

The background image shows a woman with short grey hair sitting on a light-colored sofa, smiling and looking at a tablet computer. She is wearing a light-colored cardigan. In the background, another person is standing, partially obscured, in a room with a large potted plant. The entire image has a teal overlay with a pattern of semi-transparent circles of varying sizes.

MorganAsh

# Consumer Duty: the challenges and opportunities of ensuring protection

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# Consumer Duty: the challenges and opportunities for the protection market

**COVER** 25

Cover Magazine first serialised this feature as a three-part series in October and November 2022. Scan the QR codes to read the articles.

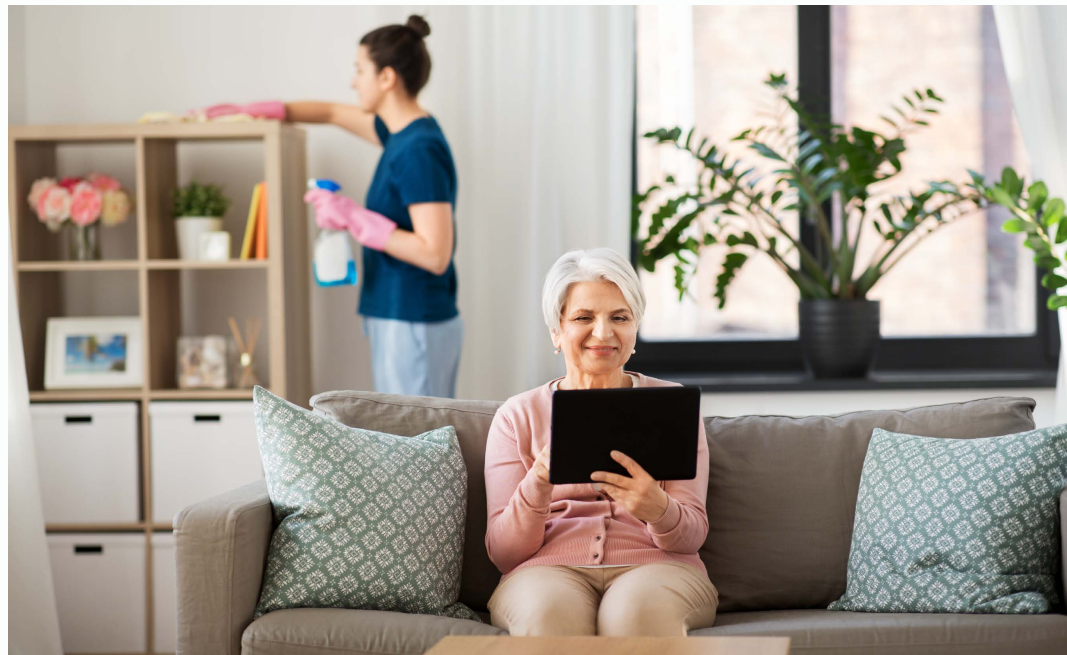
**Consumer Duty Protection: Sector Impact**



**Consumer Duty and Protection: Product Lifecycles**



**Consumer Duty and Protection: Consumer Characteristics**



It is perhaps easy to see the challenges of the FCA's Consumer Duty regulations but implementing them can open up significant opportunities.

## **FCA regulation changes and the protection market**

The Financial Conduct Authority's (FCA) Consumer Duty regulations (FG22/5) were issued in July 2022. We are now in the implementation phase, prior to the deadline of July 2023. Let's take a look at how the regulation changes will affect the protection market – in particular, two significant changes that are major opportunities for the industry to expand – the requirement to understand customer characteristics and the requirement to monitor customers.



As the whole point of the protection industry is to reduce harms to consumers – at first glance, compared to other sectors within financial services, protection should be in a good position. While there are some challenges, this a major opportunity for the industry.

### **The need for evidence**

Consumer Duty regulations require firms to focus on the consumer and promote good outcomes – and certainly to try to reduce bad outcomes. While many will say this is what the protection industry already does, a big difference of Consumer Duty is the need for firms to evidence that this is being undertaken. This requires a large amount of work: there is the need for firms to collate data and then to provide this to both management and the board, in order to evidence that are complying with Consumer Duty. Notably, this is far harder in a distributed market – where the intermediary may well understand the consumers' needs but typically does not share this with the manufacturer.

One of the major changes of Consumer Duty is that it requires financial services firms is to understand and record consumer characteristics (previously referred to as vulnerability data). FG 22/1 – the vulnerability regulation – requires an assessment of each consumer's vulnerability. Since we know that around 50% of consumers are potentially vulnerable, and there is no easy way to identify the 50%, then vulnerability detection processes need to be aimed at 100% of new consumers.

Many firms have trained their front-line staff to identify vulnerable customers. While this has been successful, it has a couple of major weaknesses.

Each member of staff interprets vulnerability separately and hence results are inconsistent. This leads to poor management information, which will not meet Consumer Duty requirements for evidence. This has already been highlighted by the FCA in their review. Secondly it only picks up people who reactively contact the firm, leaving the vast majority of customers without any vulnerability assessment.



By far the greatest opportunity for the protection industry is the ability to piggyback on intermediaries' collection of consumer characteristics data to identify the need for protection.

### Collecting and evidencing consumer data

Consumer Duty regulations require that data be collected and evidenced for several groups of consumers – in addition to the vulnerable:

1. Firms must provide a process for any consumer who wants to divulge their characteristics/vulnerabilities.
2. Firms must understand the characteristics of any consumer who experiences harm or a bad outcome. Since the outcome is likely to occur many years later, it will be very difficult (or impossible) to retrospectively understand those characteristics and circumstances; it is far easier (not to say faster and cheaper) to collect this information at the time of sale.
3. Firms must provide management information, to the FCA, on the protected characteristics of their target market.

For the vast majority of new business in the protection sector, it is far more efficient to collect the consumer characteristics of *all* consumers at the time of sale – and to then aggregate this for Consumer Duty reporting requirements.

It is voluntary for consumers to provide this information – and so the Consumer Duty regulations make allowances for this, by not requiring this data on 100% of consumers.

Within protection, health and lifestyle data is collected as part of the underwriting process – but this is typically buried within providers' product-pricing systems. This means that it is not available to, or shared with, intermediaries.



### Reporting consumer characteristics

Traditionally intermediaries build relationships to understand their customers. However, this is typically subjective, is rarely recorded and is hardly ever communicated within the firm – or between firms. This traditional approach will be unsustainable, because it does not provide the data for evidencing for Consumer Duty.

While many may want to continue as they are, it is likely the market will move to a digital solution in order to be able to report and communicate consumer characteristics across the value chain – because doing so is vital to meet Consumer Duty's reporting requirements.

### Opportunities to promote protection

By far the greatest opportunity for the protection industry is the ability to piggyback on intermediaries' collection of consumer characteristics data to identify the need for protection. While there have been some successes, the protection industry has for years struggled to engage with both the mortgage and high-net-worth markets. This need has already been identified – and is being promoted by some providers. The bigger opportunity is to provide solutions that make it easy for other financial services advisers to recommend protection, rather than just hoping others will pick this up. Indeed, the introduction of the monitoring requirement, does bring the risk that some advisers will avoid critical illness cover and income protection, to avoid the overhead of having to monitor those products.

To understand vulnerability, protected characteristics and product suitability, the whole of the financial services sector must understand their consumers' characteristics – including health and lifestyle. When doing this, it opens up the opportunity to highlight to consumers the need for protection of assets. This could include a sale or signposting to organisation which can undertake this.

Any vulnerability assessment has an overlap with simple underwriting; this provides the opportunity to use this data in several ways:

1. A simple option is to triage towards the best process for the underwriter – either using an online process (for a healthy individual) or refer to a specialist (for those with health issues).
2. A more ambitious option is to use the health and lifestyle information required for vulnerability assessments to give indicative underwriting and prices – and as well as digitally passing this third parties data for further medial assessments and to providers for pricing.

### The requirement to monitor

Consumer Duty requires that all parties monitor their consumers, through the lifecycle of products, to ensure that products remain suitable – as, if they are not suitable, they may not represent fair value and could result in poor outcomes. Just how often monitoring is required is not specified. In the intermediated market, advisers are defaulting to the traditional annual review – as this is the easy and logical option. For protection, minimum durations may vary by product, this may be for many years of life cover, and less for critical illness and income protection; this monitoring could be triggered after a first few years – or change with the age of consumers.

The monitoring requirement may at first seem an arduous task – especially as we have spent years debating the far simpler task of annual statements. To ensure suitability, monitoring must cover changes in characteristics and circumstances – for example, the suitability of products to reflect changes in both employment and family; for income protection, the deferred period is still appropriate.

Within protection, monitoring of the consumer can be undertaken by the Intermediary or the manufacturer. Each party can rely on the other that this is done. There are three models how this may be undertaken:

1. Advisers monitor their own customers and take responsibility.
2. Providers take responsibility (particularly for direct or none-advised channels).
3. Advisers and providers share information on the consumers' characteristics, circumstances and how these change over time.



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While the first two are the easy options for protection specialists and providers, the third option – to share data – will be far more attractive in the wider market. For example, mortgages and high-net worth – where the intermediary wants to monitor the mortgage or investments but is happy to let the provider manage monitoring responsibility for the protection product. It is logical that the third option to become dominant over time, because it offers a significant opportunity to grow the protection market.

These opportunities are opened up using digital Consumer Duty solutions which assist with the monitoring requirement. Such solutions will make it easy for non-protection advisers to engage or signpost appropriately, to grow the protection market.

MorganAsh is connecting its Consumer Duty and vulnerability tool, MARS (the MorganAsh Resilience System), to other data sources – to identify changes in consumers’ lifestyle and circumstances, and to flag this to both intermediaries and providers in real time, simultaneously. Highlighting changes in lifestyle or circumstances not only leads to the required assessment for suitability, but it also opens up opportunities for further transactions as part of providing better service to consumers.

## Connect with us



Ready to try MARS?  [Contact us today!](#)



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[Consumer Duty: managing vulnerability and resilience](#)

A more detailed technical paper on the above is available from MorganAsh on request.