

**BMW
GROUP**
Financial Services



**ALPHABET
ALPHERA**

CONSUMER DUTY.
SETTING THE STANDARD.

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1. WHAT IS CONSUMER DUTY?

Over recent years the FCA has been active in regulating the conduct of retail financial markets and have introduced numerous updates to their handbook. The latest update, the new Consumer Duty, aims to ensure that firms are consistently placing their customer's interests at the centre of their businesses. This goes beyond focussing on mere compliance with specific rules but, rather, ensuring a consistent and active delivery of good outcomes for customers.

This package of new rules is an opportunity for financial services firms to drive positive change and to better understand and support their customers in building long and trusted relationships. It's also an opportunity to revisit our obligations to ensure that we can evidence that our customers are receiving positive outcomes and the support that they require. These outcomes must be integrated into long-term, forward-thinking strategies where potential harm to customers can be anticipated and thus avoided. Processes must be tested, and data used as evidence in compliance and, where applicable, adaptation to these practices and processes made.

The structure of the Duty can be found on the next page. Please note that, although the new principle (Principle 12) applies to retail customers, other principles continue to apply for non-retail customers, namely:

Principle 6: A firm must pay due regard to the interests of its customers and treat them fairly.

Principle 7: 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

The final FCA rules can be found [here](#).



2. THE CONSUMER DUTY STRUCTURE.

Intended to “ensure a higher and more consistent standard of consumer protection for users of financial services and help to stop harm before it happens.”

Principle 12: A firm must act to deliver good outcomes for retail customers.

1. Act in good faith
2. Avoid causing foreseeable harm
3. Enable customers to pursue their financial objectives

- | | |
|---------------------------|---|
| 1. Products and Services | Must be designed to meet the needs of customers, and targeted at the customers whose needs they are designed to meet. |
| 2. Price and Value | Ensure products and services are fit for purpose in relation to the price they are offered at. |
| 3. Consumer Understanding | Provide information customers need, at the right time, and that they can understand. |
| 4. Consumer Support | Provide customer service that meets the needs of customers throughout their relationship. |

New Principle

3 Cross-cutting rules

key behaviours of all areas within our business

4 Outcomes

sets the expectations for the relationship that we have with our customers

3. ROLES AND RESPONSIBILITIES.



All firms regulated by the FCA are required to comply with the Consumer Duty. Roles and responsibilities are defined within the Duty as:

Manufacturer

A firm that creates, develops, designs, issues, operates or underwrites a product or service. More than one firm may be involved in the manufacture of a single product.

Co-Manufacturer

A co-manufacturer can determine or materially influence the manufacture of a product or service. This would include a firm that can determine the essential features and main elements of a product or service, including its target market. As an example, if a lender negotiates an APR price-point with a dealer or broker firm, the firms may need to consider whether the lender is making the pricing decisions or if the dealer or broker has a material influence on this.

Distributor

A firm that offers, sells, recommends, advises on, proposes or provides a product or service.

Service Provider

A distributor, manufacturer or co-manufacturer who performs a process, a service or an activity which would otherwise be undertaken by the firm itself.

Based on the rules and guidance provided by the FCA, it is the responsibility of each firm to determine which category they fall in to.

4. OBLIGATIONS OF MANUFACTURERS AND DISTRIBUTORS.



Our obligations under each customer outcome differ based on our role within the distribution chain:

OUTCOME	MANUFACTURER OBLIGATIONS	DISTRIBUTOR OBLIGATIONS
PRODUCTS & SERVICES	<p>Products and services must specifically be designed to meet the needs of consumers and only distributed to those whose needs they meet.</p>	
	<ol style="list-style-type: none"> 1. Maintain and operate a process for the approval of a product, adaptations to a product or the withdrawal of a product. 2. Design products to include the following criteria: <ul style="list-style-type: none"> • Target market has been defined at a granular level, including customers who may show characteristics of vulnerability • Risks to the target market (including customers who may show characteristics of vulnerability) have been assessed • Ensure that the product meets the needs of target market and avoids causing foreseeable harm • Ensure the distribution strategy is appropriate for the target market • Ensure the product is distributed to the target market • A distribution channel appropriate for the target market has been selected 3. Publish and share the details of their fair value and target market assessments with their distribution network. 4. Assess and regularly review their products to ensure they meet the above criteria. 5. Take appropriate action to mitigate harm and inform the distribution chain of any changes. 6. Products must be tested and action taken based on the results. 	<ol style="list-style-type: none"> 1. Maintain, operate and review product distribution arrangements for each product it distributes to ensure that they: <ul style="list-style-type: none"> • Avoid causing foreseeable harm • Meet the needs and characteristics of the target market • Contain sufficient, adequate, and reliable information from the manufacturer about the product 2. Provide manufacturers with relevant information (including sales information, data on the review of product distribution) to support product reviews. 3. Regularly review distribution arrangements to ensure they are appropriate 4. Understand the products/services being distributed. 5. Where issues are identified, make the appropriate amendments and inform the relevant persons.

4. OBLIGATIONS OF MANUFACTURERS AND DISTRIBUTORS.



OUTCOME	MANUFACTURER OBLIGATIONS	DISTRIBUTOR OBLIGATIONS
PRICE & VALUE	<p>This outcome reflects the FCA's expectation that the price of products and services offered by firms, should represent fair value for all consumers. Fair value is defined as when the amount paid for the product is reasonable, relative to the benefits of the product. However, fair value goes beyond the price paid, as it aims to mitigate unsuitable features of a product that can lead to foreseeable harm or tackle features that are unfair or can result in poor value.</p>	
	<ol style="list-style-type: none"> 1. Ensure products provide fair value to the target market. 2. Fair value must be considered at every stage of the product approval process. 3. Conduct a value assessment of products and regularly review this. The assessment must consider: <ul style="list-style-type: none"> • the nature of the product, including the benefits that will be provided or may be reasonably expected • any limitations of the product • the expected total price to be paid by the retail customer • any characteristics of vulnerability that customers in the target market display 4. Ensure distributors have the necessary information to understand the value a product provides. 5. If a product is identified as not providing fair value, the appropriate action must be taken. 	<ol style="list-style-type: none"> 1. Obtain relevant information from manufacturers to understand the value provided by a product or service . 2. Consider the fair value assessment when determining the distribution strategy. 3. Regularly review its distribution arrangements throughout the product life, to ensure it is consistent with the product providing fair value to the target market. 4. Ensure their own charges for distributing the product or service do not impact the fair value of the product or service. 5. If a product is identified as not providing fair value, the appropriate action is required (dependent on the role of the distributor in the distribution chain). 6. Ensure that all information relevant to the value assessment is passed to other distributors further down the chain. 7. Inform any relevant manufacturers and other distributors in the chain promptly about any concerns and any action the distributor is taking.

4. OBLIGATIONS OF MANUFACTURERS AND DISTRIBUTORS.



OUTCOME	MANUFACTURER OBLIGATIONS	DISTRIBUTOR OBLIGATIONS
CONSUMER UNDERSTANDING	<p>Communications must equip consumers to make effective, timely and properly informed decisions about financial products and services. An effective decision will usually be one that maximises the likelihood of a customer achieving a good outcome. Consumers can only be expected to take responsibility where the information that they have received enables them to understand the product or service, as well as the features, risks and the implications of their decisions.</p> <p>This outcome builds on the foundation that all communications should be clear, fair and not misleading.</p> <p>This is relevant to all firms involved in the production, approval and distribution of consumer communications. As a result, we must:</p> <ol style="list-style-type: none">1. Act in good faith and avoid producing communications that exploits consumers' understanding and behaviour.2. Ensure that communications are layered, engaging, relevant, simple and well timed.3. Ensure that regardless of the channel used for communication, the information enables customers to assess whether the available options meet their needs and objectives.4. Ensure that communications are tailored to the appropriate target market.5. Ensure communications are understood by the intended recipients and enables them to evaluate their options by assessing the benefits, risks and costs.6. Adopt good practices to enhance the clarity of communications.7. Test communications (where appropriate) and monitor the impact of communications to identify if good consumer outcomes are supported.	

4. OBLIGATIONS OF MANUFACTURERS AND DISTRIBUTORS.



OUTCOME	MANUFACTURER OBLIGATIONS	DISTRIBUTOR OBLIGATIONS
CONSUMER SUPPORT	<p>This outcome expects that the service provided to consumers meets their needs, enables them to realise the benefits of products and services, and acts in their own interests without unreasonable barriers. Consumers should be supported in an effective manner throughout the lifecycle of a product or service.</p>	<p>The Consumer Understanding and Consumer Support outcomes should be at the forefront of all interactions with consumers.</p>
	<p>We must:</p> <ol style="list-style-type: none">1. Provide support that meets the needs of customers (including those customers who may show characteristics of vulnerability) and avoid causing foreseeable harm.2. Ensure customer support does not impose unreasonable additional barriers, costs, delays, distress or inconvenience to the consumer.3. Consider monitoring activities to ensure post-sale support is as good as pre-sale support.4. Adopt a flexible approach when dealing with customers with characteristics of vulnerability.5. Ensure there is appropriate "friction" in customer journeys to support customers in making good decisions without creating unnecessary barriers. For further information, please refer to the section on Nudge, Sludge and Friction.	

5. NUDGE, SLUDGE AND FRICTION.



FRICTION

Friction is the resistance or difficulty that customers may experience when interacting with a firm's products or services. Appropriate friction can help customers make informed decisions, while excessive friction can create unreasonable barriers and prevent customers from pursuing their financial objectives. Eg:

NUDGE

A **positive friction** point designed to encourage customers to make decisions that are in their best interests.

Nudges can be used to help customers understand complex information and make informed decisions.



SLUDGE

Negative friction points which deter customers from taking actions in their best interests, such as making a complaint or switching product or provider.

These friction points can create unreasonable barriers for customers and prevent them from pursuing their financial objectives.

WHAT DOES THIS MEAN:

- Customer journeys must be reviewed. If friction points are identified, there must be consideration on the impact they have on customers.
- Question if the friction point is protecting customers from harm and nudging them to make the right decisions, or if it is creating an unreasonable barrier for customers which is preventing them from doing something that's likely to benefit them.
- Monitoring must allow better understanding of how customers behave, and guide responses to different journeys, ensure delivery of the right outcomes.

6. GOVERNANCE.

As a regulated firm, the FCA expects you to:

- Appoint a Consumer Duty Champion.
- Think about what training SMF's, CI's and other colleagues will need so that everyone understands their specific roles in delivering Consumer Duty.
- Ensure your remuneration and incentive structures promote the right behaviour in your staff and it delivers good customer outcomes.
- Work out what changes are needed to your monitoring activities, including what additional evidence will be needed to show compliance.
- Revisit policies and procedures to ensure that they are delivering good outcomes for customers.
- Consider any other ways in which your culture and governance needs to change to support the delivery of good customer outcomes.

'The Duty sets a higher expectation for the standard of care that firms give customers. For many firms, this will require a significant shift in both culture and behaviour, so they consistently focus on customer outcomes, and put consumers in a position where they can make effective decisions' ... FCA.



7. TRAINING.



You are required to have a competent workforce who understand their roles and responsibilities and how they are impacted by Consumer Duty. We expect that your training will also encompass the needs of Consumer Duty, as they apply to you.

Additionally, you are required to:

- Analyse records of staff training, including remedial actions where staff knowledge or actions were found to be below expectations.
- Support your staff to identify signs of vulnerability in customers and to set up systems and processes that enable customers to disclose their needs if they choose to.

9. MONITORING ESSENTIALS



- You need to add to your current monitoring framework to take into account the new MI and assurance requirements set out in Chapter 11 of the [FCA's Final non-Handbook Guidance for firms on the Consumer Duty](#).
- It is vital that harm that could occur to customers, as well as harm that has occurred to customers, can be identified to enable investigation and facilitate appropriate action.
- The benefits of data and technology must be harnessed to understand the outcomes being achieved for customers.

10. CUSTOMERS IN VULNERABLE CIRCUMSTANCES.

Customers in vulnerable circumstances may be more likely to have additional or different needs which, if not met, could influence their outcome. The level of care that is appropriate for these customers may be different from that of others. Harm to these customers can be prevented by taking appropriate action to respond effectively to their needs.

To achieve good outcomes for customers who may show characteristics of vulnerability, you must:

- Understand the needs of the target market / customer base
- Ensure staff have the right skills and capability to recognise and respond to the needs of customers who may show characteristics of vulnerability
- Respond to customer needs throughout product design, flexible customer service provision and communications
- Monitor and assess whether you are meeting and responding to the needs of customers with characteristics of vulnerability, and make improvements where this is not happening

The FCA has published guidance which highlights the actions firms should take to understand the needs of vulnerable customers and ensure they are treated fairly. The guidance can be found [here](#).

'A vulnerable customer is someone who, due to their personal circumstances, is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care.'

FCA - Occasional Paper No.8 - February 2015

At any time, a customer may find themselves in vulnerable circumstances.

There are 4 key drivers of vulnerability in financial services:

- | | |
|---------------------|--|
| Health: | Health conditions or illnesses that affect ability to carry out day-to-day tasks. |
| Life events: | Life events such as bereavement, job loss or relationship breakdown. |
| Resilience: | Low ability to withstand financial or emotional shocks. |
| Capability: | Low knowledge of financial matters or low confidence in managing money (financial capability). Low capability in other relevant areas such as literacy, or digital skills. |

8. DATA SHARING.



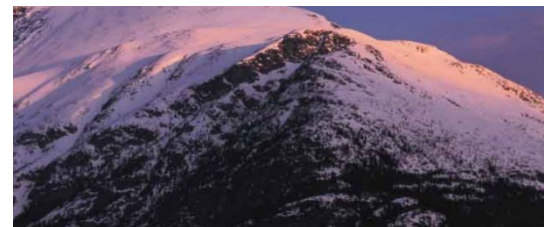
As part of Consumer Duty, we will measure customer outcomes. To do this we will need to share data with, and receive data from, you.

WHAT WE WILL SHARE WITH YOU.

We will provide the following information to our Distributors:

- a) the characteristics of the Finance Products.
- b) the identified Target Market.
- c) the benefits of the Finance Products to the customer and the outcome of our Fair Value assessments.
- d) the needs, characteristics and objectives of any customers in the Target Market, including those who may have characteristics of vulnerability.
- e) the intended distribution strategy for the Finance Products.
- f) any amendment or addition to information previously provide regarding these points.
- g) anything else reasonably requested by our Distribution network to support their actions as a Distributor of our finance products

If there are any changes relating to our policies, our expectations or our Target Market and Fair Value Assessment (TMFV), we will inform you in good time.



WHAT WE WILL REQUIRE FROM YOU.

From time to time, we may request information (such requests to be reasonable) that will allow us to facilitate, and provide confirmation of, compliance with the Consumer Duty.

Additionally, you must notify us if you identify that your distribution arrangement of the finance product:

- a) is no longer appropriate and up to date.
- b) no longer distributes the Finance Products to the Target Market.
- c) causes customer harm.
- d) causes any conflicts of interest; and/or
- e) does not take into account the needs, characteristics and objectives of the Target Market.

If you have any concerns relating to these points, please inform us via your Area Manager or Business Development Manager.



9. RESOURCES & CONTACTS.



Please refer to the Consumer Duty section on the [FCA website](#).

We also have a wealth of information on our Retailer Hub, ALPHERA Partner Hub and Alphabet Partner Microsite.

If you have any questions relating to Consumer Duty, please contact us via your Area Manager or Business Development Manager.