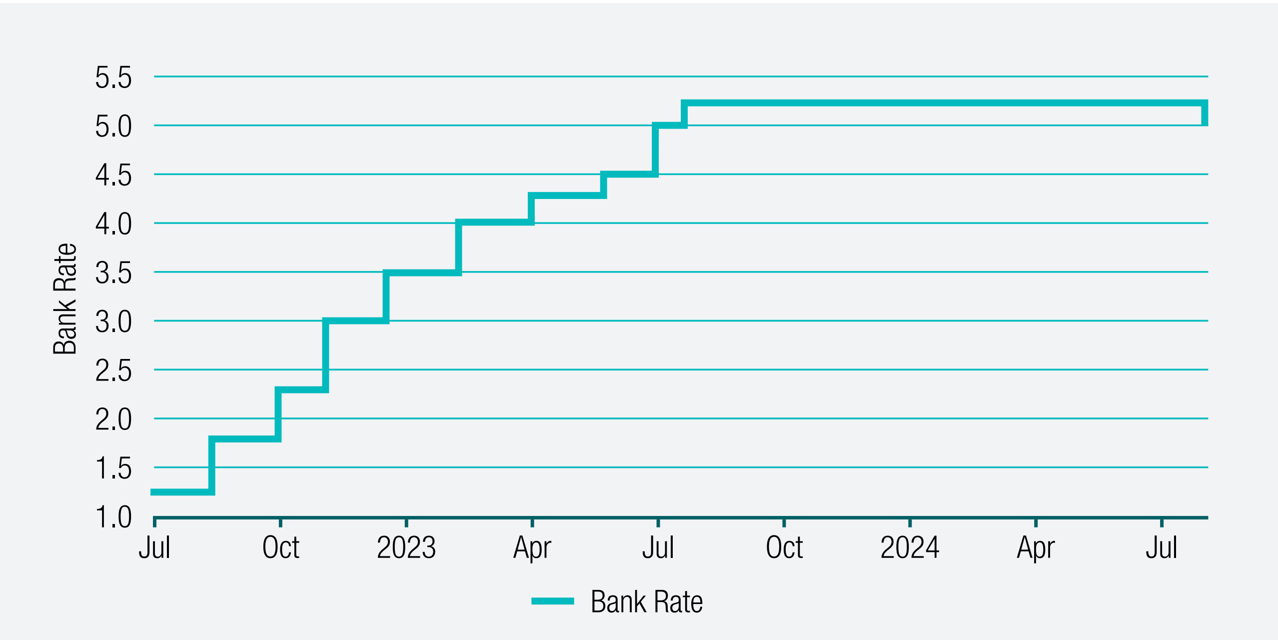
CONSUMER DUTY IN A WORLD WHERE RATES ARE FALLING

A period of falling rates represents one of the first substantive tests of product pricing and customer fair value since the Consumer Duty came into effect in the UK. Banks and building societies need to plan now to ensure they can move quickly to stay in line with Consumer Duty expectations across the seven key areas outlined in this article, while demonstrating that decisions are data-driven and outcomes monitored.

The FCA's Consumer Duty came into effect on July 31, 2023. This coincided with the end of a year-long period in which UK interest rates had progressively risen from 1.25% in July 2022, to 5.25% in August 2023. Rates remained flat until August 2024, when the Bank of England announced its first cut in rates since March 2020 – dropping them by 25bps to 5%.



Source: Bank of England (https://www.bankofengland.co.uk/monetary-policy/the-interest-rate-bank-rate)

This represents the first big test of the Consumer Duty in the context of falling rates, and the extent to which firms have embedded the concept of good outcomes into their policy, practice and culture. For UK banks and building societies, now is the time to consider how they respond in a way that ensures they stick to their obligations under the Duty.

Firms' preparations for the Consumer Duty were intended to ensure they consider carefully how their products and services are delivering good customer outcomes – including price and value. Indeed, in August 2023 – against a backdrop of rising interest rates – the FCA was quick to ask firms to provide evidence that their approach to savings supported good outcomes, e.g. through offering variable rate products and the speed of rate rises. This tested many of the processes that firms had established in response to the Duty, including their fair value analyses, their use of data and the effectiveness of their governance.

The FCA are continuing to focus on fair value as a core concept of the Duty, including requests that firms share their fair value frameworks and, in some cases, specific Consumer Duty assessments regarding the savings accounts that pay the lowest rates. This theme can also be seen in FCA webcasts[1] and their most recent 'Dear CEO' letters.[2]

The same areas of focus are likely to be at the forefront again as rates fall, although this naturally poses a different set of questions for firms in relation to borrowers versus savers:

<table>
<tr><th>Borrowers</th><th>Savers</th></tr>
<tr><td>• The speed and scale of any rate reductions for borrowers. How does this compare to how we acted when rates were rising?
• What impacts will rate reductions have on different customer cohorts (especially vulnerable customers)?
• Are changes disproportionately impacting different customer segments, e.g. customers on SVR vs those on fixed-term or variable rates?</td><td>• Speed and scale of any pass through of rate reductions to savers. How does this compare to how we acted when rates were increasing?
• What impacts will rate reductions have on different customer cohorts (especially vulnerable customers)?
• Are the changes we're proposing in-line with the expectations for the target market, e.g. easy access, variable rate customers vs fixed rate/limited access products?
• Do we need to provide new or enhanced support to ensure we are supporting saving customers properly in an environment of rate reductions?</td></tr>
<tr><td colspan="2">• How will we ensure that our communications around any rate changes are clear and understood? Do we have learnings from last time that we can deploy?
• Are there differences in our channel offerings that mean the changes will disproportionately impact certain customers or certain products, e.g. online-only customers/products vs in-branch services and products?
• Are the impacts of our price changes across savings and lending appropriate and proportionate, e.g. in terms of overall mix and profitability across customer segments?</td></tr>
</table>

1. July 2024 – FCA - Consumer Duty: 1 year on: https://webinars.fca.org.uk/fca-consumer-duty-1-year-on/room
2. May 2024 – Dear CEO letters: https://www.fca.org.uk/firms/consumer-duty/resources#section-dear-ceo-letters-closed-products-and-services

KEY AREAS OF FOCUS

As UK banks and building societies consider how they will respond to rate changes, they have another opportunity to ensure that the Consumer Duty is firmly embedded in the firm's culture.

There are seven key areas that firms need to prioritise:

1. Fair Value

Re-use the tools and analysis put in place during Consumer Duty preparations, and test that any proposed changes will still deliver good outcomes. Check outcomes across different customer segments and target markets. It is important that firms do not apply a tick box process to fair value assessments, but genuinely take the time to examine the value customers receive, and whether benefits are commensurate with what they pay. Assessment of fair value should now be part of the DNA for product management.

2. Speed of Change

Think carefully about the speed and degree to which you pass on rate changes to customers. Check that these are coherent with what customers would expect and with what happened when rates were going up. Is the balance correct and appropriate for both savers and borrowers? To move fast after a rate change, while demonstrating an appropriate consideration of price paid versus benefits received, firms need to conduct scenario planning in advance, to make decision-making easier when the time comes.

3. Use of Data

Firms need to be able to demonstrate not only that they are gathering and reviewing the right data, but also that their decisions are data-driven. The FCA continues to emphasise this and is signalling its importance by increasingly adopting a 'data-driven' approach for its own decisions. Avoid relying on market price comparisons and benchmarks alone when making decisions. Use a range of internal (e.g. customer segment comparisons, customer complaints) and external data and insights (e.g. customer feedback). It's also important to ensure that fluctuating sales volumes and the consequent operational workloads are managed to ensure good customer outcomes.

4. Customer Communications

Be clear and up front with customers when rates are changing. Use a range of channels, and don't just rely on official letters or statements to communicate: frequent, often and in clear understandable language is best. Demonstrate that you've learned by testing different communications and approaches, and then evolving your approach based on these insights. Given how quickly firms need to move after a rate change, they should be developing communications options now, and considering options for early testing.

5. Support for Vulnerable Customers

Ensure that impacts on vulnerable customers are clearly and fully assessed – both for savers and borrowers as rates decline. Consider what new support or guidance you may need to put in place to support vulnerable customers, and ensure colleagues are suitably trained and ready to support customers when needed – especially for customers that hold multiple products, and who may be both savers and borrowers.

6. Governance

Be clear and thoughtful about how you will evidence decisions. It is important that governance doesn't impede your ability to move at speed, but firms need to provide clear oversight of well-considered outcomes for customers across the bank. Get in front of the challenge by re-using data insights from your initial work on Consumer Duty, including fair value assessments, target market maps and previous lessons learnt.

7. Third parties

The FCA continues to highlight the importance of oversight across the supply chain, especially where third parties collaborate as manufacturers and distributors. Check now that you have the information and insights to assess that rate changes deliver fair value across the supply chain, and can show how value is shared.

HOW CAPCO CAN HELP

CAPCO have deep Consumer Duty expertise and practical experience delivering for clients. Alongside our award-winning advisory services, we have a range of accelerators to power-up firms' responses to the Consumer Duty. These include:

Fair value review: Support and expertise to assess and benchmark fair value frameworks in line with the Consumer Duty's Price & Value outcome. Our accelerator can help firms identify areas for improvement and unlock insights into opportunities to deliver improved customer outcomes.

Consumer Duty dashboards: Expertise on data-led approaches to enable Consumer Duty reporting visualisations, with guidance and best practice to support the provision of rich, engaging and impactful insights into customer outcomes.

Consumer Duty culture review: Our embedding review helps firms transition from a programme approach to business as usual. Designed to ensure that delivery of good outcomes can be assessed across the organisation, it provides practical outputs to help firms proactively continue to bring the Consumer Duty to life.

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ABOUT CAPCO

Capco, a Wipro company, is a global management and technology consultancy specializing in driving transformation in the energy and financial services industries. Capco operates at the intersection of business and technology by combining innovative thinking with unrivalled industry knowledge to fast-track digital initiatives for banking and payments, capital markets, wealth and asset management, insurance, and the energy sector. Capco's cutting-edge ingenuity is brought to life through its award-winning Be Yourself At Work culture and diverse talent.

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