

3 February 2023

Dear CEO/Director

Implementing the Consumer Duty in the Retail Banks and Building Societies sector

The Consumer Duty is a significant shift in our expectations of firms. It introduces a more outcomes-focused approach to consumer protection and sets higher expectations for the standard of care that firms give customers.

We are sending this letter to firms whose primary business model is in the Retail Banks and Building Societies sector to help them implement and embed the Duty effectively. The sector serves the UK with core financial services that are essential to everyday lives. This letter sets out:

- A reminder of the implementation timeline, key elements of the Duty and how it applies to firms
- Our expectations for how firms should embed the Duty, including relevant examples of good and poor practice
- Feedback from our recent review of firms' implementation plans
- Our approach to supervising the Duty and planned next steps

We expect the Consumer Duty to be a top priority for you personally. We want good outcomes for customers to be at the heart of firms' strategies and business objectives, and leaders have a key role to play here. Firms' Boards and senior management should embed the interests of customers into the culture and purpose of the firm.

We expect you to consider and discuss this letter with your fellow directors and Board, including the [Consumer Duty Champion](#) (or equivalent), and agree with them what further action you should take to ensure that your firm meets the requirements and expectations we have set out.

Your timeline for introducing the Duty

In July 2022 we published final rules and guidance for firms, and set out the following timeline for firms to implement the Duty:

- By the end of October 2022 firms' boards or management bodies should have agreed their plans for implementing the Duty
- By the end of April 2023 manufacturers should have completed all reviews necessary to meet the outcome rules and shared necessary information with their distributors

- The Duty comes into force on 31 July 2023 for new and existing products or services that are open to sale or renewal
- On 31 July 2024 the Duty comes into force for closed products or services

While our work on the Duty pre-dates the cost-of-living crisis, it is particularly important as consumers face increasing pressures on their household finances. Even before the crisis, consumers were being asked to make an increasing number of complex and important decisions in a faster and increasingly complex environment. But the crisis underlines the need for high standards and strong protections. It is more important than ever that consumers can make informed, effective decisions, act in their interests and pursue their financial objectives.

How the Duty applies to Retail Banks and Building Societies

The Duty applies to products and services offered to retail customers, and to all firms who determine or have a material influence over customer outcomes – not just those with a direct customer relationship. The definitions of ‘retail customers’ align broadly with the scope of our Handbook or relevant regulations in each sector (see the [Finalised Guidance](#) (FG) 2.3–2.11 and **Annex 1** below for a summary).

Firms should note that a large proportion of Small and Medium Enterprises (SMEs) fall under the Duty. For deposit-taking activities the Duty includes micro-enterprises, and charities with a turnover of less than £1m, in line with the ‘banking customer’ definition in the [Banking Conduct of Business Sourcebook](#). Loans or mortgages to any type of SME fall under the Duty if the loan or mortgage to them is within scope of the [Consumer Credit Sourcebook](#) or [Mortgage Conduct of Business Sourcebook](#) respectively.

The Duty applies across the ‘distribution chain’, by which we mean the manufacture, provision, sale and ongoing administration/management of the product or service (FG 2.12-2.20). Firms’ obligations under the Duty should be interpreted reasonably and to the extent a firm can determine or materially influence retail customers’ outcomes. What is reasonable will also depend on the nature of the product, the characteristics of the retail customers, and the firm’s role. Annex 1 notes some distribution chains common among retail banks and building societies.

Overview of the requirements of the Duty

The Finalised Guidance we published in July provides firms with a full explanation of the requirements of the Duty, including many helpful examples of good and poor practice.

The Duty requires firms to act to deliver good outcomes for retail customers. Firms must act in good faith towards customers, avoid causing them foreseeable harm, and enable and support them to pursue their financial objectives. Firms should consider the diverse needs of their customers – including those with characteristics of vulnerability (see FG chapters 4-5).

The Duty also introduces new rules and guidance to ensure that:

- **Products and services:** are designed to meet the needs, characteristics and objectives of consumers in a specified target market (chapter 6)
- **Price and value:** products and services provide fair value with a reasonable relationship between the price consumers pay and the benefit they receive (chapter 7)
- **Consumer understanding:** firms communicate in a way that supports consumer understanding and equips consumers to make effective, timely and properly informed decisions (chapter 8)
- **Consumer support:** firms provide support that meets consumers’ needs throughout the life of the product or service (chapter 9)

A key part of the Duty is that firms are able to define, monitor, evidence and stand behind the outcomes their customers are experiencing (chapter 10). This monitoring must enable firms to identify where customers, or groups of customers, are experiencing poor outcomes, and where this is the case firms must take appropriate action to rectify the situation.

The Duty does not have a retrospective effect and does not apply to past actions by firms. However, the Duty applies, on a forward-looking basis, to firms' ongoing work for existing customers (chapter 3).

Our expectations for how Retail Banks and Building Societies should embed the Duty

It is for your firm to assess if it is currently providing customer outcomes which have gaps or fall short against the higher standards set by the Duty, and to identify what it needs to do to address those. Such gaps or shortfalls may be specific to your firm. However, at **Annex 2** we highlight some aspects of current accounts, ancillary banking services, treatment of small businesses, cash savings accounts, and retail mortgage lending, that we presently consider especially important for firms in general.

Given the current cost of living challenges, I would draw out three headlines from Annex 2:

- ***The need for firms to deliver good outcomes for customers in financial difficulty.*** Although not yet in force, firms should be stepping up now in the light of the Duty to support customers in these straitened times and ensure they get good outcomes.
- ***The need for firms to provide fair value to retail customers.*** There are important areas of retail banking where we previously made little or no intervention in questions of price and value, but which the Duty now brings sharply into focus. In other areas (eg overdraft fees and interest rates) we already have specific rules but the Duty will overlay these, especially in respect of monitoring and evidencing the customer outcomes resulting. Either way, firms should not underestimate the new requirements of the Duty about fair value, the enhanced extent of our interest in this, or the high expectations we now have of the rigorous and balanced analysis with which firms should be able to support their assessments of fair value.
- ***The need for firms to deliver good outcomes to SMEs.*** Firms should not underestimate the new requirements of the Duty concerning their treatment of relevant SMEs or our enhanced interest in this, especially in the current challenging economic environment.

Letters to other sectors (which are being published) are drawing out aspects that are important for the Duty in other parts of the market (eg consumer credit, mortgage intermediaries, insurance, consumer investments), and you should consider those too where relevant to your firm's business, including where your firm plays a role in distribution chains in those sectors.

Feedback from our review of implementation plans

On 25 January we [published feedback](#) for firms on the implementation plans we have reviewed. This feedback contains examples of good practice, and areas for improvement, which will be useful for all firms to review as they implement the Duty.

Many of the plans we reviewed showed that firms have understood and embraced the shift to focus on consumer outcomes, established extensive programmes of work to embed the Duty, and are engaging with the substantive requirements.

However, we did also identify plans that suggested some firms may be further behind in their thinking and planning for the Duty. This brings a risk that they may not be ready in time or may struggle to embed the Duty effectively throughout their business.

We have identified three key areas where firms should particularly focus their attention during the second half of the implementation period (to 31 July 2023):

- **Effective prioritisation:** We saw some plans where it was not clear what the basis was for prioritising some implementation work ahead of other aspects. Firms should make sure they are prioritising appropriately, focusing on reducing the risk of poor consumer outcomes and assessing where they are likely to be furthest away from the requirements of the Duty.
- **Embedding the substantive requirements:** We saw some plans that suggested firms may have considered the requirements superficially or are over-confident that their existing policies and processes will be adequate. We urge firms to carefully consider the substantive requirements of the Duty, so that when they are reviewing their products and services, communications and customer journeys, they identify and make the changes needed to meet the new standards.
- **Working with other firms:** To implement the Duty on time, many firms need to work and share information with other firms in the distribution chain. However, some firms may need to accelerate their work on this important aspect of implementation.

I would highlight three further points for the retail banks and building societies sector. First, I would re-emphasise **the importance of firms in the sector not being complacent about the customer outcomes they currently provide or what the Duty requires:**

- There is a risk of some overestimating the progress and changes they have made in recent years, eg in the context of Treating Customers Fairly. Whilst many firms in the sector have made genuine improvements in that time, those improvements were rarely as broad or deep as they ought to have been and, in any case, the Duty further raises the bar, as we have emphasised. So, there are no grounds for such firms to underestimate the task they face.
- There is a risk of some overestimating the existing purpose-driven nature of their business models or culture. Some kinds of business models and cultures do imply lesser inherent risks to customers than others, but none is so benign as to present no risks. Firms of all types and cultures have, from time to time, treated groups of customers unfairly and given them poor outcomes, even if that was often due more to poor controls than ill-intentioned cultures. So, firms of every type must assess carefully, and challenge themselves about, whether they are consistently delivering good customer outcomes that meet the Duty.
- There is a risk of some underestimating what the Duty requires of them, for example because they consider themselves to be among the smaller firms in the sector. In fact, all firms in the sector must implement the Duty's standards and all should be progressing their baselining, gap analyses and correction plans, ahead of the deadline. That said, our Guidance does helpfully discuss considerations of proportionality around implementation: see, for example, FG paras 7.18, 8.7, 8.41, 9.5, 11.19 and 11.32.

Second, having recognised the scale of the task **it is important that firms in the sector ensure adequate resourcing of their work programmes implementing the Duty** including:

- carefully considering the relationship with any existing transformation or strategic programmes (eg alignment/differences, dependencies, and bottlenecks of timing or resource)

- identifying early and in detail any resource shortfalls, especially in areas like technology, and establishing a detailed plan to address or mitigate those in good time before the deadline
- investing sensibly in support or advice from third party experts where that assists or adds value

Third, **it is important that firms in the sector adequately assess the extent of the data needs associated with the Duty.** Whilst many firms will likely be able to build on their existing data and refocus it through the Duty lens, all firms should think deeply and afresh about the types and granularity of data they need to monitor and evidence outcomes under the Duty and drive further improvements in customers' experience. All firms must carefully design, source, and deliver the data and dashboards they will need for this (with an emphasis on the quality, focus and clarity of management information and indicators rather than their quantity), and establish mechanisms for governing and reviewing those and acting promptly on them.

As they oversee the implementation of the Duty, firms' Boards and management bodies will want to focus and provide challenge particularly on those general and sector-specific issues highlighted above, and on the other issues highlighted in our feedback, including Annex 2 below.

In the coming months, firms must tell us about anything we would reasonably expect notice of under Principle 11 (relations with regulators), including if they foresee that there will be areas of their business which will not be materially compliant with the Duty by the deadline.

Our supervisory approach and next steps

The Consumer Duty is a cornerstone of our [three-year strategy](#), and a key element of our work to set and test higher standards between now and 2025. It is being prioritised at every level of the FCA, from the Board down, and it will drive our supervision strategies and prioritisation.

As part of this work, we are developing a strategy to embed the Duty in our Supervision work with retail banks and building societies and tackle key harms in the sector, as well as develop metrics to measure the impact of the Duty in the sector.

Larger firms in the sector should expect to be asked regularly to share comprehensively with their supervisors their updates on implementation progress and their internal governance papers and minutes, which we will engage with and challenge. We will focus on the methodologies, progress, and outputs of the firm's baselining and gap analysis against the Duty outcomes, and on the approach and progress of the firm's evolving outcome measures, monitoring and associated data strategies.

However, firms of all sizes in the sector should be ready for us to include them in engagement. We will use a variety of tools, likely to involve:

- bilateral firm engagement, including with accountable executives and Board champions
- 'shallow' and 'deep' dives involving firm visits
- multi-firm work of varying scale and formality

Specifically, with a likely focus on the products, services and issues discussed in Annex 2, we will:

- From April 2023, engage a sample of firms in the sector:
 - on details of the frameworks and methodologies they have used to conduct their baselining and gap analyses (informed by existing data) of whether customer outcomes are meeting, or falling short against, the higher standards set by the Duty, and

- on specific instances of those baselines and gap analyses of particular products, services and customer journeys
- From September 2023, engage a sample of firms in the sector on:
 - specific instances of changes they have made due to their baselining and gap analyses, including their design and implementation of appropriate corrections and remedies of the gaps and shortfalls they have identified
 - specific instances where they concluded that change was *not* needed because their baselining and gap analysis showed that the Duty was already being met, and
 - the enhanced data, indicators and dashboards that firms should by then be starting to use to monitor customer outcomes against the Duty
- From January 2024, engage a sample of firms in the sector on what their enhanced outcome-focused data and dashboards are now indicating about customer outcomes, and whether those outcomes are consistently meeting the Duty

We will continue our work to support firms' embedding activities in the run-up to the July 2023 implementation deadline. For example, we recently held roundtables with Consumer Duty Champions from a variety of firms in the sector, to discuss our expectations of the role and any challenges they were finding in fulfilling it. And we are hosting a series of [in-person events](#) for retail mortgage and retail investment firms across the UK between February and June 2023.

Our programme of communications on the Duty will also continue, with further events and updates to our dedicated [web pages](#). We are working with an external research agency that will soon be sending a short survey to a sample of firms. This anonymised survey will help us understand the progress firms are making in implementing the Duty and will inform our ongoing communications to firms.

For more information:

- Read our **Finalised Guidance** ([FG22/5](#))
- Watch the [Retail Banking \(and Payments\) webinar](#), [Lending and mortgages webinar](#), and [other webinars](#) we held in November 2022
- Consider our [feedback](#) on our **review of implementation plans**
- Visit our **Consumer Duty homepage** (www.fca.org.uk/firms/consumer-duty) where you will find additional information about the Consumer Duty, on-demand webinars and [podcasts](#), and have the option to [sign-up for email updates](#)

If you still have questions, please contact your normal supervisory contact *unless* this is the Supervision Hub, in which case please **email us** at firm.queries@fca.org.uk instead.

Yours sincerely

David Geale
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Annex 1 – How the Duty applies to firms

The 'retail customer' definition aligns broadly with the scope of our Handbook or relevant regulations in each sector. For example:

- For deposit-taking activities, the Duty applies to consumers, micro-enterprises, charities with a turnover of less than £1 million and a natural person acting in a capacity as a trustee if acting for purposes outside their trade, business or profession (in line with the 'banking customer' test in the [Banking Conduct of Business Sourcebook](#)).
- For payment service or e-money providers, the Duty applies to business conducted with consumers, micro-enterprises and small charities (defined as for deposit takers above).
- For mortgages, the Duty follows the position in the [Mortgage Conduct Business Sourcebook](#) and therefore applies to all regulated mortgage contracts within the perimeter but not to eg unregulated buy-to-let contracts or commercial lending. Where the owner of a mortgage book is unregulated and the regulated party is an administrator, the Duty would apply in an appropriate and proportionate manner to the administrator's function.
- For consumer credit, the Duty applies to all regulated credit-related activities (see the [Consumer Credit Sourcebook](#)).
- For insurance, the scope follows the position in the [Insurance Conduct of Business Sourcebook](#). The Duty does not apply to reinsurance, contracts of large risk sold to commercial customers or other contracts of large risk where the risk is located outside the UK. Nor does it apply to activities connected to the distribution of group insurance policies or the extension of these policies to new members.
- For investments, the Duty applies to business conducted with a customer who is not a professional client, as set out in the [Conduct of Business Sourcebook](#).

Firms also need to consider the Duty when declining to take on a *prospective* retail customer.

The rules apply to products and services. Services include, for example, a distributor's sales processes, operating an investment platform, operating a model portfolio service, debt counselling services and arranging transactions, and carrying on a regulated activity or activities connected to providing a payment service or issuing electronic money.

The Duty applies across the distribution chain for a product or service that will reach a retail customer. The following are examples of some distribution chains common among retail banks and building societies:

<i>Product or service</i>	Manufacturer	Distributor
<i>Retail mortgages</i>	<ul style="list-style-type: none"> • Mortgage lender • A firm that funds mortgage products and influences the design • A mortgage intermediary firm offering a service (beyond distribution), such as providing borrowers with regular updates on whether they could better their current deal 	<ul style="list-style-type: none"> • A mortgage intermediary firm advising on/selling a mortgage • A mortgage packager • A master broker <p>(Note these firms could be a manufacturer too, eg if they are materially influencing the design of the product)</p>
<i>Retail savings</i>	<ul style="list-style-type: none"> • Retail deposit taker 	<ul style="list-style-type: none"> • Firm, which may or may not itself be a deposit taker, distributes savings accounts manufactured by other deposit takers
<i>General insurance</i>	<ul style="list-style-type: none"> • Insurer (which may be an entity in a bancassurance group) 	<ul style="list-style-type: none"> • Firm distributes insurer's product

Annex 2 – Key things for Retail Banks and Building Societies to consider

1. Most core banking products and services are long established and reasonably well understood by many consumers. However, our [portfolio strategy letter](#) to retail banks, issued in the midst of the Covid-19 pandemic (February 2021), anticipated that banks might soon seek to alter business models and reduce costs by making transformational changes. Specifically, we anticipated an acceleration in branch and ATM closures, digitisation of channels, innovation in products and technologies, and use of Big Data and artificial intelligence. We warned that this rate of change could bring risks of harm, especially if weak governance and oversight prevented firms planning and executing such changes in a way that safeguarded customers.
2. Most of the changes we anticipated then have indeed gained momentum since, and economic conditions remain difficult. Against this backdrop, the Duty gives a powerful lens through which firms and the FCA can assess these major changes in the sector. It will help ensure that firms in the sector *improve as they transform (or grow)* and that these changes result in good outcomes, both for today's customers and future generations.
3. As noted, it is for each firm to assess what it needs to do to meet the Duty and address any gaps or shortfalls. However, below we set out a non-exhaustive account of some aspects that we think retail banks and building societies in general should give particular attention to as they take forward their implementation of the Duty.

A] GENERAL BANKING SERVICES – a focus on the support outcome and understanding outcome

Providing support to banking customers

4. One of the three cross-cutting rules is that firms must enable and support customers to pursue their financial objectives. More specifically, the consumer support outcome rules set overarching requirements for firms to (among other things):
 - design and deliver support that meets the needs of customers, including those with characteristics of vulnerability
 - ensure customers can use their products as reasonably anticipated, and
 - ensure customers don't face unreasonable barriers during the lifecycle of a product
5. There is a close relationship between such support and the consumer understanding outcome rules, under which firms should (among other things):
 - support understanding by ensuring that communications meet the information needs of the customers intended to receive them, and are likely to be understood
 - ensure communications equip customers to make decisions that are effective, timely and properly informed, and
 - test, monitor and adapt communications to support understanding and good outcomes

6. In the present difficult conditions, firms should be alert to the fact that more customers will be seeking more support, including reassurance, practical information, and advice about their financial position, and that many of those customers will be in vulnerable circumstances or on the edge of such. Firms should ensure that they have sufficient capacity to support these numbers of worried customers and help their understanding, including reaching out to them where appropriate. As our recent work on [Borrowers in Financial Difficulty](#) found, some firms were not making outbound calls or made it difficult for customers to engage due to not accepting their calls or leaving them on hold for long periods or transferring them multiple times. This led to delays in providing support and to customers disengaging.
7. Accordingly, as older firms transform, or newer firms grow and diversify, the support and communications they need to offer to customers could be undermined by, for example:
 - inadequate support through face-to-face channels, telephony, or inability to speak to a person
 - inadequate resourcing of different channels, in terms of capacity or relevant experience
 - poorly designed or prematurely launched digital channels, which suffer capacity and reliability issues or are complex and slow to navigate or transact through
 - inadequate resourcing of online chat functions
 - excessive reliance on chat bots - especially if these are not adequate in practice for many of the questions that customers have and do not convert to an actual operator when needed

Changing channels

8. We recognise that many firms will continue or start to nudge banking customers who use branches (including savings accounts customers) toward making more or sole use of digital (or telephony) channels. Firms should carefully consider our revised guidance on branch and ATM closures or conversions ([FG22/6](#)), which now also covers reductions in opening hours or in the services provided where these would have a significant impact on customers. That guidance highlights several important linkages to the Duty:
 - The guidance applies to a wider set of branch services than cash access and its aims are consistent with the Duty (1.29). However, the Duty sets a higher standard of care and introduces new rules and guidance that are relevant to decisions about a firm's customer support offering.
 - When implementing any changes to services a firm should, among other things (2.32), consider how it will comply with the Duty's monitoring rules (Prin 2A.9.10).
 - Clear communications to customers about closures should include direct written communications to customers who use the closing branch and would be impacted by its closure (2.37) and, in future, the Duty (Prin 2A.5.3 R) will require firms to support retail customer understanding of such changes (p23 of FG22/6).

9. We do not prescribe which channels firms must offer, but from the perspective of the Duty firms must ensure that the channels of support they do offer meet the needs of their customers. So, when considering branch closures or other changes to service provision such as seeking to move telephony customers to digital channels or reduce telephony opening hours or services/features, or to make changes to digital offerings (eg moving customers from internet banking to mobile apps), firms should, among other things:
- *Avoid causing foreseeable harm to customers impacted by the changes to, or withdrawal of, a service or product* (especially those with vulnerable characteristics) - eg by conducting prior testing and identifying effective mitigating steps such as improvements to the customer journey and support with digital inclusion.
 - *Ensure customer understanding of the changes*, eg through suitably pre-tested and tailored communications sent to them ahead of time.
 - *Monitor customers' outcomes after the changes*, taking further mitigating steps if necessary to improve those. Monitoring must enable the firm to determine whether retail customers receive the support they need, and it should include the outcomes for customers dealing with non-standard issues (see para 11 below), and customers with characteristics of vulnerability.
 - *Be aware of consumers with changing needs*. Anyone can become vulnerable, temporarily or permanently, and if a customer's circumstances change it could mean that limited channel(s) of support no longer meet their needs. Firms should have processes in place to support and prevent harm to these customers and deliver good outcomes.
10. More broadly, where firms' transformations of traditional banking services/products or channels are reducing customer benefits or increasing customer costs (including their time costs), then firms must communicate and support those changes and avoid causing foreseeable harm, but also be able to demonstrate that those services/products remain fair value.

Digital channels and support

11. If a firm currently provides support (or intends to) mainly or only through one channel, for example a digital channel, then further factors it should consider (see FG 9.17-18) include:
- *Ensuring that this limited channel of support is effective and enables customers to act in their interests without unreasonable barriers*. For example, unclear or confusing digital customer journeys won't meet this standard.
 - *Having exceptions processes to deal effectively with non-standard issues that could arise*: eg customers reporting security or fraud concerns, or technical issues (eg where the customer can't access their account), or seeking to discuss other more complex or sensitive issues or customer journeys, such as when dealing with the accounts of incapacitated family members or the deceased. It is likely that firms will need to provide a real-time human interface, eg phone service, to deal with some of these issues and provide effective support to the customers. For borrowers in financial difficulties, we have previously stated that firms should

offer to engage in different ways including through a range of channels and, where possible, provide the ability to switch between them.

- *Being mindful of customers with changing needs.* As noted, anyone can experience vulnerable circumstances. For example, financial difficulties may mean a tech-savvy customer loses access to digital-only support. Firms should provide support in these circumstances, including helping the customer transition to another service where appropriate.

Dealing with the accounts of deceased or incapacitated family or friends

12. One specific area of support which firms should consider (under the cross-cutting rule on enabling and supporting customers to pursue their financial objectives) is the potential for simplifying and easing the complex and sometimes burdensome customer journeys around dealing with the accounts of deceased or incapacitated family or friends (or other similarly sensitive kinds of scenarios). This is especially important as there will often be considerations of vulnerability in such scenarios.

Account freezing and fraud reports

13. Another specific issue we would highlight as needing careful consideration by firms (under the cross-cutting rules and consumer support outcome) is the freezing of individual current accounts. This is typically done because of financial crime suspicions that have been triggered and need to be investigated. That is reasonable in principle, but in practice some firms freeze a disproportionate number of accounts, for too long, and without adequate explanation. We remind firms of the requirements set out in regulation 71 Payment Services Regulations 2017 relating to stopping or blocking payment instruments, and the guidance at paragraphs 8.170 to 8.172 of our [Approach Document](#). Firms should consider their processes relating to freezing of accounts, including, for example, whether it would be appropriate to make such freezing:
 - less frequent (eg through better upfront onboarding and Know Your Customer controls and more accurate and intelligent transaction monitoring)
 - less protracted (eg through better resourced and swifter investigation of suspicions)
 - better communicated (to the extent possible within the constraints of avoiding tip off)
 - better supported (especially for customers put into acute financial difficulties by the freeze)
14. We also see a need under the Duty (its customer support outcome in particular) for firms to consider their handling of alleged cases of fraud, especially Authorised Push Payment fraud, and of complaints about such. Whilst we appreciate that the facts of these can be hard to establish, firms should ensure that they provide appropriate support to customers who feel themselves to be victims and may be distressed, and do not treat them unduly harshly.

Monitoring banking customer support outcomes

15. Under the consumer support outcome, firms must monitor the quality of support offered, looking for evidence of areas where it may be falling short and acting promptly to address

those. So, firms should think carefully about the metrics they use to assess relevant customer outcomes, including (but not limited to), for example, queue times in branches, wait times and abandon rates in telephony, and abandon rates in digital channels.

16. Framing qualitative measures, eg of customers' success (or not) in doing what they wished to do or in getting helpful answers to their questions, is more challenging but equally important.
17. Because of the Duty, we shall take a far closer interest in all such metrics of support and service than in the past, and we will expect firms' Boards to do likewise.

B] EVOLVING BANK ACCOUNTS - *a focus on the products and services outcome*

18. Consumers can only pursue their financial objectives if products and services are fit for purpose. Firms must act in good faith by designing and distributing products and services to meet this aim. (Further specifics are provided by the product and service outcome rules.)
19. Accordingly, firms will need to ensure that any innovations in current accounts - for example, any new generation of bundled accounts or accounts otherwise involving optional features, subscriber models or tiered pricing - meet those rules by (among other things):
 - carefully designing the account to be suitable for, and meet the genuine needs of, a target market that has been carefully defined taking into consideration factors like the relative financial sophistication/literacy of those who fall within it (and those who should fall outside it)
 - ensuring, through appropriate prior testing, that consumers in the target market understand promotions and other communications about the account, including what it does (or does not) offer them, what they will pay for it, and associated risks or downsides
 - distributing the account in a way which explains it in a balanced way, reaches consumers in the target market only (avoiding potentially unsuitable sales outside it), and reduces the risk of selling within the target market to those whose needs it does not meet
 - supporting customers post-sale in a way that is adequately resourced and appropriate to the greater complexity of such an account
 - providing customers subsequently with clear, timely information about pending decisions (eg renewals of the account subscription, in whole or part)
20. The price and value outcome is also relevant. Firms should price these accounts fairly and transparently, to provide fair value to members of the target market, avoid opaque fees or excessive incidental charges (eg for non-use, or foreign transactions), and avoid structures or customer journeys which exploit inertia or other behavioural biases (or benefit from these).
21. The considerations in paras 19-20 are especially important if the new kinds of account mix or bundle regulated financial services with non-regulated services (eg will writing) and/or non-financial ('lifestyle') products (eg gadget discount schemes). This is because such mixing may make it harder for potential customers to understand the account and its conditions, make

judgements about its price and whether there is fair value overall, and understand whether (or in respect of which elements) there is FCA regulation or they have FOS or FSCS protections.

22. Again, if firms launch such mixed accounts, they will need to invest adequately to provide sufficient support, through appropriate channel(s), to the customers who buy them, in relation to services on the account that are within scope of the Duty.

C] OVERDRAFT BORROWERS AND REPEAT USE – a focus on measuring outcomes

23. In September 2020 we published additional guidance to firms on their treatment of personal current account (PCA) [overdraft borrowers in financial difficulty](#). We said:

We recognise that, for many customers, current account overdraft facilities are likely to be the easiest and quickest way to access emergency funds to cover a temporary shortfall in income and to meet essential expenditure. But we also recognise that overdraft facilities are not an appropriate means to manage long-term financial difficulty and we are seeking to guard against future over-indebtedness.

24. Although that guidance focused on the difficult circumstances arising out of Covid-19, it remains in force. Much of what it says is clearly useful to firms as they consider how best to support borrowers in difficulty as the cost of living rises, in the light of the requirements of Principles 6 and 7 and, in future, of the Duty.
25. For example, the guidance already points to the importance of firms monitoring the borrowers' outcomes in practice to ensure these are fair (5.47-49), but we see the Duty as raising the bar for that. To take strategies for repeat use as a specific example, we see the Duty as supporting paras 5.44-5.46 (on 'Governance and Oversight') of our [Overdrafts: additional guidance](#), and our rules at CONC 5D.4 and 5D.5. Firms should put themselves in a position to be able to evidence to their Board (and us), through appropriately designed indicators, that:
- they have been identifying as early as possible repeat users who are showing signs of actual or potential financial difficulty, and
 - their strategies have been fit for purpose and working well for individual customers, or
 - if not, that subsequent improvements have been made and can be evidenced
26. From the perspective of the Duty, in particular the customer understanding outcome, we would expect firms to pre-test those repeat use strategies/interventions and communications where appropriate (including through behavioural testing) and refine them then, and later in the light of experience, to ensure the target customers are likely to respond appropriately to the messaging they receive about the need to change their account behaviour.
27. Under the Duty's rules, firms must equip retail customers to make decisions that are effective, timely and properly informed. This may include developing nudge practices to help customers more generally to manage their finances better (eg in choosing between overdraft use, credit cards, or other credits).

D] THE TREATMENT OF BUSINESS CUSTOMERS

- a focus on the price and value outcome and consumer support outcome

Business Current Accounts – support for businesses in financial difficulty

28. Business Current Accounts (BCAs) are not in scope of our existing rules on PCA overdraft pricing (CONC 5C) and repeat use (CONC 5D) and the Covid-19 overdraft guidance on PCAs does not extend to BCAs. However, many of those provisions about PCAs may provide useful pointers for firms about BCAs as they consider how best to support businesses in difficulty in the current economic conditions and beyond, where those businesses are in the scope of Principles 6 and 7 or, in future, of the Duty. So, in meeting the Duty (particularly the cross-cutting rules and the consumer support outcome), firms could consider, for example:
- taking appropriate account of affordability in their overdraft lending to BCA customers (if the provisions in CONC 5.2A don't already apply)
 - giving early alerts and warnings so that BCA overdraft customers understand they are about to enter a charging window and can make informed decisions on what that means for them
 - developing the ability to identify appropriately BCA users where the operation of the account suggests the business may be facing financial difficulties, and to make effective interventions
 - avoiding reducing or removing a BCA overdraft facility abruptly, engaging constructively beforehand and providing support through the transition

Business Current Accounts - design and value

29. Our [Strategic Review of Retail Banking Business Models](#) (2022) considered the banking needs of microbusinesses (which are 96% of SMEs in the UK) and found (among other things) that:
- The BCA market is complex, with complexity of account charging structures, and prices which can be opaque. (BCAs typically bear a range of charges, including monthly fees and various types of transaction charges, such that the total cost often depends on usage. There is some competition on the length of introductory free banking offers.)
 - BCA prices are dispersed, and many SMEs may be paying high charges on BCAs. Many tariff prices have risen, despite reductions in the use of services such as relationship management and branches.
 - The level of consumer engagement and response to price and quality in the BCA market is low, in part due to the perceived difficulty of switching account.
30. Accordingly, under the Duty, particularly its price and value outcome and customer understanding outcome, firms should carefully consider whether what their BCA customers are paying is reasonable compared to the overall benefits, and the potential need for improvements in the design and pricing of their BCAs, the clarity of their communications about them, and the quality of support they provide, including in the switching context.

Business Current Accounts – access

31. We have observed increasing closures of individual BCAs. This seems to reflect some firms looking more closely at the relative profitability and risks (including financial crime and reputational risks) of some micro-businesses, as well as some charities.
32. From the perspective of the Duty, especially the cross-cutting rule on avoiding foreseeable harm, firms should think carefully about the withdrawal of an individual BCA. If the withdrawal is abrupt or the firm does not consider the effect on the customer, this could result in foreseeable harm which the firm should take steps to mitigate. This could include giving time and support for customers to transition to a suitable alternative, with any changes communicated in a timely, clear, and sensitive manner.

Lending to businesses and treatment of borrowers

33. The pricing and value of business loans to SMEs are sometimes unclear or inconsistent (eg because of complex associated covenants and conditions). So, under the Duty (especially its price and value outcome and consumer understanding outcome), firms should carefully consider the potential need for improvements to their business loans to ensure fairer, simpler, and more consistent designs, conditions and pricing, and more helpful communications.
34. The treatment of business borrowers in financial difficulty is a mixed picture, as [the results of our multi-firm work on SME collections and recoveries](#) showed. There is scope for many firms to significantly improve the fairness and consistency with which they support those businesses and pursue constructive solutions and communications with them.

EJ CASH SAVINGS ACCOUNTS - a focus on the product, value, and understanding outcomes

35. Our provisions in BCOBS (eg [BCOBS 2.2A and 2 Annex 1](#)) set out in detail the minimum information that should be provided to consumers in promotions about cash savings. Again, however, we see the Duty as raising the bar, including through its requirement for firms to monitor savers' outcomes and put themselves in a position to be able to evidence to their Board (and us), through appropriately designed indicators, that savers' outcomes are fair against the Duty or, if not, that improvements have been made to make them fair.
36. Firms, in assessing whether they are acting in good faith in respect of their cash savings accounts, and whether these are providing good outcomes including fair value to target market customers, should consider aspects including the following:
 - the approach the firm takes, in pace and degree, to moving its rates for savers following base rate moves, in particular (currently) base rate increases, including:
 - whether it has clear, consistent rationales for its approach in general, and for its individual moves or non-moves, which it would be able to explain (to us)
 - the extent to which its rationales are subject to internal scrutiny that is consumer focused
 - how promptly and transparently the firm communicates with its savers

37. Firms should also consider their treatment of different groups of savers, including the value being provided to these. Under the Duty, all groups of savers should receive fair value. Differential pricing practices (eg favourable introductory rates for a period) may be used, provided they do not cause some groups of savers to receive poor value. The assessment of value should span across the life of the savings product; it may include any introductory rate period but should also extend beyond that.
38. In this context, and in the light of our discussion of cash savings in [CP20/1](#), firms will wish to consider (among other things) whether their approaches to introductory rates or other differential pricing practices are exploiting (or otherwise benefitting from) some savers' loyalty, inertia, or other behavioural biases, for example by 'price walking' those savers' rates. We stated in 2020 that if base rates rose, the harm from such 'loyalty penalties' would probably increase.
39. If a firm identifies that some groups of its savers, for example among its back book, are receiving poor value, then it should take prompt appropriate action to prevent further customer harm.
40. Firms may wish also to consider the following (among other things):
- whether, if there is weak consumer engagement and low rates of switching, this is allowing or encouraging the firm to sustain poor value savings products over time
 - whether the communications and support being provided by the firm to its savers are commensurate with the number and variety of its account offerings and helping customers make effective savings decisions (including potential switching among the firm's accounts), rather than confusing them or discouraging them from acting in their own interests
 - whether the firm's fees or penalties for early exit from term savings accounts are cost reflective and not unreasonably discouraging or preventing savers from switching accounts or providers
 - whether sufficient support is being provided by the firm to enable savers to move or exit their account easily if they choose
41. We note that in respect of closed cash savings accounts (like other closed products), firms have until 31 July 2024 to comply with the Duty.

F] RETAIL MORTGAGE LENDING

42. This section discusses the retail mortgage lending activity of Retail Banks and Building Societies.

Consumer understanding (FG chapter 8)

43. The consumer understanding outcome aims to ensure that firms' communications enable customers to understand their products and services, at the point of sale and throughout the life of the mortgage. Customers should also be supported by firms in their understanding of

the options available to them and in their decision-making. In the context of the current economic environment, we highlight three examples where this is particularly important:

- i) Where customers are experiencing or anticipating mortgage payment difficulties.* Our mortgage rules already set out information that must be provided to customers in payment difficulties. But the Duty requires firms to go beyond compliance with this and to test, monitor and adapt communications to ensure they support customers' understanding and good outcomes.
- ii) Where customers are coming towards the end of an incentivised rate (eg a fixed rate).* For customers currently coming to the end of a fixed rate, the decision about what to do next is likely to be more difficult than it has been in recent years. So, firms need to challenge themselves about how well these customers truly understand the options available to them and the trade-offs to be made. For example, between cost and security when comparing rate type, and between shorter and longer-term fixed rates. Firms should also assess how easily these customers can find out more, and what more could be done to help and support them in this, both by the firm itself and through other firms such as mortgage intermediaries.
- iii) Where customers are considering consolidating other debt into a mortgage.* In the context of current cost of living pressures, it is particularly important that consumers fully understand the implications of consolidating debt into a mortgage. For example, these borrowers will typically be increasing the term over which interest is to be paid and putting their home at risk if they are unable to repay. And for products such as lifetime mortgages, where interest is 'rolled-up', their debt will further increase as interest compounds.

44. The Duty expects communications to be *tailored* according to the complexity of the products and the characteristics of the customers intended to receive them, including characteristics of vulnerability. So, firms need to: think hard about their customers and the information and support they need to make informed decisions about their mortgages; test that information to see how it is likely to work; and subsequently monitor how well it is working in practice.
45. Firms that distribute products through other firms will need to think about how their responsibility for consumer understanding applies throughout the distribution chain. While manufacturer firms are not responsible for the activities of their distributors, they are required to take all reasonable steps to ensure that their products are distributed to the identified target market and to review whether the distribution strategy remains appropriate. Where foreseeable harm is identified, firms must take appropriate action to mitigate that harm.

Consumer support (FG chapter 9)

46. We expect firms to provide support that meets their customers' needs at the point of sale and throughout the mortgage lifecycle, so that customers can use their products as reasonably anticipated, without unreasonable barriers, and with sufficient opportunities to understand and assess their options. We also expect the support firms provide to meet the needs of customers with characteristics of vulnerability, who may have additional needs or be at greater risk of harm if things go wrong.

47. So, firms need to be able to provide appropriate support to these customers through different channels or by adapting their usual approach. For example, some customers may be supported better through face-to-face or telephone channels, rather than online, when switching mortgage rate, or experiencing mortgage repayment difficulties.
48. There are some segments of the mortgage market where customers are more likely to have characteristics of vulnerability. One example is second charge mortgages, where customers may be more likely to have characteristics of financial vulnerability if, for example, they are unable to get a further advance from their existing lender due to affordability constraints or credit impairment. Another example is later life lending, through products such as lifetime mortgages and retirement interest-only mortgages. Both these product sets can have features which customers may be unfamiliar with (eg interest roll-up and drawdown facilities in the case of lifetime mortgages). In addition, a customer's needs may change over time. So, it is vital for firms to consider how best to provide appropriate support, both at the point of sale, and over the whole term of the product.

Products and services (FG chapter 6)

49. It is important that all mortgage products and services are fit for purpose and designed to meet the needs, characteristics and objectives of the identified target market. The target market should be identified at a sufficiently granular level. Firms should carry out regular reviews to ensure mortgage products and services continue to meet the needs, characteristics and objectives of the target market.
50. Firms should ensure the distribution strategy for the mortgage product is appropriate for that target market, and that the product is distributed to the customers it was designed for. Extra care should be taken, especially at the point of sale, if the product is being offered or sold to individual customers outside or on the edge of the target market. For example, if lifetime mortgages are offered or sold to customers at the younger end of the age range and where alternative products exist that may lead to better customer outcomes (eg where interest is serviced, rather than rolling up).
51. Firms should ensure that their relationships with other firms in the distribution chain do not serve the needs of the firms over customers and lead to poor customer outcomes, such as product recommendations or sales that are driven by commercial arrangements eg commission levels.
52. Firms should also consider how fee structures might incentivise poor conduct or poor customer outcomes. Chapter 5 of the FG sets out more detail on expectations around firms acting in good faith towards customers, including the use of incentives and remuneration structures where these are likely to cause detriment to customers, including via the distribution chain.

Price and value (FG chapter 7)

53. Lenders must be able to demonstrate that their mortgage products and pricing, including any associated fees and charges, provide fair value to customers in the identified target market.

54. Lenders should ensure that products don't have features which exploit customers by, for example, charging unjustifiably or unreasonably high fees or interest rates to groups such as those with a poor credit history, or older customers.
55. The Duty does not require lenders to carry out a separate fair value assessment for each distributor they use, but lenders should be able to form a view of the value impact of distributor fees from information they already collect (eg for the purpose of calculating the APRC in the mortgage illustration).
56. If this information causes a lender to have concerns about the impact on its own fair value assessment of the fees of a specific distributor, then the lender should share its assessment and concerns with that distributor and consider the need to alter its distribution arrangements (compare paras 50-51 above).
57. Lenders should also share relevant information with their distributors to help those firms discharge their own obligations under this price and value part (and other parts) of the Duty.
58. Given both the increased interest rate environment and potentially greater uncertainty about residential property market values, we expect firms active in the lifetime mortgage market to be actively considering whether these propositions are priced and structured to offer fair value overall.

Monitoring outcomes

59. Firms should expect to be asked by us to evidence how their business models, actions and culture are focused on the consistent delivery of good customer outcomes under the Duty. So, we will expect firms to monitor and regularly review the outcomes that their mortgage customers are experiencing in practice. This is fundamental to firms understanding whether their mortgage products are working as expected and consistent with the Duty and, if not, to enabling them to make prompt interventions to improve the borrowers' outcomes.
60. Firms need to identify relevant data to assess and monitor mortgage customer outcomes. Like other aspects of the Duty, we recognise that richness of data will vary according to the activities and size of firm. For mortgage lenders, helpful information includes the wealth of transaction level sales and book data that they report to us through Product Sales Data.
61. Other possible sources of data include customer switching and retention records, customer complaints and root cause analysis, customer feedback and survey data, feedback from other firms in the distribution chain regarding the value of the product, the cost of providing the product or service including credit risk, and staff feedback.

G] SOME BROADER CONSIDERATIONS ACROSS PRODUCTS AND SERVICES

62. We turn now to some broader considerations which firms should carefully consider from the perspective of the Duty across all their retail banking and retail mortgage activities.

Data analytics

63. Firms should carefully consider the requirements of the Duty as they make more use of artificial intelligence (AI), advanced analytics, and big data, including, among other things:
- The cross-cutting rules on acting in good faith and avoiding foreseeable harm, with a consequent likely need for firms to have a prior detailed strategy for these developments in analytics and for due diligence on such tools and their use which takes careful account of customers' interests (as well as all other relevant ethical, legal, and regulatory considerations). See for example FG para 5.12 which discusses good faith in relation to AI.
 - The consumer understanding and consumer support outcomes, and consequent need for analytics-driven decisions to be communicated to impacted customers in a way that is understandable to them, with appropriate support provided to them (FG chapter 11).
 - The rules and guidance on monitoring outcomes, and consequent need to provide for thorough monitoring and understanding of customers' outcomes from such analytics, and for swift intervention if poor outcomes emerge.
64. From the perspective of the Duty, especially the cross-cutting rule on good faith, firms should also ensure that they:
- give customers a clear understanding of, and informed choice about, the use and/or monetising of their data by the firm and/or any third-party; and
 - consider carefully the potential need, including from the fair value perspective, to compensate customers for that use and/or monetising of their data (see eg FG 7.30).
65. In this general area, firms will also wish to have regard to the joint supervisory authority Discussion Paper on artificial intelligence and machine learning ([DP5/22](#)), in particular:
- paras 3.9–3.11 and 4.7-4.25 which discuss considerations around consumer protection and fairness, including the risks of potential bias, vulnerability, discrimination, and financial exclusion, and issues around privacy and consent; and
 - paras 3.12-3.14 and 4.26-4.28 which discuss potential adverse impacts on competition that in turn could impact the fair value of customer offerings.

Further considerations around fair value

66. From the perspective of the Duty, firms in the sector should carefully consider how they generate their revenue and profits (or intend to do so in the future) and the potential implications of that for their customers' outcomes, including the value and treatment they will receive. This should include considerations such as, for example:
- whether revenue or profits are being (or will be) generated disproportionately from specific groups of customers (eg identified from inherent characteristics or behavioural ones)

- the potential impact of any plans by the firm to cross-sell to customers; we have seen cross-selling where the promoted products were appropriate for the original target market but not necessarily appropriate for all of a wider group of customers, creating a risk that the latter customers purchase products which do not meet their needs
- the potential impact of any cross-subsidies (intended or inadvertent) across, for example, products/services, customer groups, or business units, which firms should take care to understand, assess and monitor
- the potential implications of seeking to deploy more 'personal pricing' (eg through advanced analytics) and the potential effects of this (see the example under FG para 7.43)

Other general considerations

67. Firms in the sector will also wish to consider the following from the perspective of the Duty:
- The need to ensure that products/services (eg current accounts, cash savings accounts, retail mortgages) which purport to be 'ethical', 'socially responsible', 'green' etc, or 'Sharia compliant' (or equivalent), are genuinely designed and run as such and match the claims made in promotions and distribution. Failure to do so would likely breach the cross-cutting rule on acting in good faith. However, even where the claims for such products/services are genuine and delivered, the firm must also be able to demonstrate under the Duty that these products/services provide fair value. In this context, firms will also wish to have regard to our proposal to add (to the ESG sourcebook) a general 'anti-greenwashing' rule for all FCA-regulated firms, products and services (see 6.9-6.10 in [CP22/20](#)).
 - The need, in their design of consumer journeys, to avoid 'sludge practices' where these can cause bad outcomes by increasing friction (see eg FG paras 5.46, 9.19-9.27, 11.24). This is important in online choice architecture (but not only there) as firms move increasingly to digital channels.
 - The need to continuously improve complaints handling and root cause analysis, but also to be more proactive than in the past in correcting and, where appropriate, redressing bad customer outcomes promptly.
68. Lastly, we note the foundational importance for the Duty and everything in this letter of building and maintaining the availability, stability and security of systems and processes – see, for example, our 2021 [policy statement on building operational resilience](#).