

PKF

29 February 2024

Regulatory overview and Consumer Duty

Heads of Internal Audit Roundtable event

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Agenda

PKF

Welcome and introduction

PKF Littlejohn

Regulatory briefing Sicsic Advisory

03 Q&A

Consumer Duty
Assurance
Sicsic Advisory

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Conclusion and Q&A Sicsic Advisory



Today's speakers



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Regulatory briefing

MICHAEL SICSIC

Regulatory briefing



- In 2021, the FCA ambition was to become more innovative, assertive and adaptive regulator, being led by data and technology.
- We have seen that **crystalising during 2023** with both thematic and firm-specific interventions
- We anticipate 2024 to be further consolidation of the FCA strategy
 - With a regular cadence of attestations/board attestations
 - Intrusive supervision where we see various actions
 - On the back of thematic reviews from s166 to remedial
 - On the back of data which the FCA collects / scans for
- Boards are looking for assurance on key areas of scrutiny and FCA is requesting to see what that assurance that entails

Key interventions across the market



Area	Type of intervention	Key points	Lessons Learned
Gap Insurance	Sector intervention	3-month ultimatum to prove customers get fair value	FCA repeated warnings GI Value Measures
MOB	Thematic review leading to new rules Firm-specific interventions	With rising premiums, scrutiny of remuneration, including distribution chains	Relationship to costs Third party pay aways YoY increases in premiums Cost of living crisis
Motor Finance	Ban on discretionary commissions S166s used as diagnostic	Ban follows scrutiny of sector Temporary hold follows FOS decisions	Conflicts of interest Complaints, including FOS
Appointed representatives	New rules and annual board attestation Firm-specific interventions	Interventions have led to reduction in number of ARs in the market	Use of powers Attestation and board oversight
GI Pricing	Rules Firm-specific interventions	Pricing that relies on customer inertia	Understanding of pricing approach Differential outcomes
Total loss	Firm-specific interventions	Under-estimating settlement value	Customer lens and FOS

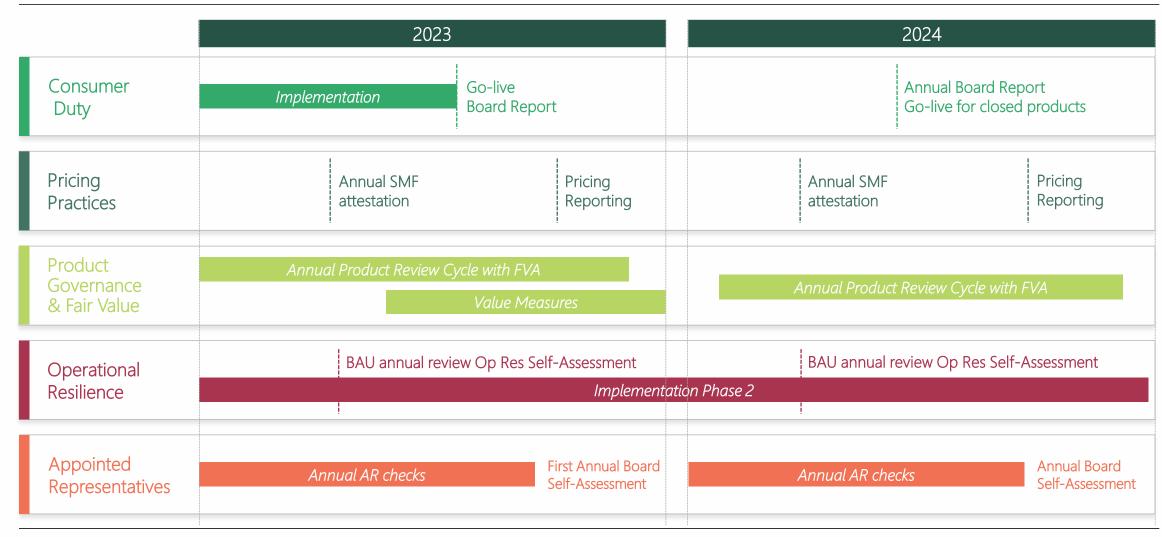
s166 overview across the market



- 7 general insurance s166 in Q2 2023/24 versus 1 in previous year
- Strong 'consumer duty' theme
 - Fair value
 - Customers interests
 - Complaints
- Importance of interrogating data and complaints
- FCA using s166 more easily to drill down where they have concerns

Regulatory rhythm on selected initiatives







Q&A
ANY QUESTIONS?



Consumer Duty assurance

NADEGE GENETAY

Consumer Duty assurance





31 July 2023: Consumer Duty go live date

31 July 2024: First annual board report (and go live for closed books)

The rules require firms to ensure that retail customer outcomes are a central focus of the firm's internal audit function.

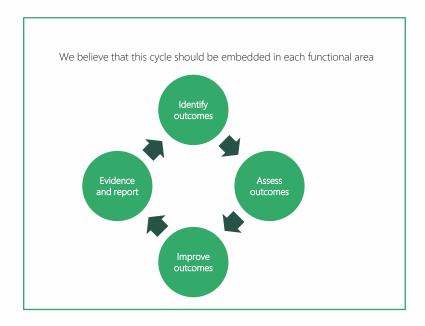
It should be reflected in internal audit plans and in the way reviews are carried out.

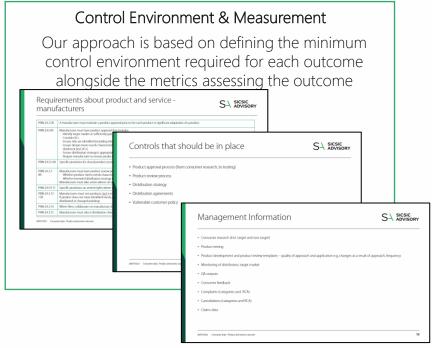
The broad nature of the Consumer Duty calls for a different approach – business model-led, prioritised and outcome-based.

Our Approach to Consumer Duty



Firms need to deliver a Consumer Duty framework that will drive first line functional accountability, support the Board in providing their attestation on whether the firm is delivering good outcomes for its retail customers, and be underpinned by a continuous improvement process.





Other tools

- Product and fair value assessment templates
- Customer journey and customer understanding frameworks
- Attestation framework
- Board annual report template
- Policy templates

Our assessment of effort required



Focus area	Completion assessment 31/10/2022	Completion assessment 31/07/2023	Current view
Outcome 1 Products and services			Despite PROD4, this area still needs focus
Outcome 2 Price and value			Repeated call outs from the regulator on the poor quality and uncritical nature of fair value assessments
Outcome 3 Consumer understanding			A lot more to do to build capability and embed Lack of read-across across communications
Outcome 4 Consumer support			Many firms have conducted customer journey reviews – but often fail to capture key issues Ineffective link to insights
Supporting infrastructure (Outcome testing, MI, vulnerable customers, root cause analysis, governance and culture)			Vulnerable customers and Root Cause Analysis still key areas of focus Leveraging outcome-testing and insights still embedding MI and annual report proving challenging

Common pitfalls and good practices



COMMON PITFALLS	GOOD PRACTICES
 Compliance led programmes Insufficient consideration of staff incentives Poor evidencing or critical analysis in fair value assessments Poor exchange of information across distribution chains Unclear charges or complex product features Poor training for staff on Customers in vulnerable difficulties including financial difficulties No changes following reviews Difficult journeys not considered from a customer lens No customer testing No consideration of 1:1 communications 	 First line-led programmes Actions taken on the back of reviews of products, communications and journeys Actions taken on the back of MI Support from specialists on issues such as customers, communications, and vulnerable circumstances Consideration of third parties and their impact and responsibilities Good use of performance / value measures

Assurance for Consumer Duty



- Consumer Duty is still new, and it will take time for the approach to embed across the industry.
- Not systems and controls but 'outcomes'. Requires a significant element of judgement and different approach to ratings potentially.
- Assurance is intrinsically different from a traditional standards-based assurance approach. For the end of July 2023, we were looking at:
 - Clarity of prioritisation approach to reviewing its products, communications and customer support, and the extent to which the firm can evidence that it has made changes as a result;
 - Opinion on whether the firm had put in place appropriate controls to deliver on the consumer duty requirements and was building management information that will help identify potential issues, recognising that both of these will take time to embed.

OPINION	DESCRIPTION		
INADEQUATE	Approach to date is inadequate, and there is a heightened risk of non-compliance with the requirements of the Duty and ongoing regulatory expectations.		
QUALIFIED	Approach and/or progress is partly adequate. Some aspects require further action to ensure alignment with the requirements of the Duty and ongoing regulatory expectations.		
ADEQUATE	Approach and/or progress is adequate, potential opportunities to enhance approach further.		

Impact on Internal Audit



- Must be able to demonstrate consideration of outcomes
- Key risk for boards if take false assurance from audit that's not considered the right elements
- Requires new skillsets and approach
- Importance of upskilling / training
- Potential for co-sourcing in initial stages
- Needs to feature prominently in Internal Audit Plan



Q&A
ANY QUESTIONS?

Conclusion



- The FCA is delivering on its strategy to be assertive and data-led.
- It has made clear its areas of focus: these should figure prominently on the internal audit plan
- Internal audit should also keep abreast of future areas of regulatory development we are likely to see more judgement-based approach required by firms.

Regulatory forecast









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Question and answer



Any questions?





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