

The Consumer Duty: don't do more—do differently





Contact
Tim Hogg
Senior Consultant

The UK Financial Conduct Authority (FCA) has finalised the rules, guidance, and implementation period for the new Consumer Duty.

The FCA's journey

The Consumer Duty is the product of 15 years of evolution in the regulation of financial services. It's not so much a change of direction for the FCA, but a change in what is required of firms.

The FCA has developed new tools that have been embedded within its policy and supervisory teams.

- **Behavioural economics** enables the FCA to analyse what biases customers are subject to, and how and why customers make decisions in response to the choice architecture presented by firms. As a result, customer behaviour, whether rational or irrational, is now treated as **predictable**.
- **Data science** enables the FCA to quantify the distribution of customer outcomes and locate the clusters of customers who are not enjoying good outcomes. As a result, customer outcomes are now **measurable**.

Firms can deploy the very same toolkit of behavioural economics and data science to prevent harm from occurring in the first place.

The customer journey

In a world where customer outcomes are both predictable and measurable, the FCA is aiming to change the customer journey experience:

- with products and services that are genuinely designed to meet the customer's needs and financial objectives;
- with pricing that ensures fair value for all customers (not just the 'average customer');
- with communications that succinctly cut through the complexities without resorting to jargon, and which result in genuine customer understanding;
- with support processes that make it as easy to do something in the customer's best interest as it is to do something in the firm's commercial interest (which will be increasingly aligned as customer understanding grows).

No matter how diverse the customer base, how challenging the context, or how complex the product, customers (and the FCA) will come to expect these outcomes as standard.

Your journey

The burden of proof is shifting; providers are now expected to be able to provide the FCA with the evidence that their products consistently deliver good outcomes for customers.

Your firm's Consumer Duty gap analysis may have revealed a number of areas where actions are required. Indeed, recent surveys suggest that most firms have particular work to do on fair value

assessment, effective communication (including sludge audits), and the design of new management information.

The key to implementing the Consumer Duty is not about traditional, box-ticking compliance, but about achieving deeper insight into your customers' behaviours and outcomes, using both behavioural economics and data science techniques.

The Consumer Duty is not about doing more; it's about doing things differently.

Contact

tim.hogg@oxera.com

Tim Hogg

minyoung.rho@oxera.com

Dr Minyoung Rho

reinder@oxera.com

Reinder Van Dijk

peter.andrews@oxera.com

Peter Andrews