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Consumer Duty – Fair value assessment and framework



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

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

***April 2025 update** – this factsheet has been updated to remove dates and information which are now obsolete and to incorporate findings from the FCA’s review into fair value practices. Additions are highlighted as ‘New’ and amendments as ‘Updated’ and are highlighted in yellow.. To read the FCA review document in full, click [here](#).

Aims

- To explain fair value and how firms should approach their fair value assessments.
- To highlight factors to consider within fair value assessments.
- To help firms create a fair value framework.

What is a fair value?

Fair value is where there is a reasonable relationship between a firm’s fees and charges (i.e. the price the customer pays) and the benefits the customer receives (i.e. from using the firm’s services).

What is a fair value assessment (FVA)?

Mortgage intermediary firms are required to assess whether their service provides fair value. They need to document their considerations and rationale as part of their FVA.

A firm’s service should be viewed as its proposition: the end-to-end advice process and any wider or ongoing services provided to consumers.

We recommend firms also read AMI’s factsheet on the [products and services outcome](#), as it is closely interlinked to price and value. Some of the work under the products and services outcome may help with completion of the FVA.

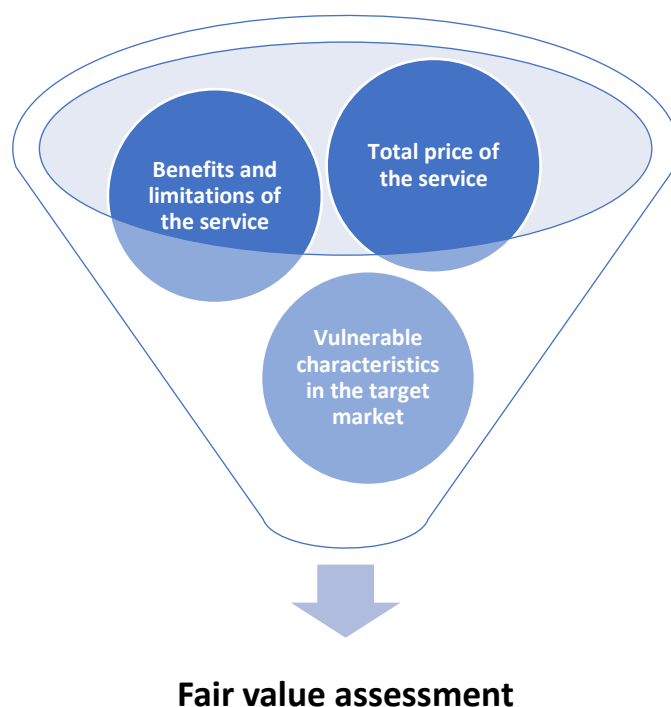
Distinction between manufacturer and distributor

Most mortgage intermediary firms should view themselves as both a manufacturer of a service **and** a distributor of products. Some firms may be a co-manufacturer, for example if they set the parameters of a product and commission other firms to build it – please see AMI's [price and value](#) factsheet for more information.

	Application in our sector	High level summary of mortgage intermediary firms' obligations under the price and value outcome
Manufacturer of a service	<ul style="list-style-type: none">▪ Mortgage intermediary firms should view themselves as the manufacturer of the advice/distribution process and any wider or ongoing services provided i.e. their proposition.	<ul style="list-style-type: none">▪ Carry out a fair value assessment (FVA) of the firm's service i.e. assess price charged to consumers vs benefits. Is there a reasonable relationship between fees and charges and the benefits consumers receive from using the firm's services?▪ Consider the needs of customers with characteristics of vulnerability in the target market.▪ Ensure services are designed to meet the target market's needs, characteristics and objectives.
Distributor of products	<ul style="list-style-type: none">▪ Mortgage intermediary firms should view themselves as distributors of the products they sell.	<ul style="list-style-type: none">▪ Ensure own charges for distributing the product represent fair value (firms will achieve this through carrying out a fair value assessment as a manufacturer of a service).▪ Obtain relevant information from manufacturers (i.e. lenders) to understand the value a product is intended to provide*.▪ Assess whether distribution arrangements (including any remuneration the firm or another person in the distribution chain receives) would result in the product ceasing to provide fair value to retail customers. <p>*It is hoped this information is supplied by manufacturers (i.e. lenders) via the product information template created by UK Finance, AMI, BSA and IMLA.</p>

Completing a fair value assessment

The FCA requires all firms to complete and document a fair value assessment. It does not prescribe a particular format this should take, but identifies that firms must consider the following at a minimum:



To help firms understand these concepts in more detail and how they apply to the fair value assessment process, we have broken down the FCA guidance into a 7-step process.

Completing a fair value assessment in 7 steps:

1. **Review your existing proposition** – what forms part of your service? What don't you provide? Is your service transactional or more ongoing? Do you deliver what you say you'll do?

Are there any characteristics of vulnerability that exist in your target market and could this impact whether these customers receive fair value? Particular groups of customers should not be disproportionately disadvantaged.

The FCA doesn't want to create a standard advice process but it does want you to consider your service offering and deliver on your promises.

2. **Review your existing pricing structure** – what is your standard fee? Do you have different service levels or does everyone pay the same? At what point in the process does your fee become payable, and does the customer still have to pay if they don't proceed/the transaction falls through?

Firms that charge different fees should carry out a fair value assessment for each proposition. This could be achieved by adapting a generalised fair value template. For example, a firm that charges an advice fee for standard residential mortgages and a different fee for lifetime mortgages should carry

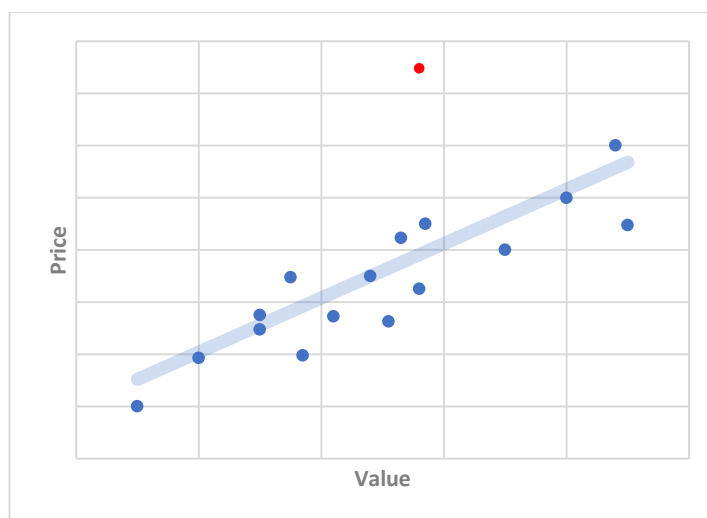
out a separate fair value assessment for each, as the services are likely to have different characteristics and are designed for different target markets.

3. **Assessing fair value** – this step is about looking at the relationship between your proposition and pricing as outlined in steps one and two. Fair value is where this relationship is reasonable. To help firms gauge what is reasonable, the FCA highlights factors firms may wish to consider:

- **The costs firms incur to manufacture and/or distribute the product or service**, such as overheads, including regulatory costs, staff, premises etc. Be careful not to over-rely on input costs as a justification for pricing, as some of these factors may be driven by business decisions that benefit the firm more than the consumer (e.g. high marketing and lead generation costs).

The FCA expects firms to consider profit margins as part of fair value assessments. What is the profit margin on each fee structure? Are there any fee structures with disproportionate profit? Firms can still make a profit under Consumer Duty but a high profit margin may indicate that customers are not receiving fair value.

- **The market rates and charges for comparable services – and whether the service is a significant outlier by comparison.** Firms could look at competitors of a similar size and offering similar services to check whether their fees and charges are broadly in keeping with the wider market. This concept can be visualised as a graph, as below:



NB: For illustrative purposes only – not based on actual market data.

The dots represent the distribution of price points in the market. As the value delivered by the firm goes up (i.e., from limited and largely transactional to more comprehensive offerings), so does the price.

Higher prices aren't necessarily a cause for concern if the firm can demonstrate how this corresponds with additional benefits for the consumer, e.g. 'over and above' levels of customer care and support.

But outliers on price delivering a standard or low-quality service would be in breach of FCA fair value rules – as exemplified by the point shaded in red.

- **Any accrued costs and/or benefits for existing services.** This will be applicable if an ongoing fee is charged, as the accrued/ongoing benefits of the service will need to be assessed.

- **Any follow-up services provided**, such as phone calls, answering post-sale enquiries or making variations to the mortgage. Do you do this for free or charge extra?

There may be other factors that you consider as part of your fair value assessment, as long as they allow you to demonstrate that there is a reasonable relationship between the total price of your service and the benefits the customer receives.

Remember, benefits and costs do not only have to be financial, but they can also be non-financial too such as the degree to which customers have to take on a share of the admin work or responsibility for chasing third party providers for updates.

***New** – Firms should identify whether their business model includes cross-subsidisation of fees (i.e. where a higher margin on one fee compensates for lower margins on others). Cross-subsidisation is allowed, as long as firms can evidence they have assessed for fair value and that certain groups of customers (such as those with vulnerable characteristics) are not disadvantaged.

If you identify any areas that are not fair value, you will need to make adjustments to your pricing structure and/or service proposition. Once you are satisfied your service delivers fair value, ensure it is documented alongside your rationale.

4. **Consider your approach to differential pricing.** Firms must assess the fair value of all pricing decisions in advance, ensuring prices represent fair value for a reasonably foreseeable period for all customers in the target market. AMI's view is that for mortgage intermediary firms the 'reasonably foreseeable period' should reflect the start and end point of the firm's service (i.e. its proposition).

- **Look at outliers** – when do customers pay more or less than your standard fee? Is this applied consistently and fairly?
- **Create a policy for bespoke pricing** – firms may wish to consider creating a fees policy to inform how advisers should apply non-standard pricing. Otherwise, there is a risk that customers pay different prices for the same outcome, which would be unfair. For example, if four customers with more or less identical needs receive advice from the same adviser but are charged different fees, this would be in breach of the Consumer Duty. Where a firm charges different fees based on the customer enquiry route (for example, direct vs. via an introducer) it should satisfy itself that fair value is provided for all groups of customers. ***New** – Similarly, where a firm offers upfront discounts for new business it should a) ensure this is clear and transparent and b) the fee is fair value.

5. **Look at the whole proposition** – does it represent fair value?

- **Review the information shared from lenders (as product manufacturers).** The purpose of this exercise is for the distributor firm to understand the value the product intends to provide and to understand whether their distribution arrangements would prevent the product from providing fair value. For more information, please read AMI's [Consumer Duty blog](#) on information sharing.

- **Manufacturers need to make sure they share enough information to align distributors' understanding with their own** – especially in respect of the intended target market, how the product set meets the needs of that target market, and how it delivers fair value. Firms should not distribute products where they do not understand the intended value.
- **Factor in total remuneration** – including proc fees and arrangements whereby a firm receives pay-aways for referrals to third-parties.

By using the word 'remuneration' and not just 'fees', the FCA is capturing the entirety of the money changing hands to compensate a distributor for their work. However, some member firms have queried how they should factor proc fees into their own fair value assessments.

To clarify: broker firms **should not** capture monetary data on proc fees or commission rates and attempt to factor them into their fair value calculations. It remains the lender's responsibility to assess the fair value of proc fees paid to distributors. This includes cases where lenders allow brokers to choose commission rates within a set range.

However, the distributor firm still needs to consider how proc fees (and other third-party remuneration) **influence** their own pricing and other decisions. Is there any risk of proc fees or other remuneration creating perverse incentives for advisers and the potential for poor consumer outcomes?

- If no, how can this be demonstrated, explained and evidenced?
- If yes, what action is the firm taking to address this risk?

Think about existing processes and procedures, such as conflicts of interest policies, T&C policies/processes and lender due diligence as, where relevant, these could be used to demonstrate how this is managed by the firm.

6. **Steps 1-5 should be captured in a document that reflects the process and outcome of your firm's fair value assessment** Adequate evidence and rationale to support your fair value assessment is important, so ensure this is included. You may also wish to include references or links to any supporting documentation, e.g. information received from lenders.
7. **Ensure any wider documentation and processes are consistent with the outcome of your fair value assessment.** For example, customer facing documents such as initial disclosure documents as well as internal training materials.



***New** – don't forget that when assessing fair value, a firm should consider the wider Consumer Duty 'picture' i.e. the outcomes and cross-cutting rules. For example, a firm which charges a broker fee should be alert to feedback from customers (this could be complaints and/or from customer conversations) which suggests they have misunderstood that a fee would be charged and how this would be paid (consumer understanding outcome).

Creating a fair value framework

- Firms should turn their fair value assessment into a framework, to be used to assess fair value when:
 - Creating a new service.
 - Significantly adapting an existing service.

For example, a firm amends its service proposition to include ongoing analysis of products held by customers versus those available in the market, using third party technology. It carries out a fair value assessment on the adapted service to ensure there is a reasonable relationship between the cost of its service (i.e. the advice fee) and the benefits received by customers.

As part of this framework, firms should also detail the remediation steps that will be taken should their service be assessed as 'unfair value'. For example, who is expected to do what and by when within the business?

Reviewing the assessment

A mortgage intermediary firm (acting as both a manufacturer and distributor) needs to regularly review the value assessment and its own distribution arrangements throughout the life of the services it provides and the products it distributes.

***New** - The FCA does not define 'regular' and it is therefore down to individual firms to determine the frequency. In AMI's view, circumstances that may dictate this could include where a firm changes its fee structure, the scope of its services or target market. It's also important to remember that if a firm finds any indicators of customer harm (e.g. if through the firm's monitoring it sees customers receiving poor outcomes as a result of its distribution arrangements) it would be expected to act.

Similarly, product manufacturers (such as lenders) are required to regularly review the value of their products. It will be down to each lender to determine the frequency of such reviews but this is likely to occur where a product has been adapted or where a new product is introduced (for example, a green mortgage product). AMI would expect that where lenders update a product information sheet, they inform intermediaries so that firms can ensure their distribution strategy is appropriate.

Mortgage intermediary firms should ensure that when advising on existing and new products they understand how the product being on a firm's panel meets the needs, characteristics and financial objectives of their target market. The FCA touches upon this in its January 2025 ['Dear CEO' letter](#) to mortgage intermediaries.

- Please refer to [AMI's factsheet on price and value](#) for more information.
- Firms should use MI to help identify when a review may be required. For example, a firm receives a number of complaints about its broker fee. It carries out a root cause analysis of the complaints and deems it appropriate to review its fair value assessment. Please refer to [AMI's factsheet on monitoring and evidencing outcomes](#) for more information.
- ***New** – the fair value assessment should be used by a firm's senior management to satisfy itself that the firm is meeting requirements under the price and value outcome. It can form part of the MI that is used as part of a firm's annual report (see AMI's factsheet on the [annual assessment requirement](#)).

Further reading

- AMI's Consumer Duty Q&A includes frequently asked questions on fees and pricing. Click [here](#) to access.
- FCA findings from its review of large firms' fair value assessments. Click [here](#) to read AMI's overview.
- ***New** - FCA findings into fair value good and poor practices. Click [here](#) to read.