



# FCA Consumer Duty

PCL Overview March 2023



# 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)





# Consumer Duty Timeline

**27 July 2022**

FCA issues the final Consumer Duty rules and extends the implementation period from 9 to 12 months

**31 October 2022**

Firms' boards need to have agreed their implementation plans. Nominated a Consumer Duty Champion

**April 2023**


Product providers need to complete all reviews necessary to meet the Four outcomes rules

**31 July 2023**

The Consumer Duty rules come in into effect for live products and Services

**31 July 2024**

The Consumer Duty rules come in into effect for closed book products and Services



A horizontal timeline line with five white circular markers, each aligned with a colored box. The boxes are red, yellow, purple, green, and orange from left to right. Below the second marker (yellow box) is a blue silhouette of a person's head and shoulders, which points to a blue box containing the text 'PCL Consumer Duty Champion Kory Sorenson Board Member'.

**PCL Consumer Duty Champion**  
**Kory Sorenson**  
**Board Member**



## PCL Implementation Approach

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# Golden Thread – How does it all links together?

**Our Purpose, Values & Strategy**

**Our Purpose:** We proudly support our community of customers and partners in creating opportunities through convenient payments

**Our Direction:** As a... we will ou...

**Our Objectives:** Existing Partn... Drive Premium Program... partners: Brokers, Schools...

**Our Pillars:** Genesis: A programme of... through improvements to...

**Our Values:** Stand Together... Work as one team

## Our alignment with the 3 elements of CD- For discussion

PCL/FCA CD	Customer Principle A firm must act to deliver good outcomes for retail customers	Firms must act in good faith	Firms must avoid causing foreseeable harm	Firms must enable and support retail customers to pursue their financial	Design of products and services	Price and Value	Consumer Understanding	Consumer Support
Our Purpose								
Our Direction								
Our Objectives								
Our Pillars								
Our Values								

## Top down impact assessment – Priority focus area

#	Focus Area	FCA Expectation	Due
1	Pricing and value framework	Requirements added for all firms to develop a framework to objectively assess pricing factors to determine the	
2	Fair value assessment, PCL pricing	In order to asse	
3	Fair value assessment, Partner pricing	the nature of any limitation on the expected lifetime of	
4	Fees & charges approach		
5	Fees & charges quantum		
6	Product design & oversight	Creating new p... and distribution PROD-lite. Whi	
7	Operationalisation of cross cutting rules	The cross-cutting rules they set out h	
8	Communication Review	Communication of their options relate to a timely basis	

ExCo Workshop to confirm linkage of FCA CD to PCL Purpose, identify priority focus areas, then link to PCL Outcomes

Draft PCL Outcomes mapped to FCA Principle & Outcomes

**Draft - PCL Outcomes Dashboard**

**CONSUMER PRINCIPLE**

**Our Purpose:** We proudly support our community of customers and partners in creating opportunities through convenient payments

**Our Outcomes:**

- Products & Services** Our products and services
- Price & Value** 2. We work with partners to ensure customers receive value
- Consumer Understanding** 3. Our communication ensures customers understand our products and services
- Consumer Support** 4. We ensure customers have access to support and advice

Please note: Ranking is derived using quantitative measures such as key risks

Detailed workstreams mapped TO FCA Principle & Outcomes and PCL Outcomes

## PCL CD Project Status – Bottom Up

Consumer Duty Section	Linked PCL Workstream	No. of FCA Points Raised	No. of High Level Deliverables	No. of Actions Identified	No. of Actions Complete	% Complete	Status
<b>The Consumer Principle</b>	Product Oversight, Performance Manag Party, M						
<b>The Cross Cutting Rules</b>	Customer Commu Product Oversight						
<b>Outcome 1 - The Products and Services</b>	Distribution and Oversight, Vulnerability, Distrib						
<b>Outcome 2 - The Price and Value</b>	Vulnerability, Distrib						
<b>Outcome 3 - The Consumer Understanding</b>	Customer Commu Distribution and Pa						
<b>Outcome 4 - The Consumer Support</b>	Vulnerability, Customer Journeys, Product O						

Section	Guidance	Notes	PCL Response/Evidence	Links
1	Firms must notify the FCA where they become aware that another firm in the distribution chain may not be complying with the Duty.		Update Breach policy	
2	Firms must have regard to the wider distribution chain for products and services. For instance, a manufacturer should consider how it expects a product to be sold and regularly monitor the product and its distribution over time.	Direct Tax and EFCA only product manufactured and distributed by PCL	1) Develop short paper detailing PCL's definition of Consumer Duty standards that can be shared with partners 2) Monitoring met by Tims annual product review	
3	Where a firm works with others in a distribution chain and conducts due diligence on those other firms, it should consider the Duty as part of that due diligence.		Update partner monitoring process to include CD	
4	Where firms outsource activities to third parties, they remain responsible for compliance under the Senior Management Arrangements, Systems and Controls sourcebook (SYSC). They should also consider the Duty when deciding to outsource activities. For example, a firm should consider if outsourcing customer servicing could have a negative impact for customers.	Tech M, Cirrus, client impacting services, consider software houses	Identify tier 1 & 2 third parties who have material impact on customer outcomes	
5	A manufacturer should consider how it expects a product to be sold and regularly monitor the product and its distribution over time.		MI	
6	Principal firms are required to oversee the actions of their appointed representatives, as set out in the Supervision sourcebook (SUP), and should check they comply with the Duty when doing so.	AR Policy will need to be updated, and standards added to current process	1) Review docs & process to incorporate Consumer Duty overall 2) Implement oversight plan 3) Update AR training packs and devise annual refresher training 4) Hold business meeting with SL	
7	Where the firms involved are co-manufacturers of a product or service, they must have a written agreement outlining their respective roles and responsibilities. This agreement should help clarify which firm is responsible for deciding a particular issue.	No current co-manufacturers	Updated proposition development process to include co-manufacturers as a consideration	
8	Firms need to comply with the Duty in full for existing products or services. They must review products or services against all aspects of the Duty before the end of the implementation period and on an ongoing basis. Includes:	Should be all encompassing	Covered within Fair Value Assessment	

Detailed requirements mapped to workstreams

Top Down Assessment

Bottom Up Assessment



# Top Down Impact Assessment Output

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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 12<sup>th</sup> 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

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# 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’***

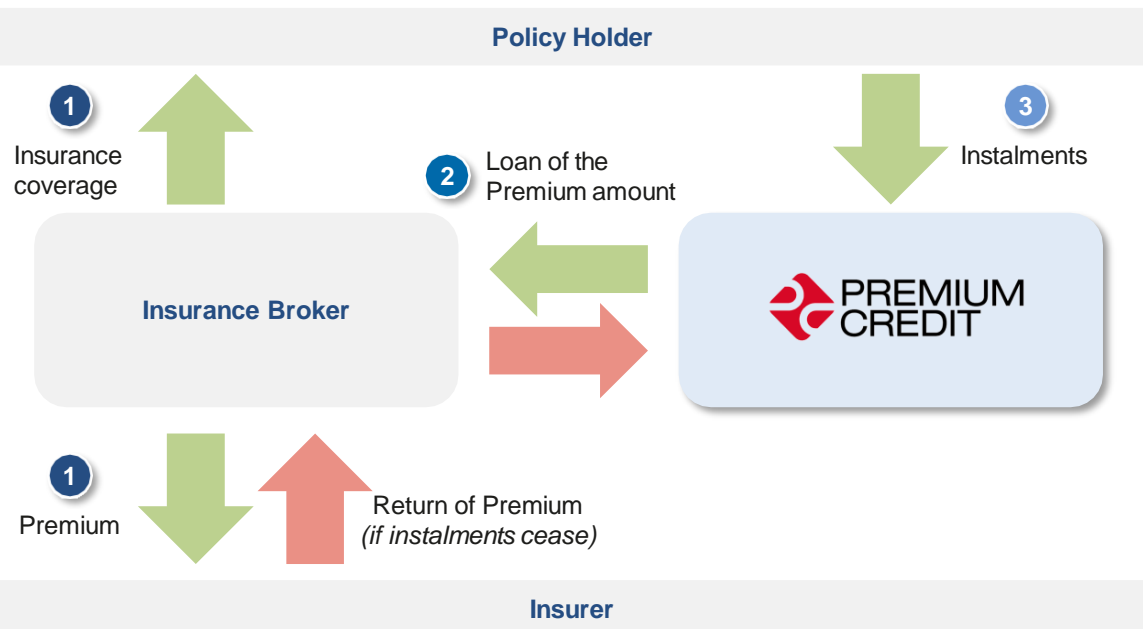
The rules require distributor firms to identify the intended distribution strategy for the product or service and ensure it will be distributed in accordance with the target market for products and services. When a distributor sets up or implements a specific distribution strategy to supplement the manufacturer’s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

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# Price and Value Outcome - Guidance for distributors

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## 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 is completing “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 manufacture 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

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Underpinning the Fair Value Assessments, we have created a Product & Proposition review document that will be completed for each of our propositions by April 2023. We will complete reviews of 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 with the SME 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.



# Disclaimer

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