



Inside FCA Podcast: Interview with Ed Smith on the Consumer Duty April milestone

OI: Hello, welcome to the Inside FCA Podcast. I'm Ozge Ibrahim. And in this episode, I'll be speaking to the FCA's Head of Competition Policy, Ed Smith, about the Consumer Duty April implementation milestone and specifically how firms should work together and share information in the distribution chain. I'll be asking him to explain the detail behind exactly what the FCA expects to see by the end of April this year and beyond.

Hello and welcome Ed.

ES: Hello.

OI: In the FCA's review of firms' implementation plans, one of the main areas firms are asked to focus on is working on and sharing information with other firms in the distribution chain. Can you give an overview of what you want to see?

ES: Well, first of all, and this may not be apparent to too many customers, but there's often a lot of firms involved in the distribution, manufacture and distribution of a financial services products that a customer gets. So even though they see the end product, there can be a number of different firms involved in getting that end product to the consumer. So, there's a manufacturer that will be involved in the design and production of that product. There's often a separate distributor that sells that product, and there may also be advisers or people that inform consumers at the point of sale about the options open to them. And often actually firms will outsource different parts of their business or of the product or the service to other firms entirely. So quite often when consumers interact with, say, a call centre, that may well be an outsourced service that a separate firm provides.

So, there's lots of different parties that can be involved in making sure that consumers get and can use their products and services, and we call that a distribution chain. And our work is showing that actually it's vitally important that all the firms along that chain are pulling in the same direction in order to produce good outcomes for consumers. We've seen that in a number of different markets that we worked in where, you know, it's vitally important that distributors understand the product, understand the product that they're selling, are targeting that product at the right consumer. So, that's why we've actually applied the Consumer Duty right across the distribution chain, so that all firms that have a material influence and that's the key, key expression, over consumer outcomes are covered by the Duty.

And basically, you know, what we want to see here is that firms are working together with that shared goal of delivering good consumer outcomes. So, thinking kind of end-to-end across the distribution chain, understanding who does what, understanding what relevant information is to ensure the chain works effectively and delivers for the end customer.

So, whether a firm is a manufacturer or a distributor or both, and it's quite possible a firm could do both of those functions under the rules, that depends really on ultimately there's a lot of guidance that we've put out as to what the functions are between a manufacturer and a distributor. In a nutshell, a manufacturer generally is the firm that creates designs and then ongoing produces the product. Whereas the distributor is usually the firm that sells the product or markets the product to the end consumer. And so, if a firm is considered a distributor, it will generally have a role in distributing and selling and marketing the product.

OI: In the FCA's policy statement, there's a milestone of the 30th of April for manufacturers to identify if any changes are needed to products or services and to provide information to distributors. Why was this milestone put in place?

ES: Well, again, this goes to the point about firms working together across the distribution chain to ensure there's good outcomes for consumers. When the Duty comes into force in July, all parts of that distribution chain need to be in compliance. But there are things that manufacturers will need to do first as part of ensuring that compliance, for example, they need to review the products and services that they create to ensure that they meet the needs of an identified target market and ensure that the benefits of those products and services are reasonable relative to their costs so that they provide fair value to customers. So, manufacturers need to undertake that assessment first and then they need to share that relevant information to the distributors in their supply chain. So that they can make sure they are aligned in understanding, for example, a target market - so who they should be marketing these products to - so that the right consumers get the right products.

So, ultimately, it's a process of sharing that information down the supply chain. And that's why manufacturers need to start earlier in April so that distributors can then fulfil their obligations under the Duty and make sure that they are targeting the right customers. And overall, the product throughout the supply chain is providing fair value to consumers. So that's why we've staggered it in that way in order to allow distributors a bit more time before July to assess the information they get from manufacturers and make sure that they're in compliance with it.

We also need to leave enough time for manufacturers to, if they need to, make changes to ensure compliance with the Duty for some of their products potentially or some of their marketing literature or, you know, to make sure that they're fair value. We need that time. So, after they've assessed the products, they need to make any changes before the July deadline, that leaves them a little bit of wiggle room to do that.

- OI:** And what should manufacturers be doing to ensure they meet the deadline and provide high quality assessments?
- ES:** Well, manufacturers, like everyone else, should pay close attention to the rules and guidance and what we are trying to achieve in the Duty. So, we have set out some comprehensive guidance, and I do really recommend that they read that. But in a nutshell, we want to see products and services that meet consumers needs and provide fair value. We want to see communications that consumers can understand, and we want to see consumers getting the support they need when they need it with their products. So, manufacturers should have this in the front of their mind when they're reviewing the products and services they are doing. And they should be looking for areas, any areas that they're falling short in relation to those goals, those outcomes, and make the changes that they need in order to ensure that those good outcomes are realised.
- OI:** Would you expect firms already subject to similar requirements like asset managers, general insurance and funeral plan providers to rerun their assessments?
- ES:** We don't expect firms that are already subject to, say, similar requirements, some similar requirements, for example, in General Insurance are in line with the Duty standard. And firms don't need to rerun the assessments that they do under those alternative provisions. But we do want firms to carefully study the guidance and make sure that any areas, when they assess their products, when they assess their literature, any areas that fall short of the standards within the Duty are rectified.
- OI:** And what are the expectations for manufacturers to share information by the end of April?

ES: So, we want manufacturers, as I say, to undertake the assessments and to share whatever information is relevant within those assessments to other firms in the distribution chain. What actual information they do share will depend on the different roles of the firms in the supply chain. So, the activities that they carry out and what the other firms that they work with reasonably need to know.

So, for example, some manufacturers may have no role at all in the provision of information or support to retail customers, in which case they don't need to supply information, for example, on consumer understanding or consumer support in those circumstances. But generally, we would expect manufacturers to be supplying information on the target market. So, the people that the product is designed for to their distributors. And we would also be expecting them to give information on the fair value assessment of their product. So, what have they done to assess the fair value to ensure that the benefits that consumers are getting are in line and proportionate to the costs that the consumers are paying? And those two elements should be consistent for manufacturers to supply to distributors in those circumstances.

OI: Does the sharing of information relate to all of the outcomes of the Consumer Duty?

ES: No, it doesn't relate to all of the outcomes. Again, it will depend on the circumstances at the firm. So, if a firm is not doing as I say anything in relation to consumer support or consumer understanding, it doesn't necessarily need to supply firms with information on that because frankly, it won't have information on that. So, it depends on the needs of the firm and what the firm does within the supply chain in terms of the actual information that needs to be supplied. It will need to be a case-by-case assessment with the firm. But as I say, most manufacturers would need to supply fair value information and also target market information down the supply chain, so that distributors can understand the target market and whether the product is providing fair value, including when distributors put their own fees and charges on top of them for the distribution.

OI: And what formats do you want this information in?

ES: Well, we haven't specified particular formats for this information, and really it's up to firms in a sense themselves to devise and think through what information they need to supply and the form that it needs to be supplied in. But we have seen a number of firms and trade associations use common templates for the provision of information between parties, and trade associations have actually played a really helpful role here. It's up to obviously the firms themselves to ensure that they remain focussed on the consumer outcomes and that the process that they use is flexible enough to allow all the relevant information to be shared. But it may be that firms find templates useful in those circumstances.

OI: And what should distributors be doing?

ES: Well, obviously distributors should be expecting to receive the information from manufacturers by the 30th of April milestone, but there's also plenty that they can be doing before that to be getting on with so they can start reviewing their own distribution service to make sure that it meets the requirements of the Duty. For example, we're making sure that their marketing material or their communications meet the consumer understanding outcome. And we do expect that all manufacturers to meet the April milestone. We expect there to be an open, constructive dialogue between manufacturers and distributors about the timing of that so that distributors are up to speed and can pace their own work in line with that.

If distributors are concerned with a delay in the provision of the relevant information from manufacturers, and they've raised this with the firm and not received a reasonable explanation of when the information will be provided, then they should contact us about it, either through their usual supervisory contact or by contacting our supervision hub.

OI: What happens if you think manufacturers requests are unreasonable?

ES: Well, you should, in the first instance, contact the manufacturer themselves. If you think that they are putting onerous burdens on you, or the requests are unreasonable or they're not right. If you think the information's not right, again, you should contact the manufacturer or the other part of the supply chain and inform them why you think that's wrong or erroneous and try to sort it out in dialogue with the firm. It's not always for us to sort out those complications in the supply chain. But again, if you think or if a firm thinks ultimately another firm is really in breach of the Duty or not performing its responsibilities under the Duty, then they should contact us ultimately. But that's after they should try to sort that out in the supply chain through their regular contacts.

OI: What should distributors do if they have concerns about the quality of or disagree with assessments from manufacturers? Is there an obligation to act or do you accept the manufacturers assessments and continue to distribute?

ES: Well, to some extent you can only deal with the information that's in front of you. And you know, it's not for distributors or manufacturers to necessarily challenge the work that other parts of the supply chain have done. So, firms need to concentrate on their own assessments in the first place. Having said that, obviously, if there's something that they know to be wrong in the manufacture assessment or distribution assessments, then they should challenge that.

First of all, again, with the firm itself and if the firm doesn't respond to that or they're finding it difficult to get an answer or they think the firm itself might be in breach of the Duty, then ultimately, they should contact us. But again, it's not for firms themselves to do due diligence on the information that they receive from other firms, only if they know that something is seriously wrong, they should bring it up.

OI: What should distributors do if their manufacturers don't meet the 30th of April 2023 deadline?

ES: Well, we want all, obviously we want all manufacturers to meet the deadline. We expect there to be good communication through the supply chain, through the distribution chain, so that firms can notify anyone else if there's going to be slight delays. Obviously, it's going to be long delays and that's going to affect the ability of the distributor to fulfil its own responsibilities under the Duty. Then I think they should raise, well, first of all, raise it with the firm, but also raise it with us if you feel you're not getting the information on a timely basis.

OI: And what are the FCA's expectations for information sharing after the Consumer Duty comes into force?

ES: So, obviously firms need to, and we've said this in the guidance, need to review their products regularly. We haven't been more specific than that in saying when and how often, that's in a sense up to the firms. But obviously, if things significantly change with a product or new marketing material, again those could be the occasions on which they review or re-review the products. And in that circumstance, then that information or that review then needs to again be supplied down the distribution chain to distributors so distributors can understand any changes to the product, any changes to the target market, and evolve their own literature or support mechanisms or marketing in line with those changes. So, it should be a regular process and it should be a regular flow of information and dialogue through the supply chain.

OI: Finally, Ed, what are the main messages you want our listeners to take away from this podcast?

ES: I think there are two main messages. One is the end of April deadline for manufacturers to pass information on to distributors. We want manufacturers to really comply with that because that's important for meeting the July deadline.

And the second bit is overall, good cooperation between firms in the distribution chain is really important for making a success of the Duty because, you know, making sure that those good consumer outcomes and assessments are passed down to distributors so that the overall end product to consumers overall is fair value, is a product that's well targeted meets the needs of the consumer. That's really important. So, getting that cooperation in the distribution chain is really vital to those end consumer outcomes.

OI: Thanks for your time today, Ed. You can find out more on the Consumer Duty by visiting the FCA website. I'm Ozge Ibrahim. Join us again soon on the Inside FCA Podcast.

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