

# How to keep abreast of changes from the Consumer Duty and provide assurance

Heads of Internal Audit  
Roundtable event

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Heads of Internal Audit Roundtable event - 29 February 2024

We and our co-hosts Sicsic Advisory enjoyed your company on 29 February at Searcys at the Gherkin for our roundtable breakfast for insurance sector heads of internal audit. You'll remember we focused on two key areas:

- How FCA priorities and interventions are evolving and impacting firms
- Consumer Duty – the common pitfalls, good practices and assurance

Here's a summary of the issues we discussed.

## Key FCA priorities and interventions

*Sicsic Advisory's managing partner, Michael Sicsic, kicked off with a high-level overview of the FCA's current approach to regulation, highlighting that its ambition to become a more innovative, assertive and adaptive regulator has crystallised during 2023, with both thematic and firm-specific interventions.*

### Anticipated FCA action

Thematic reviews have been a useful way for the FCA to gauge, broadly, how firms are complying. This is expected to continue, but there'll be a more detailed approach via s166 reviews and data-led inquiries to investigate firms. These will drill down, for example into complaints data and fair value assessments, so firms are likely to receive information requests accordingly. Internal audit functions must bear in mind the more assertive approach the regulator is now taking.

### Increased focus on complaints data

As we've said, the FCA continues to adopt a data-led approach, for example with a focus on complaints data. Firms and internal audit functions should spend additional time analysing what complaints data tells them, with specific emphasis on 'outliers'. Discussions should evidence challenge of root cause analysis over core issues driving complaints and define appropriate actions.

The Financial Ombudsman Service (FOS) complaints and statistics can be an indicator of whether firms are taking the right approach. They should monitor FOS complaints data and decisions, which provide useful insights, and use this to build their relationship with the FOS.

### Fair value

Recently the FCA has been very focussed on whether products achieve fair value. It has warned about add-ons like gap insurance, and how such products can achieve best customer outcomes and value.

The regulator has an additional focus on rising premiums and their impact on remuneration, as seen in multi-occupancy buildings insurance. Some firms can rationalise a high-cost product on the basis that customers bought it. Many, though, simply benchmark their commissions to determine reasonableness and fair value: but that's not enough.

Firms need to establish their own methods to determine fair value. That means: how much does it cost to provide the product, and what are the benefits provided including the quality of service? And are they comfortable with the element of commission they're receiving across the distribution chain? Firms should challenge their most profitable products and think more deeply about whether they're comfortable with the various outcomes for customers.

### Understanding the business model

There is a need to review and clarify business models, with firms advised to go back to basics. Do they understand their strategy? What are the primary drivers and income streams? With this knowledge they'll be able to challenge the overall commercial profitability of the firm. For example, how many brokers are reliant on money earned via premium finance to generate profit? It will allow firms to prioritise efforts on areas which are most likely to cause harm.

## Consumer Duty assurance

*Nadege Genetay, Sicsic Advisory's partner and Consumer Duty lead, provided insights on their assurance approach to the Consumer Duty. She highlighted the frequent obstacles firms encounter, and also good practices. It's important, she said, that internal audit functions think carefully about how and what they provide assurance on. We debated the various approaches and methods of assurance and the following themes emerged:*



## Outcomes focus

Firms must have a framework and outlook that delivers good customer outcomes. Do they have the right infrastructure to support products, communications, customer journeys, and so on? Challenges include:

- Creating a link between the insights and results from customer journey reviews and the specific actions required.
- Too much focus from distributors on information from manufacturers, rather than thinking of the impact on fair value of their own remuneration and distribution methods.
- Lack of detail of target market statements and lack of clarity between the various parties in the distribution chain. Incorrectly scoping and prioritising areas which are most likely to cause potential harm specific to their customers.

## Data-driven assurance

Firms should focus on what their MI (such as complaints, breaches or other underwriting-specific MI) is telling them, especially historic data around key metrics. They must have mechanisms to identify any 'outliers' as a source of intelligence. Beyond the typical KPIs and metrics, they should take a more 'out of the box' approach. An example might be collecting and analysing feedback from customers and front-line staff which could provide valuable insights.

There is also a concern that firms are conducting ad-hoc project or implementation-focused reviews, rather than those focused on outcomes. This means it can be harder to show action is being taken as a result of the reviews. Clear actions should be drawn and signed off by the Board. Alternatively, Boards must clearly document the level of scrutiny and provide explicit confirmation that they are comfortable with the exposure of risk to poor outcomes.

## Alignment in Consumer Duty assurance output

Consumer Duty has driven a cultural shift. But there is a potential misalignment with the assurance that Boards are seeking. They are looking for a binary outcome on Consumer Duty assurance (comply or non-comply) rather than understanding the level of risk they have and determining what they deem as 'successful'.

## Assurance from third line

Consumer Duty requires internal audit functions to have customer outcomes as a central focus. It is becoming an important part of internal audit plans - both as a standalone and across other audits where there is a customer touchpoint.

Many of the roundtable felt that internal audit is viewed as the main or only source of assurance. But firms must make sure they're clear on what success looks like first. Then they can build a suitable assurance framework around this, where the first, second and third line can provide a view and conclusion on success.

## Final thoughts

The FCA will continue to focus and assess firms closely. Firms and their internal audit functions should be prepared for a more intrusive and holistic approach. This requires a significant shift in culture and mindset across first, second and third lines to ensure a united understanding of what successful customer outcomes mean.

Boards need to reframe and revisit the whole process of measuring success and the way to get meaningful and realistic assurance from the second and third lines. Internal audit teams must think carefully about what assurance they provide.

For more information on Consumer Duty, please contact either Jessica Wills and Samiha Shaikh from PKF Littlejohn or Michael Sicsic and Nadege Genetay from Sicsic Advisory.



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