



# CONSUMER DUTY IMPLEMENTATION

A FIVE STEP APPROACH TO SUCCESSFUL  
IMPLEMENTATION

# FOREWORD

Through the new Consumer Duty, which has been reported as one of the biggest advancements for consumers in more than 20 years, the FCA aims to “set a higher standard of consumer protection in retail financial markets, where firms compete vigorously in the interests of consumers.” It is a package of measures that consists of a new principle, rules, and guidance. There are three key elements which underpin the proposed duty, which include;

**The consumer principle:** this is designed to improve overall standards of behaviour with the requirement that 'a firm must act to deliver good outcomes for retail clients'.

**The cross cutting rules;** which relate to the specific behaviours required, and

**Four outcomes:** more detailed expectations around four specific outcomes; products and services, price and value, communications and customer service.

In brief, under these proposals, firms will have a duty to make sure their customers are receiving fair value, fit for purpose products, that they understand how to use and receive the support they need to do so. Firms will have to consider the needs of their customers – including those in vulnerable circumstances – and how they behave, at every stage of the product/service life cycle, extending their focus beyond ensuring narrow compliance with specific rules, to also focus on delivering good outcomes for customers. It will require material changes for both manufacturers and distributors.

The FCA's direction of travel is clear and firms should ensure they are taking appropriate steps to ensure that they have developed business models, products and services, and supporting processes and procedures that align with the new rules and guidance.

## **Paul Scott**

Managing Director  
Square 4 Partners



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The new duty will drive a change in culture at firms. We expect firms to step up and put consumers at the heart of what they do and we'll be holding senior managers accountable if they do not. The duty will also help create an environment for healthy competition between firms, encouraging them to be innovative in developing products and services that meet consumer's needs

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# OUR APPROACH

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The Consumer Duty should be treated as a significant regulatory change programme. In ensuring the successful implementation of the new Consumer Duty, we recommend the following 5 staged approach.



**STAGE 1** - SOCIALISE AND GET BUY IN FOR THE CHALLENGE AND APPROACH

**STAGE 2** - UNDERTAKE A THOROUGH GAP ANALYSIS

**STAGE 3** - PLAN ALL REQUIRED ACTIVITIES BETWEEN NOW AND APRIL 2023

**STAGE 4** - ESTABLISH GOVERNANCE TO OVERSEE THE IMPLEMENTATION OF THE PLAN

**STAGE 5** - REFINE REPORTING FRAMEWORK TO INFORM SENIOR MANAGEMENT AND ULTIMATELY THE BOARD'S ANNUAL ASSESSMENT





# STAGE 1

## SOCIALISE AND GET BUY IN FOR THE CHALLENGE AND APPROACH

This is the initial stage to raise awareness across the business and is an opportunity to inform and debate key aspects of the Consumer Duty, its purpose, intent and the key requirements for firms.

We recommend kicking off this stage with engagement with your Senior Management team to ensure a common understanding of the Consumer Duty which provides the foundation for future stages.

We acknowledge that there will be many other interested and relevant stakeholders across firms outside of the Senior Management team (e.g. Marketing, Customer Service, Credit, Compliance etc.) interested in the new Consumer Duty and acknowledge a wider programme of engagement may be appropriate, particularly with stakeholders with responsibility for the four outcomes (product governance, pricing and value, communication and customer support). We recommend running workshops with this wider group of stakeholders to both inform and challenge the current status quo, allowing individuals to 'raise any concerns and challenges' they feel might impact compliance with the new Consumer Duty.

It should be noted that in addition to the above, wider communication, engagement and training may be required.

As part of Stage 1, you should also look to agree on the ongoing governance, Senior Management responsibility for the programme as a whole and for each of the four outcomes, project management support and ongoing reporting.





# STAGE 2

## UNDERTAKE A THOROUGH GAP ANALYSIS

The gap analysis should detail the requirements contained within the Consumer Duty i.e. the Rules and Guidance reflected in the cross-cutting rules and the four outcomes. The assessment would be your current state against the future state requirements.

We suggest the gap analysis process is owned by Compliance, utilising a 'hub and spoke' approach. The ownership, build, run and ongoing facilitation is the responsibility of compliance (the hub) with the actual assessment to be undertaken by the relevant first-line/business operations (the spoke).

We recommend Compliance takes the lead with detailing the approach including the development of the gap analysis template to ensure it's consistent across all parts of the business, as well as clearly articulating the process and providing ongoing support throughout the process. Compliance should provide ongoing review and assurance on submissions, engaging with the first line on any questions and queries as appropriate. The output of this stage should be shared with your senior management team for review.

In undertaking your gap analysis, it is hard for firms to critically assess against standards they've previously designed and embedded. The gap analysis is critically important and will drive activity within any subsequent implementation plan. We would therefore encourage firms to take the necessary steps to ensure appropriate assurance and reliance before moving forward with implementation at Stage 3.





# STAGE 3

## PLAN ALL REQUIRED ACTIVITIES BETWEEN NOW AND APRIL 2023

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The output from Stage 3 should be a detailed plan, prioritising any actions to be undertaken. We would recommend presenting the plan at your agreed governance forum/body for their challenge, approval and sign-off.

We would expect this Stage to include all aspects relating to **people, policies** and **processes, systems** and **associated controls** within the first and second lines.

Actions to address any shortfalls, raise standards or implement new standards and approaches should be owned by relevant stakeholders in the first line with Compliance being available for ongoing support and assurance.

As part of this stage, we would recommend agreeing on your approach to tracking the progress of implementing the agreed actions and how they will be reported.



# STAGE 4

## OVERSIGHT TO OVERSEE THE IMPLEMENTATION OF THE PLAN

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We would expect the agreed governing body to oversee the work and advocate the Consumer Duty becoming a standing agenda item for escalation of key decisions, progress updates etc.

Where appropriate we would recommend ongoing reporting to include;

- Progress against plan
- Actions are completed on time
- The appropriate capture of risks and issues
- Escalation of risks, issues and decisions
- Ongoing communication and reporting

With regards to ongoing assurance, Compliance and your advisers should continue to provide oversight through the process and continue to inform the project of market developments and evolving best practices.

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THANK YOU FOR YOUR  
CONTINUED SUPPORT  
THROUGHOUT OUR JOURNEY. WE  
COULDN'T DO IT WITHOUT YOU  
AND THE SQUARE 4 TEAM

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# STAGE 5

## REFINE ONGOING MONITORING/ REPORTING FRAMEWORK TO INFORM SENIOR MANAGEMENT AND ULTIMATELY THE BOARD'S ANNUAL ASSESSMENT

A critical piece of the new Consumer Duty is the focus on outcomes. We would therefore advocate reviewing existing monitoring in the first and second line to ensure policies, processes and methodologies are aligned to the new regulatory regime and the focus on outcomes.

This should include reviewing approaches to quality assurance, ongoing monitoring and ensuring management information and reporting are aligned to customer outcomes.

Inherent within this is the management information and reporting to the governing forum/body to ensure the Senior Management team have the information required to complete their annual assessment.



# ABOUT US

Square 4 was founded with the vision to support people and businesses to grow and thrive across the evolving spectrum of governance, conduct, financial crime and operational risk. We are an advisory and resourcing business that leverages technology and expertise to design bespoke solutions across our core service lines of:

- Governance, risk and compliance
- Fraud and financial crime
- Technology solutions
- People

Across the team, we have extensive experience incorporating the 'big four' professional service firms, industry regulators, leadership roles within Financial Institutions and other outsourced learning, resourcing and consultancy providers.





# WHY CHOOSE SQUARE 4

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The Square 4 team proposed for this engagement has extensive regulatory expertise combined with 'in firm' experience, the combination ensuring an approach to the implementation of the Consumer Duty which is pragmatic, proportionate and outcome-focused.

## REGULATORY EXPERTISE

Square 4 brings extensive industry and regulatory insight and benchmarks industry best practices through a wide range of sources, such as:

- Our ongoing engagement with firms
- Regulatory interaction (including Skilled Person Reviews)
- Dialogue with trade bodies
- Our network of Consultants, Associates and Supervisors (past and present)
- Our membership of the Association of Professional Compliance Consultants

## PROVEN TRACK RECORD

The Square 4 team has extensive experience in working with firms to implement change (regulatory and operational) aligned to FCA expectations and industry best practices, specifically within retail lending.

We have provided advisory support to firms across the product life-cycle, including; reviews on new propositions, product launches, sales practices and post-sale activities.

# GET IN TOUCH

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0845 139 4444



[hello@square4.com](mailto:hello@square4.com)



48 Warwick Street,  
London,  
W1B 5AW