

Consumer Duty – Consumer understanding



FCA Consumer Duty [Policy Statement](#) (PS22/9)

FCA [non-Handbook Guidance](#) (FG22/5)

Aims

- Communications that help consumers make informed decisions about financial products and services.

Firms should focus on providing the right information, at the right time so customers can make informed decisions. **At each stage of the mortgage and protection journey, what does the customer need to know to make effective decisions?**

What's required of firms

- The new requirements apply at every stage of the customer journey, from marketing through to the advice and distribution process, and post-sale.
- The requirements apply to all communications (including those to prospective customers), whether verbal, visual or in writing.

Does the 'clear, fair and not misleading' requirement still apply?

Yes, this rule still applies. The 'higher standard' under the Consumer Duty is that firms also have to ensure their communications meet the information needs and are likely to be understood by their customers (i.e. target market) and that they equip customers to make effective, timely and properly informed decisions.

Equipping customers to make effective decisions and providing information on a timely basis

- **Firms need to review all their communications to ensure they are a) likely to be understood by their customers and b) allow customers to make effective, timely and properly informed decisions.** See the 'Action plan' section for suggestions on how firms could achieve this.

Tailoring communications

- **Firms should tailor their communications dependent on the target market.** For example, more complex products such as lifetime mortgages are likely to require a different approach to communications compared to standard residential mortgages (as lifetime mortgages may come with more unusual product features which firms may need to spend more time explaining to customers to ensure they understand them). Firms may wish to segment their target market further and consider tailoring their communications for specific cohorts of customers, such as first time buyers (to reflect that most first time buyers are likely to be inexperienced with the mortgage process).
- **Firms should consider the needs of customers with vulnerable characteristics and tailor their communications accordingly.** For example, a customer is blind and requests the firm provides all information via e-mail to allow them to use screen reading software. The firm ensures processes are in place that require the adviser to make a note on file, to ensure that anyone else that picks up the file is aware of this request and makes the necessary adjustments.
- **Firms are not expected to tailor all of their communications to meet the needs of each customer or to ensure that each customer understand all of their communications** – it's about communications that are designed with a firm's target market in mind. If it becomes apparent when advising a customer that the customer requires additional information or explanation, the firm should think about whether it needs to tailor the information in a way the customer understands. Mortgage advice firms should be used to this approach already, given the nature of their role.

Testing communications

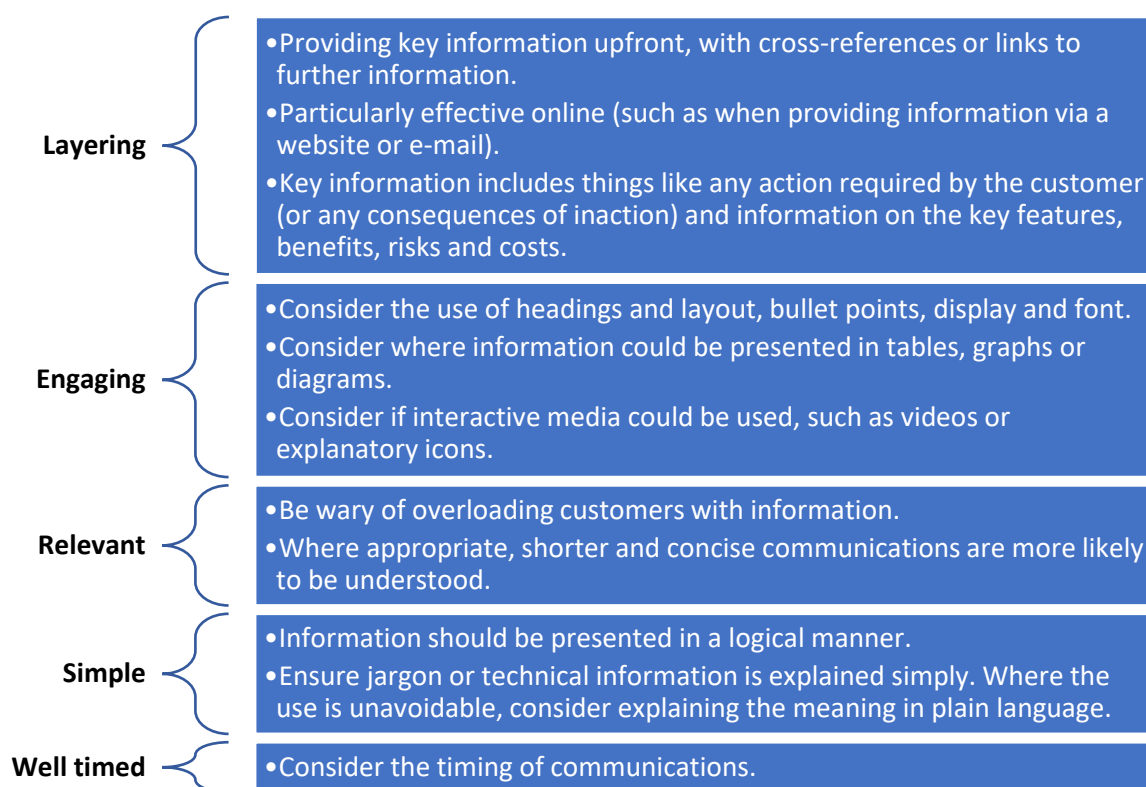
- **Firms are required to test communications, where appropriate.** 'Where appropriate' is important as it's not the intention for firms to test each and every communication sent to prospects and/or customers. The purpose of testing is to help a firm ensure their communications are likely to be understood by consumers and to adapt their communications accordingly.
- **It will be more appropriate for firms to test communications where they are responsible for the production of the communication or for adapting it after testing.** Firms are not expected to test a lender's or insurer's communications but if the firm receives feedback from a customer (for example, if through conversations a customer mentioned they struggled to understand a lender/insurer communication or were unsure what they had to do next) the firm should feed this back to the lender/insurer.
- **It is down to firms to assess whether a communication (that the firm's created) should be tested.** Firms should adopt a 'test and learn' approach, where they use the information gathered to assess whether changes are required to their communications. A firm should consider the following factors to decide if testing is appropriate:
 - Does the communication include key information designed to prompt or inform a decision?
 - Does the communication impact many customers?

- Are the recipients of the communication likely to include significant numbers of customers with vulnerable characteristics?
 - Is there scope for consumer harm if the information conveyed is misunderstood or overlooked by customers?
 - Is it more important to communicate urgently to support good consumer outcome rather than delay due to testing?
- For smaller firms, testing, where appropriate, is likely to include customer and staff feedback (such as surveys – see *‘Monitoring and evidencing’* section below). Larger firms may wish to consider the FCA’s suggestions on other ways to test communications (pages 85 and 86 of the FCA’s [non-Handbook guidance](#)).
 - The FCA recognise that smaller firms will not have the same testing capabilities as larger firms with more resources. The question firms should ask themselves is **‘Where appropriate, are we testing communications to the same extent as if it was a communication aimed at maximising sales?’**.

Action plan

- **Firms should create an inventory of existing customer communications** (this includes to prospective customers), as this will help them understand the number of communications that need to be reviewed. For example, client facing document templates (such as disclosure documents; suitability letters; demands and needs statements; TOBAs; fees/terms and conditions documents; renewal letters); online communications (such as websites, submission forms; social media posts; e-mail templates); communications relating to the advice process (such as telephone scripts; fact finds; questionnaires); marketing related communications (such as brochures; e-mails; letters; financial promotions).
- **Firms should review each communication against the following criteria:**
 - Is key information clear, visible and accessible to consumers?
 - Are the features and risks of a product discussed with the customer in an engaging way?
 - Does the communication enable customers to make effective decisions?
 - Is the communication provided at an appropriate point in the customer journey?
- Where a firm is discussing key information with a customer (such as where it prompts the customer to make a decision, such as which mortgage or insurance product to take) on a one-on-one basis such as on the telephone, **the firm (i.e. adviser) should ask the customer whether they understand the information and if they have any further questions (this doesn’t require firms to ‘test’ or ‘verify’ the customer’s understanding). This may require an amendment to mortgage and protection sales processes, to incorporate this requirement.**

- Firms may wish to consider the following when looking at ways to improve their communications:



- Firms should consider when and where the tailoring and/or testing of communications is appropriate. Please refer to the relevant section(s) in 'What's required of firms?' above.

Things to consider

- Firms, particularly smaller firms, could ask someone outside of the industry (such a friend or family member within the firm's target market) to review key customer facing communications (such as their website, documentation etc) and provide feedback on whether they understand the information and whether they feel it would allow them to make effective, timely and properly informed decisions.
- Firms should ensure that product information provides a balanced picture of costs and risks as well as the benefits of the product. For example, customer literature on lifetime mortgage products should portray a balanced view of the benefits (such as reduced or no monthly payments) vs costs (such as the impact of compounding interest).
- Existing MCOB and ICOB rules that relate to how and what information firms should provide to customers remain (for example, suitability rules in MCOB and demands and needs rules in ICOB).
- Firms must continue to comply with relevant legislation and regulatory requirements that relate to communications. For example, lenders will not be able to amend the prescribed wording within an

ESIS; lenders will continue to send customers prompts before the end of an introductory period as per existing mortgage rules; and firms selling GI products will still be subject to prescribed transparency wordings on GI renewal letters. However, the FCA wants firms to **consider whether there are additional steps they can take to improve understanding**.

- **The Consumer Duty provides an opportunity to review key documents such as suitability reports, which may have grown in length over time.** Are there important points that are buried in the report? Could these be drawn more prominently to the customer's attention, for example on the first page/covering letter? Are there changes that could be made to the layout? (See '*Ways to make communications more effective*' above).
- **How communications are presented over time is just as important as the substance of what is presented.** For example, information shouldn't be presented in one go as a pack, framed with 'we are required by regulators to give this to you' – instead firms should help consumers understand the purpose of each document and whether any action is required.
- ***New** – It's important to recognise that **customer satisfaction is not the same as understanding**.

Firms should be mindful of using post-sale surveys and questionnaires to assess customer understanding, as these are unlikely to provide meaningful MI to evidence and monitor customer outcomes. Firms' focus should be on the processes, procedures and controls in place to help ensure that communications are designed with the target market in mind and are likely to be understood by consumers receiving them, with MI linked to this.

Useful MI may include whether customers are acting on communications as intended and whether customers can relay back in their own words what they've purchased – although take care not to stray into verifying or testing individual customer understanding.

- ***New** – Not all satisfaction surveys and testimonial/review gathering should be avoided, as they can be useful tools for marketing purposes, and give your customers the opportunity to provide feedback that helps you fine-tune your sales and advice processes. However, firms should think carefully about how the survey/questionnaire is positioned and how the information will be used.
- ***New** – Should a firm decide to use customer surveys/questionnaires, it should check with its PI broker/provider whether there are any implications.
- **AMI feels the Consumer Duty makes it even more important for firms to keep records of their conversations with customers.** AMI suggest firms consider call recording (in addition to a firm's usual file records), as this may help firms to evidence and monitor the outcomes customers receive.
- **Where firms approve financial promotions (themselves and/or on behalf of third parties) they are responsible for meeting the requirements under the consumer understanding outcome.** This includes lead generation. Please refer to our factsheet on [marketing and lead generation](#) for more information.
- **Where a firm identifies or becomes aware of a communication produced by another firm in its distribution chain that is not delivering good outcomes for customers, it must promptly notify the issue to the relevant firm in the distribution chain,** such as a lender or insurer. However, the

intention is for firms not to “police” each other; the purpose is to share feedback where this may help improve consumer outcomes.

Key ‘consumer understanding’ questions for mortgage intermediary firms

Please note, these questions have been lifted from [FCA Consumer Duty non-handbook guidance](#)

- Is the firm satisfied that it is applying the same standards and testing capabilities to ensure communications are delivering good customer outcomes, as they are to ensuring they generate sales and revenue?
- What insights is the firm using to decide how best to keep customers engaged in their customer journey, whilst also ensuring its customers have the right information at the right time to make decisions?
- How is the firm testing the effectiveness of its communications? How is it acting on the results?
- How does the firm adapt its communications to meet the needs of customers with characteristics of vulnerability, and how does it know these adaptations are effective?
- How does the firm ensure that its communications are equally effective across all channels it uses? How does it test that?
- What data, MI and feedback does the firm use in its ongoing monitoring of the impact of its communications on customer outcomes? How often is this data reviewed, and what action is taken as a result?

Monitoring and evidencing

Firms need to collect information to monitor and evidence the outcomes customers are receiving.

Below are suggestions for MI gathering that are specific to the consumer understanding outcome. There may be additional MI that firms wish to collect.

For more detail on this subject, see our dedicated factsheet on [monitoring and evidencing](#).

- **Communication response rates including dropout rates.** Are customers responding to communications that prompt action? If not, are there tweaks needed to increase response rates? Are there customers that ‘drop out’ of the mortgage and protection advice journey following a particular communication? Why is this?
- **Complaints data that relate to consumer understanding.** Firms should carry out root cause analysis.
- **Staff feedback.** Such as feedback from advisers that customers are not following instructions, certain questions are being asked by customers more frequently or there are issues causing customer confusion.
- **Customer feedback.** For example, a customer says they found a particular communication misleading or confusing. Firms could also build surveys into post-sales processes to check consumer understanding.

Firms should be mindful of ‘selection bias’ when sending customer surveys or feedback forms. This is where the sample is not representative, skewing results as the firm’s only obtained feedback from a certain customer segment.

Firms should also consider the timing of customer feedback requests. For example, obtaining customer feedback straight after a customer has moved into their new home (when they are likely to be pleased with the outcome) may not provide the firm with sufficient evidence needed to monitor and evidence that customers understand the products and services provided.

- **Findings from a firm’s communications testing.** Are there changes required to the way the firm communicates with customers to help improve customer understanding?

Interaction with cross-cutting rules

The cross-cutting rules are intrinsically linked with the four outcomes. For example, if a mortgage intermediary firm communicates with customers in a way that helps them make effective decisions, this will help support them to pursue their financial objectives.

Firms should keep the cross-cutting rules at the forefront of their minds when implementing their work under the four outcomes.

Bringing the Consumer Duty to life

Case study

Please note this AMI case study is for illustrative purposes only; it is designed to help firms understand the spirit of the new requirements, plus wider considerations and ideas for firms to debate and discuss as part of their Consumer Duty work. The content within the AMI case study should not be seen as ‘best practice’.

XYZ Mortgages is a mortgage intermediary firm providing advice on mortgages and protection.

The firm reviews all of its communications to ensure it’s meeting the requirements under the consumer understanding outcome.

As part of this process, the firm decides to amend its suitability letter template. Before making the changes “live” it decides to test the document with a representative sample of customers. It asks them to review the document and answer questions to gauge whether they have understood key information and what the recommendation was (for example a five year fix, over a 25 year term).

The firm also decides to review its email templates, considering ways it can make these types of communications more effective. For example, when contacting customers via e-mail to present the borrowing options at purchase or re-mortgage stage, the firm reduces the length of the e-mail and use tables to present the different rate options and to show the impact of extending the mortgage term more clearly. It then monitors response rates, to gauge if these changes have improved customer engagement and understanding.

It also considers how it is meeting the needs of customers with vulnerable characteristics. It looks into the use of inclusive fonts and colours, for example to improve accessibility for the visually impaired.