

Consumer Duty Board Reporting: benchmarking your approach

Assess your readiness, identify areas for improvement, and ensure your firm **builds a successful Consumer Duty reporting strategy for the future.**



In this abridged discussion piece – adapted from the transcript of our recent Consumer Duty webinar with Square 4* – Adrian Harvey, CEO at Elephants Don't Forget, discusses how firms can improve their approach to Consumer Duty board reporting with Matthew Drage, Managing Director at Square 4, and Darren Fisher, Advisory Director at Square 4.

*Elephants Don't Forget, *'Consumer Duty Annual Board Report: are you ready?'*, Thursday 11 April 2024. Webinar available to [watch here](#).

Disclaimer: this is an abridged transcript of the webinar. The views expressed are for discussion purposes only. The answers are not offered as advice nor as representing the opinion of the Financial Conduct Authority (FCA). They are an interpretation of expectations and will be subject to change in response to regulatory guidance and other factors.



Webinar Q&A Document

Consumer Duty Annual Board Report: are you ready?

Thursday 11 April 2024

Adrian Harvey, CEO of Elephants Don't Forget, was joined by Square 4's Managing Director, Matthew Drage, and Advisory Director, Darren Fisher, to discuss how firms can improve their approach to Consumer Duty board reporting. This is an accompanying Q&A document from the session. Questions were submitted by attendees. The responses have been compiled by Square 4. On behalf of all the panellists, we would like to extend our sincere thanks to all attendees for taking the time to join us for this webinar and for sending in their questions.

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"We are a newly regulated start-up FinTech with no customers yet. What do you recommend we send in?"

For the avoidance of doubt, you are not required to "send in" the annual board report to the FCA, unless it is specifically requested. However, the report still needs to be drafted and approved by your board and be available on request. For a firm such as yours, the report should consider and report on the progress made with your implementation plan, and how the firm embedded Consumer Duty in the setting up of the business.

For example:

- How was your target market identified and considered once the product offering had been agreed?
- What controls have been put in place to evidence the outcomes that customers are receiving from the time they are onboarded?
- What does governance look like throughout the business to demonstrate that achieving good customer outcomes is central to the corporate culture and reflected in your business model and strategy?

"I totally understand the reasoning behind not using a template, but how do the FCA objectively score the report? Or will they do this subjectively?"

It is likely that the FCA will request sample Consumer Duty reports across all types of financial services firms. We expect this will be a mix of product, firm sizes, distribution models etc. The FCA will not 'score' the report. The regulator's assessment will always be subjective due to no two businesses being the same, but there will be general themes. These are likely to include:

- Evidence of how Consumer Duty is embedded in the business model and strategy and reflected in the corporate culture.
- Evidence of executive engagement, oversight and challenge.
- Data and monitoring results to demonstrate the delivery of good customer outcomes with clearly articulated action plans to address issues.
- Narrative to bring MI to life.
- Evidence of the Consumer Duty Champion's role and impact.



“Do we have any insights on how the FCA will report on Consumer Duty up to its board and exec management team yet?”

We don't have any specific insight as to how the FCA will approach Consumer Duty reporting inside the organisation. However, based on other regulatory change projects, we can give a view. FCA supervisors report 'red flags' to management including suggested root cause and a roadmap to mitigate the issues, and how they, as the supervisor, would monitor progress. This information would also be shared with the FCA Consumer Duty project team, and their governance arrangements would then be shared with relevant committees and board.

“What is your view on the size of the report for a firm with a large number of customers but actually only a very small range of products?”

There is no guidance on the size of the report, given it depends on the size, scale and complexity of your firm. That said, we recommend all firms ensure they cover off the 10 best practice principles discussed in this webinar and that there is sufficient data and evidence to back up the statements made. Firms can only report on the outcomes that customers are receiving across their end-to-end customer journey. For example, firms offering multiple products and services will clearly have more work to do in terms of evidencing the embedding of Consumer Duty and the delivery of good customer outcomes next to a firm only offering a single product.

“What would you expect to see to demonstrate employee competence?”

Outside of the more formal T&C requirements, SYSC 5.1.1 applies. Employees should have the necessary qualifications for their roles, especially if they're involved in regulated activities, and it's not just about having a qualification; it's about understanding the job and doing it ethically.

Firms should be considering how to evidence:

- Competence (includes hands-on experience): employees should show they can apply their knowledge in real-world scenarios, not just in theory.
- Ongoing assessment: firms must regularly review their employees' competence, considering changes in the market, products, and regulations. This ensures that staff remain up-to-date and effective in their roles.
- Supervision: new or less experienced employees should be supervised appropriately until they've proven their competence. The level of supervision should reflect their experience and the complexity of their tasks.
- Record keeping: firms should maintain records of employees' qualifications, training, and assessments of competence. This documentation helps demonstrate compliance with FCA requirements.

In a nutshell, the FCA wants to see a blend of knowledge, skills, experience, and ethical behaviour that aligns with the firm's responsibilities and the regulatory framework. It's all about evidencing that the people working in the sector are well-equipped to handle their duties and contribute to a trustworthy financial system. A risk-based approach is also appropriate, taking into account the complexity of the tasks and potential for harm to customers.

“Please explain ‘developmental mindset’.”

The FCA have made it clear that they expect firms to adopt a developmental mindset – that firms' actions, assessments, testing and evidence need to be continuous and reinforce the words of Nisha Arora, FCA Director of Cross Cutting Policy and Strategy, that Consumer Duty is “not once and done”. It has been over a year now since boards scrutinised and signed off their firm's implementation plans. With that in mind, you need to go back and review your implementation plan, and check you've made the changes you set out to make. Then ask yourself whether these changes go far enough. Make sure you are focused on whether you are delivering the outcomes you set out to achieve for the consumers in your target market, especially for customers with characteristics of vulnerability. It's all about the ability to improve and evolve over time and to demonstrate this evolution and developmental mindset in your board report.



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As we reach the 31 July 2024 deadline, have you seen many instances of boards actually submitting and signing off on their reports quicker than the stipulated deadline?

Matthew Drage (MD): We're not really seeing that if I'm honest. I think what we're seeing is boards trying to really take it as far as they can up to the deadline. I think that sort of makes sense really. There's still a lot of work to do. Interesting, that our first poll question is validating some of my thinking here as well; certainly in terms of some of the progress we've seen from some of our clients. The 31 July 2024 is the deadline. Yes, you can go sooner, but most firms aren't doing that. What they are doing is timing it around their existing board reporting cycles and governance periods.

In our first poll, 43% of firms say they are still at the stage of designing the template and format of their report, including defining the required data and metrics. Does this surprise you at all?

Adrian Harvey (AH): No, it doesn't surprise me. Firms aren't going to be 'complete' in terms of Consumer Duty. There is an expectation and recognition from the regulator that this is a journey – and if you listen to the FCA, it's a never-ending journey.

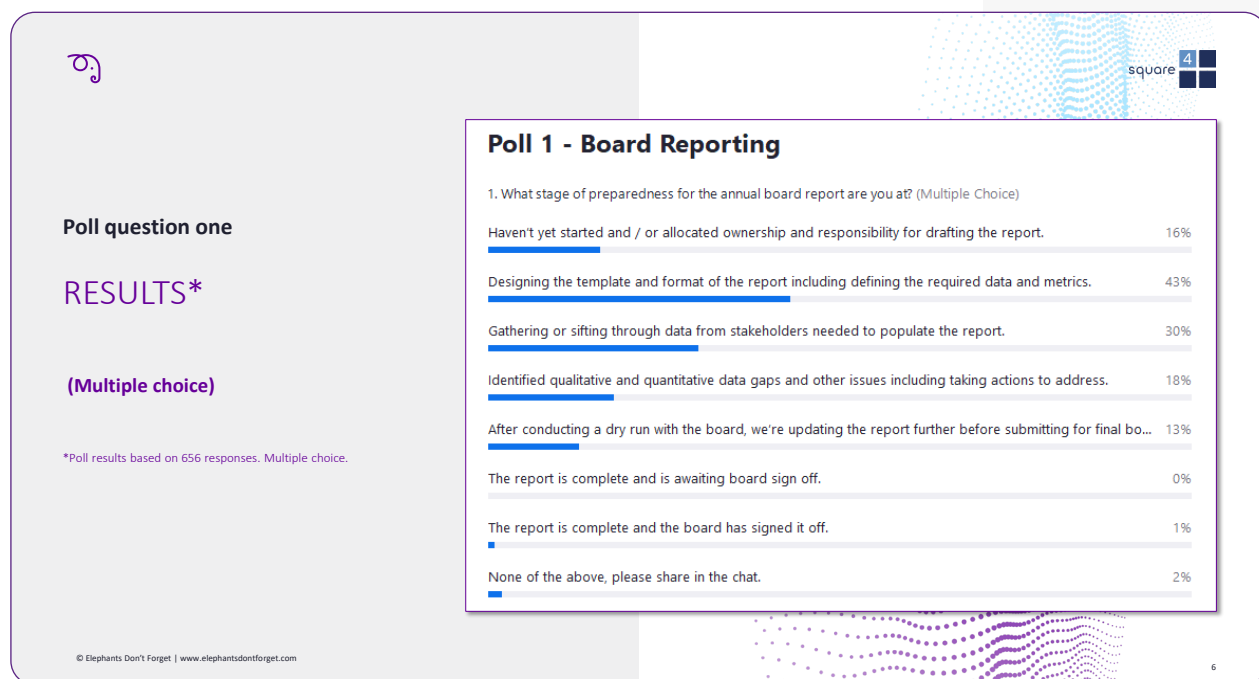
I would expect a lot of firms to be wrestling with questions like 'where are we getting the data from?' A lot of new customers are saying to us: "We want to deploy Clever Nelly before the 31 July deadline." So at least they can point to this as being an action that they've taken to plug a particular data gap that they have.

30% of firms say they are still gathering or sifting through data from stakeholders needed to populate their report. What do you make of that?

Darren Fisher (DF): I think these results are really encouraging in terms of the fact that only 16% of people say they haven't started it yet. So, the poll results indicate that firms are well on the journey of drafting it. I think that's encouraging. I think the 30% who state they are gathering or sifting through data, again, isn't a surprising score. Those two middle poll questions being the highest score poll question, again, not altogether surprising either. I think, based on the work we're doing with a number of firms now, one of the key challenges is sifting through the sheer volume of data, MI and metrics that they've gathered from across different parts of the business, deciding or understanding what to include, what not to include, and then how to aggregate that data upwards.



Source: Consumer Duty Annual Board Report: are you ready? Poll results based on 656 responses.



So, the results to those two poll questions around designing the template and sifting through the data, scoring the highest, are not altogether surprising.

It is positive that firms are conducting a dry run through, would you agree?

MD: Yeah, absolutely. 13% of respondents say that they have conducted a dry run and are updating the report. I think that is really positive. Only 1% have completed it and have it signed off. That's where we would expect it to be at this stage. You want to use that time period really to finalise. And I'd say this is encouraging for sure. There's some good progress evidenced here.

"Will your firm's board report be able to demonstrate compliance with Principle 12?" Is this a ridiculous question to ask people?

DF: No, I think it's a very pertinent one

actually. I think it's the 'exam question' that the board report needs to answer ultimately. Is your firm complying or demonstrating compliance with Principle 12? If it is, happy days. If it's not, what's the materiality of those gaps – and what are the actions firms are undertaking to address them? So, I think this question is absolutely critical. I think there's a second part to this as well. It is not just about being able to demonstrate compliance with Principle 12 – but do you have the MI, the data and the evidence to back up that statement? So, I think this is an absolutely critical question firms need to be asking themselves.

35% of firms say they are 'not sure' if their report will comply with Principle 12. Why do you think this is the case?

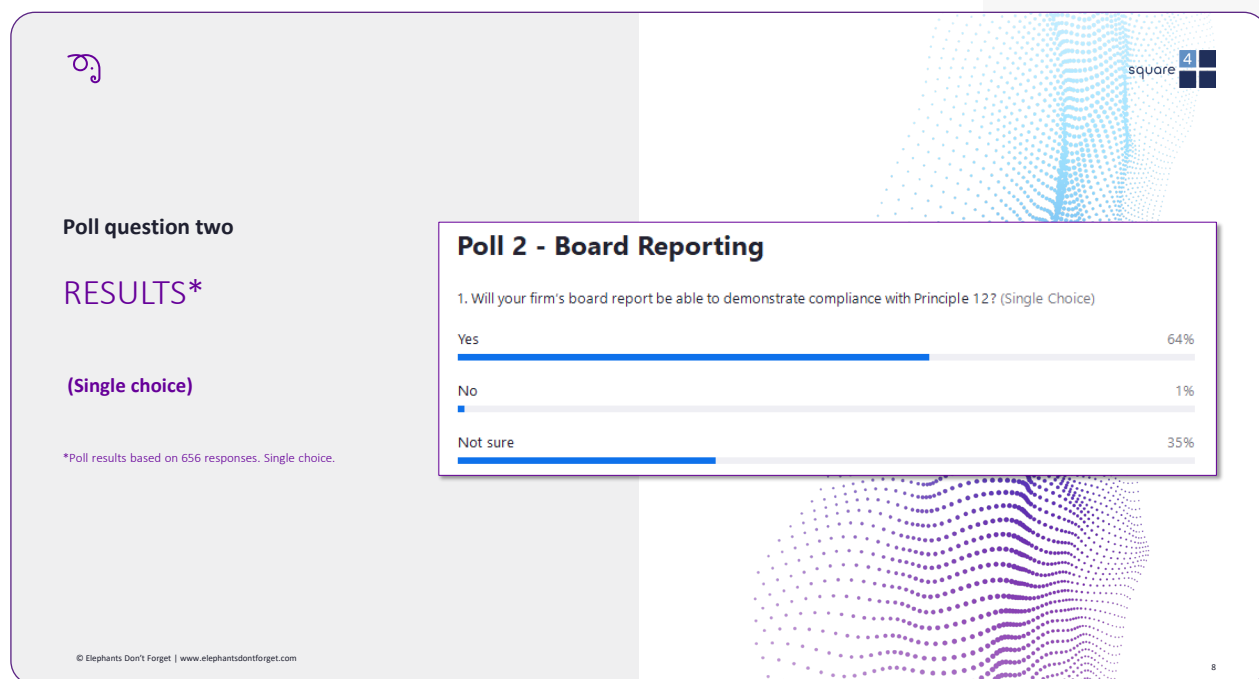
MD: We're in new territory here. So, with Principle 12, how can you actually prove that you are delivering good outcomes for

your retail customers? This is challenging. I think firms are probably feeling the struggle of coming into a more advanced regime; starting out with rules-based into principles-based, and now into an outcomes-based regime. Have all firms implemented outcomes testing across the organisation, across their customer journeys? Have firms moved on from traditional QA into the world of outcomes? I imagine there's a lot of work to do for firms still. Certainly, we're seeing that with our clients. They're on that maturity journey. This isn't a line in the sand where everything has to be completed by the 31st July 2024.

So, I imagine there's going to be a number of firms that won't be able to evidence, can't evidence, or aren't sure if they can evidence, full compliance by 31 July. I think it will be difficult for a number of firms to demonstrate that. But what I would counsel here is this is a journey. We wouldn't expect board



Source: Consumer Duty Annual Board Report: are you ready? Poll results based on 656 responses.



reports to be a 'sea of green' at this stage. Where gaps are identified, there just needs to be action, owners, dates and a plan going forward.

DF: And I would echo that sentiment. I think the FCA has been very clear that this is a journey to embedding. We're in a phase of 'day two' now, post-implementation for open book products (at the time of publishing). So, I think the FCA recognise that firms still have got work to do. So, in terms of answering this principal 'exam question', ultimately that's what your board report needs to be able to demonstrate. There inevitably will be gaps, but what's more important is you demonstrate the materiality of those gaps and the actions being taken to address them.

When we talk about FCA expectations, is it fair to say that firms shouldn't be in the dark about what's really expected of them given the outputs of communications to the sector over the last two years?

DF: Yeah, I think that's a fair observation. I think what is important to say is that the FCA haven't prescribed a format or a template. And whilst the high-level requirements are set out in print, and they've been reinforced through recent regulatory rhetoric, there is no prescribed approach or format for doing this. So, there is still an element of mystique around what it should include, the level of data you need to go into, and the level of granularity.

Where are you seeing firms struggling most? Is it the collection of data? Is it the reporting of data? Or is it actually the writing of the report?

MD: It's a combination of the above I would say. I think what we're seeing is firms have some pretty granular data. I think they're challenging themselves on the balance of lag versus lead indicators. So, you know, one of the objectives of the Consumer Duty

is to try and prevent crystallised harm for consumers. So, is it acceptable just to be looking backwards at lag indicators – at things like complaints data? I think the answer is absolutely not. The challenge we're then seeing is there's so much data, how do you aggregate it upwards? How do you put thresholds around that data? How do you assign a red, amber, green metric for your board? And how do you assess your compliance against the individual outcomes within Consumer Duty? And that's quite tricky. I think probably one of the hardest parts is taking the data, consolidating it, aggregating it upwards, and then presenting an overall view of your compliance and non-compliance with Principle 12.

DF: One of the points I want to pick up on in terms of the FCA's rhetoric of late is the reference to the fact that this is not an attestation. And I think it's a really important – and quite interesting – change



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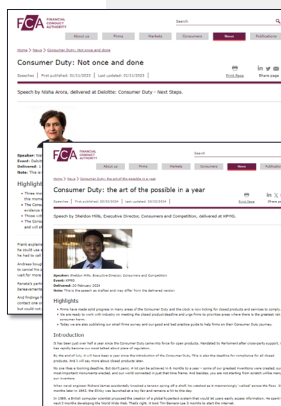
FCA expectations...

- 'Consumer Duty: The art of the possible in a year' speech – 20th Feb 2024.
- 'Consumer Duty: The next steps' webinar – 6th December 2023.
- 'Consumer Duty: Not once and done' speech – 1st Nov 2023.

Over recent months, the FCA has reminded firms that the board report:

1. Is not an attestation – but a really important part of your internal governance.
2. Is not a tick-box exercise, and they expect it 'will take time to do well'.
3. Forms part of the evidence: *'we [the FCA] will use it to assess your firm's ongoing compliance with the Duty'.*
4. Is available to the regulator on request *'alongside the management information that sits behind it'.*

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'Consumer Duty: The art of the possible in a year'

"The board report will be used to **assess and evidence** how firms have provided good outcomes for consumers under the Duty. The first one will be due by the end of July."

Sheldon Mills, Executive Director, Consumers and Competition February 2024

Sources:

FCA, 'Consumer Duty: Next Steps webinar 6th December'
FCA, 'Consumer Duty: Not once and done'
FCA, 'Consumer Duty: The Art of the possible in a year'

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in language from the regulator, certainly over the last six months. So, a lot of firms that we talk to refer to the annual board report as an attestation. The FCA, and Nisha Arora, particularly in her '[not once and done](#)' [speech](#), have laboured the point that this isn't an attestation but a really important part of your internal governance. I think that change in language over recent months is really interesting. I think it reinforces the fact that an attestation, typically in the FCA's eyes, is a one-off event to attest to rectification of a specific matter. And I think that change of language just reinforces that this is an ongoing requirement. You'll have to do it year-on-year.

You have proposed 10 key elements that should be included in the board report, can you talk us through these in more detail?

DF: All of these sections are absolutely critical, none less so than the Executive

Summary. So, for us (Square 4), the Executive Summary, like with any report, should be a standalone section in its own right. It effectively should tell the story of how you're complying, or otherwise, with Principle 12, how you're meeting the cross-cutting rules, how you're delivering good outcomes to customers, where the gaps are, what's the materiality of them, etc. So, effectively, you need to enable the reader to read that Executive Summary and get a really good grasp on where the firm is in its journey to embedding. Having said that, what I would counsel against – and I've seen evidence of this in some firms we've worked with – is having a narrative in the Executive Summary that they can't evidence or back up through their data.

We know that outcomes monitoring is a key element. Some firms are probably going to – through board reporting – reveal some blind spots or some data gaps in their gathering

and collection. Can you talk us through how you would address this?

MD: Absolutely. I think outcomes monitoring is something that firms are really starting to get on board with; transitioning from the QA mindset into the outcomes mindset, which is great. I think we're still seeing a lot of point-in-time outcomes monitoring, and that has limited benefit in some journeys and some customer journeys.

What I would say is that firms do need to try and look across the entirety of that journey, monitor for those outcomes that you've said that you want to deliver to your customers, and try and report against those – but also evidence those. And, again, what we're seeing in a lot of customer outcomes monitoring frameworks is it's not looking very rosy at the moment. And I would just say, don't be scared of the fact that there's going to be a lot of red there. We sometimes



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Discussion topic 01

Prepare and produce the content of your firm's annual report

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see firms challenging the volume of red on some of these reports that are being generated at the moment. You're very early on in your journey with Consumer Duty. Don't be scared of that. Just make sure there's a plan behind it.

Adrian, you mentioned earlier that firms are requesting your technology – Clever Nelly – to be deployed for the purpose of closing existing data gaps. Are you seeing evidence that board reports are now including more robust evidence and understanding of employee competence around Consumer Duty, especially in terms of their Training and Competence (T&C) programmes?

AH: Yeah, a lot of new customers have been keen to deploy our technology before the 31 July 2024 deadline because T&C is often just a tick-box exercise in a lot of cases. Firms simply tick the training box and getting on with the work with no real

correlation between the training event and the individual employee's actual capability to deliver a good outcome for the customer – this is just a big red flag for me.

When we talk about vulnerability, root cause analysis, and the understanding of how customer detriment or customer harm may happen, do you think boards and firms know enough about their key segments and key customer groups like customers in vulnerable circumstances?

DF: I think, you know, since 2021 and the publication of the vulnerability guidance from the FCA, I think firms have got a lot better at identifying vulnerability, flagging it on customer accounts, etc. I think where there's more work to do – and I think the FCA recognise this and have commented on it in some recent enforcement cases with firms we've been working with – is that it is not just about the identification of the flag on the

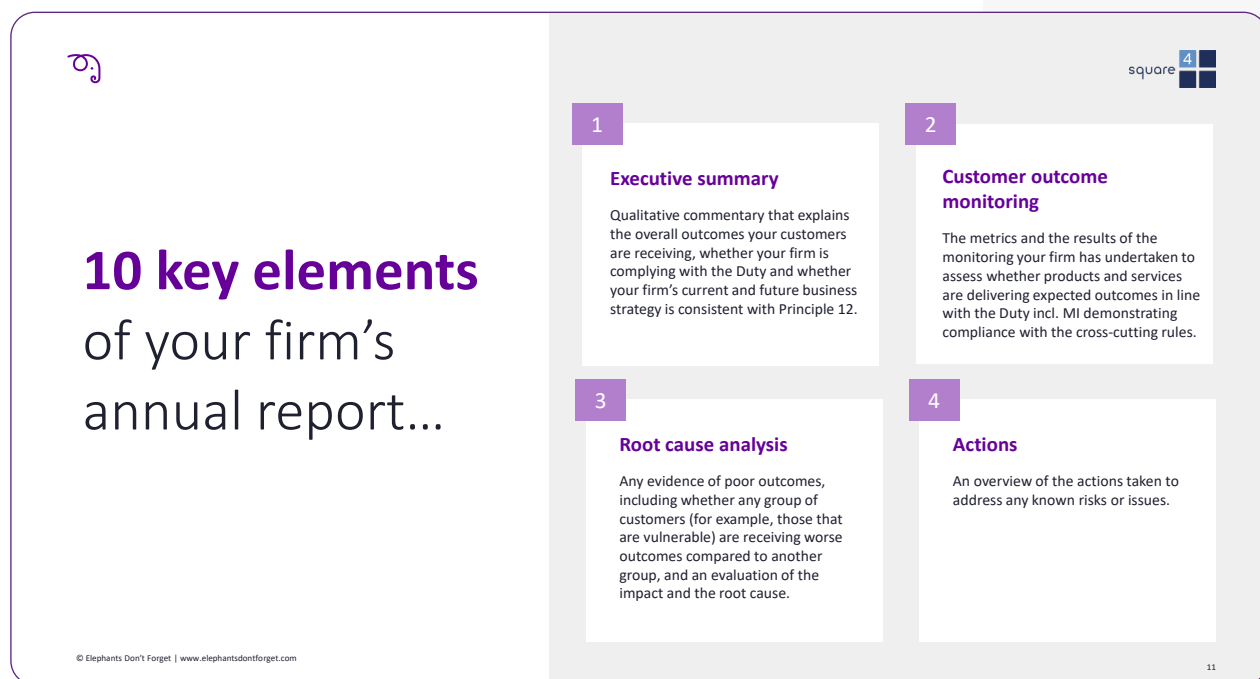
customer's account, it's about demonstrating and evidencing that the customer treatment is aligned to the characteristics of that vulnerability. And that those cohorts of customers are getting equally good outcomes as those customers who are non-vulnerable, as an example. I think it's really imperative that your measures, your data, your MI, are aligned to the full end-to-end product and customer lifecycle, and not just those that have a material impact on customer outcomes.

When gaps have been identified, how should firms reflect those actions within the board report?

MD: I think for me, it's the traditional action / owner / closure dates / rag rating / risk rating the actions. So, which are the highest-rated actions that are going to deliver the 'biggest bang for buck' in terms of generating better outcomes for customers going forward into



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the next year. There has to be accountability. I think we see it too often where there are a fantastic set of actions and closure dates, but there's no accountability – and accountability at senior level within the organisation, depending on where those closure points are and having someone on the hook to deliver them. For me – and this is one of the risks I think with board reporting – is that you could do a fantastic board report, but it sits on the imaginary shelf for 12 months, gathers dust, and it's then revisited in May, June, July again the following year. I think there has to be governance around this. There has to be continuing checks to make sure those actions are progressing throughout the year and reporting back, through governance committees within the organisation, to evidence that this is happening is absolutely key. It can't just be a 12-monthly exercise.

In your opinion, have you seen sufficient communication between the three lines

to create board reports that firms actually want to submit by the 31 July 2024? Where have you best seen ownership of it?

MD: We (Square 4) firmly believe it should be within the first line in terms of driving this forwards. I think where we're seeing ownership best within the first line is at a senior level. So, by that, I mean the Chief Operating Officer (COO) or similar. Where you give senior individuals accountability and responsibility for the board report, it's really driving traction within the organisation. I think with the second line, we have found they have been very involved – and you can understand why; they are very close to the regulatory agenda. But actually the second line acting as an important stakeholder within the journey, within the report – checking and challenging – that absolutely is happening. I think third line, if I'm honest, are on a bit of a journey generally with Consumer Duty. Certainly, the third line audit

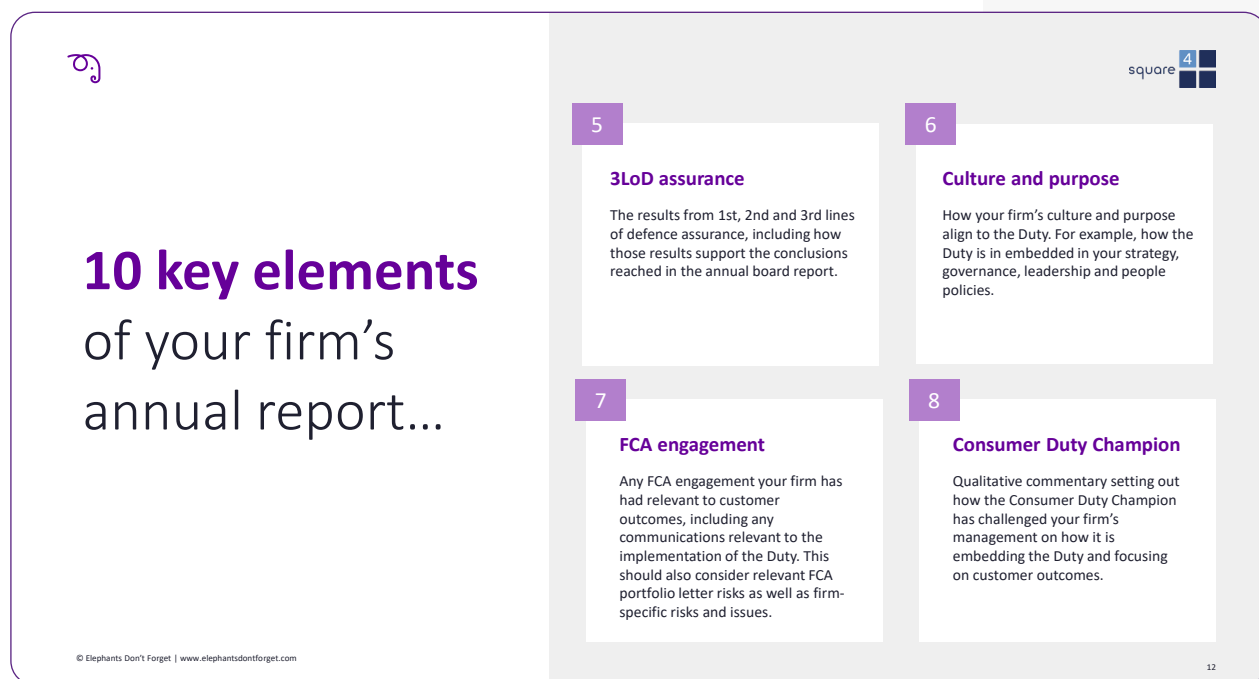
reports we're seeing are very much around: 'have you got a Consumer Duty approach within policies and processes?' I think for the third line, getting into the mindset of testing outcomes is quite a challenge. Most third lines are used to testing adherence to rules, regulations, specific interpretations of legal requirements etc. But we're certainly seeing more ownership now from first line, which is where it needs to be. And we're starting to see some pretty good communication now, certainly between first and second line. I think third line remains a bit of a challenge if I were to generalise.

Do you think most boards have confidence that each of the three lines are doing what they're meant to be doing?

DF: I'm going to be a little bit controversial here and say I think they are when the three lines of defence assurance are telling them what they think they want to hear, or



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creating a narrative that they want to hear. So, I think the answer to that question really depends on what the assurance or the MI is telling them.

A key part of the report is about detailing improvements in culture. How are firms doing this?

AH: Yeah. I mean, from my point of view, it's a tricky question: 'who owns culture?' I think, ultimately, it's the leadership team. I don't think you can sub it to your Chief People Officer (CPO) or HR Director and simply say: 'you own culture'. I like the phrase that 'culture is what happens when management leave the room' and we frequently get asked: "How can you help us to demonstrate that we've got a more appropriate Consumer Duty culture in this organisation?" And one of the things we point to is the single-point-in-time training mechanic that a lot of firms are involved in, where they train somebody

in January and then that training is not revisited for 12 months. And, when it is, it's a one-size-fits-all refresher training, which is probably exactly what was delivered 12 months previously. You know, there may be some QA stuff in between but, culturally, this does not point to an organisation that is embracing putting the customer at the centre of their organisation. If firms are simply ticking a box to say an employee has been trained – now go and get on with the job – it couldn't be further from the authenticity that the regulator has in mind under Consumer Duty.

Is it important that the board report reflects FCA engagement pieces, understanding of them and how firms are adhering to them?

DF: Yes, absolutely. I think for me, it's probably less about the general Consumer Duty publications from the FCA and probably more about referencing specific FCA


engagement you've had. So, for example, I've been working with a firm recently who are drafting their board report, painting that 'rosy round the door' picture, but we already know they're already going through enforcement and a 166 for their poor collections practices. So, there's a complete disconnect there.

Examples of the types of things you could include would be, say, if you were included in the FCA's Consumer Duty implementation plan review – what was the outcome of that? If you've had any specific regulatory intervention, it's useful to reference that to ensure that the rest of the report is married up with any specific FCA engagement that you've got. What it isn't is your regular BAU engagement, whether it's data requests or regulatory returns, it's certainly not that.

The Consumer Duty Champion (CDC) plays a critical role in evaluating the narrative




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10 key elements of your firm's annual report...

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square 

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Business strategy

How your firm's current and future business strategy is consistent with acting to deliver good outcomes under the Duty.

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Board approval

A section for Board approval containing qualitative commentary setting out how the Board have concurred with the conclusions reached.

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of the board report. They have to have broad shoulders and open minds in terms of making sure that there's effective and robust challenge taking place, would you agree with that?

MD: Yeah, absolutely. A couple of individuals (in the webinar chat) have suggested that the CDC is responsible for pulling the board report together. I think I'll just urge caution – you don't want to mark your own homework. Your CDC has to have that level of independent challenge where they can come and critique the MI, challenge the report, and actually challenge the executives to ask themselves: "Are we really delivering the outcomes that we want to deliver as a business for our customers?" You're right, they need to be thick skinned. They need to be able to really hold the exec to account here. They need to be objective, but they also need to champion the consumer as well. So, it's a tough role. I would say it's critical

really to the success of Consumer Duty. So, it is very important firms take it seriously and absolutely give the CDC the space to reach their conclusions based on the MI produced.

AH: I completely agree. I would have the CDC as the 'conscience'. And I think that's the purpose of the role. And, therefore, absolutely not have that person involved in the curation of the report. The person, in my opinion, most likely – in most organisations that we interact with – to own this is the COO, because they 'own' all the people. They own the frontline and, actually, when Consumer Duty becomes real is when I (the customer) have a conversation with one of your staff.

Business strategy is a key element of the board report narrative, have you seen enough instances of firms paying sufficient attention to this area?

DF: The FCA have been really clear that they expect the board report to provide a view on how the firm's current and future business strategy aligns to the requirements of Consumer Duty. I think, from the firms that we've been working with, a lot of the focus has been on – to coin a phrase – the 'low-hanging fruit'. We've seen little evidence with some firms that there's been due consideration to current and future strategy. And that's really key because the strategy of the business will ultimately drive the culture. The culture will then automatically drive the outcomes customers are receiving. So, it's absolutely crucial that the business model and the strategy are given due consideration and are aligned to the requirements of Consumer Duty.

When we talk about identifying MI and data, do you think the FCA has been clear that this is not just simply about rehashing or re-purposing existing data?



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Required MI & data to demonstrate robust implementation of the Duty...

1. Avoid the temptation of repackaging existing data.
2. Start with the outcomes you want to deliver.
3. Identify the data and metrics to measure and evidence delivery of your desired customer outcomes.
4. Analyse the data and understand the root cause of any poor outcomes, their materiality and the actions to address.
5. Understand the different outcomes different cohorts of customers are getting.

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Examples (non-exhaustive): What have you got vs what do you need?

- | | |
|----------------------------------|--|
| ✓ Business persistency rate | ✓ Behavioural insights |
| ✓ Training & competence results | ✓ Vulnerable customer identification and treatment |
| ✓ File review outcomes | ✓ Staff feedback channels |
| ✓ Customer contact results | ✓ Customer understanding |
| ✓ Number of complaints/types | ✓ Feedback from analytics on digital journeys |
| ✓ Complaints root-cause analysis | ✓ 1/2/3 LoD results |
| ✓ Price and value | ✓ Third-party suppliers |
| ✓ Product usage | |

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MD: If I'm honest, when we started the Consumer Duty, [re-purposing existing data] for a lot of firms is probably what I saw happening most often – and it's understandable. You start with the existing data because you don't want to reinvent the wheel. I think what we quickly found with a number of firms was actually that the data was quite limited. It was very much focused on lag indicators. It was very much focused on only partially giving a view on compliance with the Consumer Duty. So do try to avoid that temptation, absolutely. Don't just repackage. Through your implementation journey, firms will have found various areas that were missing in terms of data and MI. Absolutely make sure they're included as part of this. Start with the outcomes you want to deliver. That's exactly the best way to go about this. You will have a series of outcomes which probably align, or hopefully align, to the four outcomes the FCA have set within Consumer Duty. And you want to have

your MI in line-by-line evidence showing compliance and non-compliance with those outcomes.

DF: Start with the outcomes you want to deliver. You should have already done a load of work as part of the implementation around defining your outcomes, mapping your end-to-end product and customer journeys, defining the outcomes at each stage of those journeys, identifying the risks, the controls, and then the metrics to measure the effectiveness of the controls in mitigating the risks and delivering the outcomes. And really that's what firms should be focused on here. A lot of that information or work should have been done through your implementation journey. But, again, to the point made earlier, and the FCA have reinforced this message several times, avoid that temptation of repackaging what you've got. Some firms we're working with have already got this predefined narrative:

'of course, we've implemented Consumer Duty. Of course, it's embedded. Of course, we're delivering good retail outcomes. Let's go and find the data to fit that narrative rather than starting with the outcomes.'

We have outlined six things that we know the FCA want to see, can we just unpack those a little more?

DF: Sure. The ownership point we've kind of already alluded to earlier on. So, in terms of ownership, our view (Square 4) is it should sit within the first line. It should be owned by an accountable executive, typically the COO, Operational Director or equivalent. I think that ownership is key. Avoid the temptation of outsourcing this to a project team or the second line. So, we've seen examples where second line have been driving the ownership of the report. There should absolutely be contributions from second and third line of defence, but it should be owned by the



Source: Consumer Duty Annual Board Report: are you ready?



Six things we know the FCA want to see

“This assessment [board report] will be part of the evidence we use to assess a firm’s **ongoing compliance** with the Duty. You’ll need to be able to provide it, and the management information that sits behind it, on request. Firms’ **actions, assessments, testing and evidence need to be continuous.**”



Consumer Duty: Not once and done

FCA, [‘Consumer Duty: Not once and done’](#)

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1. Ownership <ul style="list-style-type: none">• Collaboration by different stakeholders across the business.• Who is responsible for owning the board report and is accountable for producing it.• Good practice for it to be owned by the first line, with independent oversight and contributions from the second and third lines of defence.	2. Format <ul style="list-style-type: none">• Format and structure is key.• Too much information may be difficult to digest and understand.• Too little will undermine and challenge the robustness of the report.• Structure the report with high-level statements and assurances supported by underlying data, metrics and MI.	3. Mindset <ul style="list-style-type: none">• FCA are clear that they expect firms to adopt a developmental mindset.• Firms’ actions, assessment, testing and evidence need to be continuous.• Go back and review your implementation plan and check you’ve made the changes you set out to make.• Ask yourself whether these changes go far enough.
4. Data <ul style="list-style-type: none">• Ask yourself whether there is any data missing.• Think about the quantitative and qualitative metrics that will drive RAG ratings and conclusions on customer outcomes.• Data is a critical element of the board report and should enable effective decisions, supported by timely and accurate commentary.	5. Culture <ul style="list-style-type: none">• Customers’ interests are central to your culture and purpose.• Board report demonstrates how this is embedded in your strategy, governance, leadership and people policies.	6. Challenge <ul style="list-style-type: none">• Evidence that the board report has been subject to robust and objective challenge by the board.

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first line. In terms of the format, I think the format of the report is absolutely key. It comes back to some of the points made earlier about the quality and the level of granularity of data. Too much information will make this difficult for the board to digest and, indeed, the FCA if they were to subsequently request it, but equally too little data will then potentially undermine the robustness of the report as well. So, what we would suggest firms consider is almost like a two-tiered approach. So, you have your set of high-level assurances, your high-level statements, your high-level aggregated MI with the underlying evidence and the data that sits beneath it.

We’ve had a lot of people on the webinar asking about board templates – what are your thoughts on these?

DF: Ultimately, the scale, the scope, the depth you go into will depend on the size

and complexity of the firm. So, I’m always a little bit nervous when we start to talk about templates per se, because it does need to be specific to your firm. Now there are some trade bodies out there and other consultancy firms who have produced a template and they are clearly incredibly useful. I would just counsel firms against going through a one-size-fits-all approach. It’s really important it’s proportionate to the size, scale and complexity of your firm.

MD: This isn’t a regulatory return in the traditional sense where you’ve got X, Y and Z you need to answer – and you do that every year. This is quite an interesting approach. Firms have to tailor it. It has to be proportionate. Having an out-of-the-box solution just won’t really cut it here.

The FCA have talked a lot about ‘mindset’ in conjunction with Consumer Duty – what do they mean by this?

MD: Yes, the FCA use the term ‘developmental mindset’ – and I think that’s exactly right. And, you know, it’s actually about challenging yourselves as an organisation on your journey, where you’ve started, where you’ve got to, where you need to get to. And I think there’s a link between mindset and culture. You know, culture is referred to as the ‘golden thread’ that runs through the Consumer Duty. So mindset is key here. And it probably ties in nicely to the template discussion we’ve just had. You know, if you’re using a template for this, is that the right mindset that you want? If the FCA receive, you know, all the same looking reports, that’s probably not where you need to be.

If you’re not feeling overly confident that your board report is delivering the level of information needed for the board to make effective decisions, how can you go about improving confidence levels?



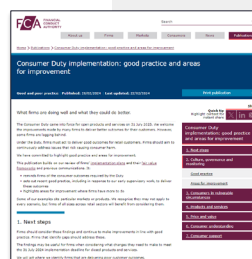
Source: Consumer Duty Annual Board Report: are you ready?



Key considerations...

1. Early engagement with the Board
2. Start with the end in mind
3. Level of granularity
4. Iterative approach
5. Dry run
6. Challenge
7. Don't delay!

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Consumer Duty implementation: good practice and areas for improvement

Source:
[Available here >](#)

The FCA's good practice publication:

- Reminds firms of the consumer outcomes required by the Duty.
- Sets out recent good practice, including their response to early supervisory work.
- Highlights areas for improvement where firms have more to do.

DF: I think, for me, it's about early engagement with the board. And I think that early engagement with the board is a two-way street. So, I've seen some firms develop this in the first line in complete isolation without any prior engagement with the board. And, actually, some board members not even being clear what the requirement is, what kind of information they're going to get. So, I think it is critical to have that early engagement with the board in terms of educating them around their responsibility to review, oversee, challenge, and ultimately approve the report, but also understanding what their information needs are as well.

We've talked about the level of granularity of data. Again, I've seen some firms submit 150-200 pages of data. Well, you can't see the wood for the trees on that. So, again, consider the level of granularity. How are you going to aggregate that data up so that it's easy for firms or boards to actually digest it?

Dry run, again, I think that's critical. I think those firms who answered the poll question around conducting a dry run, it's really encouraging. So do rehearsals, pull together the data that supports and evidences it. Take your board through an iterative process, through a live rehearsal. It will help you to identify where the issues and the gaps may be. It still gives you time to then go back and do an iterative process and address those gaps, or at least have a story to tell in your action box around what you're doing about them.

'Check and challenge' is going to be critical to build into the process moving forward, would you agree?

MD: I think that's right. We're not expecting firms to get this right first time, there's got to be some type of mechanism internally, which can be formal or informal, that actually allows firms to try and really

debate and discuss. You know, Principle 12 is subjective to a certain extent. The MI firms have is wildly different. The way it's aggregated is different. I think having some type of iterative approach where there is a mechanism for feedback, for challenge, from different stakeholders, having a variety of views, is key to this.

What do you make of this question posed in the webinar chat: "How do the FCA objectively score the report?"

MD: It's an interesting question – and we'll talk about mindset again here. Thinking that the report will be 'scored' is probably the wrong way to approach this. We're not doing this report to get scored. This isn't homework that you put in at the end of the year and you hope to get an A+. This is looking at the mirror and actually looking at where you are now, where you need to be in the future, and how do you get there. And I don't think it's as



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Dos and Don'ts...

“We want to see firms learning and improving continuously. If you’ve not looked in detail at your customers’ experience, and aren’t monitoring outcomes for customers, including different groups, on an ongoing basis, we’ll be doubtful that you’ve got to grips with this.”



Nisha Arora
Director of Cross Cutting Policy and Strategy

Source: FCA, *“Consumer Duty: Not once and done”*

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Good practice	Areas for improvement
1. Culture & mindset: Firms adopt a developmental mindset – that firms’ actions, assessments, testing and evidence need to be continuous, and this is reflected in the board report. Revisit your CD implementation plan.	1. Culture & mindset: Relying on a project team or risk and compliance. Not embedding the Duty across the entire organisation.
2. Data: Scrutinise how you’re going to harness the information you have to improve your products and services and evidence the outcomes you’re achieving for your customers.	2. Data: repackaging existing data to fit a predefined narrative instead of collecting and analysing data relevant to customer outcomes.
3. Leading indicators: Document ‘leading’ indicators that show trends and projections to provide an early indicator of where potential actions are required.	3. Lagging indicators: Over reliance on historic indicators that relate to poor customer outcomes that have already crystallised.
4. Benchmarking: benchmark your approach with your industry peers – either directly or through a third party. Safety in numbers!	4. Silo: a lack of engagement or benchmarking with peers may lead to material gaps and / or being an outlier.
5. Ongoing review: Boards regularly reviewing and challenging the underlying data and actions that make up the board report.	5. One-off annual exercise: the board report is ‘dusted off’ once a year ahead of the 31 July deadline.

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easy as ‘scoring’. I don’t think there’s a right and wrong answer. I think it has to be a true reflection of current state and desired future state. If you go into this with a mindset that you’re going to get scored, I think you probably won’t get the answer you want.

AH: ‘Scoring’ is wholly inappropriate because there is an inherent: ‘is our score too low?’ And, therefore, shouldn’t we do something to change the score, rather than change the drivers of the score. So, I think if you take it as more of a holistic mindset-based report, that says, how are we as a firm, big or small, complying with the requirements of Consumer Duty, where are our gaps – and look at it from a gap-mitigation point of view, I think that’s far healthier and more realistic.

The report then becomes a working document that can help you run and govern your business, rather than just some painful piece of regulatory activity that you have to

do once a year, dust off and hope you don’t get challenged on.

You’ve listed some ‘Dos and Don’ts’ in terms of good practice and areas for improvement. When we look at ‘Benchmarking’, for example, how important is that?

DF: Yeah, I think that’s critical, and I think there’s always safety in numbers. So, I think it’s always best to, where possible, benchmark your approach to your peer group, whether directly or through a third party. This is new to all of us, it’s a new requirement for the industry. I think by not doing this you run the risk of being in a bit of a silo; potentially being a bit of an outlier. So I think there is merit and absolute value in undertaking some peer benchmarking in terms of your approach, but also in terms of what the data is telling you in the report.

Turning our thoughts to leading and lagging indicators, do you think there is still an over-reliance on data and MI looking through the rear-view mirror?

MD: I think there absolutely is. And I think there are a couple of reasons for that. One is that lag data is easier to get. You know, firms have that data already for existing conduct risk reporting. The forward-looking indicators are challenging. They, sort of by nature, have a certain element of being able to predict events that may or may not happen. So, for example, if we use lending as an example, you know, can you proactively monitor any deterioration in the customer’s finances to try and make an early intervention? Well, you can, I mean, there’s certain ways that can now be performed. We’re starting to see firms be on the front foot actually trying to intervene in real-time or near real-time where customer cohorts are showing deterioration. So absolutely it’s possible.



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Key questions to ask...

1. How does your firm demonstrate compliance with **Principle 12**?
2. How does your firm meet the **cross-cutting rules**?
3. How does your firm's products and services meet your **target market** and work as expected?
4. Are your firm's products and services sold at a price that reflects their **value**, including any **fees**?
5. How are your customers equipped to make good decisions with information available at the **right time** and is **understandable**?
6. How are your customer service and post-sale support teams equipped to be **responsive** and helpful without any **unnecessary** friction or barriers?

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Source: Square 4 article, ["Consumer Duty: Annual Board Report – Don't delay!"](#)

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I think there's an expectation that lead indicators as a ratio versus lag indicators are increasing – and should increase through the board reports. But the reason firms aren't necessarily where they need to be on this is because it is quite difficult. This is a cohort of MI that firms haven't traditionally collected and actually it's quite hard to find.

AH: We talk frequently about lead and lag indicators in our webinars. Historically, having ran very big businesses, I was often inundated with lag indicators, which to some extent aren't overly helpful because you realise you've caused huge customer detriment way before somebody gives you a report saying it. Yes, lead indicators are hard to get, but it doesn't mean that they're impossible to get. Certainly, in our world, those lead indicators around people and competency failings are a great predictor of problems that you're going to have in the future.

MD: Yeah, and I'll just say as well, we're seeing a lot of indicators that are still Service Level Agreement (SLA) based. So again, have we done X within Y timeframe? And, yeah, there's a place for that. But actually, I'd caution against leading with SLA indicators. They're quite weak really. Try to change that into proactive, forward-looking indicators – there is much more value there, but it is tricky to do.

You've listed six key questions that firms should ask themselves when compiling their reports, can you talk us through your thinking here?

DF: These are the kind of 'exam questions' that you ultimately need to be able to answer through your board report. So, how you're complying or otherwise with Principle 12, how you're meeting the cross-cutting rules. And then, to point three and four, is how you are performing against the four

Consumer Duty outcomes. Something that we see a lot of firms struggling with is point five, around consumer understanding. You know, we see evidence or examples of firms using things like, you know, consumer focus groups, complaint volume, a lot of the lagging indicators Adrian talked about. Less so around kind of testing direct customer interactions. The FCA referred to this in their webinar, for example, around asking your customers to play back what they understand about what they have bought. So that kind of outbound outreach, that customer contact, we have seen less evidence of that within firms.



Finally, are you encouraged by where firms are? What would your parting advice be for firms to think about at this juncture?

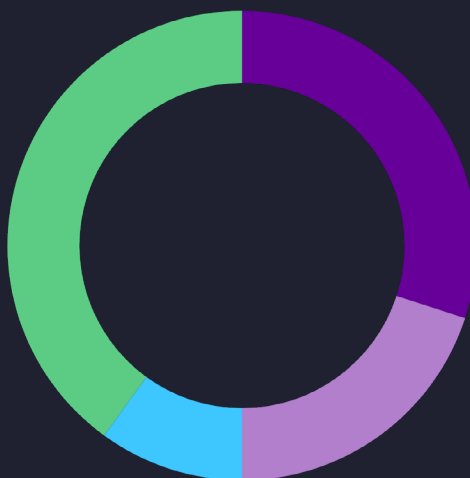
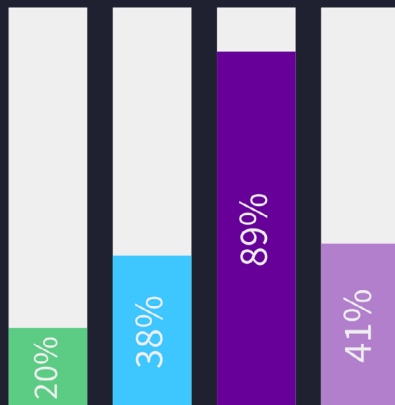
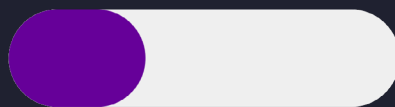
MD: I'm encouraged, absolutely. I think there's lots of progress and lots of debate and discussion. I think this is interesting because for the FCA this will be their first time as well and we shouldn't forget that. Having sat on the other side of the table [as a former regulator], it's interesting, because their approach will evolve as well. So, firms have to evolve in line and in sync with that. I think the first time will be challenging, there is no right answer here, but just taking those principles, I think, and extrapolating it for individual organisations, is absolutely key. If you do get time, do dry run your reports, do absolutely get the check and challenge you can and make sure that when the day comes for actually presenting that to the board, it is minuted and well documented.

AH: Remember, red and amber are not an indication of failure. They are perhaps better classed as an indication of understanding your progress towards a customer-centric organisation. And I suspect that stands you in a much better place than a 'sea of green' report.

DF: The FCA have been very focused in a lot of their rhetoric around firms demonstrating a Consumer Duty culture and a developmental mindset, but they've also been very clear that they've adopted their own rhetoric themselves. So, within their own culture, they've got Consumer Duty – to quote the phrase – as a 'golden thread' running all the way through from authorisations to enforcements. So, in my view, the FCA are very much trying to take their own advice and are trying to also adopt that Consumer Duty mindset in the way they supervise the industry.



Remember, red and amber are not an indication of failure. They are perhaps better classed as an indication of **understanding your progress towards a customer-centric organisation.**



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