Chartered Insurance Institute

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White Paper

White Paper:

Consumer Duty Board reporting

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Foreword

The Financial Conduct Authority (FCA) published its policy statement and final guidance for implementing the Consumer Duty rules in July 2022.

Those rules require every regulated firm to produce a Board report, at least annually, to record progress in achieving the customer outcomes set out by the FCA. With the rules having come into effect in July 2023, the first Board reports were due by 31 July 2024.

The Chartered Insurance Institute sought experiences of writing these initial reports to understand any challenges that might have been encountered, and to make recommendations that might assist other firms in future.

We are sharing our findings and recommendations with the FCA and the wider sector through this White Paper, and we will continue to explore with the regulator and our members what more we can do to assist firms in meeting the standards of care expected from the introduction of the Consumer Duty.

Matthew Hill, CII Group CEO

Executive Summary

Every regulated firm is required to produce a Board report, at least annually, to record its progress in achieving the customer outcomes set out by the FCA. With the rules having come into effect in July 2023, the first Board reports were due by 31 July 2024.

> *'A firm's board, or equivalent governing body, should review and approve an assessment of whether the firm is delivering good outcomes for its customers which are consistent with the Duty, at least annually'* FG22/5, 10.1, page 111.

Although the FCA does not describe the Board report as an attestation in the Duty, most firms are treating it as such. With an attestation, the CEO, Chair or the whole Board has to attest to the quality of the processes and controls around a particular area of regulation. Whoever signs the attestation is looking for hard evidence that they are in a position to sign.

In line with principles-based regulation, the FCA has chosen not to be prescriptive about what should be included in any report, leaving it to businesses to select the information they wish to rely on to achieve the desired outcomes.

We partnered with FWD Research to gather quantitative and qualitative data to understand the initial experiences of some firms in fulfilling this requirement. Our quantitative insights were generated through an online survey with members and qualitative insights through a subsequent roundtable discussion with some of those involved in gathering outcome data or writing reports for their firms in July 2024.

Those who contributed told us that evidencing outcomes for vulnerable customers was the most significant challenge they had encountered, with data availability a closely related issue. Integrating data and showing the relationships between different data sets were also challenging.

This White Paper makes 5 recommendations to firms on the basis of the information gathered so that they can better implement the Consumer Duty and in doing so ensure customers benefit optimally from its introduction. We also raise five areas for further exploration across the sector, including with the FCA:

1. How well the Duty is serving the customers originally considered to be in scope, and whether any changes are required as a result.
2. How we can collectively support firms to understand the characteristics of vulnerability and identify vulnerable customers.
3. Whether we can support the production of more guidance to help firms understand what data they should be storing about vulnerable customers, for how long, and with whom it should be shared.
4. Whether we can support the publication of interpretations of the Duty that relate to specific sectors (such as around data principles, good practice or codes) to remove ambiguity, encourage reporting consistency and generate greater sector efficiency.
5. Whether we can support the introduction of a core set of metrics against which all firms should be expected to report as a minimum.

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The CII recognises that firms operate in a competitive market and may have different approaches. However, we are ready to play to the full our role in supporting as well as encouraging firms to adopt professional standards, including the provision of good practice and supporting the sharing of case studies, templates and other tools. Our recommendations to firms are:

6. Firms should ensure that data and reporting requirements are used not only to satisfy reporting requirements, but are baked into product, service and process improvement cycles, as well as the design stage for new products, and are used to create the causal chain the FCA has identified as best practice.

7. Firms are encouraged to work with professional bodies to develop research best practice, for example on survey methodology and the analysis of unstructured conversations, so that the benefit to consumers is as broad as possible.

8. Firms should identify whether they have a robust understanding of vulnerability for their customer base that enables them to develop informed vulnerable customer strategies that will lead to good outcomes for all customers, including those with characteristics of vulnerability.

9. Firms should place more emphasis on joining the data dots around individual customers or customer groups in real time, challenging assumptions and exploring data insights across multi-disciplinary teams to effect positive change for them.

10. Leadership teams in firms should take active interest in reviewing customer needs for each of their entities, being the voice of the customer, to ensure continuously improving outcomes are prioritised.

Evidencing good customer outcomes: FCA expectations

In section FG22/5, 10.1, the FCA says that each firm's Board report should include:

- the results of the monitoring that the firm has undertaken to assess whether products and services are delivering expected outcomes in line with the Duty, any evidence of poor outcomes, including whether any group of customers is receiving worse outcomes compared to another group, and an evaluation of the impact and the root cause
- an overview of the actions taken to address any risks or issues
- how the firm's future business strategy is consistent with acting to deliver good outcomes under the Duty

Firms must therefore include the data they have used to determine whether they are delivering good outcomes within their reports. The report needs to then explain where detriment has been found, what remedial action has been taken to resolve detriment and how the firm's business strategy will change as a result.

Duty data architecture

Firms are expected to present clear evidence of positive culture change and how customer outcomes are improving as a result. Firms should first monitor activities that they believe will lead to good outcomes and then monitor data that shows whether these activities are leading to good outcomes in practice.

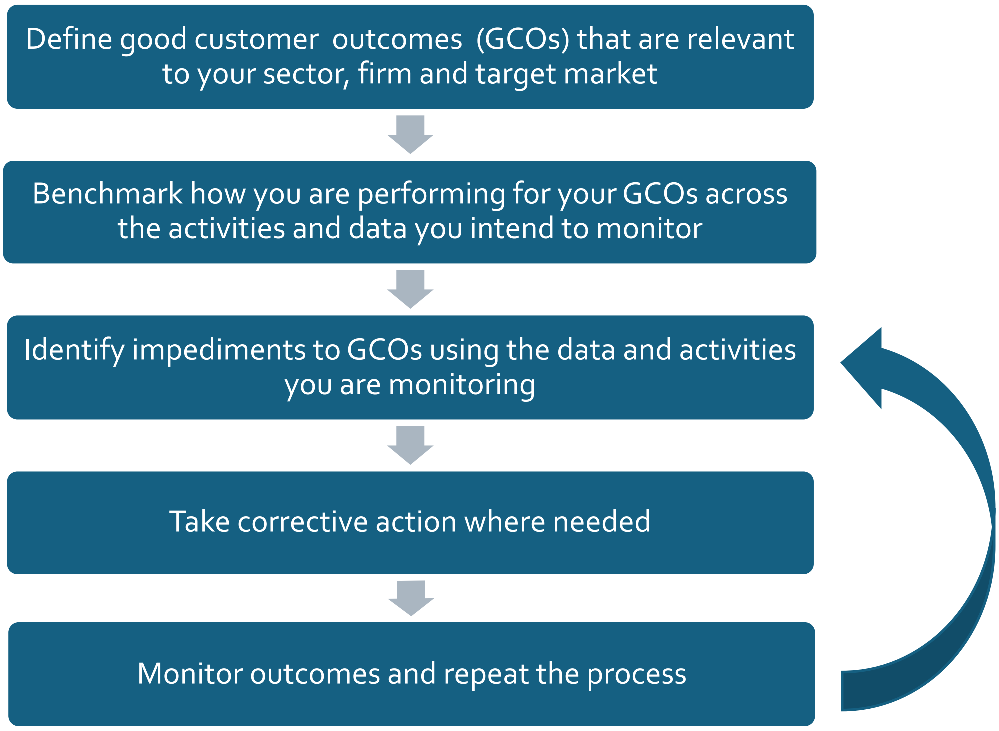
- When thinking about the activities a firm undertakes that they believe will lead to good outcomes, they should monitor: system performance data, call monitoring, comms and product testing, training and competency, policy & procedures, and the review of internal sales data.
- The evidence points firms should use to monitor whether good customer outcomes happen in reality include: customer feedback, complaint root cause, business persistence, case reviews, employee feedback, distributor feedback, and customer behaviours.

As delivery against the Duty becomes more familiar, firms should be monitoring some, if not all, of the above data points to ensure good outcomes are being delivered.

Causal chain

The FCA expects that in monitoring outcomes, firms should be able to develop a causal chain that will inform where potential customer detriment exists so that they can take remedial action. The concept of a causal chain was first mentioned by the FCA following a review of how insurers were monitoring outcomes (published on 26 June 2024), although the idea of a feedback loop that includes monitoring, analysis and improvements to a firm's proposition dates back to the FCA's guidance on vulnerability in 2021.

The following schematic explains the causal chain analysis the FCA anticipates firms will take:



The FCA expects Duty board reports to evidence where firms have found impediments to good outcomes, what has been learned, and what is changing to improve outcomes.

Vulnerability

FG22/5 Consumer Duty has evolved due to the failure of some firms to implement the principles of earlier guidance on Treating Customers Fairly in 2006 and FG21/1 Vulnerability Guidance.

Vulnerability is a central concept in the Duty. However, many firms had failed to incorporate vulnerable customers into their Duty data architecture, resulting in an early reprimand from the regulator (in November 2023) when Nisha Arora, Director of Consumer & Retail Policy, warned firms…

> “I would stress that firms who haven’t considered how they will monitor outcomes for different groups of consumers, including those in vulnerable circumstances, will need to do more to meet our expectations.”

If firms are unable to identify vulnerable customers or meet the minimum requirement to at least understand how prevalent vulnerability is within their firm’s customer base, they will be unable to develop informed vulnerable customer strategies and therefore be unable to develop products, communications, and support that meet their needs and ultimately lead to good outcomes.

Proportionality

The FCA does not expect small firms to be able to always monitor outcomes in the same way as larger firms, though it is not obvious that smaller firms are less likely to create harm. The FCA itself describes the place for pragmatism and finding pragmatic solutions.

> *'All firms have the same responsibility to act to deliver good outcomes for retail customers, but there will be differences in the capabilities of a firm depending on its size and activities.' FG22/5, 1.6, p.3*

A good example of this would be to apply proportionality and pragmatism to the FCA requirement for firms to understand and identify vulnerable customers. It may be reasonable to expect that a large firm, such as a motor insurer with tens of thousands of customers, would undertake a top-down survey to understand how many and what type of vulnerable customers they have. Whereas, for smaller firms, such as an insurance broker with only a few hundred clients, a survey may not be appropriate or necessary.

The structure and content of Duty board reports is not prescribed to allow the many sectors, types and sizes of firms to share what they believe is most salient in demonstrating their focus on positive outcomes.

You say ambiguous, we say flexible

The FCA has recognised that the Duty covers a wide range of sectors, distribution models, and firms of different sizes, and as such they say they are unable to be overly prescriptive. They have therefore intentionally allowed for flexibility in the way in which each firm approaches Duty implementation. This also includes the structure and content of the Duty board reports firms. This is consistent with the modern concept of principles-based regulation in which the regulator specifies the outcomes to be achieved and leaves it to regulated businesses to decide how best to achieve those outcomes within their particular context.

However, through this initial reporting process, some firms have said the FCA's guidance around Board reporting is ambiguous which has made them uncertain as to what they should be covering. Furthermore, misinterpretation may also create opportunities for avoidance.

In light of the Board reports it has received this year, the FCA might consider whether the intent of the regulation is serving the customers originally considered to be in scope, and whether any changes are required as a result.

Research insights

The CII researched its members to identify the key challenges experienced by those directly involved in evidencing outcomes or contributing to writing their firm's Board report during July 2024. An online survey gathered 144 valid responses[1] between the 10-26 July. We used an initial cut of these results to inform a roundtable discussion with nine representatives of CII member firms under the Chatham House rule on 24 July.

Quantitative results

We first asked respondents what the biggest challenges had been when gathering data to measure and monitor customer outcomes.

We then asked respondents where they still had data gaps in their reporting, where they were using 'stopgap data' and where they were confident they were using 'fit for purpose data'.

Survey respondents highlighted **evidencing outcomes for vulnerable customers** as the most significant challenge, with 34% stating this was extremely challenging. This is a key requirement of the Duty and the focus of the Vulnerability Review announced by the FCA on 14 March.

The availability of appropriate data emerged as a closely related issue, with 30% stating this as extremely challenging. The biggest data gaps – where over four in 10 firms are using stop-gap data or have no data – related to customer behaviour, understanding of vulnerability among their client base customer feedback, or results from communications and product testing.

While **training and competence** and **complaint root analysis data** were considered fit for purpose by 81% and 74% of respondents respectively, this might indicate a degree of overconfidence in this first round of Board reports, until the sector better understands what the FCA deems as suitable evidence.

The next two biggest challenges are **integrating data** and **showing the relationship between different data sets** (the causal relationship referred to by the FCA in their recent review of Insurers outcomes measurement).

Figure 1: Thinking about the outcomes data you firm generated, how challenging were the following

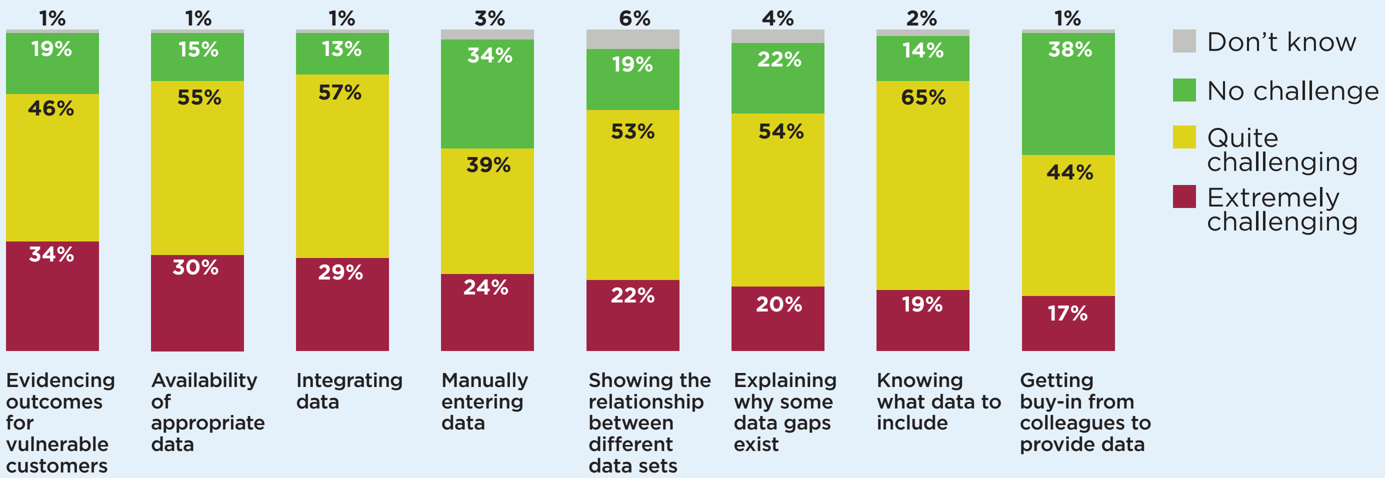
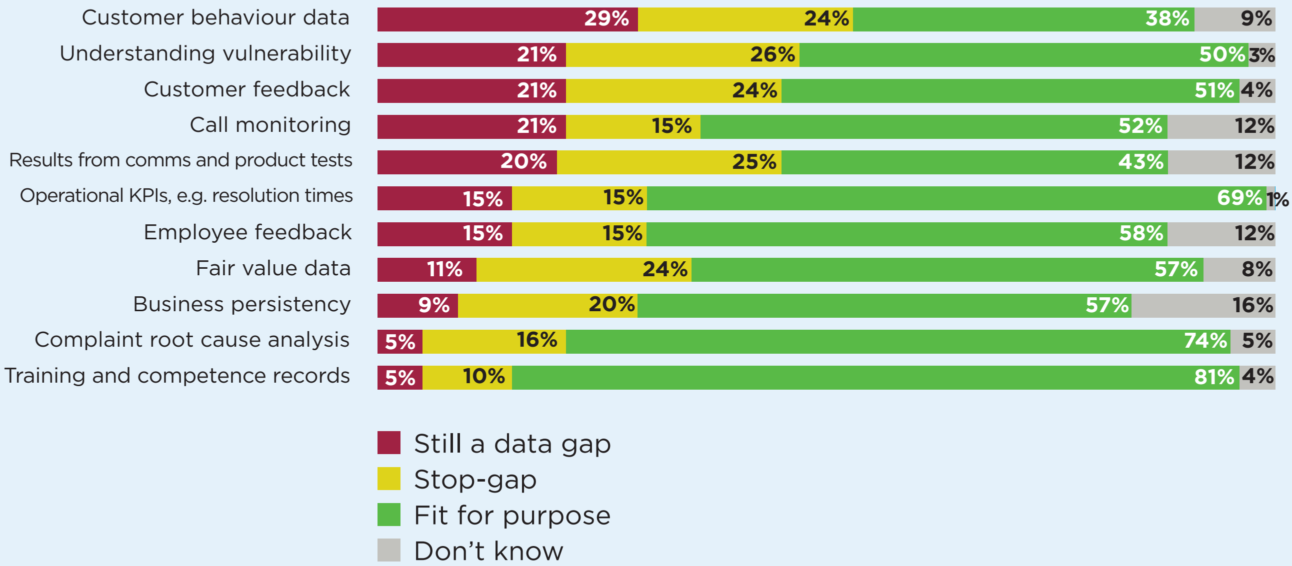


Figure 2: To what extent is the data you are using fit for purpose, a stop-gap solution, or is there still a data gap?



[1] We received 455 responses, of which 144 were from individuals directly involved in Board reporting - the data in Figures 1 and 2 are based on these 144 valid responses.

Qualitative discussion

Attendees to the roundtable discussion were first shown the insights from the quantitative survey and then formed breakout groups to discuss and debate topics they wanted to explore further. Each group elected a spokesperson who summarised what had been discussed and any conclusions they had reached.

Discussion topic 1: Identifying vulnerable customers

Key take outs:

- There is a significant difference between understanding vulnerable customers and identifying vulnerable customers. Firms should aim to do both.
- Interpretations of GDPR and holding data on vulnerable customers can be a barrier to implementing Consumer Duty. More clarity and guidance are needed on how firms can collate and share rich live personal data to identify and respond to vulnerabilities without conflicting with GDPR.
- Once characteristics of vulnerability are identified, there is a concern that some interventions could contravene other legislation and/or alienate customers. Greater guidance on when and how to intervene would be welcomed.

Reliance on existing data

Over time, some firms have evolved to cater specifically for groups that might be classed as vulnerable, developing specialist expertise in this area and sophisticated understanding of the characteristics that make a customer vulnerable. However, the process has proved more challenging for most firms. Some have used existing data to identify customers that may be vulnerable. For example, those who insure wheelchairs or hearing aids can point to a disability that may impact their customer's lives. Others have attempted to form a view from other data they already hold, such as claims data.

However, in both cases the firms are only identifying one or two characteristics of vulnerability, and do not have a full understanding of all the characteristics of vulnerability their customers may have. In the context of the FCA's vulnerable customer framework, these firms may know their customers have low financial resilience and health issues, but they may not know to what extent they experience negative life events or whether they have low financial capabilities.

Others still have requested additional information from their customers, asking questions during their application processes, such as, 'Is there anything else you wish to tell us?' However, our participants found it challenging to conceive of a single question that could encapsulate the concept of vulnerability or generate a 'yes/no' response. It was also noted that online sales made the challenge incrementally harder. Without the ability to engage personally, much more discretion is left with the consumer, leaving potential vulnerabilities far beyond any adviser's consciousness.

Unfortunately, if understanding of the characteristics of vulnerability is limited, and the data being used to identify such customers is sub-optimal, then an accurate picture of the extent of customer vulnerability is unknown. Consequently, the ability of firms to develop informed vulnerable customer strategies and tailor services, communications and product benefits to meet individual customer needs is limited.

Numbers

Given the challenges identified above, it is not surprising to find that the proportion of customers identified by firms as vulnerable varies considerably. The FCA has conducted a top-down survey to accurately understand levels of vulnerability and reports in its Financial Lives survey.

None of our roundtable contributors told us that they had considered this approach in their analysis. They had each conducted a bottom-up exercise, assessing individual customers, that had identified between 7-13% of customers as vulnerable.
Firms should consider conducting both 'top-down' surveys and 'bottom-up' individual assessments.

- **Understanding vulnerability (top-down approach):** This is a strategic requirement. A top-down survey approach that quantifies how prevalent vulnerability is within a customer base and accurately identifies the characteristics of vulnerability that impact customers lives. The FCA conduct a top-down survey approach themselves to monitor vulnerability through Financial Lives (the source of the much quoted '47% of all UK adults are vulnerable'). The strategic insights generated through the top-down approach allows firms to develop informed vulnerable customer strategies. This top-down understanding also provides the map that firms can then use to identify customers with vulnerabilities. Generally, top-down surveys should also measure and monitor customer outcomes, so that firms can evidence to the FCA that vulnerable customers are experiencing the same outcomes and non-vulnerable customers.

- **Identifying vulnerable customers (bottom-up approach):** This is an operational requirement. As firms interact with their customers, they have an obligation to record any vulnerabilities volunteered or collected through individual customer assessments the firm initiates. Firms should then use this information to tailor products, services and communications to meet individual customer needs, for example, where a customer reports they have poor eyesight the firm should offer communications in larger font.

We have found there is a significant difference between understanding vulnerable customers and identifying vulnerable customers. To be compliant with FG21/1 Vulnerability Guidance and FG22/5 Consumer Duty, firms should do both if they are able.

Given the substantial difference between the two approaches, greater direction about how to conduct ‘top-down’ and ‘bottom-up’ assessments to first understand and then identify vulnerable customers is likely required across the sector.

Extent, consent, and retention

Firms noted that the identification of vulnerabilities among their customers, and the creation of associated records had risks, alongside the benefits identified by the FCA. For example, when firms identify a customer as vulnerable, is it necessary to inform them of this decision? Do they need to know what data was used to make the determination? And, for how long should the data about the outcomes of conversations or determinations be kept on file?

Related to this, concerns were raised about an apparent tension between a need to store and share sensitive data between organisations and existing GDPR rules. An additional point was made that the storage of personal data could expose these individuals to security risks should the data be accessed by nefarious parties, increasing the risk of a vulnerability being exploited.

Inefficiency and aggravation

Another risk raised was about customers having their status visible to all firm representatives, which could lead to repeated discussions about their vulnerabilities. Some contributors noted personal experiences of customers becoming frustrated and there was the potential for perverse consequences – with customers avoiding conversations (by hanging up or not making initial contact) that might otherwise be considered necessary in their circumstances.

Another concern was that staff need to be able to evidence relevant behavioural training to enable positive outcomes, for example making reasonable accommodations or explaining how exclusions might apply in situations created by vulnerability. However, these conversations can often fall to junior operational and customer service staff who have limited firm longevity and therefore lack the ability to build up this level of expertise.

Conclusions

Firms are unsure that they are delivering what the FCA is seeking, and feel they need more guidance around:

- how to understand the characteristics of vulnerability;
- how to identify vulnerable customers;
- what data they should be storing about these customers, for how long, and with whom it should be shared;
- if they are fulfilling the FCA's requirements when customers with vulnerabilities are not identified, for example because a purchase is made without human interaction – such as online – or information is deliberately withheld.

Discussion topic 2: Understanding what data to include

A key challenge for all firms and Boards has been determining which metrics to measure and how to interpret their significance.

Key take outs:

- Standardisation is required to bring efficiencies to Consumer Duty data reporting. Without standardisation current data reporting is unsustainable
.
- Participants agreed that the Consumer Duty had already resulted in improved firm behaviours that have in turn resulted in better customer outcomes. However, very few improvements were data led.
- Participants now have too much data and are unable to see the wood from the trees. If future decisions are to be informed through data, help is needed for firms to identify which metrics they should focus on to make those decisions.

Lack of consistency

Most firms report a lack of standardisation in what data and formats should be recorded as a default. The shift from prescriptive reporting to principles is a potential blocker to standardisation. Many firms felt that they would benefit from some principles, good practice or codes specific to products and segments. While the Consumer Duty update in June 2024 was considered helpful, the view was that it came too late to influence the structure of Board reports this year.

Inefficiency

The Duty necessarily invites firms to share data, which has created considerable extra demands up and down the distribution chain. A lack of consistency or agreement about the nature of information that is required for reporting purposes means varying data is being requested in different formats, creating inefficiency. For example, brokers have reported receiving different requests from each insurer with which they work. Some firms have responded by taking staff away from their day-to-day roles to focus solely on compiling data for insurer requests. On the flip side, brokers are finding it hard to get information from their insurers, particularly around value assessments, which are said to consistently be an outstanding piece of information.

Another form of identified inefficiency relates to over-reporting. Some firms spoke about 'analysis paralysis', as they try and identify the data that they think will help them meet the FCA's requirements. Having guidance or some core metrics is seen as both beneficial and necessary. Some firms questioned whether the market itself could come together (potentially facilitated by a body such as the CII or PFS) and agree a way forward collaboratively. This could, for example, be around a baseline set of data, on top of which individual firms might track additional data reflecting their specific circumstances.

In any case, there was an expectation that the FCA will need to come back with a view of what is good and what learning is necessary from this year's experience in order to prepare for 2025. Firms anticipate this will stem from detailed feedback to their own reports and more general market-wide trends.

Having the *right* conservations

Putting data to one side, other firms noted that the requirements were helping to drive conversations at Board level about good customer outcomes that otherwise wouldn't have been raised, particularly around customer experience. For example, one firm said that they had engaged in conversations in the absence of any relevant data, and made changes that positively benefitted customers as a result.

Our roundtable participants generally agreed that the change in mindset required by the Duty had been beneficial to lots of firms. For example, they noted there had been more frequent senior conversations prioritising what was right for consumers above what was best for revenue. Indeed, some firms reported changes that had been detrimental for the business (in terms of a negative impact on revenue) but positive for customers. Those present believed this was the clearest evidence of culture change.

Conclusions:

The requirements are seen to have stimulated important conversations about customer outcomes, but also left uncertainty and created inefficiencies across the sector that might be addressed through:

- more detailed guidance from the FCA about principles, good practice or codes specific to particular products and segments;
- the introduction of a core set of metrics against which all firms would be expected to report.

Discussion topic 3: The role for customer feedback

Key take outs:

- The definition of 'customer feedback' used by our roundtable participants was wide, and included customer complaints (both formal and informal), customer behaviours and other matters.
- Participants agreed that existing Net Promoter Score (NPS) and Customer Satisfaction can play a supportive role in understanding outcomes but are not reliable measures of good outcomes on their own.
- Customer feedback surveys have a role to play in understanding customer outcomes as long as they: 1) explore outcomes and not satisfaction; 2) as long as they sample all customers, including the disenfranchised and vulnerable.

Whether in the absence of other data or alongside other sources of information, firms had found themselves looking at the role customer feedback could play in helping to develop their Board's narrative.

Complaints do not tell the whole story

Most firms collect customer complaints data, but our roundtable participants said they had universally recognised the need to move beyond these reactive measures to ensure the proactive identification of potential issues. They describe examining customer behaviour patterns, such as abandoned online transactions or frequent claims enquiries, to gain insights into their expectations and experiences. While they felt data was essential, they said it was the combination of data analysis with in-depth understanding of the context and customer journeys that drove the most meaningful improvements.

Satisfaction not guaranteed

Most firms already collect satisfaction and/or Net Promoter Scores in order to understand customer sentiment. However, our roundtable participants acknowledged that while the data could be beneficial, they do not always provide a full picture or answer the right questions, particularly where there is an asymmetry in knowledge between customers and providers / intermediaries. For example, a customer may say they are happy with a product they have purchased but be unaware that they have misunderstood its true value, such as not making an insurance claim when entitled to do so. Therefore, a high degree of customer satisfaction or loyalty does not necessarily equate to positive consumer outcomes, and these metrics, while valuable, are insufficient for comprehensively monitoring and evidencing the Duty outcomes.

Engaging the disengaged

The FCA has explicitly stated that effective outcome measurement extends beyond traditional satisfaction metrics, requiring a more nuanced approach. However, some firms report that it can be hard to gain rich feedback from often disengaged customers, particularly on things like testing consumer understanding of product documentation. For example, surveys after a touchpoint (such as a sale) can often be ignored (very l low response rates) or answered without due care (wrong products identified), even with marketing incentives. That said, some firms could report success when surveys had been done ‘correctly’, and they had generated feedback from which they had benefitted.

An alternative route that some firms had found beneficial to gaining feedback was through informal engagements, for example when taking a customer through a renewal process. While recording and storing unstructured anecdotal feedback was said to be challenging, roundtable participants said its unpredictable nature meant it could provide profound insights beyond the boundaries of a more formal survey.

Non-reportable complaints, such as expressions of general dissatisfaction need recording and analysing in ways that previously may have been discounted. The perceived benefits have led some firms to invest in training to hone the skills of their sales and/or customer service teams. AI was also seen as a potential tool that could help in due course.

Conclusions:

Customer feedback can be informal and anecdotal or formal and quantifiable. Greater compliance with the FCA’s Duty requirements may stem from:

- general acknowledgement that on their own reactive complaints data and customer satisfaction scores do not provide sufficiently reliable outcomes monitoring data;
- investment in training, technology and feedback channels that can help firms unearth deeper and richer sources of feedback;
- more good practice guidance is needed on how to conduct compliant surveys and lead unstructured conversations.

Discussion topic 4: How should we arrange our data?

Key take outs:

- Firms need more time to incorporate customer outcomes into their existing approach to monthly/quarterly compliance reporting
- Operationally, firms also need time to develop ways of working so that the data they generate leads to the causal chain the FCA described in its recent insurer monitoring outcomes review

Many firms have found identifying and collating data for reporting purposes to be challenging.

Systems that were established to achieve one goal are being identified as potential sources of information to assist in novel ways. This is often unsustainable and incompatible with the FCA’s requirements. Good practice will require firms to reimagine their data structures over time, ensuring greater consistency and accuracy as new products and services are introduced. However, in the short-run, some firms are doing the best they can in the circumstances – firms are asking the right questions but may not yet have the data to prove their hypotheses.

Some firms have recognised the benefits of mobilising multi-disciplinary teams in these circumstances, joining the dots as best they can. These sorts of discussion have proved beneficial and can be anticipated to add value even when new sources of more information are established. They are also seen as essential to supporting the Board or governing body's overall understanding of the firm's customers, particularly when there are multiple entities in an organisation. It is easier to tell a narrative when trends are being monitored on a consistent basis.

Conclusions:

It is apparent that the old world of data capture and storage needs to be reimagined. Firms are still retrofitting or working around systems built for products without the level of reporting required for the Consumer Duty. In future:

- data capability will need to be built in at the design stage for new products and systems, creating the causal chain the FCA has identified as best practice;
- more emphasis will be needed in real time on joining the dots, challenging and exploring the data across multi-disciplinary teams;
- leadership teams will have to take greater interest in reviewing trends for each of their entities.

Recommendations

We gathered quantitative and qualitative information from our members in order to understand their initial experiences of fulfilling the FCA's obligation on Boards to record progress in achieving the customer outcomes.

Our members told us that evidencing outcomes for vulnerable customers was the most significant challenge they encountered, with data availability a closely related issue. Integrating data and showing the relationship between different data sets were also areas of concern for members.

This White Paper makes five recommendations to firms on the basis of the information gathered so that they can better implement the Consumer Duty and in doing so ensure customers benefit optimally from its introduction. We also raise five areas for further exploration across the sector, including with the FCA:

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