



29 February 2024

# Regulatory overview and Consumer Duty

Heads of Internal Audit Roundtable  
event

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# Agenda



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introduction  
PKF Littlejohn

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Sicsic Advisory

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Sicsic Advisory

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## Today's speakers



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# Regulatory briefing

MICHAEL SICSIC

- 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

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- 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

	2023	2024
Consumer Duty	<div>Implementation</div> <div>Go-live Board Report</div>	<div>Annual Board Report Go-live for closed products</div>
Pricing Practices	<div>Annual SMF attestation</div> <div>Pricing Reporting</div>	<div>Annual SMF attestation</div> <div>Pricing Reporting</div>
Product Governance & Fair Value	<div>Annual Product Review Cycle with FVA</div> <div>Value Measures</div>	<div>Annual Product Review Cycle with FVA</div>
Operational Resilience	<div>BAU annual review Op Res Self-Assessment</div> <div>Implementation Phase 2</div>	<div>BAU annual review Op Res Self-Assessment</div>
Appointed Representatives	<div>Annual AR checks</div> <div>First Annual Board Self-Assessment</div>	<div>Annual AR checks</div> <div>Annual Board Self-Assessment</div>



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.

We believe that this cycle should be embedded in each functional area



## Control Environment & Measurement

Our approach is based on defining the minimum control environment required for each outcome alongside the metrics assessing the outcome

Requirements about product and service - manufacturers	
PRIN 2A.3.2B	A manufacturer must maintain a product approval process for each product or significant adaptation of a product
PRIN 2A.3.4B	Manufacturers must have product approval processes that include: <ul style="list-style-type: none"><li>• Identify target market at sufficiently granular level</li><li>• Consider R&amp;D</li><li>• Ensure risks are identified (including risks to consumer detriment)</li><li>• Ensure design and development processes are robust</li><li>• Ensure distribution strategy is appropriate</li><li>• Register manufacturer on consumer products</li></ul>
PRIN 2A.3.5B	Specific provisions for shared products (co-brands)
PRIN 2A.3.2B	Manufacturers must have product review processes that include: <ul style="list-style-type: none"><li>• Whether product meets needs of target market</li><li>• Whether intended distribution strategy</li><li>• Whether manufacturer has taken action where risks are identified</li></ul>
PRIN 2A.3.12	Specific provisions on consumer rights, where: <ul style="list-style-type: none"><li>• Manufacturers must test products (as part of product development)</li><li>• Products must meet identified needs of target market (as identified in testing)</li></ul>
PRIN 2A.3.14	Where firms collaborate on manufacture of products, they must ensure that: <ul style="list-style-type: none"><li>• Manufacturers must select distribution channels</li></ul>
PRIN 2A.3.15	Manufacturers must select distribution channels
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Controls that should be in place	
PRIN 2A.3.2B	Product approval process (from consumer research, to testing)
PRIN 2A.3.4B	Product review process
PRIN 2A.3.12	Distribution strategy
PRIN 2A.3.14	Distribution agreements
PRIN 2A.3.15	Valueable customer policy
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Management Information	
PRIN 2A.3.2B	Consumer research (incl. target and non-target)
PRIN 2A.3.4B	Product testing
PRIN 2A.3.12	Product development and product review templates – quality of approach and application e.g. changes as a result of approach, frequency
PRIN 2A.3.14	Monitoring of distributors, target market
PRIN 2A.3.15	QA outputs
PRIN 2A.3.16	Consumer feedback
PRIN 2A.3.17	Complaints (categories and RCA)
PRIN 2A.3.18	Cancellations (categories and RCA)
PRIN 2A.3.19	Claims data
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## 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
<b>Outcome 1</b> Products and services			Despite PROD4, this area still needs focus  Repeated call outs from the regulator on the poor quality and uncritical nature of fair value assessments
<b>Outcome 2</b> Price and value			
<b>Outcome 3</b> Consumer understanding			A lot more to do to build capability and embed  Lack of read-across across communications
<b>Outcome 4</b> Consumer support			Many firms have conducted customer journey reviews – but often fail to capture key issues  Ineffective link to insights
<b>Supporting infrastructure</b> (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
<ul style="list-style-type: none"><li>• Compliance led programmes</li><li>• Insufficient consideration of staff incentives</li><li>• Poor evidencing or critical analysis in fair value assessments</li><li>• Poor exchange of information across distribution chains</li><li>• Unclear charges or complex product features</li><li>• Poor training for staff on Customers in vulnerable difficulties including financial difficulties</li><li>• No changes following reviews</li><li>• Difficult journeys not considered from a customer lens</li><li>• No customer testing</li><li>• No consideration of 1:1 communications</li></ul>	<ul style="list-style-type: none"><li>• First line-led programmes</li><li>• Actions taken on the back of reviews of products, communications and journeys</li><li>• Actions taken on the back of MI</li><li>• Support from specialists on issues such as customers, communications, and vulnerable circumstances</li><li>• Consideration of third parties and their impact and responsibilities</li><li>• Good use of performance / value measures</li></ul>

# 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

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- 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

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- 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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