FullCircl

Regulatory Compliance & Consumer Duty: Strategies for Financial Firms

Introduction

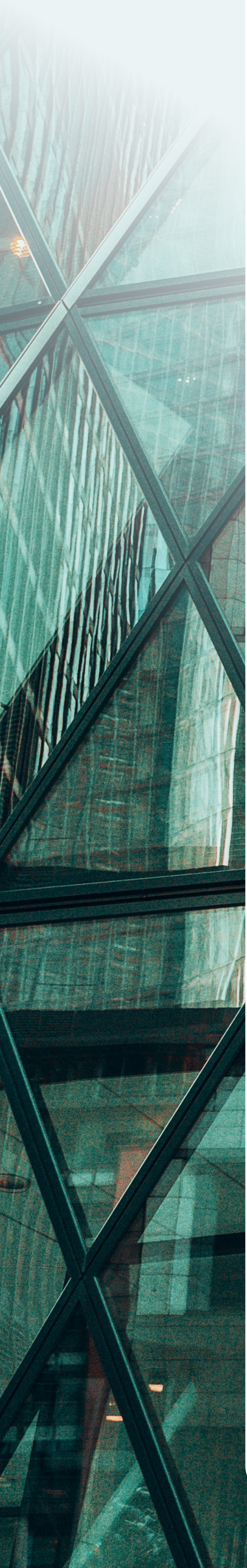
Full Compliance with Consumer Duty was required from July 2024. FullCircl reflects on the impact this has had on the industry and the changes to business processes it has required.

The UK Consumer Duty regulations mark a significant milestone in consumer protection. They've fundamentally transformed how businesses interact with their customers, by ensuring that firms consistently act in the best interests of consumers, and fostering a market where fairness, transparency, and accountability are paramount. The overarching goal is to create a more consumer-centric environment, where the rights and needs of consumers are prioritised.

These regulations are not just about compliance, but shifting the mindset of businesses towards a more ethical and customer-focused approach. They represent a proactive step by the Financial Conduct Authority (FCA) to address existing gaps in consumer protection, and adapt to the evolving dynamics of the market. By setting clearer expectations for firms, the Consumer Duty regulations aim to enhance consumer confidence and trust in the financial services sector. Which in the UK currently stands at just 49%, according to the 2024 Edelman Trust Barometer.

In a recent speech highlighting progress so far of firms' implementation of the duty, Sheldon Mills, Executive Director, Consumers and Competition, at the FCA reflected on what quickly became its most talked about piece of regulation. He stated that progress over the 12 months since the announcement has been promising, with many firms wholeheartedly embracing the duty, with board-level leaders giving serious consideration to what the Duty means for them culturally and operationally. However he said there remains much room for improvement.

However, this and ever-increasing requirements are adding to the regulatory burden faced by the sector, particularly in insurance, as BIBA's CEO, Graeme Trudgill, stated to the FCA in his speech at the BIBA Conference 2024: "Allow us to breathe, to focus on clients and new innovation.". It also adds to the costly burden with the last BIBA research on the topic showing that direct regulatory costs for brokers were 40% higher than three years previous, and overall direct and indirect costs were equal to 8.1% of insurance mediation fees and commissions.



A constantly evolving landscape

The UK's consumer protection landscape has historically been shaped by a series of regulations and guidelines designed to safeguard interests. Key among these is the Consumer Rights Act 2015, which consolidated existing consumer protection laws, and the Financial Services and Markets Act 2000, which provided a regulatory framework for the financial services industry.

Within the insurance sector there have been a series of regulatory changes including the Insurance Act of 2015, possibly the biggest change to the insurance industry since the Marine Insurance Act of 1906; and the Insurance Distribution Directive (2018), which looked to improve consumer protection and harmonise insurance distribution practices across the EU, including the UK, requiring enhanced disclosure requirements for insurance products, mandatory training and competence standards, and rules on product oversight and governance, ensuring products meet the needs of target markets.

Another obvious one to mention is General Data Protection Regulation (GDPR) which came into force in 2018, to protect personal data and privacy of individuals within the EU. Following Brexit, the UK adopted its own version known as UK GDPR to continue providing a consistent data protection framework. The Data Protection Act 2018 was also amended to align with the UK GDPR.

With all these changes to regulations and the increased pressure it adds to UK businesses, it's clear to understand why BIBA are asking for breathing space in the insurance market.

So why the need for new regulation?

The FCA highlighted the rapid evolution of the marketplace, driven by technological advancements and changing consumer behaviour, as driving forces in the need for change. Consumers in 2024 expect transparency from the brands they interact with, along with straightforward, honest communication about what they are buying—including any potential limitations, pitfalls or additional costs.

According to Forbes 94% of consumers are more likely to be loyal to a brand that's completely transparent. Consumer trust in the insurance industry was damaged following the Covid pandemic and particularly the subsequent Business Interruption court case, in which the Supreme ruled that some businesses should have their claims for coronavirus related losses paid. The situation had not significantly improved before the introduction of the Consumer Duty regulations, with only 21% of consumers saying they had trust in insurance companies to act in their best interest in a 2023 survey.

The introduction of the new Consumer Duty regulations is a response to these challenges. Initially damned by some commentators as a possible knee-jerk reaction, it has been broadly accepted for its ambition to provide a more robust framework that addresses contemporary issues and sets higher standards for consumer protection.

A summary of the key components of the Consumer Duty regulations

At the heart of the Consumer Duty regulations are three core principles:

1. Fair treatment of consumers
2. Transparency and accountability
3. Enhancing consumer confidence

These principles underscore the regulations' objective to ensure that firms consistently prioritise the best interests of consumers.

· **Fair Treatment of Consumers:** businesses are required to place consumers at the forefront of their operations, ensuring that products and services meet their needs and provide genuine benefits.

· **Transparency and Accountability:** firms must provide clear, accessible, and accurate information about their products and services, enabling consumers to make informed decisions. Additionally, businesses must be accountable for their actions and decisions, with mechanisms in place to address and rectify any issues that arise.

· **Enhancing Consumer Confidence:** by fostering a culture of fairness and transparency, the regulations aim to rebuild and strengthen consumer trust in the marketplace.

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The Principles

1. Integrity - A firm must conduct its business with integrity.

2. Skill, care and diligence - A firm must conduct its business with due skill, care and diligence.

3. Management and control - A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.

4. Financial prudence - A firm must maintain adequate financial resources.

5. Market conduct - A firm must observe proper standards of market conduct.

6. Customers' interests - A firm must pay due regard to the interests of its customers and treat them fairly.

7. Communications with clients - A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading.

8. Conflicts of interest - A firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client.

9. Customers: relationships of trust - A firm must take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely upon its judgment.

10. Clients' assets - A firm must arrange adequate protection for clients' assets when it is responsible for them.

11. Relations with regulators - A firm must deal with its regulators in an open and cooperative way, and must disclose to the FCA appropriately anything relating to the firm of which that regulator would reasonably expect notice.

12. Consumer Duty - A firm must act to deliver good outcomes for retail customers.

Impact on the Insurance Industry

The burden of Consumer Duty is arguably bigger in insurance than other financial services sectors, due to the definition of “consumer”, which doesn’t just refer to individuals but all “retail customers”. In July 2023, BIBA published a report **“FCA Consumer Duty: Industry Guidance and Scope”** where it alerted its members to the misleading nature of the term “retail customers” when applied to the insurance industry, as the term extends beyond traditional retail business into wholesale clients. For the insurance industry the term captures all firms who determine or have a material influence over consumer outcomes – not just those with a direct consumer relationship. Commercial customers, such as SMEs, are classed as retail customers for the purposes of the Duty.

Impact on Businesses:

Operational Changes

The new regulations have imposed significant changes in how businesses operate. Requiring an overhaul of existing practices, from product development and marketing to customer service and complaint handling.

According to a recent survey by Royal London about the impact of the Consumer Duty 43% have changed their approach when dealing with vulnerable customers, 27% have increased the frequency of client feedback requests, 15% have reduced the number of clients on their books, and 13% have changed investment approach.

Employee training is vital to ensure brokers understand and can effectively implement the new requirements. This includes not only frontline employees but also senior management and board members, who need to champion the changes and set the tone for the rest of the organisation.

Financial Implications

While the cost of compliance may be significant, the potential penalties for non-compliance are far greater. Businesses that fail to meet the new standards face substantial fines, reputational damage, and loss of consumer trust.

As mentioned overall direct and indirect costs are higher than ever, add to this rising inflation, a hard market, and the rising costs associated with HR, accounting, marketing, and IT, and it's no surprise to hear that many brokers are exiting the market and stating disproportionate regulation as a primary.

Whilst we've seen the FCA take action against UK Insurance Limited (Direct Line) for motor loss claims, which has made it clear that it will prioritise the most serious breaches and act swiftly and assertively where it finds evidence of harm or risk of harm to consumers, and that where it identifies "serious misconduct" it will use its full powers including remedial and deterrent powers such as issuing fines and securing redress for harmed customers. We've already seen the impact of this tough stance in other sectors with HSBC and Marks & Spencer both receiving significant fines for unfair treatment of financially vulnerable customers.

However, it is important to mention that there are also long-term financial benefits to adherence. By fostering a more consumer-centric approach, the entire customer journey can be enhanced, through acquisition, onboarding and retention.

A Requirement for Deeper Understanding

A recent survey conducted by Beazley of over 1000 senior executives and insurance buyers in the US and UK identified "44% don't think their insurers understand their business". Companies prioritise working with brokers who can exhibit deep understanding of the challenges specific to the sectors in which their businesses operate, as well as the distinct requirements of each individual business.

> "An individual who is a policyholder or prospective policyholder."
>
> FCA Handbook, Glossary definition of 'retail customer'

Claims Prevention Over Remediation

No one wants to make a claim. While insurance exists to indemnify companies following a loss, not all negative outcomes can be rectified. An injury to an employee or a member of the public may have a financial cost and compensation can be paid, but although support can be given, insurance can't fully account for the mental impact to senior leaders, the damage to moral of employees and the damage to brand reputation.

Companies are looking for brokers who will work with them, providing advice and risk management services to minimise the chances of a potential claim, proactively improving their risk profile, rather than after the incident support.

Challenges and Criticisms:

Businesses have expressed concerns about the potential burdens the regulations impose, particularly for SMEs operating within the financial services sector. The cost and complexity of compliance can be significant, and smaller firms may struggle to meet the new requirements without substantial investment in systems and training.

Some have even started streamlining their book as a result. According to 'The Advice Gap 2024' report, the Consumer Duty could already have driven brokers and advisers to cut off 600,000 clients with hundreds of thousands more set to be shed. It claims that the impact of the Consumer Duty regulation could see about 1.5 million clients become non-advised, significantly adding to the advice gap.

Additionally, some industry stakeholders have raised concerns about the potential for regulatory overreach and the impact on business innovation. However, some have argued that excessive regulation could stifle creativity and hinder the development of new products and services.

When it comes to fair value, questions have also been asked regarding how the regulation can account for the 'softer' elements of value, such as the personal touch and the peace of mind that comes from seeking a trusted advisor. The FCA have suggested that "peace of mind is subjective" and does not form part of fair value assessment.

Former City minister Andrew Griffith also raised concerns that consumer duty could harm the competitiveness of the UK financial services industry and lead to increased lawsuits. However, others have commented that a regulatory framework that benefits consumers, as well as financial services businesses, does not have to be mutually exclusive. Likewise, the FCA claims that the increased effort by businesses "should pay off", as it believes consumers prefer to work with firms that are "positively looking after them"

Future Outlook:

The new regulations are expected to continue having a profound and lasting impact on the UK insurance marketplace. As the become embedded they will set higher standards for consumer protection and are likely to drive greater competition and innovation, as businesses strive to meet the new requirements and differentiate themselves in a more consumer-centric market. This will ultimately lead to the development of new products and services that better meet the needs of consumers, as well as more efficient and effective business practices. Technology is playing a key role, with firms leveraging digital tools and platforms to enhance their compliance efforts and improve the customer experience. This includes the use of Generative AI, machine learning, natural language processing, and robotic process automation to analyse consumer data and identify potential issues, as well as the development of new customer support and communication tools. Just as the Consumer Duty itself represents a paradigm shift, so too must the response of brokers. The challenge is striking a balance between delivering an enhanced customer experience, whilst avoiding costly and time-consuming bureaucracy.

The boardroom dynamic is changing. As younger generations enter the c-suite, their requirements from their financial partners are changing. The Millennial generation grew up with technology and the internet, shaping their communication preferences. Although these generations still demand high-levels of service and support, they expect instant access and rapid solutions via omni-channel communication; firms must adapt to these rising challenges in order to survive. Unfortunately, a recent report by PWC identified that fewer than one in three CEOs were clear on the benefits of automation and artificial intelligence, so many will require a steep learning curve.

However, technology alone is not the solution, algorithms do not see the 'grey area', they can't apply common sense and lack moral judgement. Sole reliance on AI has the potential to negatively impact the customer experience. The best results come from 'Humans plus Automation'; with AI automating basic processes, analysing vast amounts of data automatically and unearthing key triggers and opportunities to deliver positive outcomes to protect consumers from financial harm, but with humans providing the advice, service and making relevant recommendations.

For example:

• Gathering accurate and joined-up data to inform decision making can assist in recommending the best products and ensuring customers' needs are being met.

• Data-driven customer intelligence can help brokers produce comprehensive, full, and detailed underwriting submissions that ultimately provide access to products balanced in terms of price and value.

• Building a complete view of the markets that matter most to brokers can help them segmenting customers based on attributes where they are most confident, they can deliver on their needs, objectives, price, and value.

• Surfacing structured and unstructured insights provides new opportunities for brokers to engage and establish credibility through well-timed, highly relevant, and differentiated value and outcomes-based outreach.

• The ability to integrate relevant and contextualised intelligence into practices not only improves the customer experience and delivers better outcomes, but can also re-affirm that all important trusted advisor status and drive premium growth.

• A data-driven approach means brokers may never be blindsided by significant changes to their customers' business and risk portfolio that could impact their ability to achieve compliance with the Duty and put them in a better position to provide relevant support when customers need it most.

Conclusion

Whatever your opinion, good or bad, the Consumer Duty regulations mark a transformative moment in the UK's financial services sector.

The increased focus on consumer protection imposes significant demands on businesses. However, the long-term benefits of fostering a more consumer-centric approach have potential to outweigh the initial challenges.

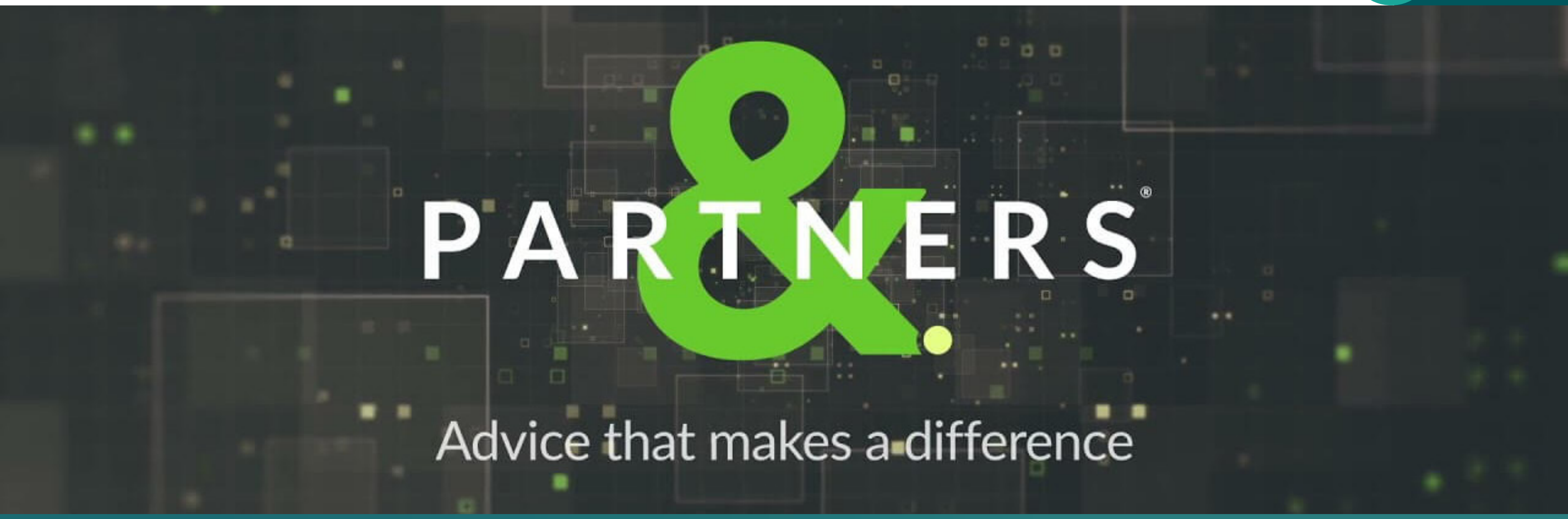
The burden of these new regulations can be reduced through the strategic use of AI and data analytics, these powerful tools can enhance compliance efforts, drive revenue growth and improve customer experiences. The automation of routine processes, combined with the ability to analyse vast amounts of data, allows businesses to deal with compliance issues more effectively.

However, too much data can be as bad as not enough, with vast amounts of information to dig through, the key is finding that first-mover insight that allows firms to act effectively. This is the true power of AI and rules based decisioning, being able to take the knowledge of the top 10%, automate that into rules allowing replication on a large scale, providing individuals with the key information they need to make decisions and support their clients.

One of the key tenants of Consumer Duty is the FCA's requirement for firms to do something new, reliance on existing processes will not be enough. They require brokers to change their process to ensure compliance, adopting new procedures to ensure consumers receive the right level of service and support.

It's also about futureproofing and building a more agile approach to regulation moving forward. The Government and FCA have ambitious plans for further reform of the insurance sector so brokers must look further ahead to prepare for future regulatory risks that could impact them and their customers.

Additional Resources: ***"Answering the FCA's call - Navigate consumer duty by embracing opportunities in data"***
https://www.fullcircl.com/events/consumer-duty-at-close-brothers



Partners& case study

Partners& aims to become the UK's best advisory service by delivering advice and outcomes that make a difference. Facing a pressing need to align with evolving customer needs and expectations, adapt to a changing competitive landscape, and navigate shifting regulatory requirements, it needed data-driven transformation at every stage of the customer lifecycle

Being the first UK insurance business to successfully deploy FullCircl SmartBroker **within the Acturis platform** has brought Partners& a range of advantages. These include improving their ability to identify and win new customers, generate time savings with access to high quality data, enrich company intelligence, improve underwriting submissions, enhance customer experience and outcomes, and importantly comply with the **Consumer Duty**.

Rather than being hampered by the cost of regulatory burden or taking drastic measure such as reducing its book of business, Partners& has identified £199k worth of new opportunities in just 12 months, projected **£1.4million in savings** and opportunities thanks to improved data quality, achieved **£158k time savings and added £497k of potential premium**.

About FullCircl

SmartBroker equips commercial lines brokers with rich, contextualised company information on every business in the UK and Ireland and increases sales distribution capacity. By leveraging data-driven insights, brokers can identify new opportunities and build strong, long-term relationships that drive growth and revenue while assisting with regulatory compliance.

Smart products designed for better broking

FullCircl SmartBroker™

Identify new opportunities that drive growth and revenue by leveraging data-driven insights

Acquiring new business and retaining clients are two of the most important aspects for any insurance broker. That's why we've developed SmartBroker, which provides the information you need to succeed. Discover a smarter way to acquire new business and build long-term client relationships. BIBA members can benefit from access to special pricing, attractive multi-seat bundles, dedicated training and support, and even integrate SmartBroker into your Acturis deployment

Benefits of SmartBroker:

- Prospect with precision
- Data-driven insights to tailor outreach
- Prepare better underwriting submissions
- Increase client retention
- Cultivate existing book of business

acturis CONNECTED THINKING

A connected solution for brokers, insurers and MGAs providing meaningful opportunities to drive growth

Acturis and FullCircl are working together to provide users with rich contextualised and connected company information. We firmly believe that organisations thrive when equipped with robust data resources, and this integration paves the way for enhanced accessibility to data enrichment tools to our userbase. After just two months of usage, one early integration partner is already forecasting: Total ROI value of £1.78m or 54.8x spend, £497,000 potential new Premiums in the first two months thanks to flags raised via screening and tracking plus time savings equivalent to hiring two new FTEs.

Benefits of the partnership:

- Identify and win new customers
- Get company news and insights as it happens
- IPopulate Fields and Forms in Acturis
- Run screening and onboarding checks
- Track company events

To find out more about SmartBroker and the Acturis integration, see www.fullcircl.com and book a demo of the platform.

FullCircl

About FullCircl

FullCircl is a B2B SaaS company that brings regulation fully in-step with customer acquisition, creating better business from the start. Its global solutions drive revenue growth, keep risk and compliance in check, and streamline customer onboarding. Its software, delivered through a platform, API, and suite of applications reduces the cost to acquire and serve, clears the way for positive customer relationships, and accelerates profitable growth.

FullCircl identifies millions of actionable insights daily, providing a near real-time record of companies, their officers and shareholders, and the relationships between them. It enables businesses to verify the identity of corporate entities and individuals and orchestrate many of the time-consuming checks needed to conduct customer due diligence during onboarding, such as KYC, AML and fraud, empowering businesses to satisfy regulatory requirements and make informed decisions about their customers. By embedding KYB and KYC from the very beginning of the customer engagement, FullCircl has compliance solved.

FullCircl was formed following the acquisition by Artesian Solutions of DueDil and is backed by top tier investors including Octopus Investments, Notion Capital and Augmentum Fintech. In 2023, FullCircl acquired W2 Global Data Solutions, strengthening its KYC, AML, Fraud Detection and identity verification capabilities. Today, it serves over 500 customers, 15,000+ web application users, processes over 300 million checks per month and facilitates the onboarding of 200,000+ customers annually.

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FullCircl

Start smarter, to grow faster with compliance solved

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