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FCA's recent review of Consumer Duty Outcomes Monitoring across the insurance industry

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On 26 June 2024, the Financial Conduct Authority (FCA) published key findings from its December 2023 multi-firm review of larger insurance firms' approaches to outcomes monitoring under the Consumer Duty. While the review relates to insurers, insurance intermediaries and outsourced service providers operating within the insurance sector, the FCA has stressed that all retail financial services firms in other sectors should also consider these findings. In this section we discuss what those findings are and the FCA's expectations on how to monitor Consumer Duty outcomes.

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In December 2023 the FCA requested the most recent board and/or committee reporting from 20 larger insurance firms. These included general insurers, life insurers, insurance intermediaries and regulated third-party outsourcers which service insurers. It asked these firms to show how they monitor, assess, and test the outcomes customers are receiving under Consumer Duty, along with actions they had taken after identifying poor outcomes. Specifically, the FCA sought to assess how firms are complying with the requirements in PRIN 2A.9 of the FCA Handbook (monitoring of consumer outcomes) and the guidance in Chapter 11 of its non-Handbook guidance for firms on the Consumer Duty.

The FCA saw a wide variety in the quality of responses by firms, including a number of good and poor practices. While some showed good progress in developing a clear and comprehensive firm-wide approach to monitoring customer outcomes, the FCA found that many firms need to make improvements in their monitoring to enable them to determine whether they are delivering good outcomes for retail customers, as required by the Duty.

So what?

As we know the Duty is not a one-time task but a continuous process that should be ingrained in the firm's culture and operations, spanning from the Board to frontline delivery, and across product design, communications, and customer support. The FCA emphasises the importance of firms monitoring, assessing, and testing consumer outcomes under the Duty and taking action upon identifying negative outcomes. Without this, firms cannot ascertain their compliance with the Duty's requirements.

In light of the FCA's findings, firms should consider the following for effective outcomes monitoring:

- Metrics and data must be both comprehensive and meaningful. Simply quantifying product assessments without evaluating their fair value does not provide the board with insights into whether these products offer fair value. In other words, the data needs to be qualitative as well as quantitative.
- Merely re-packaging existing data to monitor customer outcomes will not suffice! The FCA has previously called this out as an example of 'poor practice' as it expects firms to appropriately consider whether the data, they have is sufficient for the customer outcome monitoring required by the Duty. Firms should therefore ensure that they collect sufficient data to effectively monitor customer outcomes. It is worth looking at the examples of the types of data the FCA provided in its Consumer Duty Non-handbook guidance (FG 22/5).
- Data analysis should be thorough, with reports explaining what the metrics indicate and suggesting potential actions, especially in cases of poor customer outcomes, to enable effective board oversight.
- Thresholds and standards must be set and communicated clearly, avoiding arbitrary, overly high/low, or too high level criteria.
- Firms should be able to demonstrate clear evidence of proactive measures taken to improve outcomes following monitoring.
- Outcomes for different groups of customers in the firms' target market must be monitored. The FCA expects monitoring of outcomes experienced by distinct customer groups to be consistently demonstrated and that firms are able to identify whether these groups get worse outcomes than other customers for the same product. Where firms identify different outcomes being experienced, further analysis or action then needs to be taken.
- In terms of monitoring against the 4 Consumer Duty outcomes:
    - **Products and services**- board or committee reporting should focus on the findings of any product reviews undertaken. This should provide sufficient insight into customer outcomes and evidence of any action being taken because of those reviews. The FCA found that firms who combine a wide range of products and services metrics achieve better insights and are more likely to drive better outcomes.
    - **Price and value**- Management Information (MI) should be granular enough to evidence whether fair value is achieved for different customer groups in the target market. MI should cover the various aspects which determine the price a customer receives, such as commission or charges, or the operational costs in running the product, and key aspects of value, such as the use of overall product benefits. Again, in the FCA's view firms who combine a wide range of metrics and data, broken down to product (or product group level) to better understand whether good outcomes on price and value were being achieved are more likely to drive better outcomes.
    - **Consumer understanding**- Use data points from multiple sources with Quality Assurance focused on monitoring customer understanding including clearly mapping a wide range of customer journeys so that the consumer understanding outcome can be tested methodically across different parts of the journey. The FCA found that firm monitoring was sometimes

process driven. For example, reporting whether a communications review has occurred or whether a renewal letter is sent on time. Also, some firms heavily relied on one type of data, such as net promoter scores and did not give evidence of many meaningful insights from their monitoring.

- **Consumer support**- Firms should have sufficient information including MI of appropriate granularity in order to monitor under this heading. For example, extensively mapping all key customer journeys and monitoring various service data across them, including timeliness of each engagement and end-to-end transactions could help with monitoring this outcome. Although the FCA saw all firms having some form of customer service targets or service level agreements (SLAs) in place to assist monitoring, it couldn't see how these targets or SLAs were determined, and, in some instances, these were unlikely to meet reasonable customer expectations for key journeys.

All firms subject to the Duty should leverage these insights to re-evaluate their monitoring processes. Where gaps in monitoring processes and compliance with the FCA's rules are identified, robust plans should be put in place to address shortcomings.

Next steps

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