



The Impact of Consumer Duty on the Investment Management and Wealth Sector

October 2023



Our survey says....

During August and September 2023, Deloitte surveyed firms in the Investment Management and Wealth (IMW) sector to understand how Consumer Duty has impacted their business and wider IMW sector as a whole. We have summarised below the results of our survey, which will make interesting reading for IMW firms to understand the common challenges experienced by their peers and explore the innovative ways that firms have embedded the Duty within their business.

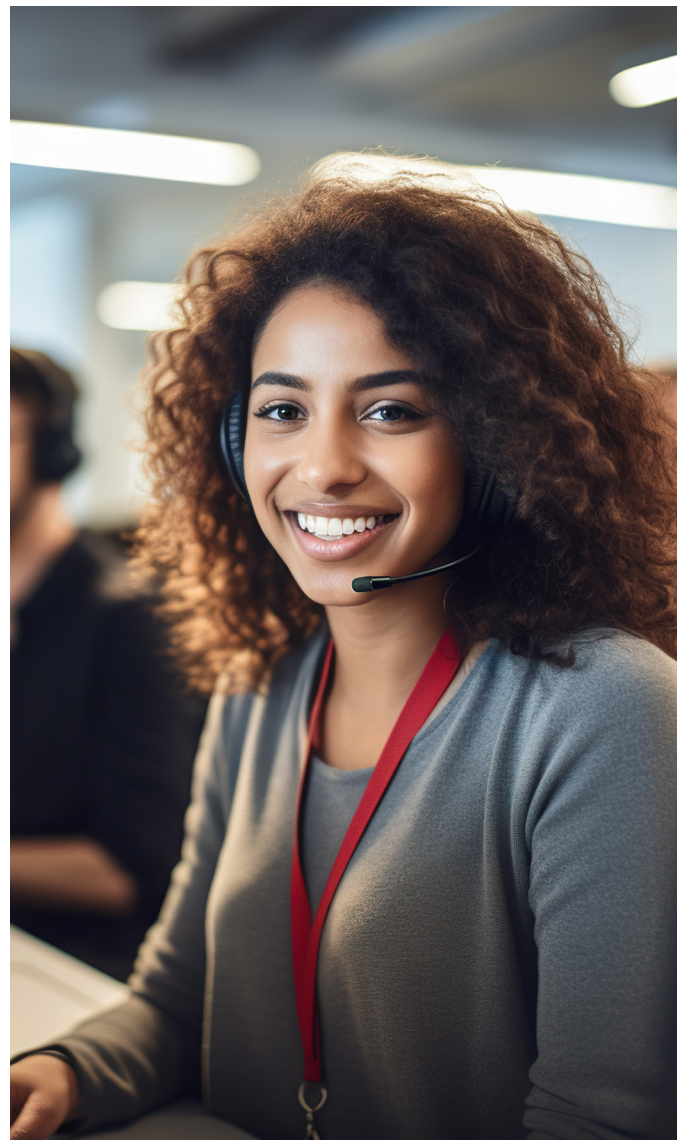


Where are we now?

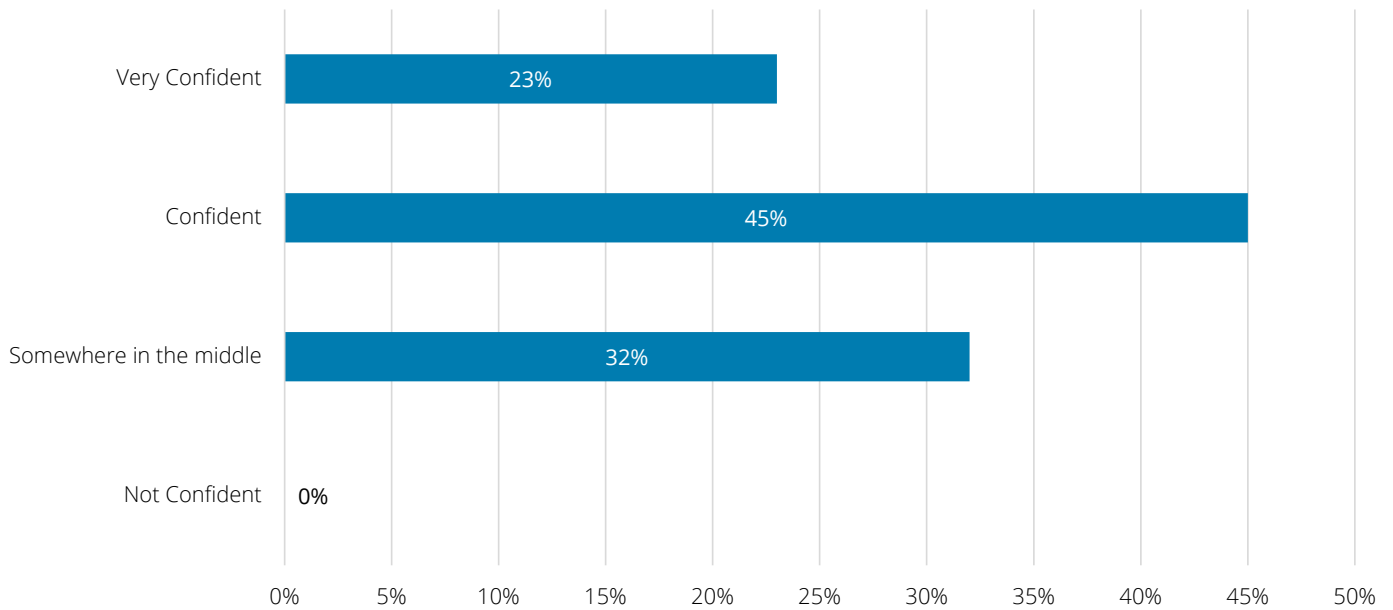
Overall, our survey results show that most firms are confident that they implemented Consumer Duty to a sufficient standard across all areas of the business as of 31 July 2023, but with broad recognition that there is still more to do. **Firms have dedicated significant effort to implementing the Duty and it will be important for firms to recognise the benefit to both the firm and its customers.** Data is likely to be key to this, and this is reflected in the effort dedicated towards the development of Management Information in Day 2 plans, as firms look to iterate and finalise Principle 12 reports ahead of July 2024.

Our Survey has highlighted common industry challenges, such as the sharing of product information up and down the chain, as well as several areas where firms have taken very different approaches to meeting the Duty standards, often reflecting the niche challenges associated with the firms' business model. In particular:

- **Price and Value** was highlighted as the most difficult outcome to implement, despite many of the survey respondents already compliant with existing COLL requirements. Many have commented on subsequent challenges to fee models and margin pressures making it difficult to compete without scale, as well as the unintended consequences of reporting areas of poor value within products.
- **Product Governance** has received a lot of attention from firms during implementation, with many revisiting product governance frameworks and subjecting products to enhanced reviews.
- **Customer Understanding** is viewed by our survey respondents as offering the most benefit to client outcomes, although we note the approach to testing customer understanding, and volumes of communications tested, has varied dramatically amongst our respondents.
- Feedback received on **Customer Support** shows that many firms believed they were offering good levels of customer support already, whilst others have made fundamental changes. There are particular friction points within customer journeys that have demanded attention, with prioritisation of changes often driven by volume of customers impacted.
- Many firms reported good levels of board engagement and a number of methods have been adopted to help drive forward **cultural embedding**.
- There is more to do. Alongside continued efforts to implement and embed the Consumer Duty, **firms have other strategic priorities, including ESG/Sustainability and Operational Resilience.**



The level of confidence of firms to achieving compliance across all areas of Consumer Duty by 31 July 2023



This is an interesting response from Sector firms, in light of the FCA recently noting in their Dear CEO letter to Platform Service Providers¹ that they had found in some firms that efforts to prepare for the Duty appeared superficial, while other firms were overconfident that their existing systems or approaches would be sufficient. **Being able to demonstrate how your firm has met the Consumer Duty is vital.** Our work with firms has highlighted the importance of adopting a robust gap analysis, to challenge and evidence whether the current state processes and controls meet the Duty's standards. As called out by the FCA in the Dear CEO letter, if firms consider that specific rules do

not apply to their business, the FCA will expect the firm to provide clear evidence of the reason for this. Firms should contact the FCA as soon as possible if you have any concerns about implementation.

Looking ahead, there is a lot on the change agenda, with many priorities overlapping with Consumer Duty. It is important to recognise that **the corporate knowledge gained during Consumer Duty implementation will help accelerate future change. Firms should ensure this knowledge is not lost as programme teams wind down.**



¹ [Our platforms supervision strategy: portfolio letter \(fca.org.uk\)](https://www.fca.org.uk/publications/our-platforms-supervision-strategy-portfolio-letter)

The impact on resourcing

Most firms in our survey had assigned less than 10 Full Time Resources (FTE) to their consumer duty implementation programme. However, to really highlight the diversity of approaches in the sector, and the challenges implementation represented to some larger firms, almost 10% of firms reported to have implementation teams over 50 FTE.

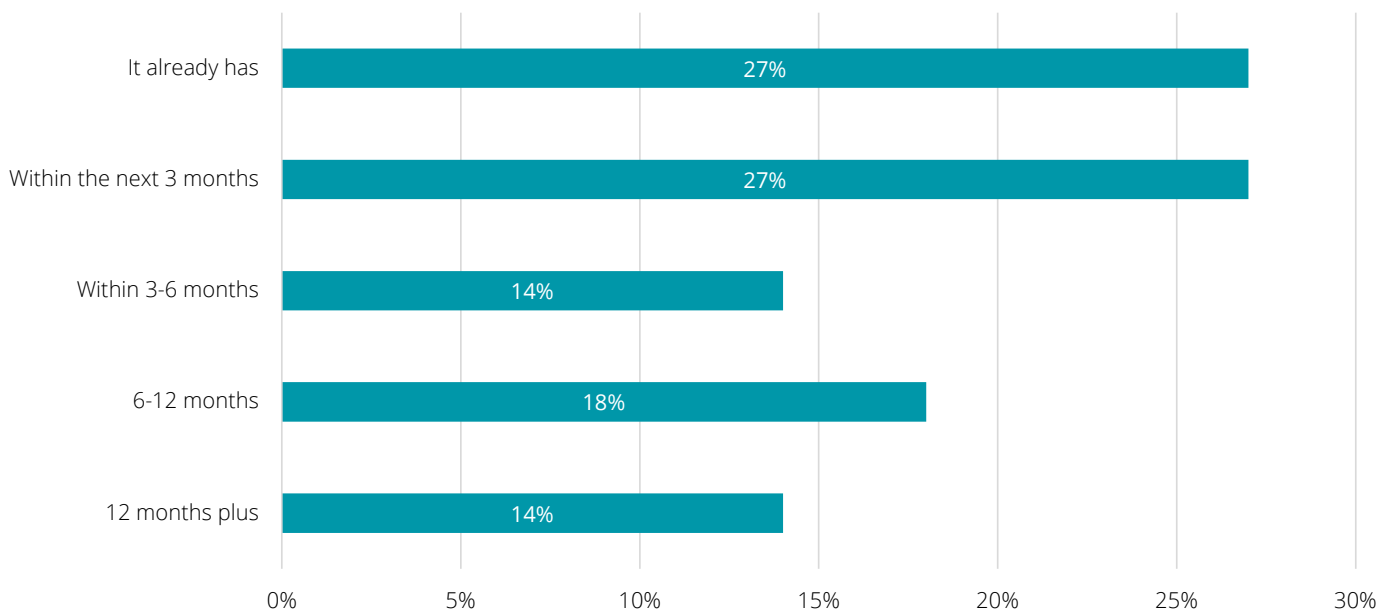
It is a similar story with BAU resourcing models. Whilst the majority of firms have not increased FTE headcount as a result of consumer duty (59%) **almost one third of survey respondents reported that they have increased headcount to deliver against the Consumer Duty Target Operating Model.** 67% of the firms increasing their FTE headcount in response to Consumer

Duty reported recruiting between 1 and 10 additional FTE, one firm reported to have recruited between 11-20.

64% of firms reported to have **closed book products.** Of those, 43% saw a moderate level of effort required and 57% saw a low level of effort required to meet the Duty requirements in comparison to Open products.

The majority of firms reported that their **consumer duty programme team had already or will transition to BAU in the next three months**, which should help free up some capacity within change functions and key personnel to focus on other priorities.

Timelines for programme teams to transition into BAU



The survey results show significant effort has gone in to implementing the Duty. It is important firms don't view implementation as a "one-off" and take forward lessons learned for future change. Firms **should also be seeking how they**

will reap the benefits of the Duty, ultimately good customer service will help to establish trust and customer loyalty, and better data can inform better management and commercial decision making.

Executive Sponsorship and Governance

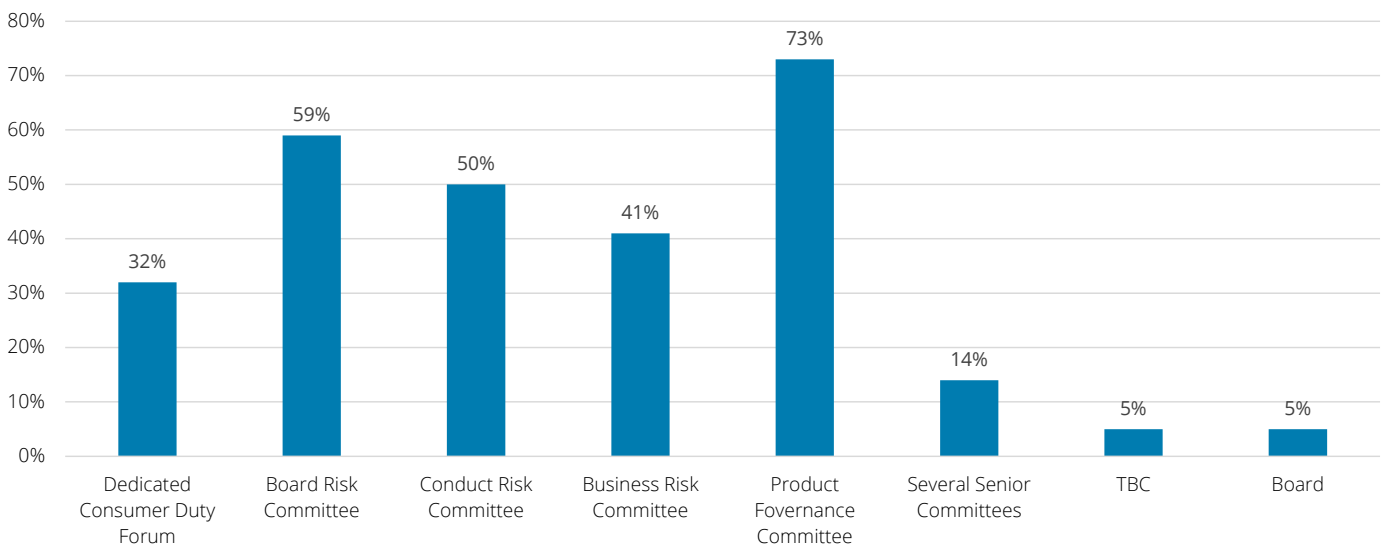
Our survey shows a diverse mix of executive sponsors for Consumer Duty implementation, with the CEO or COO being the most common sponsor, accounting for 18% each of the firms surveyed. Others included the CRO, and Head of Product or proposition, each with 14%, as well as other functions including head of customer, chief development officer and distribution COOs.

73% of surveyed firms stated that Consumer Duty outcomes will be monitored through multiple committees as opposed to a single committee or forum.

The most common committees and forums used to oversee aspects of the Consumer Duty include the Product Governance Committee, the Board Risk Committee and Conduct Risk Committee. Interestingly, **almost a third of respondents noted**

a new dedicated Consumer Duty Committee. This mix of committee involvement is testament to how all encompassing the Duty is to IMW firms. However, this brings with it its own challenges, and it is important to avoid overlaps, and more importantly gaps, when it comes to roles and responsibilities of governance and oversight. As documentation updates are often back ended during implementation projects, **now is a good time to check that Terms of Reference have been updated accordingly.**

The committees and forums firms are using to monitor and oversee Consumer Duty in BAU?



59% of firms state that they will monitor Consumer Duty outcomes on a quarterly basis, with 27% reporting that they will do so on a monthly basis. Once again, the broad nature of Consumer Duty, and the newness of some of the data used to evidence good outcomes, would lend itself to **regular reporting so that senior**

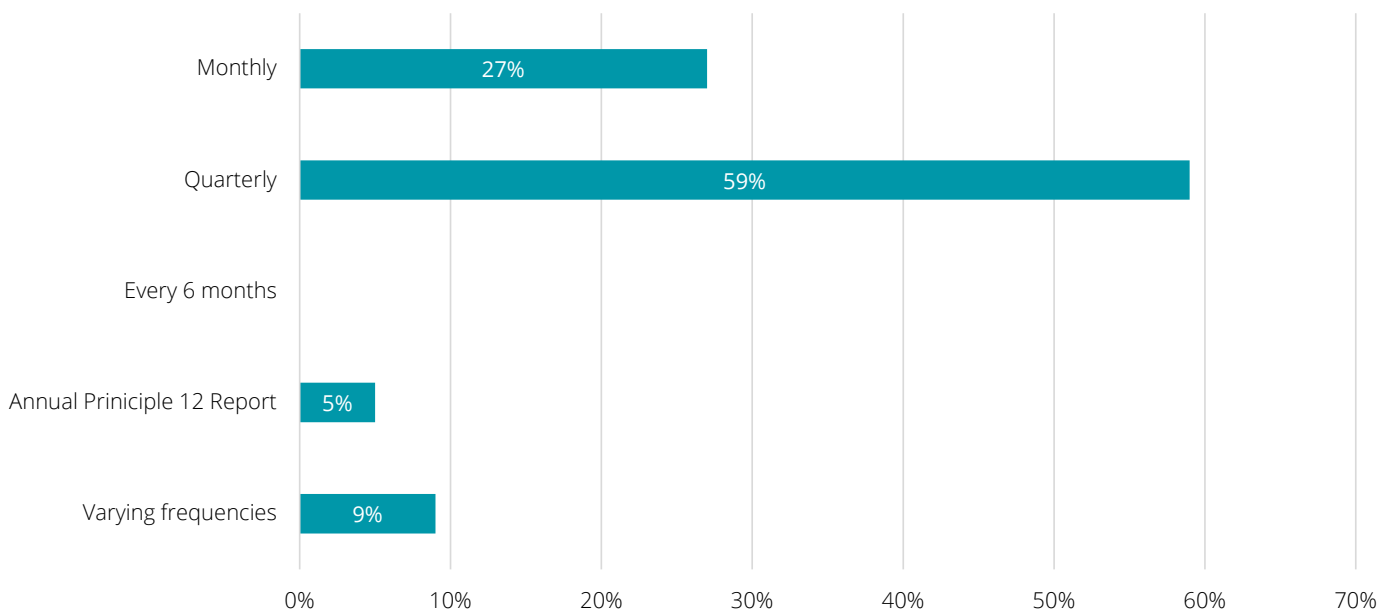
management can familiarise themselves with what good looks like and make appropriate and timely interventions and decisions where the evidence suggests customers are not receiving good outcomes.

The Good, The Bad and The Ugly

We asked firms what elements of the Consumer Duty they perceived as having the greatest impact in helping customers achieve good outcomes. Over a third of firms believed Customer Understanding has had the biggest positive impact, whilst a further 22% thought Price and Value had the most positive impact to customer outcomes. Firms should think about how they promote these positive impacts for mutual benefit, for example helping customers to engage in financial markets and establishing trust and loyalty with the industry.

Firms provided some interesting commentary as to how they feel customers will experience the biggest benefits of the Duty, for example:

- Clear and concise information that customers can understand coupled with tailored and customer focused support will be a huge benefit for customers as well as **improving trust within the industry**.
- The focus on **individual outcomes allows more flexibility**, which is better for clients.
- Customer understanding and support are essential areas of focus for an industry that could have **historically been criticised for providing far too much overcomplicated information** to customers.
- More communication between manufacturers and distributors will **help to ensure that products sold to retail clients are suitable and appropriate**.
- The special focus and consideration of **vulnerable customers**.



We also asked firms if they believed the introduction of the Consumer Duty has created any unintended consequences to their firm or the sector. Some firms commented on the cost and level of effort required to implement compared to benefits realised by customers, whilst others tended to focus on the **consequential impacts of negative value assessment and the sharing of product information**. Firms commented:

- **Sharing Information:** The plethora of alternative information sharing solutions from third parties, and no one standardised approach has increased resource requirements to handle multiple reporting requirements.
- **Price and Value:** The continued pressure on 'value' means under performing funds will no longer be distributed or result in more withdrawals in funds. As a result, this could result in more fund gating/suspensions, a further reduction in active management and reduce innovation. Others noted that smaller

firms will find it harder to compete without scale.

- Moreover, some **firms raised the risk that firms are unlikely to share reports that says their product is not providing fair value**, noting a conflict of interest. This is due to distributors ability to collate and review information from manufacturers, and capacity to understand the qualitative rationale or the methodology applied to assess value. For example, a robust value assessment is more likely to uncover areas of poor value than a lighter touch methodology, but the product would face greater risks of distributors removing from sale.
- **Complaints:** If the Financial Ombudsman Service (FOS) starts to rule based on Consumer Duty principles it could open a whole host of claims which could affect the sector.
- **Volume of Data:** The ability to identify if customers are receiving good outcomes may become 'lost' due to the volume of data required across all areas of the Duty.



The Consumer Duty outcomes

We asked firms to rank in order, the Consumer Duty outcomes that have presented the biggest challenge to achieve and implement.



Price and Value was ranked as the outcome presenting the biggest challenges to firms, as predicted in our pre implementation survey last summer. This is despite COLL equivalence for many firms who answered our survey. Survey respondents who were distributors in the wealth management space have commonly highlighted difficulties in applying the requirements and obtaining data from third party manufacturers. Others reported challenges applying value assessments to pricing models where there is the ability to discount and others where there is **reliance on offshore providers**.



Products and Services was ranked second, which interestingly scored the least likely to create challenges in our pre implementation survey, with many firms highlighting lack of customer information to demonstrate distribution to the target market as a key challenge. Many firms reported to have spent significant time conducting product reviews, and uplifting existing PROD frameworks to account for wider Consumer Duty requirements.



Customer understanding was ranked third. Many sector firms noted challenges with pre-prescribed regulatory disclosures not being as retail friendly as they could be. A number of methods were adopted to undertake testing of consumer facing materials and whilst this isn't generally viewed as complex, it was noted as resource intensive. Smaller firms noted challenges in this regard.



Customer Support was ranked fourth. Some commented that it is inherent in existing processes, particularly where there was direct customer relationships, whilst others noted fundamental system changes were (and still are) being adopted. Others commented that there is no limit to what you can do for customer support, but noted cost to implement and varying numbers of customers impacted by changes.

Below we take a closer look at the challenges associated with each of the Consumer Duty Outcomes.

Outcomes 1 & 2: Products and Services, Price and Value

Our results show that **most firms adopted PRIN in respect to Products and Services requirements, rather than relying on existing PROD requirements.** This may be driven by existing PROD rules only applying as guidance to some survey respondents, or the perceived need to uplift PROD frameworks regardless of the equivalence exemption.

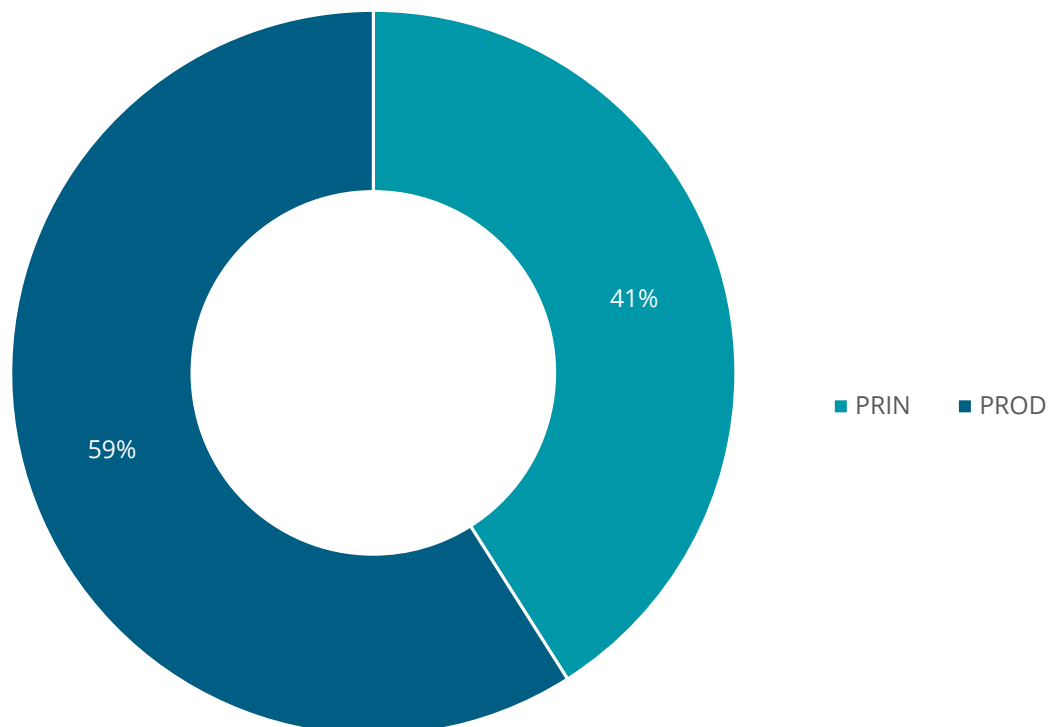
This is reflected in 66% of firms who opted for the PROD equivalent standards reporting to have made additional enhancements. This included:

- Enhancements to the Product Approvals processes and risk factors considered as part of product reviews;
- Increasing the scope of products and services reviews and

reviewing MI output;

- Embedding fair value assessments as part of the product governance framework where they weren't previously; and
- The inclusion of vulnerable customers and how they should be treated.

Percentage of firms who adopted Consumer Duty requirements under PRIN or apply equivalent standards under the FCA's PROD source book



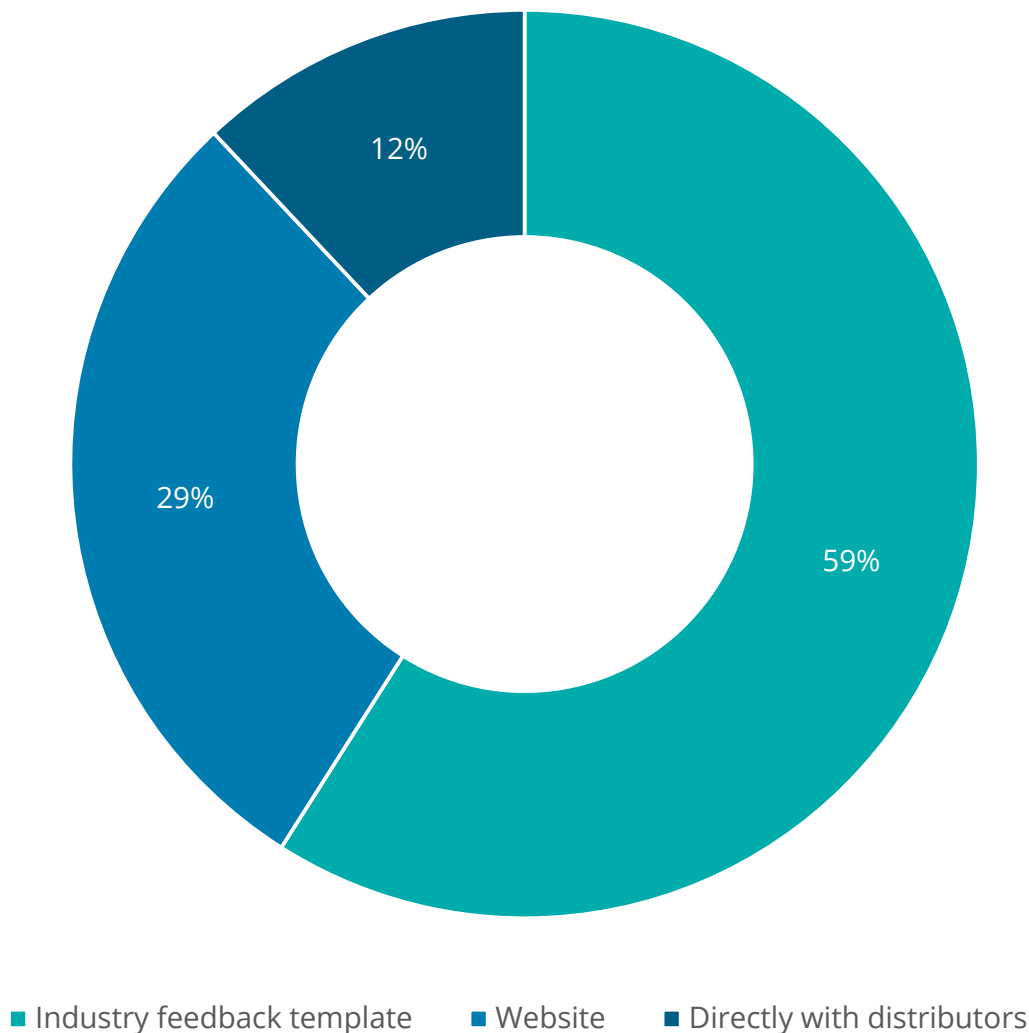
Firms reported a range of actions that have been taken off the back of fair value assessments. Whilst around a third said there was no change (likely to be those currently applying COLL value assessments), 18% of firms noted a reduction or change in fee model, 27% revisited service levels, and others reported closing poor value strategies, re-aligning fees to specific services and reviewing discounting models. For products/services not subject to COLL value rules, firms noted that building out the methodology and associated data capabilities required significant effort and time.

Our survey shows a **lack of consistency in how manufacturers share product and fair value information with distributors.** This is likely to make life more difficult for distributors who will

be required to collate and analyse data in multiple formats and from multiple channels. This could be one reason why **42% of manufacturers reported to have received questions and queries from distributors on product reviews and value assessments.** These questions tended to focus on the following themes:

- How/if a fair value assessment has been undertaken;
- Where funds deemed not to be providing fair value, what remedial actions are planned and what the associated timeline is;
- Information on what changes the firm is making in response to Consumer Duty; and
- Requests to complete new Due Diligence Questionnaires (DDQs).

How Manufacturers share information with Distributors on product and value reviews

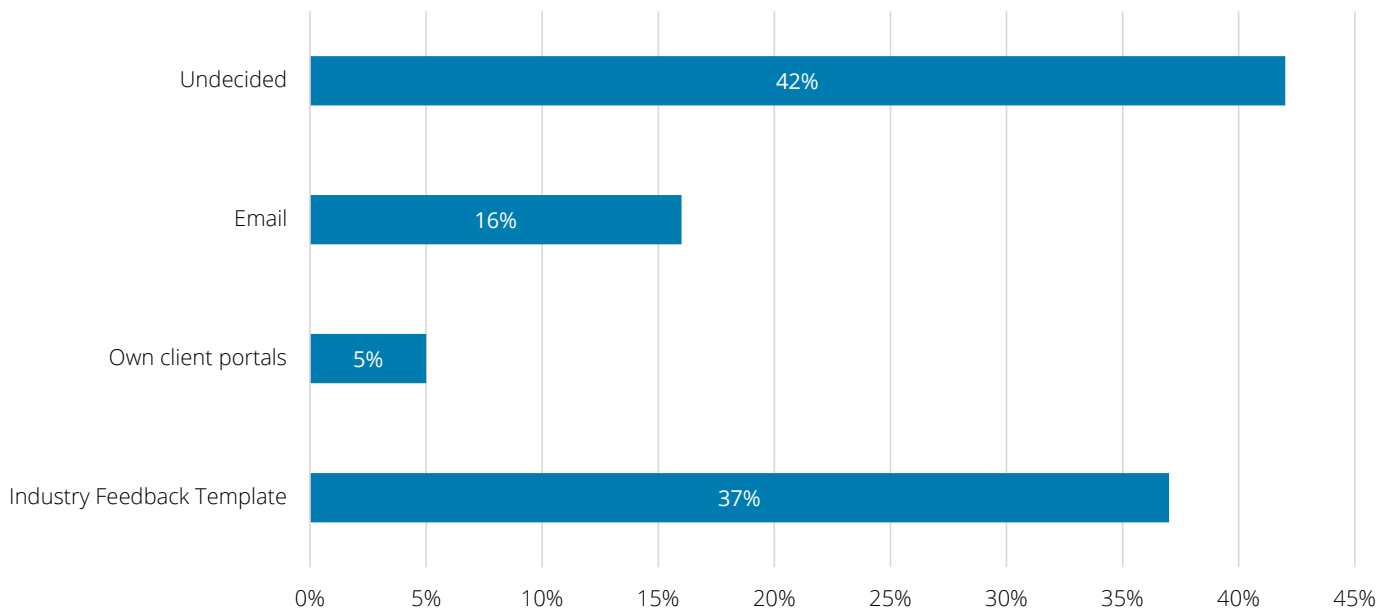


Some distributors reported that they still have not received all information from manufacturers.

The lack of consistency in reporting theme repeats itself when

it comes to distributors reporting information to manufactures. **Whilst the industry feedback template appears to be gaining some traction, 42% of distributors are still undecided how they will report information to manufacturers.**

How Distributors intend to report information to Manufactures



Manufacturers with multiple distributors are likely to face challenges collating data in a manageable format, and unless firms are able to leverage surveillance type technology to analyse distribution trends and outliers, distributor oversight is likely to be a resource intensive task.

This may, in part, be alleviated as the industry feedback template evolves and more firms adopt it. However, there is live debate within the sector what sort of information should be contained, in particular, to help manufacturers consider vulnerable customers. Our survey asked the question to manufacturers, and showed that whilst there was no real consensus on the type of information perceived as being the most useful for helping manufacturers to consider vulnerable customers, there were a number of helpful suggestions, including:

- Information on underlying client’s financial resilience and capability;
- The processes and policies adopted by distributors to manage vulnerable customers;
- Complaint information where vulnerability is identified;
- Frequency of calls to Call Centre by vulnerable customers and root cause analysis;
- Distribution channel for vulnerable customer – in particular whether they have received the appropriate financial advice; and
- Vulnerable customer understanding of costs and charges, risks, and data presented on past and predicted performance.



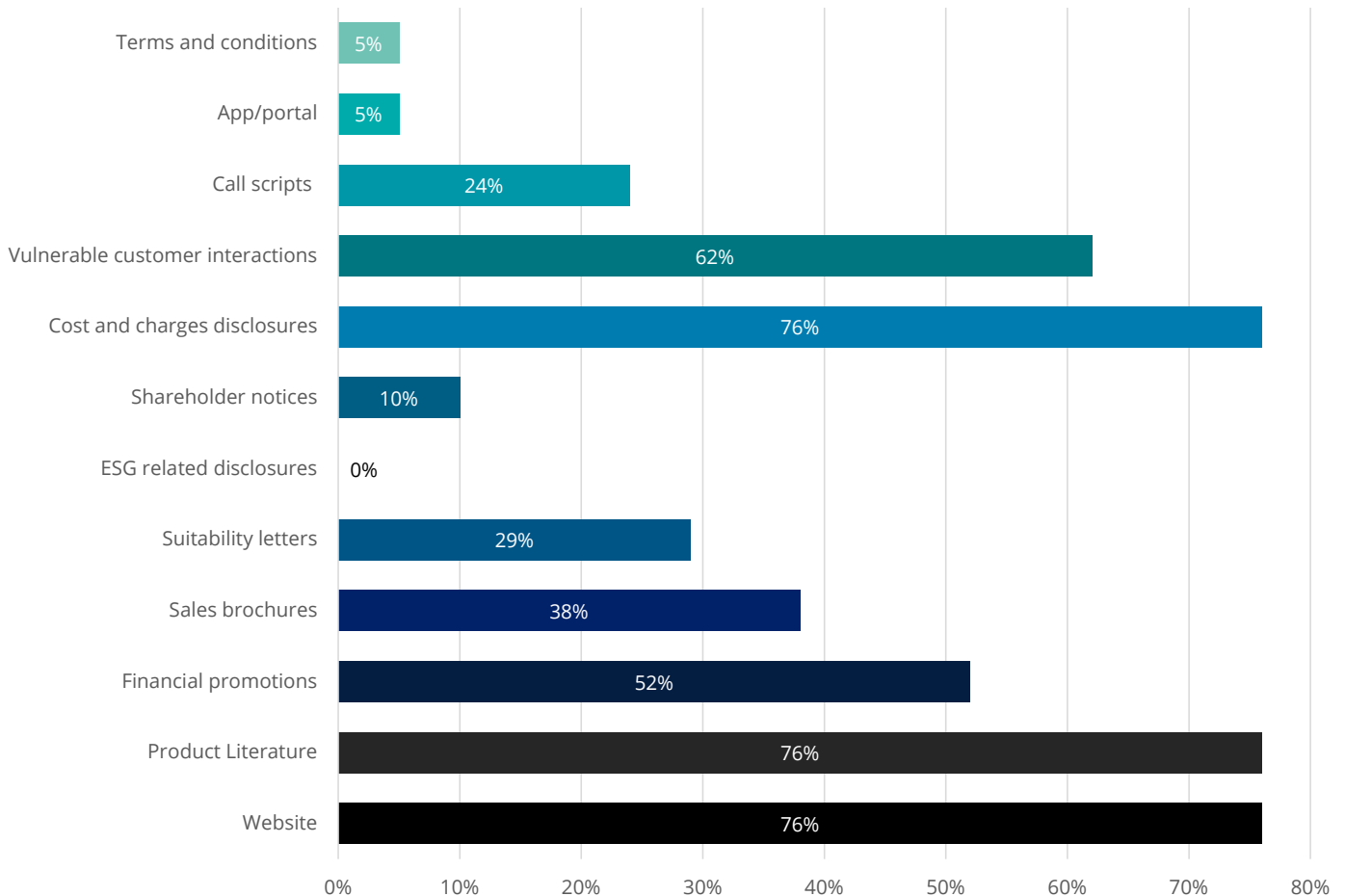
Outcome 3: Customer understanding

As mentioned earlier, the industry has viewed Customer Understanding as the outcome with the potential to make the most impact to driving good customer outcomes. Firms have acknowledged logistical challenges with testing customer understanding and **our survey results show massive variation in the volume of communications tested by firms pre-July 2023.**

A number of firms reported minimal or limited testing, with some doing internal testing only, whilst others who reported to have tested vast quantities close to 100% of all client communications. There appears to be a similar story going forward.

Many firms stated they will continue to test 100% of communications, whilst others will continue with limited testing and around 18% stating the volume of ongoing testing is still to be determined.

The types of communications that firms have focused customer understanding testing on



Whilst acknowledging the complexities of trying to test customer understanding, particularly for smaller firms or those firms without direct customer interaction channels, we would highlight approaches undertaken by many firms in our survey who have **focussed testing to date on a risk-based approach, highlighting communications which customers may place more reliance on to inform decision making than others**. The graphic above shows in particular this includes communications tailored for vulnerable customers, and financial

promotions. Others commented that fund literature, website content, pitch books, and supporting education materials were seen priority within their firms.

Interestingly no firms focussed testing on ESG related disclosures, perhaps with one eye on the Sustainability Disclosures Regime, which is due to be published later this year. Future testing in this area would seem like an obvious area of focus, to help mitigate against the risk of greenwashing.



Outcome 4: Customer understanding

The level of uplift in customer support frameworks appears to be mixed across the sector based on feedback received as part of this survey. **Some respondents have reported minimal amends to existing frameworks whereas others report fundamental changes.** The volume of possible journeys and combinations thereof during the life of a customer's relationship with the firm lead to some struggling to determine "where to draw the line" with customer support. Whilst the level of maturity of existing frameworks will be a key driver behind the survey responses received, we envisage that the FCA would expect firms to have considered all relevant or higher risk customer journeys to identify friction points that might prevent customers from receiving good outcomes, and firms should be able to evidence how this has been considered.

Our survey showed a number of problematic friction points, where firms have spent time remediating as part of implementation. These included:

- Finding a balance between a smooth customer journey while allowing for enough positive friction to ensure customer understanding;
- The clarity of disclosures and/or time taken to explain disclosures for complex product types;
- The level of clarity and differentiation where products, such as Self Invested Pension Plans, have multiple options for the client;
- Efficiency of client on-boarding, for example completing appropriate KYC, AML, and Suitability; and
- Considering vulnerability characteristics in an execution only environment.

It was also recognised that legacy IT systems, which may lead to inefficient customer support, are not easy fixes or quick wins. Where longer lead times are required to remediate certain issues, firms should ensure tactical fixes are in place to ensure there is no detriment to customers in the interim.

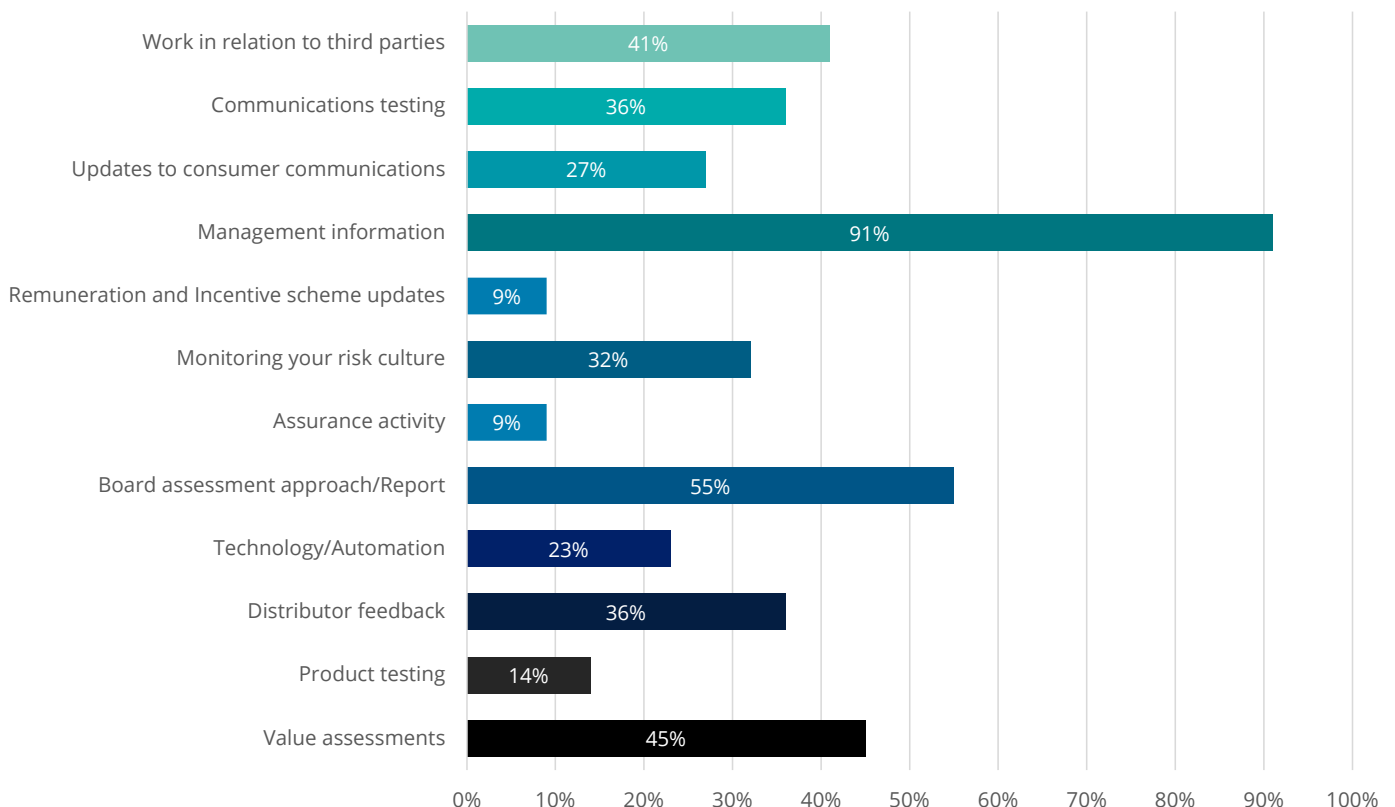


Day 2

All firms recognised that there was more to do post implementation, ranging from embedding, completing lower priority tasks, or seeking efficiencies through smarter processes or adopting automation. Overwhelmingly however, **production of MI and producing the Principle 12 report were the 'Day 2' actions representing the most effort to sector firms.** Firms should bear in mind the FCA's call out in the Dear CEO letter to platforms, which stated they found Articulation of firms' Consumer Duty data strategy was in most places too high-level and not advanced enough.

Similarly, the FCA also called out firms' focus on the **preparedness of third parties**, which caused concern due to the integral nature to some firms' business models. This appears to have been recognised within our survey, with 41% of firms stating this remains a Day 2 effort requiring effort.

Day 2 actions representing the most effort for firms



Embedding a Consumer Duty culture

Driving Cultural change and embedding a Consumer Duty culture was widely recognised as needing continued effort into 'Day 2'. Firms are clearly making substantial efforts to embed a consumer duty culture, which a number of good practices noted. These included:

- Adopting 'Consumer Duty Advocates' within 1st line;
- Providing additional senior management communications on why management have made certain decisions or changes as part of the implementation programme;
- Conducted firm wide training as well as local business unit specific training;
- Embedded consumer duty principles into policy
- Communicated what Consumer Duty means to each individual and how they can personally demonstrate it;
- Regular, short, sharp communications using everyday scenarios; and
- Revisiting incentive schemes.

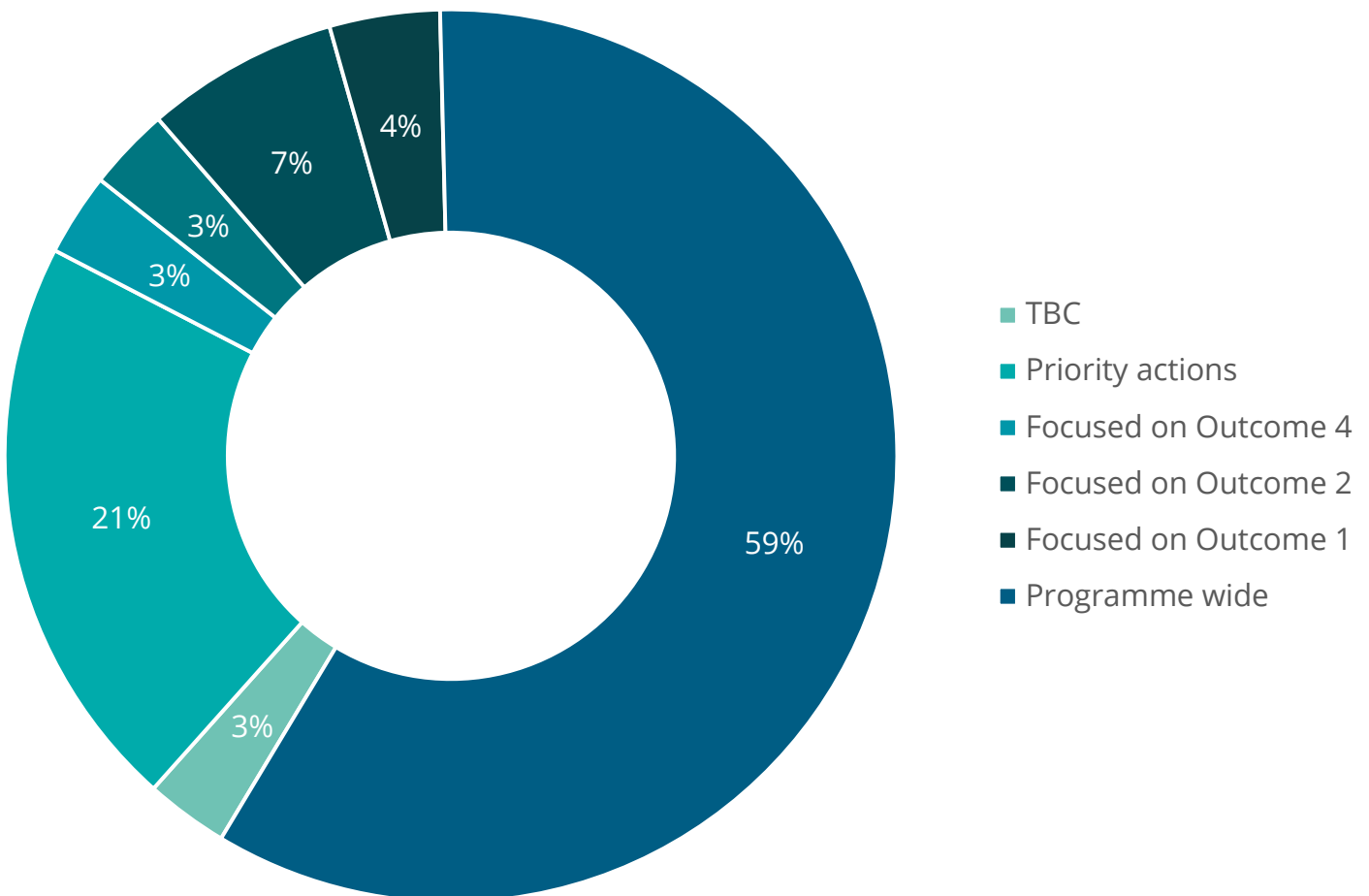
There was no real consensus of how frequently firms plan on providing communications to the wider business in order to continue Consumer Duty messaging, with many still to determine this, some annually, some as regular as monthly.



Assurance

All firms had received some form of assurance on their readiness to comply with the Duty from its go-live date of 31 July 2023. Most commonly, assurance was sought from Internal Risk and Compliance departments; followed by Internal Audit and external parties. 36% of firms had additional assurance activities planned post July '23.

Focus areas for assurance activities (performed and planned)



What's next?

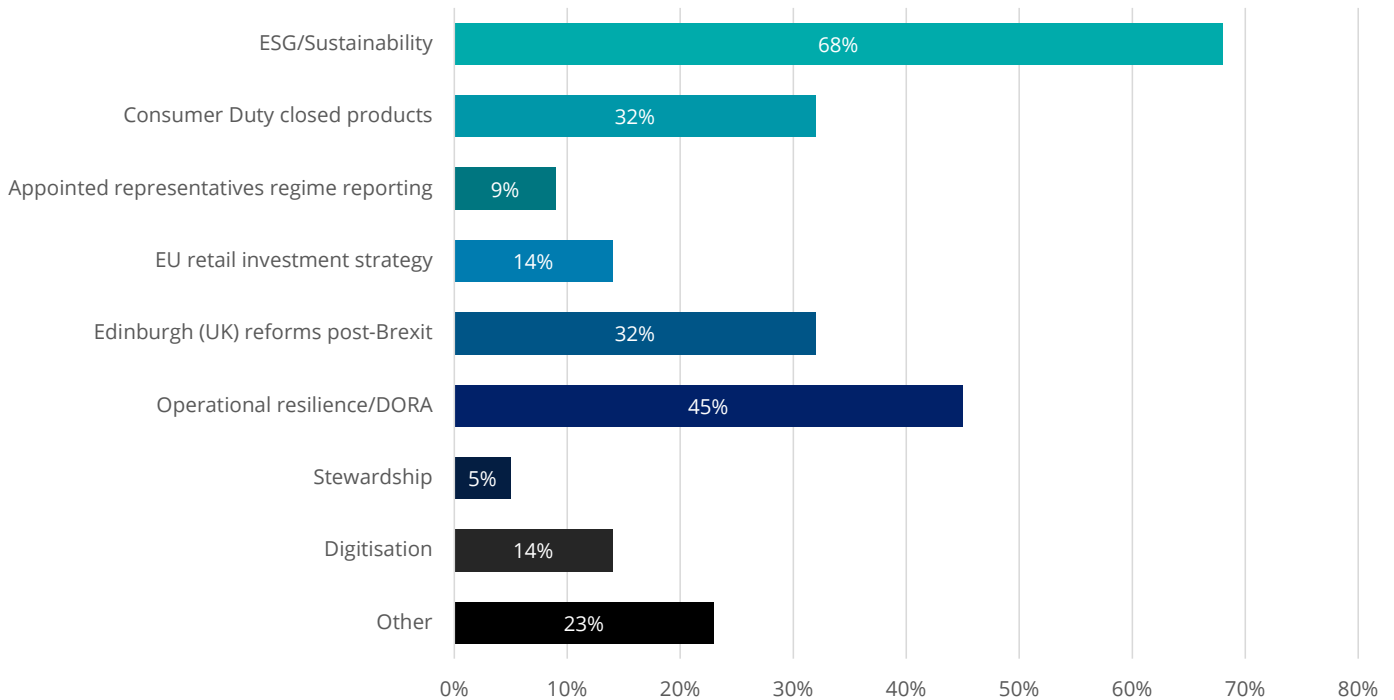
As much as firms continue to focus on Consumer Duty, there is recognition of wider strategic priorities. Survey responses show a plethora of change on the horizon, with ESG and Sustainability being the most common priority for firms. This is partly driven by the expected publication of final rules under the FCA's Sustainability Disclosures Requirement (SDR) in Q4 2023.

The SDR constitutes of various proposals which, across them, allow firms to use "sustainable investment labels" if they comply with certain criteria, require disclosure of sustainability related information at firm and product level, restrict the use of ESG terminology in fund names and require sustainability related communications to be "clear, fair and not misleading". The SDR will pose several challenges for firms that intend to market their funds as sustainable including defining sustainable objectives clearly, determining appropriate KPIs, proving good stewardship and conveying technical sustainability information in a clear way. Please see our blogs on the SDR consultation and the associated

anti-greenwashing rule [here](#) and [here](#).

DORA (Digital Operational Resilience Act) also featured as a high priority for firms. This is unsurprising as the DORA entered into force in January 2023 and kicked off a two-year implementation period which will end on 17 January 2025. Firms will have their work cut out for them in terms of mapping their critical functions, re-organising their ICT risk management and third-party risk management and setting clear governance and top management accountability amongst other tasks. See our blog on this [here](#).

Sector firms top strategic priorities for this year



Conclusion: Riding the wave of change

As firms breathe a sigh of relief for “getting over the line” on July 31st, it may only be fleeting. Clearly, there is still a lot to do to embed the Duty and in particular to identify and refine data and outcomes monitoring capability. **The effort spent implementing the Duty should recognise many potential benefits for firms and customers alike, and it is important Boards recognise this in the context of reviewing Principle 12 reports.**

There are many overlaps with other change priorities, which will likely place a demand on the same key individuals within the firm. It is likely there is also an element of regulatory change fatigue, cost pressures, and other competing priorities. **Firms should ensure corporate knowledge gained is not lost as programmes wind down as this will help accelerate future change** given the overlap with other projects on the change agenda.

Firms will no doubt have many lessons learned from implementing Consumer Duty, and as a general good practice tip it is useful to have these documented and shared across relevant teams within the organisation to ensure they are considered for future change projects, of which they would appear to be many looking at what firms reported as their next strategic priorities.

We expect market practice to evolve over the coming months and years, particularly in relation to common industry challenges like the sharing of product information and price and value. The perceived conflict that robust value methodologies have detrimental or unfair impacts to distribution compared to those who adopt a lighter touch approach/methodology and report fair

value is one specific area where there is more work to do.

Finally, we would like to thank the firms for taking the time to complete our survey. For more detailed industry insights or focused support on any of the topics mentioned in this blog, speak our team:



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