



FCA Consumer Duty

PCL Overview July 2024



Introduction

The Consumer Duty ('the Duty') sets the standard of care that firms should give to customers in retail financial markets.

It sets expectations that can apply flexibly and dynamically to new products, services and business models as they continue to emerge and develop in a changing and increasingly digital environment. So, it better protects consumers from current and new/emerging drivers of harm, and gives firms more certainty of the FCA expectations to support innovation, competition and new ways of serving customers.

The Duty is comprised of 3 key elements.

1. A **Consumer Principle** - "A firm must act to deliver good outcomes for retail customers".

This reflects the overall standard of behaviour the FCA want from firms and which is defined further by the other elements of the Consumer Duty.

2. The '**cross-cutting rules**' which set out how firms should act to deliver good outcomes for retail customers. They require firms to:

- act in good faith towards retail customers
- avoid causing foreseeable harm to retail customers
- enable and support retail customers to pursue their financial objectives

3. The '**four outcomes**' which are a suite of rules and guidance setting more detailed expectations for firm conduct in four areas that represent key elements of the firm-consumer relationship:

- the governance of products and services
- price and value
- consumer understanding, and
- consumer support

The Consumer Duty is underpinned by the concept of reasonableness. This is an objective test and means that the rules and guidance must be interpreted in line with the standard that could reasonably be expected of a prudent firm.

Our work is split into assessing ourselves against these elements and the 4 outcomes from a pre live activity standpoint and then how we monitor our performance and processes going forward post implementation.



The FCA expectations of firms under the Duty

Firms should:

- put consumers at the heart of their business and focus on delivering good outcomes for customers
- provide products and services that are designed to meet customers' needs, that they know provide fair value, that help customers achieve their financial objectives and which do not cause them harm
- communicate and engage with customers so that they can make effective, timely and properly informed decisions about financial products and services and can take responsibility for their actions and decisions
- not seek to exploit customers' behavioural biases, lack of knowledge or characteristics of vulnerability
- support their customers in realising the benefits of the products and services they buy and acting in their interests without unreasonable barriers
- consistently consider the needs of their customers, and how they behave, at every stage of the product/service lifecycle
- continuously learn from their growing focus and awareness of real customer outcomes
- ensure that the interests of their customers are central to their culture and purpose and embedded throughout the organisation
- monitor and regularly review the outcomes that their customers are experiencing in practice and take action to address any risks to good customer outcomes
- ensure that their board or equivalent governing body takes full responsibility for ensuring that the Duty is properly embedded within the firm, and senior managers are accountable for the outcomes their customers are experiencing, in line with their accountability under the Senior Managers and Certification Regime (SM&CR)





PCL Implementation Approach



Top Down Impact Assessment Output

Our top down assessment has enabled the business to:

- Develop a robust governance framework for the implementation work, with clear executive accountability for delivery and board oversight.
- Established a central coordinating forum to drive consistency in interpreting the Duty across different business functions, and coordinating required changes to systems and technology across workstreams.
- Commit resource that matches the scale of uplift and challenges presented by implementing the Duty
- Ensure effective prioritisation: Our implementation work has been prioritised appropriately, focusing on reducing the risk of poor consumer outcomes and assessing where we need to make the most enhancements to meet the requirements of the Duty.



Bottom Up Assessment, Consumer Duty - Workstreams

Our approach is based on defining the FCA requirements and control environment required for each outcome alongside the metrics assessing the outcome

We have created 11 workstreams that further break down the requirements into actual deliverables, each has a specific target date in place and is being monitored via project governance

Each workstream has been assigned a business workstream lead that will be responsible for leading the deliverables.

Workstream

Customer Communications

Customer Journeys

Distribution and Partner Support

Product Oversight

Customer Support

Vulnerability

Purpose and Governance

Performance Management and Training

MI and Reporting

Appointed Representatives

Third Party

There is a 12th workstream that is responsible for any system development that is required to enable the above workstreams to address the 181 Consumer Duty points. This is managed by the project and follow normal Change governance



Distribution Chain



Product & Services Outcome - Guidance for distributors

Overview: Firms are distributors if they offer, sell, recommend, advise on, arrange, deal, propose, or provide one of our products, including at renewal. Some of these terms – selling, arranging and dealing. The concepts are deliberately broad, and the terms may overlap, to capture all aspects of the distribution of a product or service.

‘Distributors must have distribution arrangements for each product or service they distribute’

The distribution arrangements must:

- avoid causing and, where that is not practical, mitigate foreseeable harm to customers
- support management of conflicts of interest
- ensure the needs, characteristics and objectives of the target market are taken into account

In relation to management of conflicts of interest, for example, firms should not make any arrangements, such as by way of remuneration or sales targets, that could provide an incentive to employees to recommend a particular product or service when an alternative would better meet a customer’s needs.

‘Distributors must understand our products they distribute’

Distributors must get appropriate information from PCL as manufacturer so they have the necessary understanding of the products or services they distribute. The information must allow them to:

- understand the characteristics of the product or service
- understand the identified target market
- consider the needs, characteristics and objectives of any customers with characteristics of vulnerability
- identify the intended distribution strategy
- ensure the product or service will be distributed in accordance with the needs, characteristics and objectives of the target market

Firms should not distribute a product or service if they do not understand it sufficiently

‘A distributor should identify or create a distribution strategy’

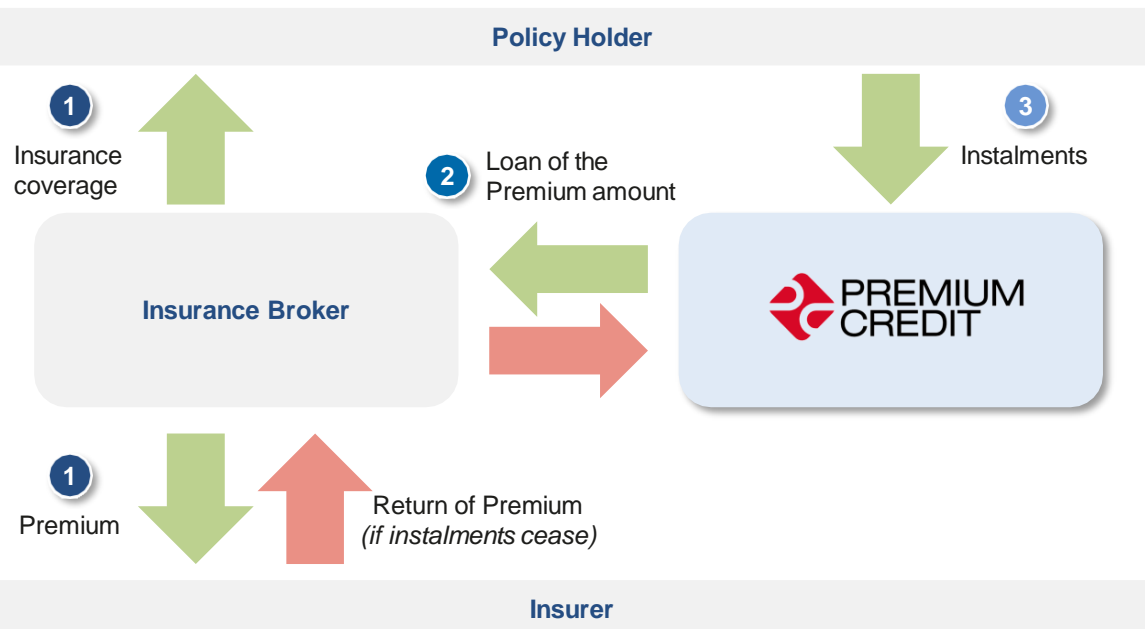
The rules require distributor firms to identify the intended distribution strategy for the product or service and ensure it will be distributed in accordance with the target market for products and services. When a distributor sets up or implements a specific distribution strategy to supplement the manufacturer’s strategy for a product or service, it must be consistent with the manufacturer’s.



Overview – Premium Credit's Core Product

Premium Credit's products allow customers to spread the up-front cost of purchases through monthly instalments

Instalment Finance Overview (Based on Insurance Premium Finance Example)



- 1 Customer purchases an insurance policy (or other service) from one of Premium Credit's distribution partners (typically an insurance broker), and is required to pay for the insurance policy / the service purchased upfront
- 2 Partner offers to arrange finance for the payment, enabling the customer to spread the cost of the insurance premium (or service) over a period of time
- 3 Premium Credit collects monthly instalments from the customer as they repay their loan (over a typical term of ~10 months), receiving ~1-2 months of payments ahead of advancing the premium to the partner

Product Characteristics

- ✓ **Funds mandatory / near-mandatory insurance purchase**
- ✓ **Relieves meaningful up-front liquidity strain**
- ✓ **Loan generally underpinned by ongoing service**
- ✓ **Service generally can be "switched off" in the event of default**
- ✓ **Credit-worthy, robust individual and SME customers**



The role of PCL in the distribution train

The Duty applies across the distribution chain, from product and service origination through to distribution and post-sale activities.

By the 'distribution chain', the FCA mean all firms involved in the manufacture, provision, sale and ongoing administration and management of a product or service to the end retail customer.

How the Duty applies across the distribution chain

The Duty applies to all firms that have a material influence over, or determine, retail customer outcomes. For example, it applies to firms that can influence material aspects of, or determine:

- the design or operation of retail products or services, including their price and value
- the distribution of retail products or services
- preparing and approving communications that are to be issued to retail customers, or
- engaging in customer support for retail customers

A firm will be able to determine or have material influence where it makes or influences decisions over any of the above. The FCA would generally expect firms with a decision-making role for one or more of the four customer outcomes to have greatest responsibility under the Duty.

Where it applies, the extent of a firm's responsibilities under the Duty will depend on the firm's role and the extent of its influence over retail customer outcomes. The level of responsibility depends on what the firm's actual role and influence is in practice, rather than just what is set out in contractual terms between firms in the chain.

Firms that can determine or materially influence retail customer outcomes need to consider the end customers in the distribution chain, whether or not they are a direct client of the firm.

PCL is the manufacturer of an "add on" product for our distributors.

Sharing information

To support our reviews, distributors must, upon request, provide relevant information, including, where appropriate, sales information, information on cancellations, and information on the regular reviews of their distribution arrangements.

The requirement to provide information to support manufacturer reviews applies to all distributor firms in the distribution chain. The FCA expect all firms in a distribution chain to co-operate.

PCL may ask our distributors questions such as:

- Are there any issues identified by the distributor in relation to the target market assessment?
- Are there any issues identified by the distributor in their review of distribution arrangements for a product or service?
- Have any issues been identified by, or for, customers with characteristics of vulnerability? What are they at a high level (not identifying individual customers)?
- Have any sales outside the target market been identified in the distributor review? In what way are they outside the target market? What harm is foreseeable?

Where we ask for information, distributors should consider what they can do to help.

Distributor firms should consider if the information they provide is adequate to help the PCL in its reviews of a product or service.

PCL will always try to help our distributors, and provide relevant information to satisfy your regulatory requirements.





Price and Value Outcome



Price and Value Outcome - Guidance for distributors

Overview

Distributors must ensure their own charges for distributing our “add on” product represent fair value. All firms in the distribution chain are responsible for the value of the prices that they control and are not required to re-do or challenge other firms’ value assessments.

Distributors must obtain relevant information from PCL to understand the value a product is intended to provide and to enable them to understand whether their distribution arrangements (including any remuneration it or another person in the distribution chain receives) would result in the product or service ceasing to provide fair value to retail customers.

This means that the distributor will need to consider the cumulative impact of the remuneration added by each person in the chain on the overall value of the product to the customer. This is important as fees charged by different firms along the distribution chain might together result in a higher overall fee that does not represent fair value for consumers.

PCL has produced “Fair Value” assessments across its products, this will be based on the net cost of providing our distributors products that allow customers to spread the up-front cost of purchases through monthly instalments.

As the Manufacturer of a product that is distributed via our partners, we also have a responsibility to ensure we undertake reasonable steps to ensure our product is distributed as expected, and that our partners have undertaken “Fair Value” assessments inclusive of our product. Where we have partners with pricing that exceeds 30% APRs we will request further information to satisfy reasonable oversight, and ensure good customer outcomes.



Product & Proposition Reviews

Underpinning the Fair Value Assessments, we have created a Product & Proposition review document for each of our propositions. We review each proposition on a regular basis, which may vary depending on variety of elements including when it was launched, changes to the market or performance. Each review includes a detailed summary of the proposition and specifically addresses key questions raised by the FCA in the following areas:

- Proposition characteristics (*includes customer value proposition*)
- Proposition performance (*includes complaints, satisfaction, retention MI...*)
- Target market and distribution channels
- Financial and non-financial cost charged to consumers
- Impact of Cross-cutting rules and Vulnerability

The review also includes a Fair Value Justification, summarising the key information that validates our assertion that the proposition represents fair value.



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