Growing together, with integrity and respect

FCA Discussion Summary: Consumer Duty – Practical Expectations & Good Practice - April 2024

Note: These are notes based on discussions with the FCA in April 2024. The focus was around a consumer duty reporting template. These notes are not a recommendation and cannot be used a reason to follow a particular route. They should be considered by the board.

Templates, MI & Accountability

- The FCA is comfortable with MI and Consumer Duty templates *in principle*.
- The risk is not the template itself, but:
  - Accuracy of data
  - Evidence of action taken
  - Clear accountability
- Key expectation:
  - Information may be gathered by junior staff, but review and sign-off must sit with senior management/directors.
- FCA focus is less on *what is collected* and more on:
  - *What decisions were made as a result*
  - *Who reviewed them*
- Templates must be tailored to firm size and business model — generic "one-size-fits-all" compliance templates are a known weakness.

Vulnerability & Sampling

- FCA strongly supports:
  - Ongoing vulnerability processes
  - Regular sampling and testing
- Vulnerability should not be a static CRM tick-box.
- Monthly or periodic checks of real client files is viewed as strong evidence of Consumer Duty in action.

Clients Not Engaging with Reviews

- There is no formal "two-year rule" in the FCA Handbook for disengaging clients.
- Under Consumer Duty:
    - If a client is paying but not engaging, firms must assess value for money.
- FCA expectations:
    - Firms should ask *why* clients disengage — often this signals:
        - Poor explanation of ongoing service
        - Weak articulation of value
- Firms must:
    - Make reasonable efforts to re-engage
    - Document contact attempts (dates, methods, outcomes)
- Technology (Teams / Zoom) is fully acceptable and often increases engagement.
- Importantly:
    - Current FCA enforcement focus is on firms not attempting reviews, not on firms who tried but clients declined.

Ongoing Fees & Value

- FCA does not care about fee levels (even 1%+), *as long as value is evidenced*.
- Key principle:
    - If clients pay more, they should receive more.
- Tiered or segmented propositions are acceptable, but:
    - Differences must be clear, documented, and consistently applied.
- Firms should be able to show:
    - How fees were calculated
    - How services differ across client groups
- Cross-subsidy is allowed, but:
    - It must not harm consumer outcomes
    - Differences in charging must be justifiable and consistent

Ongoing Suitability (MiFID Rules Still Apply)

- MiFID rules on ongoing suitability remain in force (post-Brexit changes may come later).
- A simple "no changes" letter is not sufficient.
- Firms must still address:
    - Client objectives
    - Advantages of the recommendation
    - Disadvantages of the recommendation
- This can be done via a short, proportionate letter, referencing the original report.
- Expectation:
    - *Advice may stay the same — but circumstances always change* (age, time to retirement, markets, tax rules).

Use of Paraplanners in Reviews

- Paraplanners can support information gathering but must not give advice.
- Risks identified:
  - "Advice to do nothing" is still advice
  - Paraplanners straying into implied recommendations
- If paraplanners are used:
  - Their role must be clearly disclosed
  - Advisors remain accountable
- FCA view:
  - If an adviser must review every call anyway, duplication risk arises
- Stronger use case:
  - Paraplanners as part of training & competence pathways, not as a permanent advice substitute.

DFMs & Financial Planning

- Core FCA principle:
  - Deliver what was promised — no more, no less.
- DFM firms:
  - Are not required to offer ongoing advice unless they promise it
  - Must still demonstrate value for money
- FCA concern areas:
  - Clients placed into DFM services who do not need them
  - Smaller portfolios where DFM costs may erode returns
- Expectations for DFMs:
  - Clear definition of "typical DFM client"
  - Ongoing value-for-money assessment
- Financial planning as a bolt-on is acceptable if properly disclosed.
- If ongoing service is offered — it must be delivered.

Cross-Subsidy & Fee Discounts

- Discounts are allowed (family, introducers, scale, legacy fees).
- However:
  - Two similar clients receiving the same service should not be charged differently without justification.
- FCA focus:
  - Consumer fairness
  - Consistency of treatment
  - Documented rationale

Consumer Duty – The FCA's Core Message

- Consumer Duty did not create new ethical expectations.
- It formalised what should already have been happening:
  - Clients paying for services must receive them
  - Value must be demonstrable
  - Promises must be delivered
- FCA concern remains strongest where:
  - Ongoing fees are charged
  - Little or no service is delivered
- Firms may need to:
  - Restructure client segmentation
  - Move some clients to ad-hoc models
  - Disengage where value cannot be delivered

Consolidators & Structural Change

- FCA is increasingly attentive to:
  - Consolidators
  - Networks
  - AR models
- Concern:
  - Clients buying into one proposition but ending up in another post-sale
- Expect increasing scrutiny on:
  - Service continuity
  - Client outcomes during transitions

Bottom Line

The FCA's Consumer Duty stance is pragmatic, outcomes-focused, and evidence-driven:

Charge whatever you like — but prove value, deliver what you promise, and document everything.

This discussion strongly reinforces a planning-led, client-centred, proportionate approach, particularly for smaller firms — exactly the direction many well-run advice businesses are already moving in.