covered bets on, Hey, we've talked about product testing.

40:53

You know, your products, your existing Android new products, need to be tested to make sure that they meet the target market objectives as restate it, and that really does include scenario analysis and things like that, and as a result, I've also said is, you know, products need to be regularly reviewed taking into account any changes to the product. So the changes to the market and things need to be done and if any, you know, issues that have been identified, the FCA will expect you to rectify these from a product perspective to ensure that your customers the SMEs are getting what they need, What they bought and, you know, there's no barriers in place for them to, to, to, to reach that. financial objectives. So, if I could move to the next slide, please?

41:46

So, now, we're just looking more around the distribution arrangements that we're saying, and, again, you know, from product distribution.

41:55

I guess one of the key things is to its aim to prevent and mitigate retail customer detriment.

42:00

In this case, you know, retail customers with defining as SMEs support proper management of conflicts of interests between distributor, customer manufacturer, and ensure that the needs of the characteristics and objectives of the target market from a distribution perspective Julie, taken into account.

42:22

So, again, from a distribution of this, quite a lot that still needs to be done.

42:27

The information flow that we see going through, again, needs to be considered and there's quite a lot of things that we need to look at here.

42:39

That distributes it needs to be able to understand the characteristics of the product, needs to understand the product's identified, target market, but also how that fits in with the distributor's target market to make sure that they align.

42:53

one of the key things that the FCA have said is in the consumer duty journey and the product life cycle journey, if at any point, anyone identifies where there may be some consumer detriments that not only do you as a regulated entity have to have to kind of raise it with, you know, with whoever or whichever sort of cog in the wheel. You've identified that issue with.

43:23

It needs to be rectified but you also need to report that to the FCA. So, you know, that there's quite, you know, that there's quite a lot of onus being put on either firms from a regulatory perspective on that point as well.

43:40

So, yeah, it's, it's a factory that the information flow, and, you know, distributors needs to be able to provide the, the customer with all the relevant journey. one of the questions that we had yesterday was around the level of information that needed to be provided to customers or to distributors from the manufacturers. And we came to the conclusion Oh, wow, I say with currently, as we were discussing, it's very much, you need to be able to give distributors as much information as possible to be able to ensure that any products they may be setting on your behalf, you sold appropriately into the relevant target market. And, finally, again, just clicking on this is the review of your distribution arrangements needs to be taken into account. Is it relevant? Is it still up to date?

44:33

Have you know, I, You, know, offering your clients appropriate channels via online, face-to-face, telephone, based all that you know, all the different distribution channels are available to customers. Just need, again, need to make sure that that's appropriate for your, for your target customers. So, if I can move on to the next two slides, actually.

45:00

If we can just skip ahead a slide on outcome, too, I'm thinking. Oh, no, back on, sorry. So, outcome to price and value.

45:11

As Rosanna mentioned, this is a key area about, you know, is your customer paying?

45:19

Yeah.

45:20

A fair price, that's quite difficult how, you know, how do they get fair value? But, again, things to consider in the total calculation of fair value, as you can see looking at the two different sides of the seesaw is, um, you know, price total price paid by the customer over the life cycle of the product. The income, and profit generated from minority of customers, costs, incurred by the firm, an economy of scale and market rates.

45:52

So, from a value perspective, what they're looking, as, you know, the benefit derived by the customer quality and the barriers that you are seeing.

46:03

So the quality of the product and any barriers that you are seeing, you know, your customers get in terms of, I guess value And again, a barrier that we can see is that in a post sale barriers if you're on a speak, Sorry.

46:19

For a regulated consumer credit product, sometimes things like early repayment, because it's prescriptive within the CCA, um, can be quite painful for a customer.

46:31

And it's about looking at those requirements, making sure that you're adhering to the requirements of the consumer credit, but also making a much, hopefully, a much easier journey for your customer.

46:44

Looking again, at the carrot characteristics of the product or your ongoing support. So, these are all value add bits and comparisons against similar products, so, all of these bits need to be taken into account to ensure fair value.

46:58

If I could move on to the next slide, please.

47:04

And so, just some of the things that we, the the FCA have stages that obviously they don't believe that differential pricing between new and existing customers necessarily causes harm.

47:16

Note, though, the use of the word unnecessary. Again, that's, you know, subject to interpretation.

47:25

Again, if you're offering upfront discounts, which are clear and transparent, they've said that that's acceptable. How firm needs to ensure that they can justify that both new and existing customers are receiving fair value.

47:38

Again, so if you're, you know, you're offering, as we're talking about upfront discounts, etcetera, and on, and on a product that previously potentially didn't have that, how can you demonstrate that to your customer. Your existing customers are getting value in comparison to new customers. The rules don't prevent cross subsidies between products. Providing the consumer GG also doesn't prevent farmers from some selling similar products at differing prices across various brands. Again, as long as fantasies retained. And they do also have any retail products that could be deemed to have price, quotes, and practices similar to GI will not meet requirements at the duty.

48:21

So, it's key on you know, this price walking practice is considered and the, you know, the FCA. I have put a lot of information out around that on the GI from there, we said, oh, yeah. Yeah. Hello. So. I thought it was worth mentioning actually something in the context of this outcome that they explicitly call out in the and the non handbook guidance rather than to SMEs. And one examples I gave in relation to a bad practice, you'll know, in the non handbook guidance, they give examples of bad practice. one example of bad practice that give specifically on SME relates to the findings from the strategic review of retail banking business models. Where they found that many SMEs maybe paying high charges on business current accounts.

49:16

And this is perceived difficulty of switching bank accounts and also the complexity of charging structures on those accounts.

49:25

Now that I run that report found that that market's really complex and prices can be opaque and some SMEs might not be benefiting competition. Now, of course, within the pure consumer space, The current account marker, overdraft charging structures, all of that has been subject to say much regulatory scrutiny, knievel's new requirements since going back. Many, many years, and the bank charges litigation. Gosh, I can't remember how long ago that was. Now say there's been a lot of direction of travel on the consumer side, The SME, it's a business banking, business. Current concept, largely sat outside that. I think it's important when we think about this outcome, that for those of you that are providing business cards, council actually vary for this outcome hyper real. Think about that. Have a real thing about your charging structures. How, transparent to all day, How aligned, or they actually with what you do for your main consumer current count proposition?

50:23

So, I just wanted to, to mention that, to something that they explicitly call out, and the guidance is relevant to the population we're talking about now, is this sum in this outcome Sorry, John Kerry, oh, that's all right. No worries.

50:41

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

50:51

And the next one, again, Please. So some outcomes, three, consumer understanding. That was the difference that we've seen between the consultation paper and the policy statement.

51:05

And I think one of the key things that we've seen is the, the change in what, you know, from an understanding is that in the consultation paper, if you look at the middle bullet point, it's likely to be understood by the average retail customer intended to receive that communication.

51:26

That has now changed, and they've made it, it's likely to be understood by retail customers.

51:33

That's everybody, because in taking into account average retail customer, you are missing out. A lot of individuals that, all SME, you know, sort of a lot of people that would be relevant for the products that, you know, potentially will not understand anything at all. So I think that's probably one of the key things that we need to focus on and I'm just really conscious of time also wanting to.

51:59

Give time for some questions. So if I could just move on to the next slide please. I think we can skip this one. It's just a bit of research that the FCA did.

52:08

And again, if we can sorry, maybe well I'd say about this outcome for SMEs is it's upon I've already made at the outset that actually, there's been so much focus on consumer communications. You know, redesigning consumer terms and conditions and actually the system.

52:26

The commercial banking position is sort of sap, slightly behind that. In the prioritization, within a number. Now, that's not universally the case.

52:34

I know a lot of firms and a number of firms on this call, we will have spent a lot of time and signing that communications for business customers and given as much thought, SHH, consumers, that they, I think, from a commercial financial services trust session is on a journey. And that journey is behind what's happened on consumer. So, and also, it may not universally be the case that you've applied so much attention across all of your different products sets as well.

53:01

So when we've been talking, It's actually, you know, bringing your Customer journey, your customer communications, up to this consumer duty standards, Where you might have given much more fixed, pure consumer products, historically is actually something that's going to be quite time consuming, and there's quite a lot to do that. And the other point, I don't think it's really interesting point, Jonathan, you made about the customer, and when we talk about customers and vulnerable circumstances, where you've got a limited company, what do we mean? And how do we look through and into, you know, if you've got a cell director, so shareholder? And not so direct to show sole shareholder? Is somebody in circumstances that we should be applying the same test that, you know, there's all messy pierce, the corporate veil to look through the person behind it and treat them accordingly. And I think that's what funds will be doing anyway on the vulnerable customer guidance. But I do think, it's worth bearing that in mind as well.

54:04



What I might do, Actually, Richard, serra each other, said, just to make sure that we've got plenty of time for questions are coming in, and we have got quite a few really good ones.

54:14

I'm just gonna sort of pulls out and start picking up some questions, and what we might do is we guys faced Weave in some of the Consumer support angles to that, as we were on some of these questions and say, Ooh, Very good one, about fair value. So, Should online services all be free?

54:37

Or, if they provide additional features, A, for a free service, can we charge for that? Now?

54:44

Yep.

54:44

Jonathan, I'm interested in your view, but I'll just give much expected, and then I'll hand Dave TA.

54:49

There's nothing within the rules or the guidance that stops charging for any particular components of a product or service. However, what firms have to be able to do is to demonstrate that package of these charges, cost, product, present value. And there's various factors that could inform that, And that set out, and the guidance, and it's on the earlier slides, as well. So, what I would say, in answer to this question is, there's nothing to stop charging, or I don't think, through an enhanced service online. However, you do. You need to make sure that you considered that enlightened target markets and also the overall balance of the cost of the product versus the benefit. It gifts. And a whole sort of aligned to the target market. So, that's, there's nothing to stop you. But you do need to put it into that equation and see what you come up.

55:54

Yeah.

55:55

I'm agree with the Arizona.

55:57

And I think the something else that needs to be considered is, if you're, I mean, where specifically really looking at SMEs in this perspective, is if you have sort of more general retail customers and they're being offered the same product or service, and you've kind of segmented into a retail and an SME bucket, then if it's being offered free in one area and charged in a different area, you need to be able to justify why Any additional service or benefit is, you know, is is differentiating between the, you know, the, I guess, the, the two segments. So, you know, I think that's something that does need to be looked at.

56:42

Yeah.

56:44

There's a question in relation to this particular fake areas for consumer supports. And I think it's worth just pausing briefly on that as we we have skipped over it slightly.

56:55

But on the consumer support where I see the FCA really focused, if we look back at those CEO latches the Chairman's letter, what was happening in the run-up, KV, during Covert and what's happening now with no energy prices. All of that sort of stuff.

57:15

It is going to be the treatment of customers in the race, for parents, I think that's gonna absolutely be top of of the essays rater. And if we look at what they found in their review, you know, there's to the CEO, the Chair Letter, it is worth it is actually they identify failings and weaknesses within firms in relation to that, and that this is sort of pre CD rules. So, I mean, my recommendation is, if you're prioritizing what you're looking at from consumers, school perspective, look back at those letters. Make sure you properly addressed the issues, which were, which were flagged, which were flagged there as well.

58:00

OK, and it's this one question, And I'm really sorry that you asked it, But I'm saying he would have dropped into the chat when we were talking about, when, Jonathan, price and value. And the question is, I'm not completely sure what, context, et cetera. But Jonathan, if you see if you and I say, What does fine tune this? She need, what level of issues, characteristics is now a description of this.

58:26

So, um, I think that might be when you were talking about either product or value, what the expectations are.

58:35

So it's more around, I guess, when I think I was also potentially talking about that around the difference between, for distributors in the whole supply chain.

58:48

It's more of, you know, as a, as a, if you're a manufacturer, you need to be comfortable that you're distributors, complying with the requirements from the consumer GG perspective, but also taking into account, you know, so looking at the product, appropriateness for customers and and all the bits that we previously discussed. So I think where I mentioned, if you find an issue that.

59:13

So that would be a breach of the consumer GT rooms, which it could be anything really to be honest, in terms of what you're looking at. For example, you know, if you come across the fact that, you know, a certain track your customers are being sold in inappropriate products, even though you've carried out all the, all the relevant bits, then that's, that's a, you know, I'd say the relevant, it's the relevant due diligence and being given that distributes the, all the relevant information.

59:42

That is a breach and as such, no, That needs to be rectified, report it to the FCA, and really, you know, needs to be fully documented in terms of what's been taken into account to. Remedy that breach. I might just direct, actually, the person who asked question to, specifically, to.

1:00:06

Can two, a 3.1, as well as print, to a 3.19, which stays around those run products and service, where you identify an issue, what steps you need to take. It's essentially if harms identified needs than it. Certain things are triggered. You clearly need to stop the safety, stock, future home. And then he needs such a what you might do to remediate and redress.

1:00:34

So maybe direct you as well to those those points. I'm conscious that we are at time now, and I can see people are dropping off with meetings. Get on with our day. So it's great to have you all with us. Thank you very much. If you've got any other questions, please do reach out to any of. this, is going to have a chat to you. So don't forget We've got the asset finance wellness afternoon. Thank you very much, OK.