

FCA stresses Consumer Duty fair value concerns

AT A GLANCE

May 2023

What's new?

- The FCA published the [findings](#) of its review into firms' fair value assessment frameworks on 10 May 2023, setting out good practice and priority areas of improvement for firms ahead of the July 2023 Consumer Duty implementation deadline.
- In particular, the FCA identified deficiencies in firms' ability to evidence that a product or service represents fair value, how this is differentiated across customer groups, and a lack of clear oversight and accountability of the remedial actions taken if products or services do not provide fair value.
- The findings featured as part of a speech by Sheldon Mills, FCA Executive Director for Consumers and Competition, where the FCA reaffirmed its strong supervisory and enforcement approach to firms' compliance with the Duty.

What does this mean?

- Firms' assessment of fair value is a central pillar of the FCA's Consumer Duty. The FCA reviewed the fair value assessment frameworks of 14 firms across a sample of retail banks and consumer investment, consumer finance and payments firms. Firms subject to existing FCA fair value rules, for example, General Insurance firms and Asset Managers, were not in scope of the review but are subject to ongoing FCA scrutiny on their approach to assessing fair value.
- The review highlights good practices observed across five key elements of firms' fair value frameworks. It also outlines where firms need to go further in meeting the Consumer Duty fair value expectations, including where firms should challenge themselves to bolster their analysis and evidencing of fair value.
- **Understanding fair value:** While firms have set frameworks to establish principles for how they would apply the concept of fair value, the FCA identifies some frameworks that placed an over reliance on unevidenced arguments that a firm's business model was inherently fair value. In some cases, firms had also not established a clear split of responsibilities between manufacturers and distributors.
- **Assessing value:** The FCA calls out good practice of firms being able to provide a reasonable view of how they will assess the benefits a customer receives, including how bundled products will be considered. However, the FCA notes failings in firms' ability to consider broader types of non-financial costs and benefits in this assessment, as well as to factor in the firm's profit margins across different products and services. It also questions firms' ability to assess different products or services across different target markets where firms adopt a single generalised template for assessing fair value.
- **Contextual factors:** The FCA observes some good practices such as firms drawing connections across other elements of the Duty's rules, factoring in the impact of wider market changes, and considering behavioural biases in its fair value assessment. It also calls out where some firms did not consider broader contextual factors in their view of fair value, for example the overall fairness of a firm's pricing structure, or the information needed from firms in the distribution chain.

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- **Assessing differential outcomes:** While some firms had considered tailored assessments of outcomes for different customer groups, including those with characteristics of vulnerability, the FCA highlights that some frameworks relied on using the average outcomes customers in the target market receive rather than showing a full distribution of outcomes across the group of customers. The FCA reminds firms to ensure their fair value analysis provides decision-makers with sufficient understanding of outcomes received across different customer groups, including making sure fair value outliers can be effectively identified and rectified with appropriate accountability mechanisms in place.
- **Data and governance:** The FCA notes some firms have not developed a plan for monitoring fair value, including identifying the data needed and how any data gaps will be addressed. The FCA also highlights firms' oversight of fair value assessments, reminding firms to ensure decision makers have sufficient information to understand, review, and challenge any points-based or RAG-rating presentation of fair value assessments, as well as any limitations in the analysis.
- The FCA reminds firms that it will focus on the most serious cases of non-compliance with the Duty and where it identifies evidence of harm or risk of harm. It adds that firms which have taken no action or pose the most harm should expect swift and assertive supervisory and enforcement action.

What do firms need to do?

- Firms should be well underway in their Consumer Duty implementation and be prepared to meet the July 2023 deadline for new and existing products. In particular, firms should have reviewed their approaches to

the areas of concern identified in the relevant FCA sector communications and have taken action to remedy any issues. Firms should also be mindful of the July 2024 closed book deadline and transpose relevant learnings from current implementation programmes.

- Regarding fair value, firms should learn from the FCA's findings and take swift action to address any shortcomings. In particular, firms should think carefully about the data used to collect and monitor fair value, including how this considers the full distribution of outcomes across customer groups and the product lifetime, as well as throughout the value chain. Firms should have clear plans to address any data gaps.
- How firms present their assessment of fair value, as well as their analysis of how they're delivering good outcomes across the Duty, will be critical. Firms should ensure boards and relevant committees are provided with the necessary information of sufficient granularity to enable critical review and challenge of consumer outcomes. Firms should have transparent processes in place for taking remedial steps if consumer harm is identified.
- The FCA has encouraged firms to embrace a greater use of data, analytics and technology to generate improvements to their services and understanding of customer outcomes. The FCA also notes that while many firms need to improve in this area, successful approaches can ultimately drive positive value for their business.
- Firms should consider: their data capabilities, including any existing gaps; how technology can be leveraged to generate more insightful and efficient assessment and monitoring of customer outcomes; and where solutions could be embedded to support long-term compliance with the Duty and drive value generation for the business.

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Next steps

The FCA will continue to monitor firms' approaches to implementing the Duty ahead of the July 2023 deadline. This includes future reviews of fair value assessment for specific products and services, and targeted engagement with smaller firms following the FCA's recent survey on readiness for the Duty.

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