

# CONSUMER DUTY

Summer 2024

Scottish League of Credit Unions

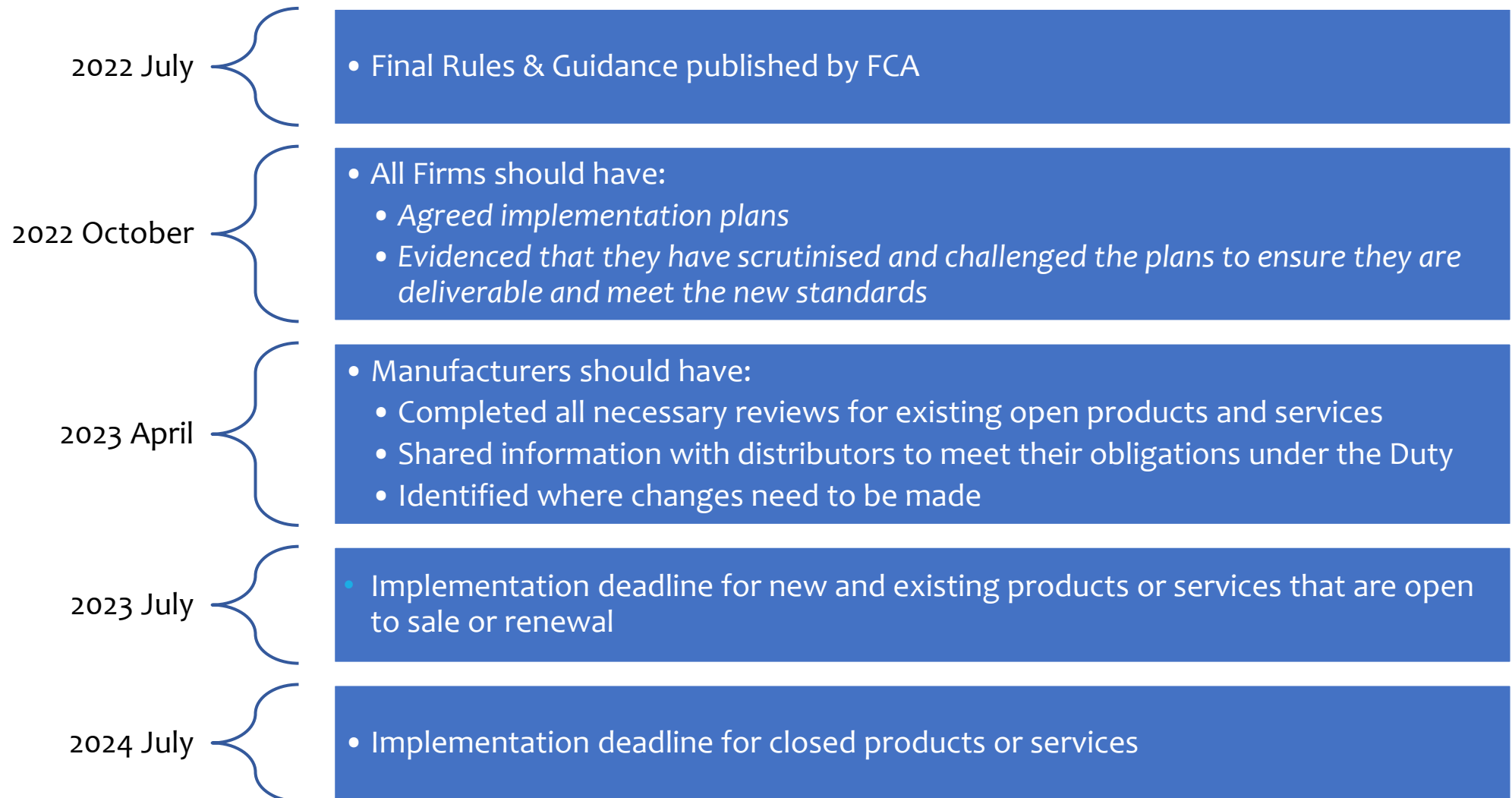
# Consumer Duty

- Not designed for, but applicable to, all Credit Unions!
- The FCA's introduction of the Consumer Duty represents a significant shift in the regulatory landscape, emphasizing the importance of Firms\* responsibility to ensure the protection and fair treatment of consumers in the financial services sector
- Arguably, credit unions already embody the spirit of the new Regime *but* WHAT → WHEN → WHERE → HOW do we document & evidence?



# Timeline for implementing Consumer Duty

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# The Consumer Duty structure

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## Consumer Principle

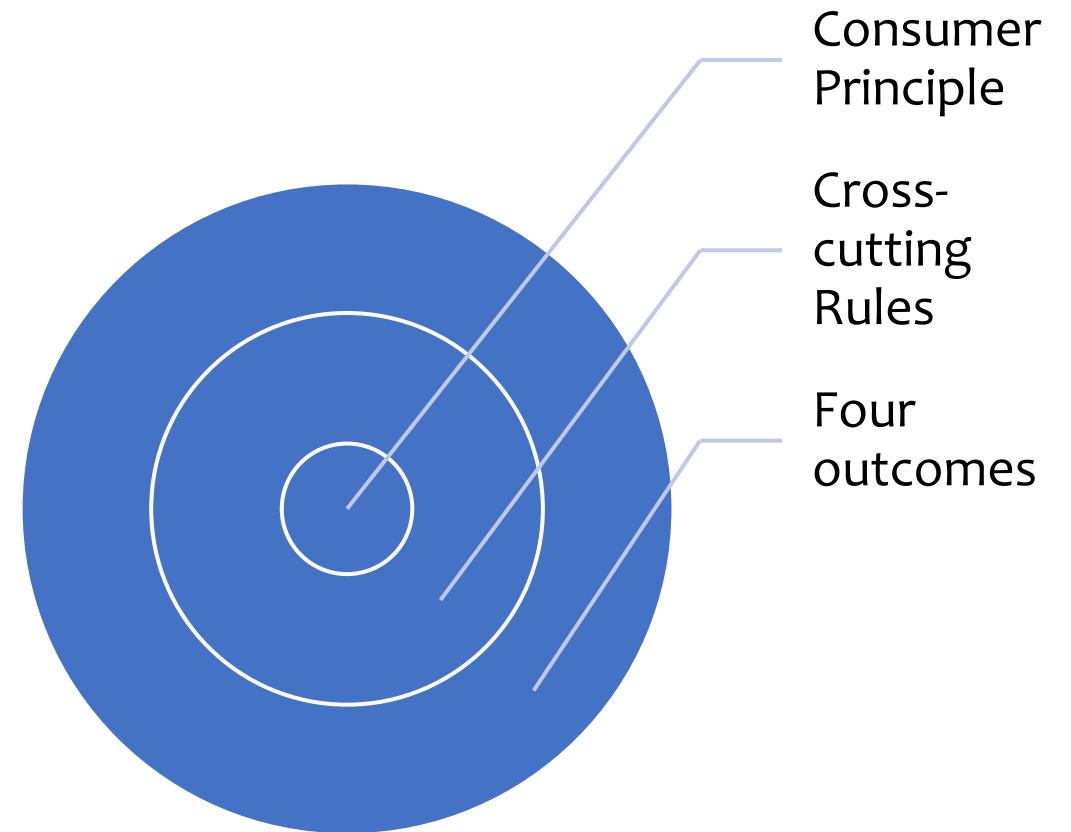
- A firm must act to deliver good outcomes for retail clients

## Cross-cutting Rules

1. Act in good faith towards retail customers
2. Avoid causing foreseeable harm to retail customers
3. Enable and support retail customers to pursue their financial objectives

## Four outcomes

1. Products and Services
2. Price and Value
3. Customer Understanding
4. Customer Support



# The importance of Consumer Duty



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1. Consumer trust in financial services
2. Role of credit unions in financial ecosystems
3. Ensuring best practices & safeguarding consumer interests

# Implementation Plan expectations



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## □ Understand the Duty

- ▣ *Credit Unions should be familiar with the Consumer Duty's components, including the Consumer Principle and four outcomes. Adapt these to your credit union's context (Chapter 5.37)*

## □ Member-Centric Approach

- ▣ *Put members at the heart of your business model. Consider their financial objectives and vulnerabilities throughout the member journey (Chapter 5.37)*

## □ Product & Service Design

- ▣ *Ensure that your offerings meet the specific needs, characteristics, and objectives of your members. This should be an ongoing process involving idea generation, development, testing, launch, and review (Chapter 6.30)*

## □ Communication

- ▣ *Clearly and effectively communicate any changes in services or products to members. Provide alternative solutions and outline the consequences of not acting (Chapter 5.37)*

## □ Monitoring & Review

- ▣ *Develop a strategy to gather relevant information and data to assess whether you are delivering good outcomes for members. This should be a part of your governance obligations (Chapter 11.19)*

# Developing an implementation plan



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## □ Understanding Consumer Duty Requirements

- ▣ Research and understand the specific requirements of Consumer Duty as they apply to credit unions
- ▣ Ensure the team is aware of the principles, outcomes, and rules defined under Consumer Duty

## □ Gap Analysis

- ▣ Conduct a thorough review of current practices and policies
- ▣ Identify areas where your credit union's current operations do not meet the Consumer Duty requirements

## □ Stakeholder Engagement

- ▣ Involve key stakeholders (like management, staff, and possibly members) in understanding the importance of Consumer Duty
- ▣ Ensure that everyone is aware of their roles and responsibilities in implementing these changes

## □ Strategy Development

- ▣ Develop a strategy that aligns with the Consumer Duty's principles, focusing on consumer protection and fair treatment
- ▣ Create specific, measurable, achievable, relevant, and time-bound (SMART) objectives to guide the implementation

## □ Policy and Procedure Updates

- ▣ Revise existing policies and procedures to ensure compliance
- ▣ Develop new policies if necessary, especially in areas like product design, customer service, and complaint handling

## □ Training and Communication

- ▣ Implement training programs for all staff to understand Consumer Duty and the new policies
- ▣ Communicate changes to members, ensuring transparency and understanding of how the credit union is protecting their interests

## □ Systems and Controls

- ▣ Update systems and controls to support compliance, including data management and reporting capabilities
- ▣ Ensure that the credit union can monitor and report on compliance effectively

## □ Implementation and Monitoring

- ▣ Execute the plan, monitor progress, and make adjustments as needed
- ▣ Regularly review and assess the effectiveness of the changes made

## □ Reporting and Accountability

- ▣ Develop a reporting mechanism to keep the board and relevant committees informed about the implementation progress
- ▣ Ensure there is clear accountability for the implementation and ongoing compliance

## □ Feedback and Continuous Improvement

- ▣ Establish a process for obtaining feedback from staff and members
- ▣ Use this feedback for continuous improvement and to make necessary adjustments

# Focus on vulnerable members

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## □ Identification

- Implement systems to identify vulnerable members, including those with low financial literacy, language barriers, and health issues

## □ Communication

- Adapt styles and formats to be accessible, using plain language and offering alternative means like large print or audio

## □ Training

- Equip staff with the skills to identify and support vulnerable members

## □ Policy

- Establish a safeguarding and vulnerable member policy

## □ Complaints Handling

- Ensure a supportive complaints process that accommodates the needs of vulnerable members

## □ Consumer Duty Compliance

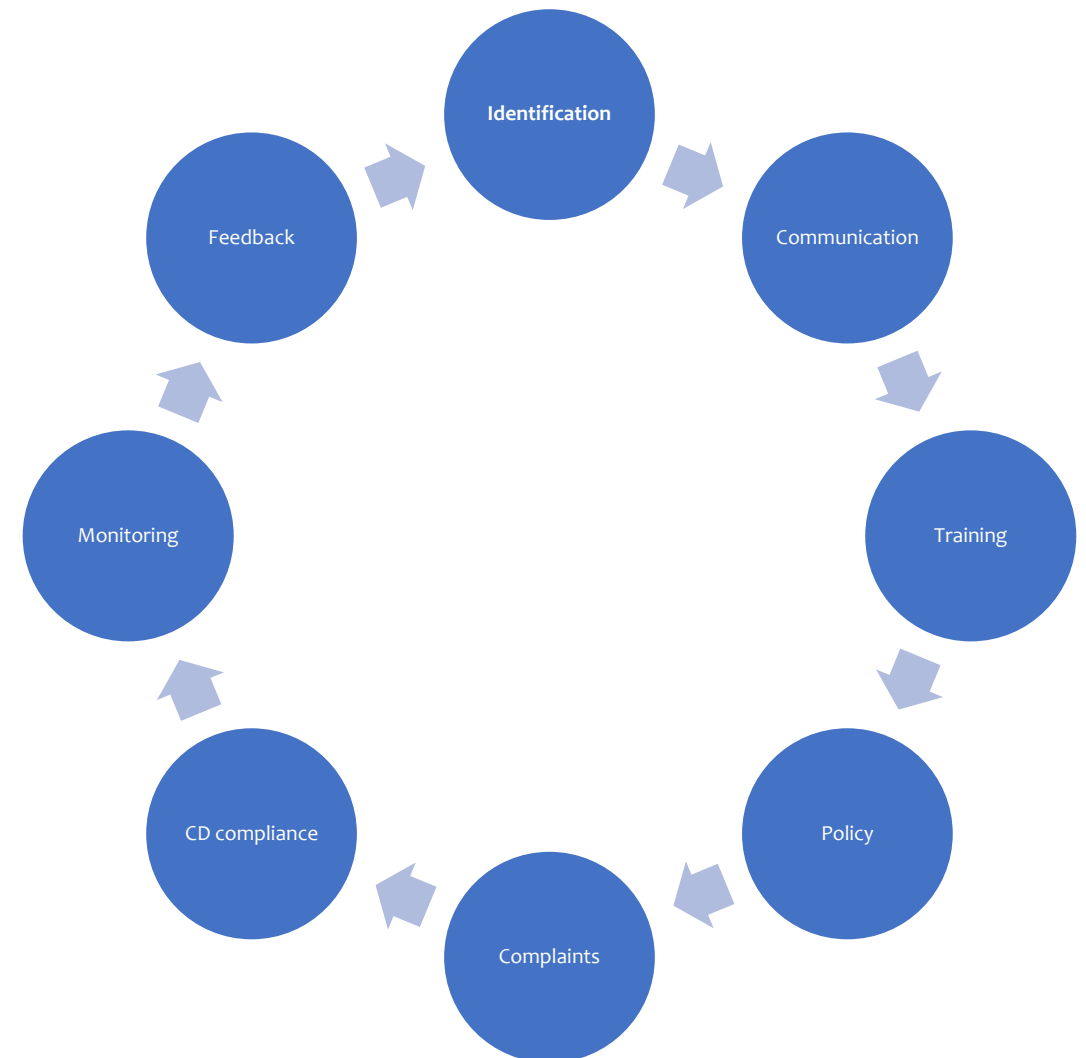
- Integrate considerations for vulnerable members into your Consumer Duty compliance strategy

## □ Monitoring

- Use Management Information (MI) to track how well the needs of vulnerable members are being met

## □ Feedback

- Regularly review member feedback and complaints to identify areas for improvement in serving vulnerable members





# Defining vulnerability

- In the context of consumer duty, particularly in the financial services sector, a "vulnerable customer" is generally defined as someone who, due to their personal circumstances, is especially susceptible to detriment, primarily when a firm is not acting with appropriate levels of care. These personal circumstances can vary widely and might include factors such as:
  - ▣ **Health:** *This includes customers with physical disability, mental health issues, or serious or terminal illness, which can affect their ability to make fully informed decisions*
  - ▣ **Life Events:** *Major life events such as bereavement, job loss, or relationship breakdown can temporarily or permanently affect someone's ability to engage with their finances or make informed decisions*
  - ▣ **Resilience:** *This refers to low ability to withstand financial or emotional shocks. It could be due to low financial resilience (such as having little savings or high debt) or low emotional resilience*
  - ▣ **Capability:** *This includes having limited literacy or numeracy skills, low financial knowledge or confidence, or language barriers*

# The Consumer Principle

***"A firm must act to deliver good outcomes for retail clients"***

Credit Unions should...

- ❑ *Put consumers at the heart of the business*
- ❑ *Offer products/services that meet customer needs and provide fair value*
- ❑ *Communicate clearly, support customers, and avoid exploiting vulnerabilities*
- ❑ *Monitor customer outcomes and address any risks*

# Cross-Cutting Rules

## □ **Purpose:** Establishing universal standards for firms

### Rule 1 :

#### Act in Good Faith

- Credit Unions must engage honestly and transparently with their members

### Rule 2 :

#### Avoid Causing Foreseeable Harm

- Credit Unions must proactively identify and mitigate risks that could harm their members

### Rule 3:

#### Enable Financial Objectives

- Credit Unions should facilitate and encourage members to achieve their financial goals, providing support and information where needed

# Rule 1: Act in Good Faith

- Uphold honesty and fairness in all dealings with members
- Recognise the knowledge and expertise gap; be open and honest
- Integrate good faith in product design and member support
- Avoid exploiting members' behavioural biases
- Ensure staff incentives align with members' interests
- Remedial actions, like redress or apologies, if harm occurs
- Not a fiduciary duty, but a standard of ethical conduct

# Rule 2: Avoid Causing Foreseeable Harm



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Consumer Duty → The Consumer Principle → Cross-cutting Rules → Rule 2

## □ Duty Overview

- ▣ *Credit unions must not cause foreseeable harm to members, either directly or indirectly, including during the product's lifecycle*

## □ Prudence Test

- ▣ *Harm is foreseeable if a reasonable credit union could predict or expect the harm resulting from its actions or omissions*

## □ Proactive & Reactive

- ▣ *Take both proactive and reactive steps to mitigate risks and prevent harm related to our products and services*

# Rule 2: Avoid Causing Foreseeable Harm



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Consumer Duty → The Consumer Principle → Cross-cutting Rules → Rule 2

## □ Examples

- ▣ *Unclear cancellation processes*
- ▣ *Inadequate support for vulnerable members*
- ▣ *High or confusing charges*

## □ Exceptions

- ▣ *Not responsible for harm that wasn't foreseeable*
- ▣ *No obligation to prevent a member from making an informed yet harmful decision*

# Rule 3: Enable Financial Objectives



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Consumer Duty → The Consumer Principle → Cross-cutting Rules → Rule 3

- **Member-Centric Approach**
  - ▣ *Act proactively and reactively to help members make informed financial decisions*
- **Responsibility Balance**
  - ▣ *Members still have their own responsibilities, but we must create an environment that empowers them*
- **Tailored Communication**
  - ▣ *Design messages that are easy to understand and navigate for our members*
- **Fair Product Design**
  - ▣ *Features should be straightforward and exit fees reasonable*
- **Consumer Support**
  - ▣ *No unreasonable barriers in utilising, cancelling, or switching services*
- **Role-Specific Actions**
  - ▣ *What we do depends on our knowledge of the member and the services we provide*
- **Reasonable Limits**
  - ▣ *We're not expected to go beyond what's reasonable for our scope of service*

# Four Outcomes

## **Purpose:** Tangible results expected from adherence to Consumer Duty

### Outcome 1:

#### Quality of Products & Services

- Credit unions must diligently design, distribute, and regularly review products and services to ensure they align with the specific needs and financial objectives of their members.

### Outcome 2:

#### Price & Value

- Credit unions must ensure that the pricing and benefits of their services offer fair value to members, going beyond mere cost considerations to include quality, features, and long-term value.

### Outcome 3:

#### Consumer Understanding

- Credit unions must communicate clearly and effectively, empowering members to make well-informed financial decisions.

### Outcome 4:

#### Consumer Support

- Credit unions must provide comprehensive and accessible support, enabling members to fully utilise products and services while navigating their financial journeys effectively.



# Outcome 1: Quality of Products & Services



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Consumer Duty → The Consumer Principle → Cross-cutting Rules → Four Outcomes → Outcome 1

## □ Definition of Manufacturer

- ▣ *Credit unions are considered manufacturers when they develop or operate financial products or services for their members*

## □ Target Market

- ▣ *Clearly identify the needs, characteristics, and objectives of members to ensure products and services align well*

## □ Inclusive Design

- ▣ *Consider the needs of members with characteristics of vulnerability. Adapt products to be as inclusive as possible*

## □ Regular Review

- ▣ *Conduct ongoing assessments to ensure that financial products and services continue to meet the needs of the identified target market*

# Outcome 1: Quality of Products & Services



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Consumer Duty → The Consumer Principle → Cross-cutting Rules → Four Outcomes → Outcome 1

## □ Collaboration

- ▣ *If multiple firms are involved in creating a product or service, written agreements must clarify roles and responsibilities for compliance*

## □ Approval & Adaptation

- ▣ *Existing, newly introduced or significantly adapted products/services must be approved, ensuring they meet Consumer Duty guidelines*

## □ Key Questions to Consider

- ▣ *Have you identified the target market for each product or service?*
- ▣ *What testing has been conducted to ensure the product meets the needs of the target market?*
- ▣ *How are you considering the needs of vulnerable members in your product design?*

# Outcome 2: Price & Value

## □ **Consumer Benefits Assessment**

- ▣ *Credit unions must evaluate the reasonable benefits that consumers will receive from their products or services during design and distribution*

## □ **Fair Value**

- ▣ *Must ensure a reasonable relationship exists between the benefits received by consumers and the price charged, especially for products like loans*

## □ **Cost Transparency**

- ▣ *All costs, including fees at the start and end of a contract, must be considered to ensure the product does not become unfair value*

## □ **Differential Pricing**

- ▣ *While different pricing for different groups is not prohibited, credit unions must ensure each group receives fair value*

## □ **Characteristics of Vulnerability**

- ▣ *Extra care must be taken to ensure that consumers with characteristics of vulnerability are not disadvantaged in terms of value*

## □ **Ongoing Review**

- ▣ *Credit unions need to continually assess whether their products or services are providing fair value and adapt accordingly*

# Outcome 3: Consumer Understanding



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Consumer Duty → The Consumer Principle → Cross-cutting Rules → Four Outcomes → Outcome 3

## □ **Equipping Members to Make Effective Decisions**

- ▣ *Adopt a member-centric approach in communications to ensure clarity and timeliness*
- ▣ *Provide key information upfront, avoiding hidden or scattered data that can lead to poor financial choices*

## □ **Transparency and Good Faith**

- ▣ *Avoid exploiting members' behavioural biases and information asymmetries*
- ▣ *Clearly outline fees, charges, and any interest rates in one place and in simple language*

## □ **Effective Communication Practices**

- ▣ *Utilise a layered approach: present key information first and offer further details as needed*
- ▣ *Consider multiple channels for communication: in-branch, online, mobile app, etc*

## □ **Testing and Monitoring**

- ▣ *Where appropriate, test communications to ensure they are effectively understood by the target audience*

# Outcome 4: Consumer Support

## □ Meeting Member Needs

- ▣ *Credit unions are required to offer support that enables members to utilise products and services effectively; this includes the entire lifecycle of a product or service*

## □ Avoiding Harm

- ▣ *Poor or slow service, under-resourced helplines, and complicated digital interfaces can result in consumer harm. Credit unions should be vigilant in avoiding these pitfalls*

## □ Channel Versatility

- ▣ *While the use of multiple channels like phone, email, and in-branch support is not mandated, the channels used must meet the needs of all members, including those with vulnerabilities*

## □ Monitoring & Feedback

- ▣ *Continuous monitoring and member feedback are crucial for refining the support process and identifying areas that may fall short*

# Outcome 4: Consumer Support

## □ Vulnerable Members

- ▣ *Special attention must be given to members with characteristics of vulnerability. Support channels should be flexible enough to cater to their needs.*

## □ Appropriate Friction

- ▣ *While designing digital or in-person processes, credit unions should include necessary steps that help members make informed decisions without adding unreasonable barriers.*

## □ Transparency and Fairness

- ▣ *Credit unions should make it as easy for members to exit or switch products as it is to purchase them in the first place.*

# The Customer Journey

- **Member-Centric Approach**

- *Align your services to put members at the heart of your business*

- **Early Information**

- *Provide key details about products and services early in the member journey. Avoid hiding costs in fine print.*

- **Positive Friction**

- *Introduce 'positive friction' in the process for complex and high-risk products. This could include additional steps designed to prevent fraud or ensure members are aware of the consequences of their actions.*

- **Inclusive Design**

- *Audit member journeys to identify experiences or frictions that affect certain groups differently; make necessary adjustments for inclusivity.*

- **Operational Resilience**

- *Have processes in place to deal with non-standard issues like security or fraud concerns.*

# Scope of the Consumer Duty Regulation



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## □ What's Included and What's Not?

### ▣ Included

- *Regulated activities and ancillary activities of all firms authorised under FSMA, PSRs, and EMRs (Chapter 2.1)*

### ▣ Not Included

- *Unregulated activities, consumer protection legislation, data protection, and equalities legislation (Chapter 2.41 & 1.31)*

## □ Implication

### ▣ Attachment of Shares

- *Credit Unions, as regulated entities, fall under the scope. The Duty applies to services offered to 'retail members'*

### ▣ Specific Services & Interactions

- **Deposit-taking:** Duty applies to micro-enterprises and charities with a turnover of less than £1 million (Chapter 2.3)
- **Consumer Credit:** All regulated credit-related activities are included (Chapter 2.3)
- **Outsourcing:** If services are outsourced, Credit Unions are responsible for ensuring the Duty standard is met (Chapter 11.29)



# Monitoring Consumer Duty

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From August 2023 onwards...

## □ Monitor

- ▣ Regularly review Management Information (MI) on member outcomes. Adapt your strategies to the nature, scale, and complexity of your credit union (Chapter 11.19-11.22)

## □ Analyse

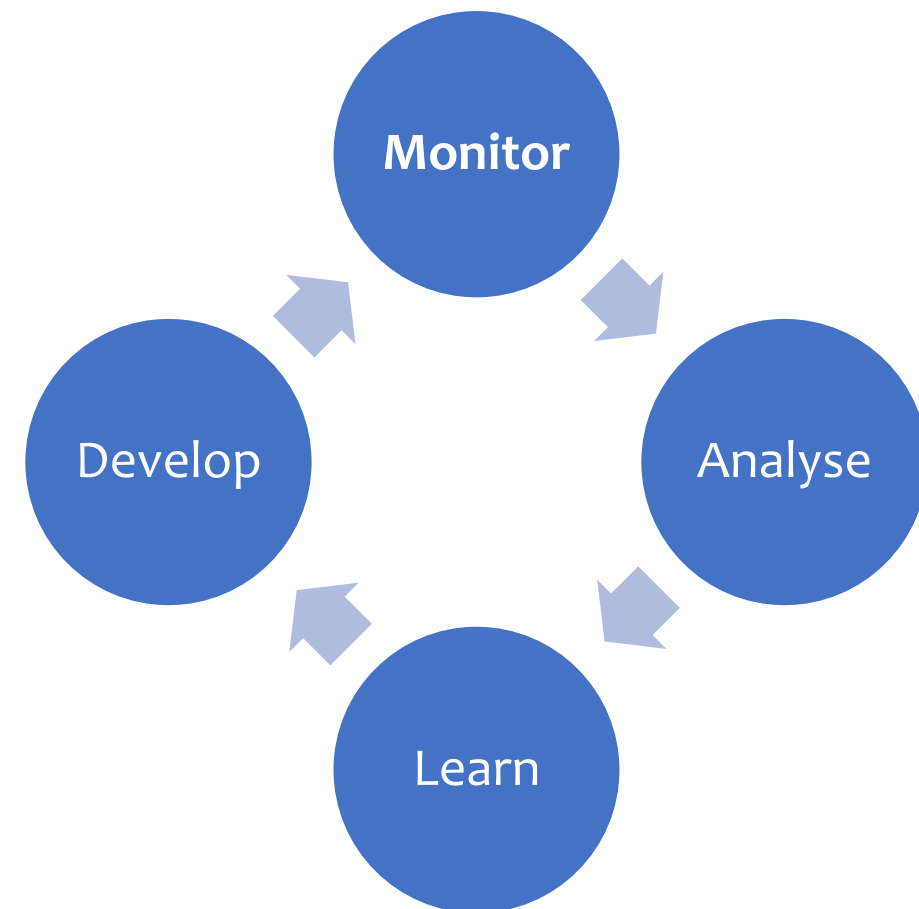
- ▣ Utilise data like member persistency, complaint root-cause analysis, and internal quality assurance to assess member experiences (Chapter 9.53)

## □ Learn

- ▣ Encourage staff feedback and consider external data sources like Financial Lives surveys to gain insights into member needs (Chapter 11.18)

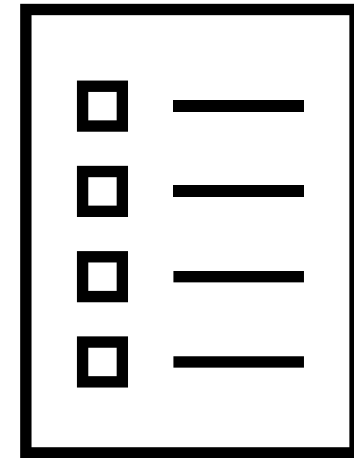
## □ Develop

- ▣ Continually review and refine your frameworks. Ensure governance processes are in place to oversee monitoring activities (Chapter 11.21-11.22)



# Assessment tool

- The SLCU have developed a check-list based ‘assessment tool’ to help credit unions document & evidence their compliance with Consumer Duty expectations



# Content recap...

Timeline

Structure

Implementation  
Plan

Vulnerable  
members

Cross-cutting  
Rules

Four outcomes

Customer  
journey

Scope

Monitoring

Assessment tool

# Useful Links

- [FCA | Consumer Duty | Consultation Paper \(CP21/36\)](#)
- [FCA | Consumer Duty | Policy Statement \(PS22/9\)](#)
- [FCA | Consumer Duty | Final Guidance \(FG22/5\) for Firms](#)
- [FCA | Consumer Duty | General information for firms](#)



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of Credit Unions

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[info@SLCU.coop](mailto:info@SLCU.coop)

[www.SLCU.coop](http://www.SLCU.coop)

0141 774 5020