

Consumer Duty

Data and MI (monitoring and evaluation)

Regulated firms have always been required to effectively monitor outcomes for customers. This was brought into greater focus with the introduction of SMCR, and now Consumer Duty brings with it an additional depth and scope to the requirements.

There is a clear expectation from the FCA that firms should undertake a regular assessment of a broad range of metrics related to the experience of products and services customers receive. Based on the results of this MI, senior management should then take appropriate action to rectify any issues.

Challenges firms face when developing MI

There are many issues firms face when developing and using MI.

Key challenges include:

- **An overfocus on using available data**, rather than considering what is actually required.
- **Inadequate metrics related to customer outcomes**: Firms focus too much on commercial and performance metrics.
- **A failure to align MI to risks**: The firm's risk landscape should be the starting point in developing the MI suite, with an in-depth consideration of what the Key Risk Indicators (KRIs) are in relation to customer outcomes, and how they can be tracked and monitoring
- **MI reporting which gives a snapshot view**: Simply reporting this month's figures is inadequate for effective analysis. It is important to provide decision-makers with sufficient information on developing trends and issues within the business.
- **A focus on lagging rather than leading indicators**: Many firms build their MI suites around historic data and assessments of potentially poor outcomes customers have already experienced (e.g. complaints data and cancellations). It is far better to include a mix of leading indicators that can give advance warning of issues to come.
- **An imbalance between quantitative and qualitative metrics**: Most firms rely on so-called 'hard metrics' – the kind of data which can be added up or put in percentages. This is valid and important information, but it should not overshadow the need for a more nuanced and subjective analysis. Qualitative data is harder to acquire and categorise, but it can give a far richer insight into outcomes (and potential outcomes) for customers.
- **A failure to demonstrate action has been taken**: This is a key failing. Where firms receive MI which shows customers are receiving poor outcomes, they should be able to demonstrate that senior management assessed the situation and took appropriate action.

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How Consumer Duty will raise the bar

The expectation of the Consumer Duty principle is that firms will:

- Help customers meet their financial objectives by better understanding their needs and what they value from products and services.
- Prevent customers from experiencing foreseeable harm by being more proactive in assessing where detriment could occur.

These expectations, and the rest of the Consumer Duty requirements, will require firms to have a greater understanding of their customers – which will require enhanced MI.

The MI expectations for Consumer Duty

- **Increased cooperation and data-sharing by parties in distribution chains:** Up and down the chain, there will be an expectation that parties will share MI and data on the use and value of products, and the outcomes that customers experience. If firms aren't able to obtain adequate information from counterparties, they should consider whether they can continue the commercial relationship.
- **A greater use of leading indicators:** The cross-cutting rule of preventing 'foreseeable harm' has a clear expectation that firms will take a much more forward-looking assessment of what could go wrong with their product or service. The regulator's expectation is that firms will identify and prevent issues before they impact customers.
- **A greater use of qualitative data:** Aligned to the point above, the FCA expects firms to gain far greater insights into the needs and motivations of their customers, and also how they interact with and understand the products and the sales process.
- **A greater focus on customer behaviours:** There is also an expectation that firms will spend more time monitoring how customers behave during the sales process, and in their use of the product. This is a particular challenge with online-only channels, but one the FCA expects firms to address.

Over and above these requirements will be the expectation that senior management will act on the information they receive, and drive the firm to improve products and services for customers and prevent foreseeable harm.

This is part of a series of guides designed to help your organisation better understand the requirements of the FCA's new Consumer Duty.

Hogan Lovells can help you at every stage of your Consumer Duty journey. We can implement the full toolkit and manage your project through to completion, or we can get involved in specific elements of your workstreams. Please contact one of the team members below to find out how we can advise you.

The Consumer Duty hub on the Hogan Lovells Engage Premium website brings together recent developments, insights, webinars and videos from our team on a range on Consumer Duty-related topics. Visit <https://engagepremium.hoganlovells.com/resources/consumer-duty> to find out more.



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