

CONSUMER DUTY

The New FCA Consumer Duty Principle.

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Consumer Duty
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**YOU CAN WATCH LEE SIMPSON
SENIOR MANAGER -
CONSUMER DUTY, TALKING
ABOUT THE
NEW PRINCIPLE BY
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**YOU CAN ALSO FIND THE VIDEO IN THE
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CONSUMER DUTY SUMMARY



Introduction to Consumer Duty

Consumer Duty is a brand new principle brought in by the Financial Conduct Authority (FCA) to improve firms treatment of customers, and make a shift towards more outcomes focussed and data-led regulation for the industry. It will set higher and clearer standards of consumer protection across financial services and require firms to put their customers' needs first including those in vulnerable circumstances, at every stage and in each interaction. Consumer Duty requires firms to switch from considering fair treatment to delivering good outcomes for customers.

Made up of an overarching principle and a new set of rules for firms to follow, Consumer Duty means that customers should receive communications they can understand, products and services that meet their needs and offer fair value, and they get the customer support they need, when they need it.

The FCA believe their current principles have not been working efficiently to protect customers and they continue to see evidence of consumer harm. With more financial decisions now in customers' hands and the changing digital landscape, they feel now is the time for a higher standard of consumer protection.

Firms have until 31st July 2023 to implement the new rules for all new and existing products and services that are currently on sale and until July 2024 for "off-sale" products.

Senior Manager and Board Accountability

- Senior Managers will be accountable for delivering good consumer outcomes within their areas of responsibility, in line with the SM&CR Duty of Responsibility and the Conduct Rules. Including ensuring colleagues in their areas understand their roles and responsibilities in delivering Consumer Duty. All staff will have some responsibility for compliance with the Duty, in a similar way to the existing Conduct Rules.
- Firms need a Champion at Board level who, along with the Chair and the CEO, ensures that the Duty is discussed regularly and raised in all relevant discussions. At YBS, our Board champion is Independent Non-Executive Director (NED) Mark Parsons.
- Board Attestation: Our Board must annually attest to compliance via the review of an assessment of whether YBS is delivering good outcomes for its customers which are consistent with the Consumer Duty. The attestation would be required from July 2024 onwards (i.e. one year after initial launch), albeit Boards should be comfortable with compliance at July 2023.

Consumer Duty is a material new piece of regulation, and the FCA have been clear they see it as a step change in their expectation of firms, regardless of a firms standard of compliance with existing regulation

CONSUMER DUTY STRUCTURE

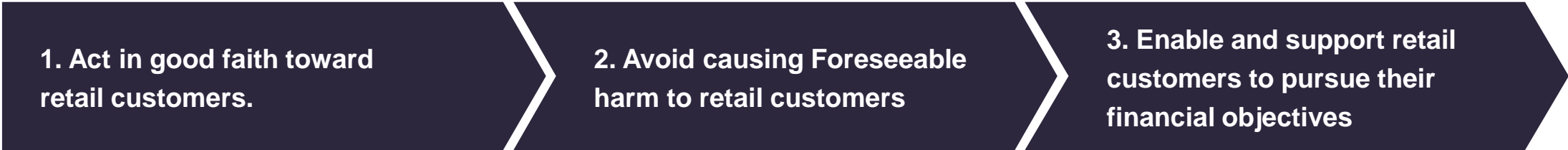


A New Consumer Principle (PRIN 12)

A firm must act to deliver good outcomes for retail customers

Three overarching cross-cutting rules

Firms must take reasonable steps to:



Four outcomes

The key elements of the firm–consumer relationship:



4 OUTCOMES

THE KEY ELEMENTS OF THE FIRM–CONSUMER RELATIONSHIP:



Products and Services

Products and services should be specifically designed to meet the needs of consumers and sold to those whose needs they meet:

- Identify both a target market and a need/objective of that target market that they aim to meet
- All costs, benefits and performance of products and services to be in keeping with the reasonable expectations of the identified target market
- Take proactive steps to prevent distribution outside the target market

Price and Value

The price of products & services must represent fair value to consumers::

- Proactively assess the benefits that consumers could reasonably expect to get from the product or service, against the total cost to the customer . This should happen both at the design stage and through ongoing active monitoring.
- Avoid complex pricing practices and practices that take advantage of consumers' optimism bias. Example: it might be appropriate to earn higher margins where a firm has developed a genuinely innovative product or more efficient service.
- Different costs could be appropriate for different groups of consumer, and fair value does not mean all consumers should receive the same outcome. The FCA still expects consumers to be able to benefit from "shopping around."

Consumer Understanding

Consumers to be given the information they need, at the right time and presented in a way they can understand to enable them to make informed decisions about financial products and services.

- Consumers must be given the right information (about features, costs, risks and benefits), at the right time, and in an understandable form to enable them to make informed decisions.
- Key information must be clear and visible, and firms must ensure they are not exploiting information asymmetries or behavioural biases. Example: when notifying a customer of an amendment to terms, firms should highlight the specific changes made rather than just send out the full revised terms.

Consumer Support

Support Consumers' needs throughout their relationship with the firm to enable them to realise the benefits of the products and services they buy and ensure they are supported when they want to pursue their financial objectives.

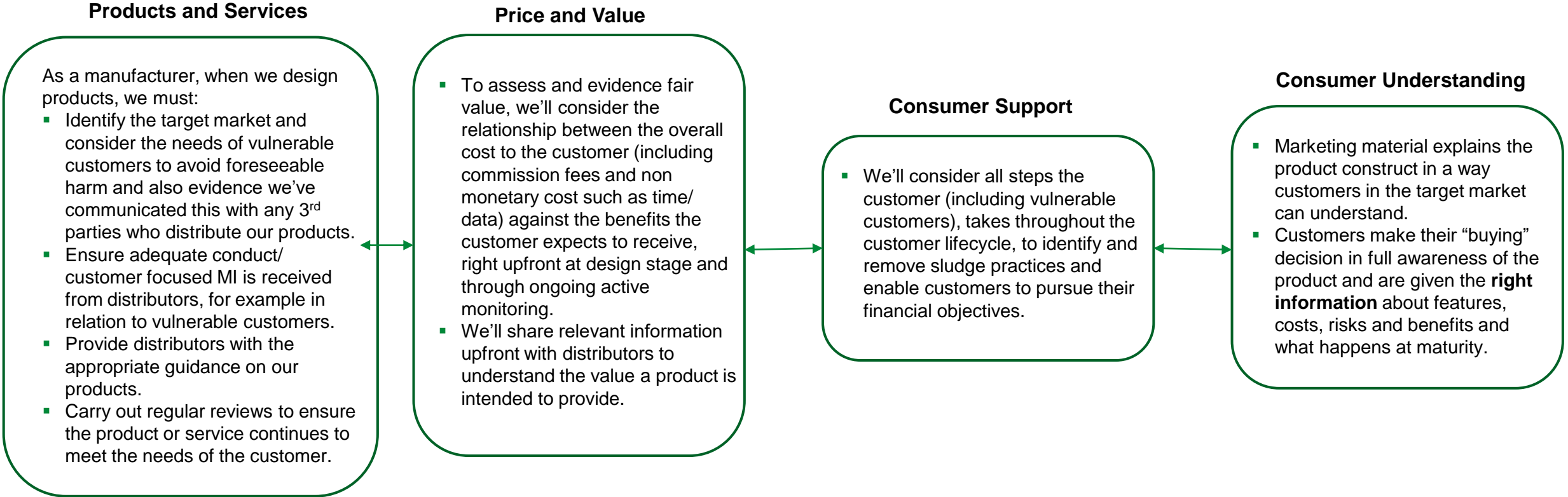
- Customer services should not cause consumers to incur additional **costs** (be that time, money or inconvenience).
- It should be as easy for a customer to switch or exit a product as it is for them to purchase it.
- Prompts and incentives to retain a customer would be acceptable provided they did not affect the ease of switching or exiting.

OUTCOMES IN PRACTICE



The Consumer Duty is not intended to prevent firms offering products and services. It is intended to ensure that those products and services provide “good outcomes”, in line with the principle; the cross-cutting rules and the outcomes

Consider a savings journey – under the Duty the “manufacturer” of the product (the Bank/BSoc) and any “distributors” (for example our Branch & Agency network) must work together across the customer lifecycle to provide and evidence good outcomes:



Everything is underpinned by evidencing and monitoring – both proactively, before new products and services are launched, and on an ongoing basis, to ensure customers receive good outcomes.

CONSUMER DUTY PRINCIPLES



As part of our strategy of delivering Consumer Duty here at YBS, we've designed a set of 12 Consumer Duty Principles. These define our approach to how we treat our retail customers and set out the key points of what Consumer Duty means to us. This principles-based approach aligns with our strategic blueprint and allows flexibility for our business areas to put Consumer Duty at the heart of their activities. Our principles have been created by our Consumer Duty team in conjunction with SMEs from across YBS and are in active use right now to inform solution design and delivery.

- Each guiding principle relates to one of the 4 Consumer Duty outcomes as well as the cross-cutting rules, governance and monitoring, and uses language and examples consistent with the new regulation to ensure accuracy of our interpretation.
- We will use the principles across the business to guide the practical things we need to do throughout the customer lifecycle, focusing on delivering and evidencing good outcomes and preventing harm.
- We have also created a set of definitions using key themes and phrases aligned to the Consumer Duty, such as “Foreseeable harm” and “Sludge practices”. These definitions will be used alongside the principles as guidance to help business areas responsible for changes with their interpretation.

Please make sure you check out the attached Principles and Definitions document where we set out our principles with examples of what these mean, and also don't mean to us.



NEXT STEPS

- Over the coming months we'll be continuing to support impacted business teams with their plans for delivering change and working with stakeholders across the business on some key pieces of work such as the creation of a Target Market framework, Fair Value framework and a Communications framework all of which will accelerate our ability to deliver and evidence those good outcomes for our customers and make sure we meet the standards of the new duty. We'll also be launching out a brand new Consumer Duty E-learning for all colleagues.
- In the meantime, have a think about what our Consumer Duty principles mean to you and your Team and keep your eyes peeled for our next update.



SIMON MARTIN
DIRECTOR OF CONDUCT & CREDIT RISK

“At YBS our purpose is Real Help with Real Life, which is fundamentally all about our customers, and supporting them in achieving home ownership and saving for their futures. Equally the FCA’s new Consumer Duty regulation is focussed on putting the needs of customers first to ensure they receive good outcomes and can pursue their financial objectives.

Given that, it’s key that our colleagues, who we rely on to bring our purpose to life every day, have a good understanding of the Consumer Duty, how it relates to their day-to-day work and what we need to do to comply with this important new piece of regulation. Doing that will mean we can confidently continue to provide Real Help with Real Life to our customers, so I hope you enjoy this training and support YBS as we make the necessary changes to our business required by the Consumer Duty

Thanks, Simon”

THANK YOU FROM THE CONSUMER DUTY TEAM



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