PERSONAL DEVELOPMENT

Customer experience is king

The Financial Conduct Authority's new Consumer Duty means FIs are now obliged to review their product offerings to ensure they meet updated regulations. Here, Bob Souster examines the other operational and digital challenges they must consider to remain compliant.

The scenario

The directors of Barlow Bank plc have been discussing the potential impact of the Consumer Duty requirements, which have been published by the Financial Conduct Authority (FCA).

The directors agreed that good progress had been made in shifting the culture at the bank towards a more customer-orientated approach. Although some criticisms had been made of the bank's policies and practices over the past five years, most of the issues had been dealt with satisfactorily. This was achieved by investing more in the training of customer-facing staff and by targeting specific outcomes linked to the six Fair Treatment of Customers (FTC) rules.

Two issues were of ongoing concern to the board.

First, since the early days of the COVID pandemic, customers have been moving away from traditional channels to market in favour of digital banking. This trend has been accelerating. Barlow Bank is a traditional bank with conventional products and services and a relatively high proportion of elderly customers, but to the surprise of the directors, the shift to digital banking was continuing to take place across all age groups.

This transition caused numerous operational problems. Customers complained that the system was difficult to use and information on specific products hard to locate. They were fearful of being scammed and felt that the bank was quick to issue warnings about criminals but unhelpful in setting down practical steps that should be taken when using the web-based system.

The bank responded to these issues by investing in a much more sophisticated digital system. Once launched, the system provided comprehensive information on all products. This includes links to external sources such as HMRC guidance on the tax treatment of savings and investments, and the external advisory bodies that could provide information on state benefits and how to deal with financial difficulties. There are also repayment calculation tools through which customers could find out how much lending products would cost them each month. The bank's internal training programme stressed the importance of good communications with customers and the need to ensure that instances of contact were "clear, fair and not misleading". It also homed in on FTC's Outcome 3, which states: "Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale."

Second, the directors felt the need to address issues relating to the bank's packaged current account, as this was the biggest source of customer complaints. The account was launched only three years ago. Subject to a monthly fee, it offers a wide range of benefits including travel insurance, protection against theft of, or damage to, the customer's mobile telephone, car breakdown cover and £5,000 of term assurance for customers under 70 years of age. The account also offers access to discounts with several retail and hospitality partners. Although the monthly fee is modest, customers complained that many of the add-on features were superfluous to their needs and that some of the benefits with partners were subject to so many conditions and exclusions that they were worthless.

The directors agreed that the packaged account did not suit every customer but was beneficial to most, reflecting FTC's Outcome 5: "Consumers are provided with products that perform as firms lead them to expect, and the associated service is of an acceptable standard and as they have been led to expect." They accepted that perhaps more had to be done to either fine-tune the features of the account or be more selective when recommending it.

The board now has to consider how it should respond to the new challenges posed by meeting new standards demanded in Consumer Duty.

What are the implications of Consumer Duty for financial services providers such as Barlow Bank? The bank's responses to problems arising from digital banking and its packaged bank account are consistent with FTC but will they have to do more, or adopt a different approach in the future?

PERSONAL DEVELOPMENT

The analysis

The development, launch and implementation of Consumer Duty represents a renewed effort by the FCA to ensure that providers of financial services place customers at the heart of everything they do. The process of promoting customers' interests began long ago with the introduction of FTC (then called Treating Customers Fairly) more than 20 years ago, followed by detailed standards contained in FCA sourcebooks.

After the 2008 global financial crisis there was a renewed and concerted effort by the FCA to address conduct risk and other market imperfections. The FCA Risk Outlook 2014 broke down the drivers of customer detriment using a conduct risk wheel model. In 2002, the FCA has now raised the bar in respect of standards of care by creating a new Consumer Principle, underpinned by three cross-cutting rules and four key outcomes.

The Consumer Principle states: Firms must act to deliver good outcomes to retail customers.

The three cross-cutting rules are:

- Act in good faith towards retail customers
- Avoid foreseeable harm to retail customers
- Enable and support retail customers to pursue their financial objectives.

The four key outcomes are:

- Products and services
- Price and value
- Consumer understanding
- Consumer support.

It is not the purpose of this article to describe Consumer Duty in detail. Instead, we focus on the implications of the new standards in the context of a specific (fictitious) bank dealing with its own challenges.

The directors of Barlow Bank were right to use FTC outcomes as a platform for improving the quality of service. These outcomes have provided a useful framework for many years, but the FCA is now taking a more holistic approach to the interface between provider and consumer.

While each of the six outcomes set down in the FTC document relate to one or more stages in the customer journey, such as pre-contract, contract and post-contract, Customer Duty requires firms to consider four dimensions, not dissimilar to strategic management models such as the balanced scorecard (Kaplan and Norton). The analogy extends further, as truly committed firms should be able to apply qualitative analysis as well as metrics to measure performance across the four dimensions in pursuit of good outcomes for customers. The issues discussed by the board of Barlow Bank do not pose an existential threat to the bank and many organisations have encountered either (or both) as obstacles on their strategic paths.

"Digital transformation is never easy, as it involves multiple stakeholders, long implementation periods and significant capital expenditure."

Digital transformation is never easy, as it involves multiple stakeholders, long implementation periods and significant capital expenditure. The response of the bank to the problems encountered by customers was to increase the functionality of the system and to increase the volume of information that could be accessed by customers.

The questions posed by Customer Duty relate to consumer understanding and consumer support. Both facets reflect the high degree of information asymmetry between providers and consumers in financial services. Is Barlow Bank perhaps communicating too much information, focusing on quantity rather than quality? Is it appropriate to the customer base and different segments of it?

The scenario states that Barlow Bank has an older-than-average customer base, but how will this change going forward? If the bank's customers are older and becoming even more so, could this mean that there will be a higher proportion of vulnerable customers due to age-related causes in the future? The complaints arising from the packaged account are also not unusual, as they became the most common source of complaint submitted to the Financial Ombudsman Service once payment protection insurance complaints began to subside in 2017-2018.

Of necessity, banks cannot design products precisely to fit every need of every customer, a reality confirmed in the FCA's reports on Consumer Duty. Do the bank's customer advisers ask the right questions and are customers given sufficient information at the point of sale? Can opt-outs be included for some features of the product, without making it too complicated or expensive to administer? Are employees offered incentives to sell based on volumes, thereby driving conflicts of interest? Ultimately, do all the perceived benefits offer good value for the monthly fee?

It is impossible to envisage a future in which all complaints disappear. The directors of Barlow Bank must accept that the FCA will adopt a more proactive and forward-looking approach to customer fulfilment, for which Consumer Duty is the most recent, but possibly not the last, step.

The FCA guidance is freely available (fca.org.uk/publication/finalised-guidance), and a concise summary is provided in *Chartered Banker*, autumn 2022 issue, 'Line of duty', pp 24-25. CB

Bob Souster is a Module Director, Professional Ethics, Chartered Banker MBA, at Bangor University. Share your views on Bob's verdict about this ethical dilemma by joining the Chartered Banker LinkedIn discussion forum.