Consumer Duty Webinar – Retail Lending

EMMA STRANACK	Good afternoon and welcome to this, the fourth in our series of sector-based webinars on the Consumer Duty. I'm Emma Stranack, Head of Content and Channels at the FCA and I'll be chairing this webinar on Retail Lending. Now, we recognise that the Consumer Duty represents a significant shift not only for you as firms but for us as the regulator. And it comes at a challenging time for consumers, for industry and for the wider economy. And that's why we are committed to working closely with you to help you get this right. In July this year, we published our policy statement and finalised guidance for the Consumer Duty, and that provides essentially the key information you'll need to implement that Duty. And we're supplementing that with a programme of communications and events to support you on what our expectations are and help you prepare to implement the Duty. So back to today, our running order, we will kick off with Richard Wilson, who is manager of the Consumer Duty Policy Team. He will give you an overview of the Consumer Duty and key milestones for implementation. Then Ed Smith, Head of Competition Policy will be explaining a bit more about what we mean by outcomes-based regulation and our expectations and some practical examples. Then we will go into the sector specifics, Jonathan Phelan will be talking about consumer credit and Sarah McKenzie will address mortgages. After these presentations, we're going to answer as many questions as we can, we've had hundreds submitted. So, thank you for those in advance. But please do also feel free to ask questions live in the sidebar and we'll get to as many of those as we can. I should also say that this morning we covered retail banking and payments and like this webinar that will be available on demand online after this webinar today. I have a Slido poll which is a favour to ask please before we begin and I'll ask you again at the end to complete this one question poll at the reference, which is on the screen now, you either go to slido.com and enter that reference number or you scan it with your mobile device, it's just one question. That's all from me for now and I will hand over to Richard Wilson to kick it off.
RICHARD WILSON	Thank you, Emma. My name is Richard Wilson and I manage the Consumer Duty Policy Team here at the FCA. I'd like to add to Emma's welcome say thank you to firms joining us today at this webinar for all the engagement we've had over the implementation

	period actually, and I hope you find the next hour and a half really helpful. So, our aim today is to reach as many firms as possible, including those we haven't yet managed to reach either directly or via their trade association. So, I will briefly start out by recapping on some of the basics to make sure that we're all up to speed on the Duty, before then talking a bit more about a few other issues. So, I'll recap on what we want to achieve with the Duty, how the Duty does this, where we are in the process of implementing the Duty, the key milestones along the way, and the support we provide at each stage. So, turning to the first slide, why is the Consumer Duty needed? Well, the Duty is at the heart of our strategy to make financial services work well for consumers up and down the country. The current cost of living pressures underline how important it is for firms to understand the needs of their customers and to support those customers to help them make effective decisions. But even before these cost-of-living pressures, I think we all know consumers were being asked to make an increasing number of complex and important decisions in what is a fast changing and complex environment for them. So, this makes it even more important that we can, that they are helped to make those decisions effectively and that competition is working really well with firms competing vigorously and in the, and in the interests of consumers. So, this changing environment also underlines the need for flexibility. So, that's flexibility for our regulatory framework so that it can be future proofed and so that we can respond to new business models and new potential harms and risks as they emerge in the market. And also, so the firms can innovate based on clear high standards of regulation and more certainty about what our expectations are. So, how does the Duty do this? The Duty does this through the focus on outcomes. As Emma said a few moments ago, it's a significant shift both for firms and for us at the FCA, but it's also a real opportunity. It's an opportunity to improve trust in financial services and deliver good outcomes for consumers. And it's an opportunity to move to that more flexible and less prescriptive regulatory framework that I know many firms want to see. So, how will the Duty really make that difference? Well, in the past, we've tended to look at problems sector by sector, issue by issue, as they've appeared in different places. But actually, what we've seen through this work is that the drivers of harm are often the same across all these different financial services sectors. For instance, they can be products being sold to consumers they weren't designed for, or they can be firms perhaps exploiting consumers lack of knowledge or the behavioural biases. So, the Duty tackles these and other key drivers of harm by building on the work and what we've learnt about the way consumers really behave and markets really work in recent years. So, as the slide set out, it extends certain rules that exist already in some sectors and sends them across all retail financial services sectors. So, our fair value rules are an example of that. It tackles

	complex areas of market practice and builds on the evidence, as I say, of how consumers actually behave and their behavioural biases by tackling things such as sludge. That's where firms put in frictions that interfere with consumer decision making and stop them acting in ways that perhaps the firm doesn't want them to act in. It requires firms to consider and respond to new evidence of emerging harms, so, the Duty aims to be dynamic. It builds on our guidance on the fair treatment of vulnerable consumers and requires that firms focus on outcomes for the diverse needs of their customers and focus on vulnerability throughout the product lifecycle. Above all, though, it requires firms to define, monitor evidence and stand behind the outcomes that customers experiencing and, of course, act where they see that consumers aren't receiving good outcomes. Taking a step back, we want boards to be as focussed on customer outcomes as they are on their own profit and loss and for this customer focus to really permeate the whole culture of each firm. And of course, we will also back this up with assertive supervision and enforcement as needed. So, turn now to the Consumer Duty structure. What does the Duty look like? Well, as many of you will be aware already, the Duty is quite a big package of different measures. At the top, we have the consumer principle, a firm assigned to deliver good outcomes for retail customers. Underneath that, we have the cross-cutting rules that set out the overall standard of conduct we expect and flesh out what this principle means in terms of our expectations. The cross-cutting rules, like all of the Duty, applies both upstream. So, when firms are thinking about a target markets, when they're designing a product, for instance, or thinking about their pricing of their other products and services. But it also plans downstream when a firm is interacting with an individual customer, whether that's on the phone or digital channel or in any way. Cross-cutting rules also inform how firms should think about the four outcomes underneath as well. So, I'm going to go through those four outcomes in turn now, these really kind of flesh out what the Consumer Duty means in key areas of firm business and key areas of outcomes for consumers. So, starting with products and services. We want products and services to meet the needs of the people they are designed for and for firms to make sure that these are the people the products and services are sold to. That means proper oversight of distribution of those products and services. Customers are less likely to be able to pursue their objectives and more likely to experience harm if they have the wrong product that wasn't designed for them. Product governance rules are a key innovation that we've introduced in some sectors in recent years and if you're already meeting existing PROD rules, you'll be meeting this aspect of the Consumer Duty. The second of the four outcomes is price and value. We want all customers to receive fair value. Our rules don't set prices, that's not their intention at all. What this outcome requires is that prices must be reasonable relative to the benefits of the product or service. Firms

	must consider this in the round. Price and value is not just about costs and charges, it's about the whole value of the product and Ed will talk about this a little bit more in his presentation in a second. Again, if you're meeting existing fair value rules, then you'll be meeting this aspect of the Duty. The third of the outcomes is consumer understanding. We expect firms to provide timely and clear information with their products and services that firms can understand and act on if necessary. This is essential to consumers being able to take responsibility for their financial lives and make effective decisions. This goes beyond existing requirements it's actually about making sure that testing happens to make sure comms are understandable given what we know about the target market and then monitoring that the impact of those communications is actually in real life as expected. And of course, taking action where communications aren't delivering good outcomes. The fourth of the outcome areas is consumer support. We want consumers to receive support that meets their diverse needs. We want to ensure that customers are supported throughout their relationship with the firm, so throughout the product or service lifecycle from buying it to, throughout the journey. And it applies both to digital and non-digital support and we want firms to think about the best way to provide support given the consumer base. Key to this is ensuring that markets are competitive so that it is easy to switch, cancel and complain about products as it is to buy them in the first place. This is especially important with the current cost of living pressures where every penny counts. So, firms will need to be able to justify any barriers or any exit fees to ensure they are reasonable. Taking a step back, of course we recognise and the Duty reflects that all firms and business models are different and what is required by the Duty depends on what is reasonable in the circumstances. And there's lots of factors to be considered on this in our guidance. It reflects, we understand, of course, that firms have different capabilities, that different capabilities when it comes to testing communications, testing products or monitoring and analysing data. But we expect firms to use the capabilities that they do have and they do use elsewhere in their business to work towards good consumer outcomes to apply those capabilities to delivering for consumers. So, I'm going to turn now to the timetable. Where are we in introducing the Duty? What are the key milestones? And also, a bit about our expectations for firms during the implementation period. So, as Emma said, we published final rules, final guidance and policy statement back in July. And at that point, we gave firms 12 months to introduce the Consumer Duty for new and existing products that are open for sale or for renewal. We then, we also gave firms an additional 12 months so that's until July 2024, to apply the Duty to the remaining products, i.e., those that are closed and no longer on sale. We think this timetable is fair and reflects the scale of work that is required. But we recognise that it's a challenging timetable for many firms and therefore, firms will need to use all of the time that

	they've got and to be able to demonstrate progress. And that's why we set out these two key milestones along the way during the first year of the implementation period. The first milestone has just passed, it was at the end of October and was for boards and management bodies to have approved implementation plans for their firms. So, as we've been saying to firms over the last month or so, events like this and on our website, we don't expect firms necessarily, all firms to have necessarily scoped every single aspect of their implementation work yet. But we do expect firms to have a clear plan to deliver by the deadlines and to have identified key risks, key dependencies on the way. We expect firms to be able to show they've engaged with the substance of the Duty as well, i.e., have they thought about what good outcomes means in their situation for their products and services and for their customers? And really applied that to how they plan to implement the Duty. And of course, we want to see boards and management bodies have proper oversight that the boards or management bodies have engaged and challenged so they can be confident the firm is both going to implement the Duty on time and to the standards required. We've set a second milestone as well for the end of April 2023 for manufacturers to have completed all reviews necessary to meet our outcome rules for those existing and open products for those products that they need to implement the Duty by July for. That information sharing is critical because we obviously we want to see manufacturers sharing information with distributors so that all firms can be ready on time. As Emma said, we recognise this is challenging, it's challenging times and this is a big shift for firms. So, that's why we're supporting industry through all of this process. So that's why we're participating in events like this and the many events we've been doing with firms and trade bodies in recent months and we will continue to do so over the rest of the implementation period. And it's why we're also using our website and digital and social media channels to promote digital content that addresses the common themes, issues and concerns that we see being raised with us. So, please do keep an eye out for those on our website for the extra information that comes forward. And we'll be backing up this engagement strategy with obviously our core functions, our authorisations, supervision and enforcement functions. And the Duty is a big shift for firms but it's also a big shift for us too so there's some changes that we're making. It's a time of change for the FCA, the Duty is central to our transformation to be more innovative, assertive and adaptive regulator. The Duty embodies this, as you've heard me say earlier, and data, for instance, will be key. Ed will say more about this in a second. Across all our activity we'll be focussing more on outcomes, you'll see this in the engagement and the question we ask. So, what does this look like across the core functions?

	In authorisations we're already working to strengthen our processes to reflect the Duty and the focus on consumer outcomes will be a key part of the dialogue with firms at the gateway. For supervision, there are kind of four key elements to our approach. First of all, as firms will be aware, we put all firms into a portfolio of similar firms with similar business models, and we are developing a supervisory strategy for each of those portfolios about, that will focus on how we will embed the Duty and tackle the key harms in that portfolio. We'll then be communicating with firms in each of those portfolios to underlying key areas of focus, the things we've identified in our strategy. We'll often do this through letters, but also through industry events and speeches. For larger firms with six, with fixed supervisory teams, we will be reviewing the implementation plans that I've just been talking about and of course focussing on the Duty through our regular programme of engagement over the next few years. And we'll engage with smaller firms on a more targeted basis through multi-firm work. With enforcement, our immediate priority is being able to detect triage and act on the most serious breaches we see once the Duty comes into force in July. Enforcement colleagues will increasingly be looking at firms' approach to monitoring outcomes and mitigating harms when considering breaches. Of course, we'll also be, across the whole of the FCA, monitoring and measuring the impact of the Duty to see the impact it's having and identifying where more work is needed. And we published high level success measures and will develop more sector specific ones as well. So, there's no plan for a new data return just yet because we'll be making use of existing data that we already have, data we get from firms but we will consider this in the future. So, that's how we will use our core functions to make sure that we're supporting firms to implement the Consumer Duty. I'll now hand over to Ed to talk about outcomes-based regulation.
ED SMITH	So, thank you, Richard. My name is Ed Smith. I'm Head of Competition Policy at the FCA. I also do a lot of work on implementing the Consumer Duty and I want to talk this afternoon about outcomes-based regulation. Starting at a high level, what is outcomes-based regulation and why we've taken this approach, but then drilling down into some specific examples of how we might use data to assess the outcomes that consumers are getting in the market. So, what is outcomes-based regulation? Well, as Richard says, it's quite a fundamental shift in the way that we are approaching regulation and the way that firms should be approaching regulation, because the key focus is on the outcomes that consumers are getting in the marketplace rather than the specific processes by which firms comply with regulation.

	So, traditionally a lot of regulation has focussed or does focus on processes internal to the firm. So, it might be particular compliance processes, be it scripts for sales or checklists for sales or compliance, internal compliance and three lines of defence. And those are all important, but they are important as a means to an end and that end is that consumers or customers of the firm get good products that they need for fair value and they use them in the right way. So, the advances really with technology and data mean that actually we can observe customer outcomes almost in real time in many cases. We can see through our data, through the digital channels, how consumers are using the products on a day-to-day basis and we can get some real insights into the sorts of outcomes that consumers get from using those products. So, in a sense, we can cut to the chase, we can see directly how consumers are using the product and the sorts of outcomes they get and that is the core really of outcomes-based regulation. I want to really explore that by looking at some case studies, some hypothetical case studies, so about what that might mean in practice. So, Richard outlined the products and services outcome, ensuring that the product and service meets the need of the people that it's designed for. So clearly, the Duty is clear up front that firms need to designate a target market for their product in terms of the sorts of characteristics of the customers that might use the product be it, age, sophistication, income, any particular vulnerabilities in that target market and make sure that the product is designed with those characteristics in mind. It then also needs to upfront assess the distribution and marketing strategies to ensure that they are geared to that target market, thinking again about any vulnerabilities that customer might have. But outcomes-based regulation is much more than just a one off assessment, it requires an ongoing exercise looking at data and understanding how the product is continuing to meet the needs of the customer and how the customer is using it. And we, this is where data becomes critical and boards and executive committees need to start looking at the data to understand how actually in real time or in real life, the customer is using the product and whether or not it's actually focussed on that target market. So, let's have a look at an example. This is a hypothetical mortgage product, it's a fairly standard mortgage product, but it has one additional feature, which is that customers can draw down additional funds in the lifetime of the product. So, they have a draw down facility and customers pay additional extra interest on their mortgage as a result of having that facility, of having that flexibility. So, we

might understand the target market for this as quite a broad target market that, you know, it's available for very different types of customers of different ages.

But when we look at the usage of the product in the chart here, the scatter diagram, we see that actually the usage is very concentrated around people of, let's say middle age and the facility, the draw down facility is less used by younger cohorts in the product and also older cohorts who use the product as well. So, we understand actually that whereas we define the target market as very broad one actually we see through the usage pattern that actually the target market is more in that sort of middle age group. And that probably stands to reason because those people are in that sort of middle age bracket might have more requirement or more need for additional draw down at that particular stage of their life, whereas older people might not have that.

So, it raises the question, are these cohorts actually in the right product? Are they using the draw down facility in the way that it was intended? And are the features of the product right for them? Do they understand those features? And actually, are they making use of them in a way that justifies the additional fee that they're paying on their mortgage to to have that? So, those are questions that the firm should ask having a look at this data and understanding how the product is being used in real terms.

So, let's look at another example this time and in relation to price and value. This is about ensuring that there's a reasonable relationship between the price paid by the customer for the product and the benefits that the customer receives. And again, there's upfront work for the firm to do before marketing the product to make sure that the fees charged are reasonable for the benefits that the customer receives, and that the fees and charges are really unjustifiably high relative to those benefits. So, any firm marketing a product would really want to understand that the charging structure is appropriate for that product and appropriate in the marketplace. But there's also clear questions that the firm needs to keep asking themselves as they see the usage of the product and their customers incurring fees through the lifetime of the product. In particular, is the revenue that the firm is generating reliant on particular behavioural biases from customers like inertia, i.e. they're not moving product that might not be suitable for them. Are different groups paying different prices for the product and why? So, are particular customer segments or cohorts paying a much higher fee or charge over the lifetime of the product than other customers paying that.

So, let's look at another example here. And this is of a of a credit product. And the credit product has a, you know, of, say, a headline interest rate that's paid by customers. But it also has a variety of additional charges, including charges that relate to late payment fees. And the firm would want to look at how those late payment additional fees are being distributed amongst its customers.

So, the graph we see here shows the distribution of that late payment fee amongst the customer base and we see that a lot of customers aren't paying the late payment fee, which is probably appropriate and designed and the product should be designed like that in mind. But we also see on the right-hand side of here that there's a cohort of customers in the distribution that are paying really quite exorbitant amounts in terms of additional late payment fees for the product. So, again, the firm needs to ask itself a question. It doesn't necessarily mean that's poor value for the product, but really the firm should be looking at those customers and understanding what the profile of those customers are. Are any of those customers vulnerable? Is the product appropriate for them? Have they been properly tested in terms of the affordability of that product for them? Has it been assessed, and should the firm be considering additional types of forbearance or communications to these customers to support them to avoid these charges escalating over time and avoid the sort of downward spiral that they might get into. So, that's account through price and value.

Let me come to the last example, which is around customer consumer understanding. And this is about really firms ensuring that consumers understand and testing that they understand the products that they've bought and the communications that they give to consumers are understood and well understood and that they're testing that understanding. And they can do that through a variety of means so they can look at survey data on customer communications, they can look at focus groups, they can look at how customers respond in the marketplace to particular types of communication. They can analyse the customer online journeys so where products are sold through an online journey, how does that online charity work, where, at what points do customers fall out of that online diary, or are they making good decisions throughout that journey?

So, here's an example of a customer online journey, and this is showing the number of customers or the percentage of customers undertaking that online journey who decide to buy an add on product as part of that online customer journey. And we see over time there's a fairly stable percentage of customers taking that add on product, but then suddenly it leaps and the question is what's behind that leap? The firm might say happy days, and lots of customers are deciding to take the add on product. But it also might be as a result

	of a recent change to the online journey, which introduces some friction or sludge that means the customer is actually sort of biased and forced into choosing that add on product without really knowing what it is or understanding what they're buying. But it's a bias in the online journey. So, again, that's something that the firm needs to really look at and understand what the evidence is around these customers, whether actually they want to buy this add on product or not and they're getting a product that meets their needs. So, that's a quick dash through the four outcomes. I really recommend that you read our guidance it has a lot more examples of the sorts of questions that firms should ask themselves and the sorts of data that they might use to that. As a departing remark, this is a top priority for us as well. We will also be using data in the way that we monitor outcomes and implementation, and we're confident that this outcomes based approach really is a more efficient way of regulating and a flexible way for firms to regulate to ensure that ultimately the consumers get the best outcomes that they can. So, without further ado, I'll pass over to Jonathan Phelan, who is online, who is our Head of Consumer Finance. So over to you, Jonathan.
JONATHAN PHELAN	You're giving us a wonderful overview of the new Consumer Duty and what lies beneath it as well. So, I'm Jonathan Phelan I'm one of the Heads of Department looking after supervising Consumer Credit Firms. I'll shortly be handing over to a colleague, Sarah Mackenzie, to talk about mortgage firms. So, my section will deal with the consumer credit world. I'm not going to re-introduce the Consumer Duty and the four customer outcomes that lie beneath it, given that we've had that wonderful introduction. But I am, by way of introduction, just going to take advantage of such a wonderful audience. We've really missed this opportunity during the pandemic to engage with firms and have a conversation about the sort of harms that we're seeing in the market, the sort of things that you can do about it to help those harms diminish, if not extinguish them. And I think it’d be useful to go through a little bit of that before we get into the matter of the four customer outcomes of the new Consumer Duty; they relate very much to new Consumer Duty in any event. One thing that's really challenging with the consumer credit market is that it involves 38,000 firms, some very different markets. So, you've got credit cards, you've got motor finance, retail finance, really big billion-pound markets, and then you've got more niche markets.

	You've got high-cost credit as a group, but within that you've got home collected credit, which is very different to high cost short term lending and it's very different to logbook lending and so on. And then you've got credit reference agencies and debt advisers and debt collection, debt packagers. I'm sort of rattling off a bit of a list, but I'm trying to get the point across that it's a very diverse market. So, how on earth can I give you three or four pointers as to the harms that attract themselves in such a diverse market? And in actual fact it is possible to do that, and we've been working on that for the past several months. And I'm going to share with you four key harms that appear in this market that very much relate to the new Consumer Duty. And these are root cause harms and if you could nail these harms as a firm, then you're actually addressing the vast majority of the problems that we experience in the consumer credit market. So, the first of the four affordability, you probably heard enough of it over the years, but it's a complex subject. Our expectation as a regulator is that when a customer goes to a firm to get a loan, the firm assesses whether that customer can afford to pay it back over time. I mean, that in and of itself sounds quite simple, but there are complexities beneath that and we acknowledge that there are complexities. You might have a consumer borrowing a very small amount of money, but if they're a very vulnerable consumer, that could be a life changing event in their life if things go wrong. And then you could have a very well-off consumer borrowing a lot of money where obviously it would be an irritation if something goes wrong, but it might not be life changing. Our expectations might be that the firm lending the smaller amount of money needs to do more to assess affordability because of the life changing impacts of that loan. And over the past several years we've looked carefully at affordability from various angles and in various of those business models that I've talked about. And we've found problems with firms sometimes not getting it right and not making those checks. I think one message I'd like to get over today is if firms can do that, then they are meeting one of the key harms, addressing one of the key harms in the market. And that in and of itself is going to feed into the new Consumer Duty because it's going to produce good consumer outcomes. The second of the four is forbearance. You've probably heard quite a lot about this over the course of the pandemic. It was one of our bigger worries during the pandemic as people suffered a loss of income they may have needed and did need forbearance. You'll know that we expect, our regulatory expectation is that firms treat customers as individuals, and there are tailored forbearance solutions for customers depending on their own particular circumstances. Unfortunately, not all firms get that right. Sometimes they apply a one size fits all forbearance solution, and that's not quite what we're expecting. And again, get that right, you're not only addressing big harm in the market, but we're also meeting a customer outcome under the new Consumer Duty.

	Unfair charges is a third big worry, the third big harm. These are sort of surprise charges, excessive penalties where a customer makes a tiny administrative slip but they get hit with a big charge. We see a bit of that going on, it's one of the big harms that we worry about. Again, get that right, it's going to go to the pricing because the customer outcome under new Consumer Duty, it's going to address one of the big harms that we come across day in, day out in our supervision of firms. And then the fourth big harm is quality of debt advice. One of the problems we see here is that firms often resort to a single favoured solution and there is no single best solution. Again, as ever with customers, the best solution is the best solution for that customer. And so, our expectation is that firms will work out what the best solution is, the debt advice with each particular customer. So, let's move to the next slide, if we may, please. And I'm just going to touch on the products and services customer outcome. Here you'll know from the introduction from Richard, from, our regulatory expectation here is that products and services are going to meet customer needs, it's going to meet their characteristics and meet their objectives. And that they're going to be designed with a particular cohort or target audience in mind. You heard Richard talk quite a bit about how we expect firms to measure, to test, to look at outcomes. One of the questions we get is what's different with Consumer Duty to treating customers fairly? And I think that measurement and testing is one of the big differences. We expect you to produce the sort of scatter graphs that Ed touched on and to work out whether customers are getting what they want. We expect you to test whether more customers are defaulting than they used to, if you had a change in process or a change in product, or a change of the way you engage with customers. So, test those things and monitor those things and you'll be meeting this expectation. Another thing we're asked to do is to give a few examples of how the Consumer Duty might apply to the products and services customer outcome. Let me give you a couple of examples, a few examples. Well, one I could offer you is fixed sum loans. We have seen fixed sum loans by way of example where the term of the loan extends beyond the expected life of the product that's being purchased with that loan. Now, that to us is a red flag. It's not a no go, I mean, there might be rational reason for doing that, but it's a red flag and it's a red flag worth sharing with you because it might call into question whether that is a good product for a customer. Another one is balance transfer cards with incentives upfront. We've seen examples where that incentive evaporates and customers get hit, therefore, with higher interest charges, if not other penalties, even if they make one small administrative mistake. And that one small administrative mistake might not actually have much of an impact on the firm. And so, that could be considered disproportionate, that's another red flag to us as to whether a

	product has been set up in the right way or whether that some sort of elephant traps have been built into the product and if the customer falls through that trap they get hit with high charges. And, of course, the firm retains more profit. Another example worth giving you is high-cost credit. We've seen examples where high-cost credit firms might think that they don't have to do much of an affordability assessment because it's a small value loan. I've already made the point when I spoke about affordability that a small loan to a very vulnerable customer whose life would be changed for the worse significantly if things go wrong, that might require you, does I think, require you to do more by way of affordability checking than for a larger sum loan to a non-vulnerable customer. And the final thing worth mentioning is distribution chains. Bit of confusion about this and there's a risk here the brokers will think "oh, new Consumer Duty that's for the lender to worry about" and lenders might think, "well, ok, we design the product and so on, but it's for the broker to worry about new Consumer Duty because they engage the customer." And actually, both parties need to be thinking about what is my role in this distribution chain. And you may well have a lender who not only designs the product but actually gives the broker the script and controls that customer engagement process. And then the new Consumer Duty may bite for more of that distribution chain than a lender who does genuinely leave things to the broker in terms of engaging with customers. Or you might have a broker who has complete say over how they engage with customers. Well, that means that they have responsibilities under the new Consumer Duty to engage with customers properly to make sure that customers understand the product. Let's move to the next slide and touch on price and value. And one of the next questions that we get here is "are you regulating price here?" And the answer to that is no, we're not regulating price. What we're regulating here is the reasonableness of the relationship between price and benefits. So, you know, if you look at the price in the round and this is a holistic assessment, it's not just the interest rate price, but other charges that come into play, particularly if they regularly come into play, looking at the reasonableness of that overall pricing as against the overall benefits that the customer receives. And we've seen examples where firms might go as far as actually setting up their business to be kind of breakeven or even unprofitable if everyone were to pay back their loans on time and they set up the business knowing, if not quite cynically, devising that customers will incur penalties along the way and therefore they will make profitability, profit from the penalties. Now, that is a troublesome business model, let's put it that way, because that is a business model that's predicated on customers being penalised for errors and that business model is only profitable when customers get penalised. And that is the sort of price and value relationship that would worry us.

	Another question we get is "can we price for risk? Is differential pricing allowed?" Well, yes, it is within reason because, you know, if you've done the affordability assessment right and if you genuinely assess that a customer represents a bigger risk, but they can afford to repay, then you can price accordingly. So, you can price risk. And another question we get is, are we running the risk as firms of being penalised here for having high margins, if we have high margins? And the answer to that is no, that is not the intention. You know that we use data analytics and this is one piece of data analytics that we do use. We might run off some data to tell us which firms have the highest margins, that might be a red flag for us, but equally it might be a sign that you've got a very innovative firm developing a product in a cheaper way with lower expense, and it's still selling it at a competitive rate, perhaps even more competitively to its peers in the market. And if it's got a higher margin, but it's still competitive and it's taking advantage of producing that product with lower expense, then that is not something that we would expect to interfere with. So, that is different. So, it's not in every case that we would worry about high margins, which I hope addresses another question that people ask us. Let's move on to the next slide to touch on consumer understanding. Now, you know from the introduction this is about getting the right information at the right time and in the right way to customers so that they can make an informed decision. One of the things we often get from firms on new Consumer Duty is, isn't enough to just tell consumers what they should be told based on legislative requirements or based on the FCA rules? And the answer to that unfortunately is no, not quite actually. You can't just tick off a list of things that legislation requires you to disclose. There's a way of disclosing, there's a manner of disclosing. Firms engage with consumers in different ways. So, another question we get is, is face-to-face better than in writing or vice versa? And actually, again, there are pros and cons. You know, we see home collected credit firms but quite genuinely and quite properly say, well, look, we have a face-to-face engagement with the customer that is enabling us to see whether the customer gets it when they make an informed decision. And if they don't get it, we can explain it more and better. And that, yes, that can be an advantage. But I would say there's a rub to that, there's a downside to that, which is you need to record what you've said and what that exchange looked like, because years later, if there's a complaint or a problem, you need to be able to have confidence that you can demonstrate that the right things were said to customers. And then in writing as well, there can be pros to that because you can actually point to what was said to the customer, but you need to know and you need to be able to demonstrate that the customer was given that information in the way that they were able to understand it. More than once, many times, in fact, we've been told that customers were given a pack of information and told, you know, perhaps if you've got time, read that it's just stuff we have to give you because the regulator requires it. You know, that might be a beautiful pack of

information, but if it's given to a customer in that way, in that face-to-face transmission, then it's not necessarily going to meet this test of firms enabling consumers to make informed decisions based on a proper understanding.

And just before I finish on this one, collections activity is a question we get, you know, customer in a process of having a debt collected. Do we need to explain anything to them or just tell them what the process is? And I think it's fair to say that our expectation would be that customers still, even in that process, require an explanation given to them of what their options are. They need to be given key information so that they can take an informed decision, even if that decision is to contest or to complain or to challenge it in some way. So, our expectation in collections is still the same.

And then customer support. I won't say a great deal on this because it was covered beautifully in the introduction. In fact, I really like the phrase and so I will repeat it. The buy experience you make that slick, firms make that slick. Well, it should be equally slick when it comes to customers complaining or switching or asking for forbearance. You know, there's no point under Consumer Duty developing a two-click, get a loan in 3 minutes experience, which is smooth and frictionless. If there's a lot of friction or a lot of sludges, the behavioural economist might say if there's a lot of sludge around those other points of customer support, around complaints, around questions, around requests for forbearance. So, make sure you get all those things right in terms of customer support and I underline again, test it with monitoring.

Now, if we just move to my final slide, again, not a great deal to say here. I do just want to highlight one of the challenges I have in presenting to you today as I know that there are some enormous firms with big billion-pound businesses, credit card type, retail finance, loads of finance, and then some very small firms, might be credit brokers whose primary interest is a retail product and then they have finance on the side.

We often talk to you about treating different customers differently based on their own personal characteristics, their vulnerabilities or otherwise. Likewise, we as a regulator, we treat you differently depending on your size of firms and your wherewithal to comply with new Consumer Duty and so on. One thing worth saying here is we don't differentiate in a way that we have lower expectations of some firms. So, to the Consumer Duty applies to all firms and we expect consumer outcomes to be equally good from all firms. But the point I'm illustrating here is that in a very small firm, where the, the owner of the firm, might actually be involved in the sales process they are going to know what's going on at the coalface, and they're going to see how the Consumer Duty is playing out in a day-to-day way. They don't necessarily need the same type of governance processes, the same type of management information, and so on, that a larger firm might need to have. So, that's where we might differentiate, larger firms we would expect the executive is going to be more detached from the frontline business. So, we'd expect them to have much more

	in the way of governance and management information, so we tailor it for you, just as you tailor things for your customers. So, I shall leave my section there with thanks and I'll hand over to my colleague Sarah Mackenzie to talk about mortgage firms.
SARAH MCKENZIE	Thanks very much, Jonathan. And I'm Sarah McKenzie, a Head of Department in the Retail Banking Team and a pleasure to be talking to you today. I very much echo the comments that my colleagues have made so far, but I also wanted to highlight some aspects of how the Duty applies and its relevance to mortgage firms when you're thinking about implementing the Duty. As you know, we've worked with mortgage firms over a number of years and together made really quite a lot of progress towards, we think, ensuring good outcomes for consumers. For example, we've been very clear on our expectations around responsible lending and also, as Jonathan mentioned, our expectations around support for borrowers when they get into financial difficulty. And we have worked extensively with firms and trade bodies too around conduct risk more generally and the fair treatment of customers. The Duty very much adds to this framework, setting a standard of care that firms should give to all their customers and as we've heard already, this will be a significant shift in what we expect. The Duty very much applies to firms across the mortgage and home finance sector, whether large or small as with credit, as Jonathan has just outlined. It will really require all firms, whether you're designing, selling or advising on products, to make sure that you're putting your customers' needs first. And as others have recognised, we do; we do see that the timing of this right now is quite challenging for firms. But the current economic environment also underlines just how important the standards that we're setting are for consumers. So, I'll just try and put a little bit of flesh on the bones from a mortgage perspective. As we've heard, the consumer understanding outcome is really all about aiming to ensure that communications that you send to your customers and that you share with your customers really help them understand the products and services that they're using, their features, their risks, and the implications of any decisions that customers have to make. As I've said, this is critical in an environment like now as in the mortgage market. Mortgages are very much a long-term product, and it can be really hard for a customer to think about the types of decisions and changes that they might need to make over the course of their lifetime with that product. For example, in relation to the interest rate rises that we have seen recently in the market. So, this is a good point to really challenge yourself on how well your customers are understanding what's happening and what will happen when they take out their mortgage. And then at the point when a change needs to happen, for example, a renewal. Does the customer understand the options available to them? For example, if they're coming to the end of an existing fixed rate, or perhaps if they're worried about their ability to keep making

	payments, if they're facing, for example, pressures relating to the cost of living. As you'll know, we've got quite extensive mortgage rules already in these areas, whether that's relating to product disclosure, advice or dealing fairly with customers when they get into payment difficulties. But the Consumer Duty really does expect you to go beyond that, beyond tick box compliance with the rules to really test, monitor and adapt communications to support customer understanding and make sure that those outcomes are being delivered for customers. So, you'll really need to think about this. In keeping with this example of customers coming to the end of a fixed rate, the decision about what they do next is likely to be a more complicated and quite difficult decision, more so now than it has been perhaps in recent years where we've had prolonged low interest rates. So again, do your customers really understand the options that they have and the trade-offs that they're making? And if not, how easy is it for them to find out more information to help them make those choices? Another really topical example at the moment is around debt consolidation. As consumers are facing financial pressures, some may be considering ways to perhaps reduce their outgoings and consolidating an unsecured debt into a mortgage does have certain implications, as you all know. For example, it may increase the overall term over which interest is being paid and the consumer might be putting their home at risk if they are not able to keep repaying what was previously an unsecured debt. So, it's so important for the customer to understand that while they may be making a saving in the short term, that the longer-term outcome might be worse for them. So, in terms of customer understanding, just to recap, we are expecting the communications to be tailored according to the complexity of the products in question. And of course, as you've heard already to the characteristics of the customers who will be using them, and that includes any characteristics of vulnerability. So, really encouraging you to think about putting yourself in your customer shoes, thinking about the information that your customers will need to make those decisions. And then importantly, as Ed and others have said, testing, if this is working, as you would expect. Moving on to the customer support outcome in terms of mortgages. Well, we very much as we've heard already expect firms to provide support that meets their customers' needs across the full product lifecycle. So, are the products, are they able to use the products as they would expect, are there any unreasonable barriers, have they got sufficient opportunity to really think about their options, whether that's at the point of sale or during the life of the mortgage? And we expect the support that firms provide to really meet the needs of their customer base, including any characteristics of vulnerability. And this is particularly important because we know that where consumers are in vulnerable circumstances, they may have additional needs or perhaps be at greater risk of harm if things do go

	wrong. So, firms will need to be able to think about the support that they provide through their different channels or perhaps if necessary, adapting their usual approach. So, I think, again, Jonathan touched on this. Some mortgage customers may be better supported through face to face or a telephone conversation with a human being perhaps, compared with a purely online experience. For example, if they're thinking about switching their rates or perhaps if they're experiencing difficulties. And I think I'd just like to mention that there are some segments of the market where customers may be more likely to have characteristics of vulnerability. So, for example, if customers are thinking about later life products, so things like lifetime mortgages. These products can have different features that customers may not be familiar with. So, for example, things like interest rollup or drawdown facilities and a customer's needs and characteristics clearly may change over time. So, it's really important for firms to think how they're explaining those to the customer and helping bring to life how those might work at different stages in the product lifecycle. And all of this will, of course, vary according to the firm's role. For example, an intermediary will be focussed on the point of sale compared to a provider who plays a role, both at the point of sale and over the term of the product. Another point to highlight is really around the distribution chain. This is another area where we've had quite a lot of questions about how it will work in relation to the mortgage market. In this market, the distribution chain can be quite straightforward. For example, we see banks advising on their own products or perhaps distributing them through intermediaries who provide advice on the bank's products. But sometimes there can be more than one intermediary in that chain. For example, where there are packagers involved or so-called master brokers. And what we've tried to get you to think about here is how the Duty will apply. So, whether or not you as a firm are likely to have a material influence on the customers outcomes. So, that's something where we really need you to think about your place in the chain and where you fit in. So, whether that's about the design of the product, how it operates, how it's distributed, perhaps if you're involved in explaining and communicating the detail of the product or indeed to ongoing customer support. It's worth remembering here that the responsibility really depends on the actual role that you have in practice, rather than perhaps what's set out in just contractual terms between the different firms involved in a distribution chain. Moving on to fair value. Again, a really hot topic and one we've had a few questions about in the mortgage market. We've had lenders asking us from their point of view, how can they assess fair value if the intermediary down the line is charging a fee that the lender perhaps has no control over? So, just to clarify on this, we aren't requiring that a lender carries out a separate assessment for each and every distributor that they use in the chain. But we do expect that the lenders should be able to have a view of the overall fair value impact of the fees from the information that

	they're collecting. For example, when they're calculating their price disclosures for putting in the mortgage illustration for the borrower. So ultimately, if this causes the lenders to have any concerns about the total impact of the fees that are being charged, that, so for example, that specific intermediaries, then they shouldn't be closing their eyes to it. And in those circumstances, the lender might want to share their analysis with the firms and the distributors involved, or potentially consider the need to alter their distribution arrangements. And how does it apply from the angle of the distributors for the intermediaries. As a starting point, again, the distributor does not have to challenge or redo the lender's assessment of the fair value of their product, of the lender's product. They're not required to, for example, consider the value of event contingent fees so, things like early repayment charges, arrears fees or exit admin fees. Although we would expect you to be considering those when advising on the product, of course. But the intermediary does need to ensure that their own fees and charges are fair value and that the incremental effect of the total charges doesn't result in the overall product becoming unfair value. And that we think this is one area where longer distribution chains, for example, where we've got chains involving master brokers and packagers that might have an effect on the overall conclusion around value. It's not hard to imagine a situation, for example, where each firm separately in the chain believes that they can justify their own fees and charges as representing good value. But if added up together, the cumulative impact of all these for the borrower might come to a number which is much more hard for us to get comfortable with. When thinking about these questions of fair value, intermediaries are going to need to obtain information from their manufacturers which can help them make their own assessment. So, this might, for example, include information such as a high value, high level summary of the benefits of a product for a particular target market. Information on overall price, prices and fees and confirmation that the manufacturer considers the total benefits are proportionate to the total costs. Then moving on to outcomes. You've heard quite a bit about outcomes already today. You can absolutely expect that we will be asking you about your business models, the actions you're taking and your culture and ensuring that you are focussing on good customer outcomes. We'll be expecting you to monitor these and to regularly think about the outcomes that your customers are experiencing in practice, which will be fundamental to you getting a sense of how your products and services are working in practice, and whether that's consistent with the expectations of the Duty that you've heard about today. So, where you find any issues with that, we will expect you to take appropriate action to fix the problems. And as Ed highlighted when talking about data, you'll need to think about the relevant data that might help you to reach these judgements. And echoing what Jonathan said about the size and proportionality question, we recognise of course that the way that

	you look at the outcomes, the data that you use will very much vary depending on your activities, how big your firm is, etc.. We think there are quite a lot of sources of data that you could use in helping you judge outcomes and for the mortgage sector as I've highlighted, I think a big part of this will involve regular sharing of information between lenders and intermediaries. This does already happen all the time, of course, and there are many third parties active in this space, such as criteria and sourcing solutions systems, who can help facilitate this process. And for those who are mortgage lenders, you already supply us through the product sales data returns with a really rich set of analysis information about transaction level data and sales, and that's reported to us. And you can use that too, for example, if you're looking at the fees and interest rates that you charge, that can really help you think about fair value, particularly if you combine that with looking at information about your own customers and their characteristics and how the mortgage works over the course of time, that, we think that should give you a really strong insight into the customer outcomes in practice. And then some other ideas, I mean, it's probably any number of different things that you might want to look at when trying to look at outcomes. But some perhaps obvious examples might include information about customer switching, retention records, the root cause analysis that you do on complaints that you're receiving, as well as any feedback or survey data that you gather from your customers and also from your staff too, if you're giving them the opportunity to give honest feedback about what they're seeing in practice for customers. So, just to wrap up, we are keen to keep talking to you, to keep talking to the market and also via trade bodies as you prepare to implement the duty. You've heard about the deadline that passed yesterday, we are going to be reviewing the implementation plans for the larger firms and we'll be, after that, confirming some of the points that we've talked about today and sending those in a letter to the firms supervised in our mortgage portfolios. And that should really reiterate and recap the key priorities for the mortgages sector. We'll be looking to you to consider and discuss this letter with your directors and with your board, and really think about what further action you need to take to make sure that you're meeting the requirements and expectations that we've set out today. Thanks very much. I'll now hand back to Emma, who's going to take us through some Q&As.
EMMA STRANACK	Thank you, Sarah. And thank you also to Jonathan, Ed and Richard. Alongside my speaker panel, we are going to be joined by a few subject matter experts who are online. And I am going to go, first of all, to one of those, Dharmesh Gadhavi, who is in our Consumer Finance Team.

	My question for you, Dharmesh, we've heard a lot about how the Duty applies to unregulated loans and business lending. So, what are our expectations under the Duty for that one, Dharmesh? Dharmesh. I think you may be on mute.
DHARMESH GADHAVI	Apologies for that. I'll start again. Thank you, Emma. So, the Duty applies in line with our existing regulation in each sector. So, for consumer credit, the Duty applies to all regulated, credit related activities. So, the rules apply where firms are dealing with retail customers, for the purposes of the Duty, retail customers are defined in line with the scope of our existing rules for the sector. The Duty covers both individual customers and SMEs, and to the extent that we already regulate and apply protections to the provision of financial services to SMEs. So, for example, we would apply to certain lending for business purposes, but it's worth stressing that it applies only within the FCA's regulatory perimeter. It would not apply to unregulated business. It does not, for example, apply to credit products which sit outside our remit, such as unregulated business lending. It's worth noting, though, the Duty does apply to ancillary activities. So, these are unregulated activities in connection with or held out for the purposes of regulated activities. However, whether an activity is ancillary would depend on a number of things. It is likely that activities which are necessary for the completion of a regulated activity will be ancillary to that activity. So, for example, the design of a product or service and ongoing customer support services are not themselves regulated, but they all have necessary activities linked to regulated activities. And firms should be able to demonstrate that they have considered this when implementing the Duty.
EMMA STRANACK	…Very much Dharmesh. Now, coming back to the studio and a question for Richard. Richard, we've had a number of questions about this role of champion and what sort of expectation is there for this role. Does the responsibility for the champion differ, for example, from a senior management function holder?
RICHARD WILSON	Yeah. So, we've had lots of positive engagement with firms who are thinking about how to apply this champion role that we set out in the documents we published in July. And we've got some extra information already on our website as well which firms may want to refer to. So, there's two key aims behind the champion role. And firstly, we want to make sure the Duty is being raised in all the appropriate senior discussions at board or senior management level. And secondly, we want the champion to make sure the board and the non-execs are really challenging on Consumer Duty and making and challenging firm's management boards on their plans for implementing the Consumer Duty.

	But it's also, we want to be clear on what the champion role is not, it's not a prescribed responsibility under the senior management, under SMCR. It doesn't affect the board's collective responsibilities, and neither does it interfere in any sort of individual responsibilities to ensure that the Consumer Duty is properly complied with by the firm. It goes really over and above what the existing governance requirements on firms and is about that focus and about that challenge function at a senior level. And we've deliberately not being prescriptive in the way that we've described this champion role because we want firms to be able to set this up within their existing governance structures, the existing roles and responsibilities and structures that their firm and its group has. And we want firms to use their judgement about the most effective way to set up the champion role. And we recognise of course, that with smaller firms there's going to be a much less formal role. One thing firms can do is look at our guidance where we have a whole range of questions in there that the supervisors might ask firms, but also people on boards might want to ask as they challenge and scrutinise plans that come to them or have discussions about how the Duty is being implemented. So again, worth referring to our guidance there.
EMMA STRANACK	Thank you, Richard. I'm going to come back to you, Dharmesh, online. I know that Jonathan and Sarah have both dealt with this to some extent, but it's a question that comes up a lot and it's about proportionality. So, in particular, how does the Duty apply to smaller firms and those firms with limited permissions?
DHARMESH GADHAVI	Thank you, Emma. So, we recognise that firms will have different capabilities depending on their size, their resources and activities. So, while all firms should aim to deliver good outcomes for their customers, as set out to you in the presentation, their approach to the Duty can vary and we do not expect the small firms to apply the same resources or processes that we would maybe expect from a larger firm. Good examples of this are in relation to testing and monitoring customer outcomes. Clearly firms will be in different positions as to what they need to do and what they can do. The smaller firms will generally have simpler business models and would not need to apply the same processes as we would expect from larger, more complex firms. However, in general, we expect firms with more sophisticated data strategies to have a more detailed approach. So, for example, one question firms can therefore ask themselves is whether they are using the same MI capabilities they use to inform other elements of their business, such as product development or sales tools to monitor outcomes. But we do recognise the need all firms and in particular smaller firms have for support from us on how to implement the Duty. So, as a consequence of that, we are planning accessible communications with

	an eye to smaller firms in our audience, we're also planning a combination of events which Emma you talked about at the start, including regional in-person events on the Duty in the New Year. There's also going to be some more information added over time to our web pages, and we will be sending out tailored letters to each of the portfolios, as we've flagged throughout the seminar, to ensure that firms are aware of which key issues they should be considering. And as ever, there'll be support and also continue to be available from our supervision hub. In terms...
EMMA STRANACK	Thank you very much Dharmesh. Oh, sorry.
DHARMESH GADHAVI	Just going to finish, just in terms of limited permission firms, while there are many small firms, it's worth noting that there are several large limited permission brokers and consumer hire firms, for example. So, firms will need to ensure that their implementation process is also appropriate and proportionate for those firms as well.
EMMA STRANACK	Thank you for that. We've also had questions about appointed representatives. Jonathan, I think this is one for you. We know that a lot of firms use appointed representatives. How does the Consumer Duty interact with that?
JONATHAN PHELAN	Yes, indeed thanks Emma. It is a common business model, quite rightly. It is, however, a business model that does cause us disproportionately more supervisory activity. And so, we are keen to stay on top of new Consumer Duty in the realm of appointed representative firms. It also causes more activity for the FSCS as well. So again, it's a really important thing that we get right and the activities in appointed representative firms as opposed to directly authorised firms. But it's also very relevant in consumer credit because one example motor finance firms, a lot of those are appointed representatives and they've also got the ancillary question that Dharmesh touched on earlier. You know, they're clearly involved in selling cars as well as providing finance, and they might be providing service plans. And I think Dharmesh has already addressed one of the questions that people in our audience have around ancillary products and have got that steer from us that, you know, if the ancillary product is not related to the financial product. If it stands alone, then the new Consumer Duty is not likely to attach to it because it stands alone as a product. But back to the appointed representative point, which is that we have, as people may know, as recently as August, issued some new rules around appointed representatives. And of course, with it being that recent, they were written absolutely with new Consumer Duty in mind. So, they completely tally with each other the new Consumer Duty and the appointed representative rules. So, the principals will know from those roles that they need to oversee ARs, appointed representatives, to ensure that they're competent, to ensure that they have financial resilience, to ensure that they're producing good consumer outcomes. They need to be monitoring and testing in the same way that we talked about the new Consumer Duty. And we,

	firms know that we're going to be asking for returns to cover activities carried out by appointed representatives so that we're sighted on what ARs are doing. And we're sighted on their complaints record on their revenue as well. So, there's very much a commonality between appointed representative rules and expectations and new Consumer Duty. Hope that helps.
EMMA STRANACK	Thank you, Jonathan. We've had quite a few questions asking what the key differences between the Consumer Duty and our current requirements around treating customers fairly. I know a number of our speakers have touched on this, but Richard, can you pick this up in terms of what the key differences are?
RICHARD WILSON	Yeah. So, this is a question we get asked a lot and I could talk for half an hour or an hour or more on what the key differences are, because there's so many we've talked today about the big shift that the Consumer Duty is. But I'm just going to highlight a couple of key differences that I want to highlight. So, first of all, there's the structure of the Consumer Duty. So, clearly there's lots of good things in our Treating Customers Fairly initiative but the Duty is a much bigger package that includes rules that cover the wide range of business activities and importantly, is enforceable. So, that's much more powerful in terms of our ability to assertively supervise and enforce those the Consumer Duty than just having a principle with guidance underneath it. So, the structure is one important element. Of course, the second thing I'm going to say, like a broken record, is the focus on outcomes. So, that's not just a soundbite, we really want firms to stand behind the outcomes that they are delivering for their consumers. And there's quite, you know, tough rules in there about monitoring, monitoring the outcomes that consumers receive and acting where you see that there are problems and making sure that the board and the senior management are all bought into making sure that we're getting good outcomes for consumers. The third and final point I just make is about some of the scope of the outcome rules that bring the Consumer Duty into some new areas. So, obviously we've talked a bit about consumer understanding and how that's a big step change in terms of making sure that firms are actually testing and monitoring the results of their communications rather than just feeling they're treating customers fairly by sending them out in the first place. And making sure that the outcomes that consumers are experiencing are good and the communications are having the intended effect. The same with the customer support outcome as well, which as I mentioned earlier, really sets a new higher standard in terms of saying that it should be just as easy for customers to be able to complain, switch, make a claim as it is to buy the product in the first place, which I think will be quite challenging for many firms to get right.

	So, some really quite, overall, really quite a big shift for firms and across all different sectors.
EMMA STRANACK	Thank you, Richard. I'm going to go back now to Dharmesh online, please. What are our expectations for regulated banks with regards to retail lending?
DHARMESH GADHAVI	Thank you, Emma. And I briefly touched on this one in response to my first question, but just reiterating that point of the consumer credit, the Duty applies to all regulated credit related activities, but only within the FCA's regulatory perimeter. So, will not apply to unregulated business. It does not, for example, apply to credit products which are outside our remit, such as unregulated business lending. So, banks will therefore need to ensure that all their regulated, and this includes the ancillary activity, caught by the Duty is identified and treated accordingly. They'll need to meet those requirements for both manufacturers and distributors where these apply.
EMMA STRANACK	…Dharmesh. Back to the studio and I'm going to ask Ed Smith this next question, which is how will we at the FCA measure the success of the Consumer Duty? Will we be asking for more data from firms? And can you say a bit more on our expectations for outcome monitoring?
ED SMITH	So, thanks Emma. Well, just as we expect firms to use data in their implementation of the Consumer Duty, we will very much be using data in our monitoring of the Duty and the impact that it's having. So, when we published our strategy in April of this year, we set out a number of high-level metrics across financial services that we will use to monitor the fair value, the suitability and the understanding and confidence of consumers in financial services marketplace. These are high level, often survey data and complaints data, and then underneath that, for each sector and portfolio, we are developing a suite of metrics that will be able to gauge the impact of the Consumer Duty within individual sectors and portfolios. And that also includes market data, survey data, complaints data, but also those kinds of metrics that in the marketplace like sales, prices, switching, which will give us insights into how the Consumer Duty is affecting behaviour and consumers. And of course, on an individual firm basis you will develop your own data. We will see some of that through our monitoring. I would expect to see that through some of our monitoring activities on an ongoing basis. We are also doing a firm survey over the next year or so to look at how firms are implementing, particularly small firms are implementing the Duty. We're not at the moment anticipating doing an outward request for information, but we keep that under review, we may do that in the future. So, I think that sort of covers it, hopefully.

EMMA STRANACK	Thank you, Ed. I'm going to go back online now to Jason Pope. Jason, a lot of questions have come through both live and in pre submitted on this theme, which is about how the Duty applies to the distribution chain. Can you give us a bit more detail on that, please, Jason?
JASON POPE	Sure, and good afternoon to everybody. The scope of the Duty is intentionally broad. It applies to all firms in a distribution chain where they have a key role in delivering retail customer outcomes. Now, while the Duty has this broad potential application, it's also important to say it would only apply to firms that can determine or materially influence retail customer outcomes. We think that firms with this kind of impact should comply with the Duty. However, while all firms in the chain may be subject to the Duty, different firms will likely focus on different aspects. Firms would need to consider where they have a material influence and then to consider how the Duty applies. So, for example, where a firm has a role in relation to the design of a product or service or its pricing, it should comply with the relevant rules. Now, lenders are more clearly going to have a role here, but if an intermediary also has a significant role, it may also need to comply with the relevant rules. Intermediaries engaging with customers are likely to have influence over the customer understanding and support outcomes and therefore they'd need to comply with the relevant rules there. It's also important to say that even though the Duty applies through the chain, that doesn't mean a firm needs to oversee or police other firms in the chain. For example, lenders don't need to review disclosure documents for independent brokers or to double check their sales standards. Back to you, Emma.
EMMA STRANACK	Thank you. I know we've also got online Keith Hale from our mortgage policy team. Keith, in relation to intermediaries and mortgages, is there anything that you would like to add in terms of our expectations for mortgage intermediaries?
KEITH HALE	I think Jason has broadly covered it. I mean, for mortgage intermediaries, they're obviously going to have a key role in making sure that consumers understand the mortgage itself. But they also should be thinking about how they design and deliver their own services. But I'd only go on to echo Jason's point, and I think Sarah mentioned it before as well, about needing to think about the obligations being interpreted reasonably, reflecting the firm's role in the chain and the degree to which they determine or materially influence retail customer outcomes.
EMMA STRANACK	And on that basis, I think a similar point for mortgage lenders who generate business through intermediaries, it would be the same advice.

KEITH HALE	It would be the same advice and I guess I would pick up on the role of information sharing, which again was something Sarah touched on. To support manufacturers reviews, manufacturers are going to ask distributors for relevant information, such as sales information and information on regular reviews of distribution arrangements. And all of this information sharing needs to comply with data protection and consumer protection laws. But echoing a theme which has been said by others, even though the Duty applies across the distribution chain, we expect all firms to avoid causing foreseeable harm. It doesn't mean that a firm needs to oversee or police other firms in the chain.
EMMA STRANACK	Yes. Ok, that's a helpful clarification. Thank you, Keith. Coming back to the studio and Richard, a question for you here. We've had several on redress and asking if the Consumer Duty means that firms will have to pay redress more often to consumers.
RICHARD WILSON	Well, the simple answer to that is, no, we don't expect firms to be paying, to be receiving more complaints, or paying more redress as part of the Consumer Duty. In fact, as we've been talking about, you know, the aim of the Consumer Duty is to be more preventative and to tackle some of the root causes of the harms in the markets we regulate. And so, we, one of the key metrics we are measuring to see the success of the Duty is a reduction in the number of complaints going, for instance to the FOS. So, you know, the aim of the Consumer Duty very much is to improve outcomes for consumers and that means tackling harm before it materialises and crystallises and prompts the need for redress. But of course, that very much depends on firms implementing this properly, embracing the Duty and delivering those good outcomes. So, obviously, I would urge firms to embrace the substance of the Consumer Duty to make sure that they are preventing harm from materialising and reducing the likelihood that redress will need to be paid. Of course, even when firms are implementing the Duty well and have embedded the Duty, we don't live in a perfect world, mistakes happen, and there will always be a need at times for firms to consider whether the redress is an option. And our rules, Consumer Duty rules do cover that and really tie that to the cross-cutting rule about foreseeable harm and ask firms to consider where they may have failed to act to prevent serial harm, to consider what kind of things they need to do. Obviously, that could just mean putting right the problem so it doesn't happen again, but it could potentially mean taking action to help the consumer, including, if appropriate, redress. Thank you.
EMMA STRANACK	Thank you, Richard. I'm going to do my best to squeeze three more questions in. Jason, firstly for you, we've had several questions about the Senior Managers and Certification Regime. Will there be any changes to the prescribed responsibilities under the SMCR?
JASON POPE	The short answer to that is no. No changes to prescribed responsibilities. However, the Duty does require firms to ensure that they are acting to deliver good outcomes and that that's reflected in

	the strategies, governance, leadership and people policies, including incentives at all levels. So, the governing body must also ensure the Duty is properly embedded within the firm and we will hold senior managers accountable through the SMCR.
EMMA STRANACK	Thank you very much for the succinct answer. Jonathan, I'm going to come to you next. We've heard that consumer understanding is obviously a key focus of the Duty. So, what does that mean in practice? So, there's a credit example that I've been provided, how should firms demonstrate that their customers actually understand the consequences of defaulting on a credit product?
JONATHAN PHELAN	Well, I think the thing that's really important here is, is to make sure that all the features of the product and the risks of that product are disclosed to the customer. Discussed if it is a face-to-face relationship or provided in writing, if it's not face to face, web based or whatever. I think it's really important to communicate in an engaging way. You know, so if it is face to face that makes it easier, you can actually see if the customer understands, you can tell from body language, you can tell from questions. And when you present to a customer, whether it's face to face or in writing, there needs to be an appropriate balance between the benefits and the risks. And when it comes to default, it's really important to make sure that the customer not only understands because they probably crave the benefit of the loan that they're about to hopefully receive. But you need to make sure that they understand the way in which it can go wrong and therefore that they could run the risk of going into default. And what that could eventually mean for them in terms of the extra charges, the extra hassle, the extra impact on their lives. Another really important thing, and if I were making a list for you I'd have written those things down, but I'd put the next one in capitals, it would be keep a record of what you have said to them. So, if it's a face-to-face relationship, don't just walk out that is not the end of the relationship. If there's a complaint, if there's a problem later, if the customer is going to later say, "I didn't understand the risk of default and what would happen." You need to have a record of that. And then the other thing that I would write down in absolutely even bigger, bolder capital letters is monitor the outcomes, because you might try different ways of communicating with consumers over time. You might try, you know, different leaflets or pamphlets or different scripts for oral communication, test those as outcomes in the way that we've just talked about in the past hour or so. You know, create those scatter graphs, work out whether more customers default when they're communicated in one way than if they're communicated to in another way. And once you find the way that works best for customer outcomes, stick with that or build on it even to make it even better. So, hopefully a few tips there for being able to demonstrate that you communicated well with customers, particularly about defaulting.
EMMA STRANACK	Thank you, Jonathan. And just looking at the time now, that final question has to bring us to the end of today's webinar.

	Thank you so much for coming and thank you for all the questions that you've asked live and the pre submitted questions. Please a reminder and a plea to answer this one Slido poll question at the end of this webinar, it should be on screen now. And as many of us have said, there will be more communications planned via the Consumer Duty hub on our website. But also, we will be running some face-to-face events next year, particularly looking at retail lending. And we will follow up with an email which has a survey to evaluate today's session and to inform what those future sessions could look like. But it will also point you to a recording of this webinar on all the other webinars in the series. So, my thanks to all the speakers and people answering questions today and to all of you for coming. Have a very good rest of your day. Goodbye.