

Current issues

Consumer Duty and navigating its impacts on consumers

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Consumer Duty was implemented for open business on 31 July 2023 and for legacy business will be implemented on 31 July 2024. Going forward, the Financial Conduct Authority (“FCA”) will measure the success of Consumer Duty using their Financial Lives Survey which they run every 2-3 years, as they believe it provides beneficial insights into how UK consumers are feeling and interacting with financial services firms.

Background on the Duty

Consumer Duty was implemented for open business on 31 July 2023. For legacy businesses, the FCA gave a one-year extension as they recognised the additional complexities involved in reviewing an insurer’s back-books.

These potential complexities were highlighted in the “Dear CEO” letter that the FCA released earlier this year where it emphasised areas that they will be focussing on, and areas they expected would require significantly more work to bring them in line with the Duty.

As well as the preparations for the back-book deadline next July, there are other regulatory updates from the FCA that could have an impact on how Consumer Duty is met for some providers. For example, the consultation paper published in October 2022 on Sustainability Disclosure Requirements (“SDR”) aims to reduce false advertising with a stronger message on anti-greenwashing. Although the full extent of the guidance will not be clear until the Policy Statement is issued in Q4 2023, there is an expectation that parts of it will be immediately enforceable. This is due to the existing requirements for transparency, and the expectation that all firms must be clear, fair and not misleading – especially now that there are high standards of Consumer Duty to uphold.

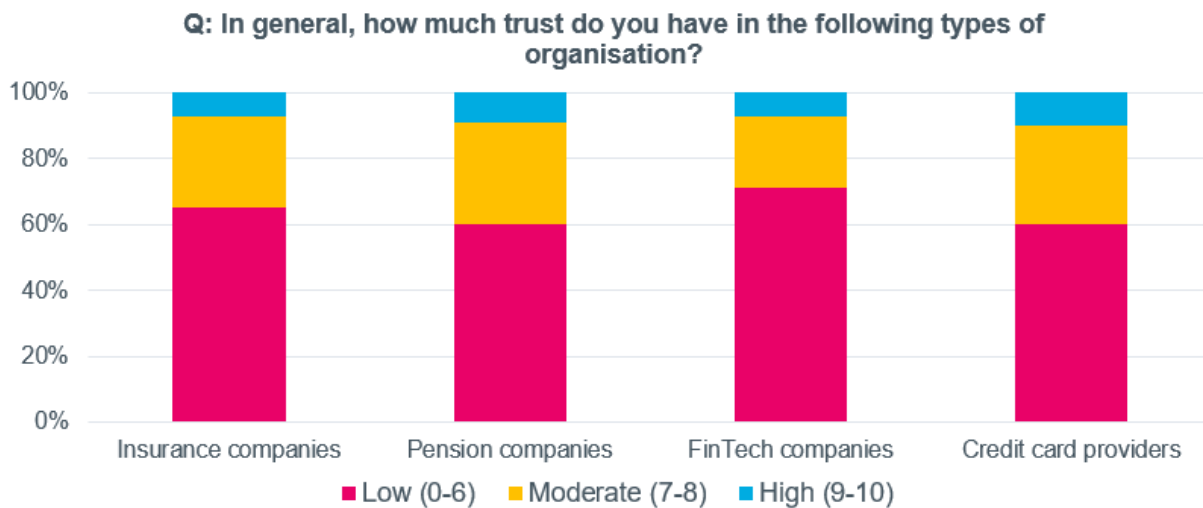
FCA’s Financial Lives Survey

The FCA first carried out their Financial Lives Survey in 2017 and then again in 2020, where they gathered information from UK consumers on their attitudes towards, and experience with, financial service firms. Unfortunately, the findings showed that only around a third of respondents felt that firms are honest and transparent in the way they treat them. This lack of trust was one of the catalysts in launching the Duty.

The FCA intend to run the Financial Lives Survey every 2-3 years as a way to measure the success of Consumer Duty as it provides beneficial insights into how UK consumers are feeling and reacting.

Levels of trust

One of the questions asked in the most recent survey focused on how much trust consumers have in different financial sectors. The responses across the majority of financial sectors were found to be low, with 65% of consumers feeling that they had low levels of trust in the insurance industry. This is compared to 69% in the 2020 results, showing that there is still room for improvement in trust levels for consumers.



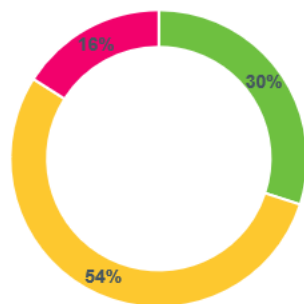
Source: 2022 FCA Financial Lives Survey, Question AT14: In general, how much trust do you have in the following types of organisation? Responses exclude do not know

From the survey, there were two main criticisms of insurers that impacted levels of trust. Customers said that they felt they weren't given enough information for reasons behind premium increases or when claims were denied. This could show that there's room for improvement in terms of educating customers on the benefits of their policies and making sure this is done in a way that's as easy to understand as possible.

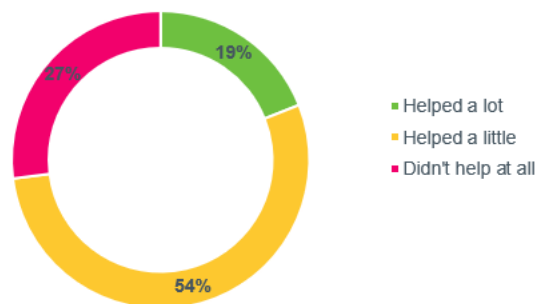
Consumer Duty

In this year's survey, we got a good indication of the questions the FCA are expected to ask in the future to track how well Consumer Duty is achieving its aims. The graphs below show the responses to two of the Consumer Duty related questions focussing on consumer support and consumer understanding outcomes.

Q: To what extent did support from customer services help you to achieve what you wanted to do?



Q: To what extent did provider communications help you make an informed decision?



Source: 2022 FCA Financial Lives Survey
 Question CD14: Thinking about all times you have dealt with your financial services provider in the last 12-months, to what extent did support from customer services help you achieve what you wanted to do?
 Question CD13: In the last 12 months, to what extent have communications from financial service providers helped you make informed decisions?
 Responses exclude do not know and N/A



For the consumer support outcome under the Duty, it was found that 84% of those who used firm's customer services felt that it helped them achieve what they wanted to do. This included matters such as making a general query, raising a complaint, switching or exiting a product or trying to resolve a problem. However, 16% said it did not help at all, with vulnerable customers being found more likely to report that they didn't help.

For the customer to understand the outcome, another question that was asked was to what extent communications from financial service providers helped you make informed decisions. Again, it was found that the majority of customers found them to help, however, 27% said that they did not help at all and, as with the previous question, vulnerable customers were more likely to give this response.

Under the Duty, it is important that these services and communications are suitable to those in vulnerable circumstances.

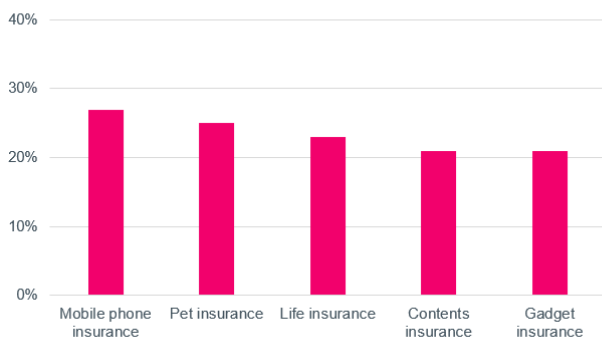
The impact of the cost-of-living crisis on consumers

The cost-of-living crisis has had a significant impact on people's daily lives, with an estimated 37.1 million people seeing their financial position worsen. As a result, people have been forced to cut back on various services in attempts to limit their spending, one of which has been insurance products.

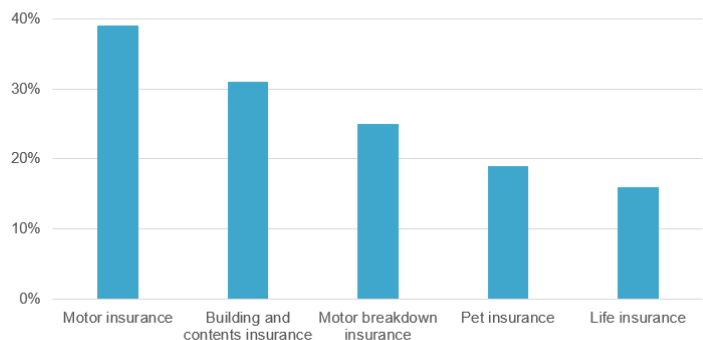
The Financial Lives Survey revisited respondents over the 6-months from May 2022 to January 2023 due to the rising cost of living, to shed light on the financial situations UK adults were finding themselves in. It found that 1 in 8 adults cancelled at least one of their policies or reduced the level of cover on at least one of their policies who held one in May 2022, specifically to save money due to the rising cost of living.

From the graphs below, general insurance products experienced the most cancellations or reductions in cover in the 6-months to January 2023.

Top 5 insurance policies that were cancelled between May 2022 and January 2023



Top 5 insurance policies where the level of cover was reduced between May 2022 and January 2023



Source: 2022 FCA Financial Lives Survey (Financial Lives cost of living (Jan 2023) recontact survey) Question Q3a-b: Which of the following insurance or protection policies have you cancelled/reduced the level of cover to save money?

23% of cancelled policies were life insurance policies, leaving people unprotected in the event of themselves or a loved one dying, however in general there are fewer life and protection policy alterations. This could be an implication of COVID-19, which



highlighted the value of holding such products, or due to them being typically held through workplace benefits or tied to mortgage policies that may not be reviewed as frequently as every year.

Now is the time to take action on Consumer Duty

The downbeat results of the Financial Lives Survey this year show that there is now more than ever a huge need to think about customer experience and outcomes. The FCA are tapping into the levels of customer satisfaction and there is a collective responsibility to improve outcomes across the board.

Consumer Duty gives insurers the framework for that, and the potential volume of work required for legacy business means that the Consumer Duty will be prioritised for many ahead of the July 2024 deadline. Given the greater complexity of legacy business, including older systems and other aspects of operational risk such as poor policy data, manual processes and key person risk, the earlier this process is started the sooner these issues can be addressed and better outcomes for consumers can be achieved.

How can Hymans Robertson support you?

For a conversation on how we can support you with implementing the Consumer Duty requirements or what they mean for your business, please [get in touch](#).