For financial advisers and Employee Benefit Consultants only

August 2023

Consumer Duty – your questions answered

The new Consumer Duty came into force on 31 July 2023, heralding a whole new world of regulation across retail financial services. The new regulations and guidance are very wide ranging, touching all parts of our industry, but critically, often in very different ways.

With the key milestone for new business complete, the FCA will be taking a data-led approach to reviewing firms' delivery against the consumer principle, the three cross cutting rules and the four outcomes

The Consumer Duty requires action across the supply chain to measure progress against outcomes, and it should have a positive impact on our industry. There is an exciting period ahead, as the industry – and advisers especially – look to continue charting the retail wealth management industry's progress with helping clients achieve positive outcomes

Here, we answer some of the key questions we received about the implications of the Consumer Duty – the four outcomes as well as culture and evidence and monitoring. These range from questions around the rules, to what Aegon is doing as a result.

If you need a refresh of the rules, please visit our dedicated Consumer Duty hub, where you'll find an in-depth guide, webinars and articles to support you and your business.

As the external environment continues to change, so will consumer needs and FCA expectations and we'll continue to update these questions and answers and our hub with support material.

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AEGON

Delivering on the FCA's Consumer Duty expectations

How can I make sure I'm compliant?

Keep at hand the 39 examples of questions the FCA suggests firms should have asked themselves, and which they might ask of firms. There's so much detail in the full rules and guidance, but these 39 examples remind us of what the FCA is expecting.

Not all are relevant to all types of firm, so you can go through and identify those which are relevant to you – but avoid narrowing down too much. Now that the Consumer Duty is live you should be able to answer all the questions relevant to you.

The resources below are a handy reminder of the rules, the FCA's expectations and how other adviser firms approached implementation.

Resources:

- Get ready – key questions to ask – the FCA has provided 39 questions firms should test themselves against – take a look at the full list to understand if any gaps exist for your firm.

- Since the final rules and non-handbook guidance were published at the end of July 2022, the FCA provided additional clarity on its expectations. In these articles Steven Cameron summarises the key points from recent FCA publications

  - Latest updates and news from the FCA (January 2023)

  - New Consumer Duty – key points from the latest FCA material (February 2023)

- The FCA's portfolio and sector-specific letters to firms set out their expectations for implementation, and reflect findings from its review of firm implementation plans. You can find all the latest portfolio letters in the Portfolio and sector communications dropdown of the FCA's information for firms page.

- FCA's multi-firm review – the FCA's multi-firm review of firms' implementation plans identifies examples of good practice, and areas where firms may need to improve their implementation approach.

- 10 tips for the countdown – Steven Cameron shared his top 10 tips to make sure your firm's plans were in order ahead of the deadline, but these remain useful checks.

How are other advice firms approaching the Consumer Duty?

To find out how other advice firms responded to the new rules, we asked NextWealth to share what they heard from advisers and their clients, focusing on three key areas - demonstrating value, consumer understanding and evidencing and monitoring.

We've created three guides which cover the findings in detail, and you'll find **useful action points** to consider:

- How are advice firms demonstrating value? - In this first guide, you'll hear what advisers consider value for their clients, approaches to measuring value, and what advised clients say they value most.
- How are advice firms demonstrating consumer understanding? - Discover how advisers are approaching client communications and concerns about foreseeable harms.
- How are advice firms evidencing and monitoring good outcomes? - Find out how firms are adapting their approaches to gathering MI, with a focus on target markets and segmentation.

We've also summarised the findings in our webinar – watch the webinar to hear the analysis of Steven Cameron, Aegon's Pensions Director, NextWealth's Heather Hopkins, and David Kerr, Aegon's Platform Consultancy Director.

What actions have Aegon taken to comply with the new rules?

We completed extensive analysis of our processes, support and communications in line with the new requirements. In October 2022, our Board approved a robust implementation plan, setting out the actions we needed to take to make sure we're compliant. We're continuing to deliver on our plans and embed and embracing the new rules, to help support your clients reach good outcomes.

We've published the outcomes of our 2023 value assessments, which confirm all of our open products offer fair value to your clients, meaning you can continue to recommend our products with confidence. We didn't identify any issues needed remedial action at an individual product level. As well as the outcome of our assessments, we've updated our summaries with the target market for our products, main features and characteristics and risks.

To make sure we can identify areas of foreseeable harm more easily and act quickly to resolve any issues, we've enhanced our policies and product oversight to include the Consumer Duty's rules and outcomes. We've strengthened our reporting of customer outcomes for product reviews and value assessments and we're mapping our key processes end to end to understand where improvements could be made.

We're in the process of adding value assessments for our closed-book products, which have a later deadline. Please keep checking back if you can't find what you're looking for.

Resources:

Visit our Product oversight and governance library

Products and services

What are the FCA’s expectations?

This outcome requires firms to design products and services to deliver good outcomes for target audiences. This will require information from manufacturers including product characteristics, identified target markets and appropriate distribution strategies. The granularity of a manufacturer’s target markets will reflect the characteristics, complexity and risk of consumer harm of the product.

How should I use product value assessments?

As is the case today, the FCA expects advisers to carry out a review of the price and value of the service they provide to retail customers, including any products they distribute that are manufactured by another party.

To do this, advisers need information from providers (manufacturers) on the intended target markets and appropriate distribution strategies. Advisers also need confidence that the provider has reviewed the fair value of products and services and shared the outcome of this value assessment. Our ‘outcomes of value assessments’ have been available since the end of April, along with a summary of key benefits to the target market and the negative target market.

Advisers can be reassured that a provider has derived the outcome of the value assessment under their manufacturer responsibility. Advisers don’t need to review the detail of the assessment carried out, the outcome is key to record and note.

Advisers must focus on adding in their adviser charges and service to assess overall value right across the chain, as well as considering alignment of their target market with that of the product design. Aegon has already made an allowance for a typical range of adviser charges when we carried out our product value assessments. As part of their Consumer Duty responsibilities, advisers will need to make sure they’re comfortable with the value and price of their service.

Has Aegon produced the outcomes of its product value assessments?

We've published the outcomes of our 2023 value assessments, which confirm all our open products offer fair value to our target markets, meaning you can continue to recommend our products with confidence. As well as the outcome of our assessments, we've updated our summaries with the target market for our products, main features and characteristics and risks.

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Can I rely on a product provider’s assessment?

The FCA has made clear that advisers don’t need to check or second guess provider’s assessments.

How do Aegon make sure products are still fit for purpose?

We run an existing robust Product Lifecyle Management (PLM) review cycle for all our products, which is overseen by our Product Management Forum (PMF). These PLM reviews interrogate that the product is still fit for purpose, monitor customer outcomes and behaviours and conduct an overall health check of the proposition including to reflect existing or expected regulatory developments.

The PMF monitors and tracks any action arising from the reviews and is governed by our Customer Committee. All products are subject to these reviews on a regular basis, and this will continue.

Resources:

Find out how we deliver good outcomes in our [Product oversight and governance – delivering fair value through our retail products] guide

Have Aegon made any changes to products and services?

Any product changes we make will follow our Proposition Development Policy, which includes regular Product Lifecyle reviews. If we decide any changes are needed, we'll get in touch with you and your clients to let you know.

Do I need to change the service I provide to my clients?

The provision of **advice** is with the intention of meeting client needs and in the spirit of the Consumer Duty, so your advice process may not need to change or change much. We've provided some areas to consider below:

- **Articulate your services** – review each of your different advice or other services and importantly how these are articulated / described.
- **Document target markets for services** – make sure you've documented the target market you have for each service
- **Is ongoing advice necessary –** is there a need for ongoing advice and does the benefit of this to the client outweigh the cost?
- **Review suitability reports** – reviewing the content and construction of suitability reports. If you use generic paragraphs, make sure the end result is sufficiently tailored, and not too generic.
- **Consider foreseeable harm** – increase emphasis on considering foreseeable harm including any newly emerging if offering ongoing advice.
- **Check client understanding –** increase the emphasis on checking understanding and documenting the outcome.

Are legacy products affected?

Legacy products are within the scope of the Consumer Duty, but in some ways the requirements are less. The Consumer Duty isn't a fully retrospective review, and there is no suggestion that all legacy products should be repriced in line with current products. However, if there are features that can cause foreseeable harm, the manufacturer must find a solution to fix this.

The FCA doesn't expect advisers to switch away from legacy products unless the product is clearly failing the customer's needs going forward.

Does the Consumer Duty have separate implications for Defined Benefit (DB) transfer advice?

You should consider any specialist advice services separately. For example, if you offer DB transfer advice, the FCA's expectations are likely to be higher because of the risk of harm, the complexity and the types of customers you may be advising. There, it may be helpful when assessing value to think of the advice on transferring separate from the advice on product recommendation.

Resources:

Consumer Duty and DB transfer advice

Is financial wellbeing consistent with the Consumer Duty?

A focus on financial wellbeing, in addition to the hard numbers, is an area where advisers can add additional value.

We see it as very aligned to the Duty – for example, one element of a healthy mindset is an ability to picture your future self. That can really help engage the client with understanding foreseeable harm and how you're seeking to avoid that. As well as the considerations above, it would be worth including a reference to financial wellbeing when services are being articulated.

Resources:

Financial wellbeing hub – visit our hub to find our latest research, guidance and support helping you to identify new advice opportunities.

Price and value

What does the FCA expect?

This outcome requires firms to demonstrate charging approaches offer fair value, including between groups. The FCA defines 'value' as the relationship between the overall price the customer will pay over their lifetime with the product or service, and the benefits they're likely to receive. So, this outcome isn't just about charges. The FCA suggests any firm assessing the value of a service might consider what it costs them to provide it and market rates for comparable services.

What represents 'value'?

The FCA accepts that value isn't all about price and cheapest isn't necessarily best. There are a number of dimensions here.

- Does the design and structure deliver good value to those customers in target markets?
- Demonstrate you're offering fair value to different groups of customers.

What responsibility do I have in assessing value?

Advisers have a two-fold responsibility.

- First, the adviser will need to show that their own charges for advice represent value. As part of this, it's important to recognise that advice has a value in its own right, separate from any product recommendation – that is a fundamental aspect of the Retail Distribution Review
- Second, that the overall charges across the whole distribution chain, so everything that's come before and then the adviser charge on top still offer value.

Do I need to change my charging approach?

There's no overall requirement for advisers to change their charging approach. However, the FCA gives some examples in guidance around possible concerns.

- The FCA has identified possible issues with fixed £ charges – these may not deliver good value for low-wealth individuals or those making smaller investments. This may mean you have to exclude them from your target market if you charge in this way. Unfortunately, this could increase the advice gap.

- And also, flat percentage charging can raise issues of fairness between those with small and large sums to invest. The FCA suggests you consider how much it costs to provide a service and if it costs you largely the same irrespective of the sum being invested, it may not be fair to charge the same percentage. This may point to having a tiered approach to charging.

You may need to segment and structure charges accordingly.

Resources:

Find out how our platforms' tiered charging structure works:

- Aegon Retirement Choices charges guide
- Aegon Platform annual charge guide
- One Retirement charges guide

Do I need to prove I provide better value than going direct?

No, there's no suggestion you need to prove your service is better value than direct.

How often do I need to review the services I offer my clients?

The FCA doesn't prescribe how often you need to review the services you're offering to your target markets. How often you carry out a review may depend on whether there are broad changes in the market or amongst your customer target groups that might mean an assessment of value may be different.

Consumer understanding

What does the FCA expect?

This outcome requires firms to truly promote understanding, helping customers avoid foreseeable harm and pursue their financial objectives. This outcome relates to all forms of communication – verbal, visual and written. The many existing regulatory requirements around communications must continue to be met in full.

Do I need to talk to my clients specifically about the Consumer Duty?

Not specifically, but documenting ongoing communication with your clients will help to demonstrate how you support them to make good choices about products and services to achieve their financial objectives, both now and as their circumstances evolve.

How does Aegon assess customer understanding?

We carry out scenario testing of products to consider what outcomes they'll produce. If we launch a new product, we carry out focus groups to understand consumer reactions and understanding of communications and processes.

For broader communications, we'll gauge understanding and usefulness/accessibility indirectly. This includes delivery mechanisms, visuals, formats etc as well as the words. We have a customer panel we use for this, including Aegon customers and others.

Importantly, we want to test the behavioural response to what we're offering to make sure we're truly helping people meet their financial objectives.

How can I assess if communications promote understanding?

Where client communications are tailored for each individual, you can check their understanding as part of the advice process. This is something firms should also consider recording evidence of. Adviser firms might consider improving suitability reports – perhaps making them easier to navigate or reviewing the use of any generic paragraphs. If you offer mass communications and these are important, you should consider carrying out pre and / or post testing for understandability.

Consumer support

What does the FCA expect?

This outcome requires firms to adopt a tailored approach to the needs of customer groups including those with characteristics of vulnerability. The industry has been on a journey in terms of how to identify characteristics of vulnerability and to adapt not just our products and services but approaches accordingly. The Consumer Duty strengthens these expectations further and firms should make sure their employees know what to look out for and how to record instances of vulnerability.

Recently, the pandemic and now the cost-of-living crisis have created a whole new raft of vulnerabilities and all firms need to keep reflecting on these and if we're doing what we should be doing to support customers.
All firms must have processes and procedures in place for identifying and recording characteristics of vulnerability, both initially and on an ongoing basis if providing an ongoing service. You should then consider what adjustments you might make to support customers with such characteristics. This could include offering

face to face or telephone options to complement paper based or online services. You could also consider more concise or clearer communications. You could also encourage customers to be accompanied by a family member or friend.

Should my firm's approach to vulnerable customers change?

The industry has been on a journey in terms of how to identify characteristics of vulnerability and to adapt not just our products and services but approaches accordingly. The Consumer Duty strengthens these expectations further and firms should make sure their employees know what to look out for and how to record instances of vulnerability.

Firms can't simply wait for a customer to tell us of a vulnerability – we need to look out for signs of these proactively.

Do I need to switch providers if my client is receiving poor customer service?

Clearly, manufacturers need to deliver good standards of customer support. This is part of their assessment of value and of avoiding foreseeable harm. Continuously failing to reach an acceptable standard of customer support with no concrete plan to remedy this could mean poor outcomes and might prompt you to consider switching provider. You would of course need to demonstrate this was suitable advice

How can I protect my clients from every foreseeable harm?

You should consider if your client is open to foreseeable harm. The FCA accepts that no firm can protect all customers from every harm. You won't be held accountable for risks you reasonably believed the client understood and accepted. You can still act on behalf of insistent clients, provided you explain to them the risks of acting against your advice.

Culture, governance and accountability

What does the FCA expect?

The final rules and guidance placed much more emphasis on culture, governance and accountability. The FCA expects that delivering good outcomes will be at the centre of a firm's strategy and culture.

What do providers and advisers need to do?

Firms should be able to demonstrate how their strategy and purpose, whether publicised or not, is consistent with the Consumer Duty.

- Appoint a Consumer Duty Champion. For firms with Boards, the FCA suggests a Non-Executive Director to sit alongside the Chair and CEO to make sure the Consumer Duty is considered in all relevant discussions.
- The Consumer Duty should be reflected right across people policies, remuneration and culture, all to be consistent with delivering good outcomes for customers.

How will compliance be enforced?

The FCA will enforce compliance, including through the Senior Managers and Certification Regime.

Will all firms be treated the same?

The FCA has said it will take a proportionate approach to supervision based on the size of a firm and the nature of its products or services including the risk of poor outcomes.

Monitoring, evidence and MI

What does the FCA expect?

The FCA is placing a major emphasis not only on delivering good outcomes but evidencing this through robust MI. Adviser firms should review all existing MI for completeness against the Consumer Duty.

What does robust MI look like?

The FCA has made it clear that it won't be enough to **deliver** good outcomes, prevent foreseeable harm and support meeting financial objectives. MI must truly **demonstrate** you're delivering the outcomes – not just measuring inputs or transactional data.

The MI you need will be tailored to your firm's:

- Sector
- Size
- Client base
- The material influence you have on outcomes
- The extent of potential harm – for example, providing DB transfer advice versus providing execution only advice

As well as references to monitoring and MI throughout the guidance, there's also a standalone chapter. This includes a long, but helpful list of suggestions around the sorts of MI you might collect. It's well worth looking at chapter 11.33 in the Guidance.

Resources:

- Find out how to get the most out of Report Zone when designing your MI:

    - ARC and One Retirement Report Zone guide

    - Aegon Platform Report Zone guide

- FCA's Final non-Handbook Guidance for firms on the Consumer Duty

Will providers need MI from advisers to show they're hitting the correct target market?

That may be necessary at times, but we'll carefully consider what if any extra we need to avoid burdening firms with requests.

Investments

How does Aegon differentiate between complex and non-complex products?

We differentiate between complex and non-complex funds using our internal gating systems and the European MIFID template. Complex funds are restricted to advisers and can't be accessed direct by your clients.

Is Aegon able to differentiate clients on the basis of their knowledge and experience and only make available certain products to clients that meet a higher criteria?

We only make funds available which are appropriate to retail customers who have basic or informed knowledge and experience. Funds which don't meet this criteria aren't available on our platform.

If the target market for a fund currently suitable for mass market changed, how would Aegon respond?

If fund manager criteria change within the European MIFID template version, which we've ingested, we'd review this change by exception and assess if the fund remains appropriate for sale on the platform, or if the fund should be restricted to adviser use only.

Will Aegon change the MI currently provided to asset managers?

We currently make MI available to fund managers on Report Zone and are currently reviewing this information against the European Feedback Template. There's a lot of industry debate on this topic and we're involved in a number of industry forums to help shape the best outcome for fund manager MI as this evolves.

Will Aegon implement a value assessment (or enhance an existing assessment) for the funds and/or service offered?

Our value assessments are at product level. None of the funds on our platform are sold separately from our platform's products. We take fund availability into account in our products' value assessments.

Workplace pension schemes

Are workplace pension schemes in scope of the Consumer Duty?

Yes, they are, with one exception explained below. There are two types of workplace pension – contract-based (such as group personal pensions) and trust-based (including master trusts). The Consumer Duty relates to delivering good outcomes for retail customers. Members of contract-based pensions have always been included within 'retail customers'. The Financial Conduct Authority (FCA) also clarified that for the purposes of the Duty, beneficiaries of trust-based Defined Contribution pension schemes where there's regulated activity by an FCA regulated firm are also in scope.

In a Quarterly Consultation, the FCA went further to say that regulated firms offering services to Defined Benefit schemes which could materially influence outcomes are also in scope.

The only workplace schemes not in scope will be those which aren't in any way served by an FCA regulated firm. This could include some single employer trust-based schemes, or some master trusts not supported by FCA regulated firms.

What are the Consumer Duty implications where an Employee Benefit Consultant (EBC) or corporate adviser is offering services to an employer or to trustees regarding a workplace pension scheme?

The FCA states that the Consumer Duty must be followed by all FCA regulated firms which can determine or have a material influence over the outcomes for retail customers. This means any regulated firm, be it provider, adviser, consultant or distributor who is involved in the design of the scheme and its default and/ or other funds, the setting of prices, consumer understanding including education or communications and / or consumer support such as helplines and complaints handling must comply with the relevant parts of the Consumer Duty rules and guidance.

There may be some firms not regulated by the FCA who offer services to employers regarding workplace pensions. There are limitations on what services such firms can offer.

But for FCA regulated firms working with employers, it would be difficult to explain these services have no impact on outcomes for beneficiaries. Here, the EBC or corporate adviser should make sure they or the firms they work with who are FCA regulated are complying with all aspects of the Consumer Duty relevant to the services they're providing. This could include setting up a new scheme, transferring to a different scheme or provider, changing the fund range or scheme-level consolidation exercises.

What about if the EBC or corporate adviser offers regulated services to members?

All such services are captured within the Consumer Duty. This applies whether services are being offered on a 1-1 basis, in groups or through mass communications. Both advised and non-advised services are covered, although the obligations for non-advised will be different.

EBCs should consider their role in individual member support, the production of mass member communications and in support services such as member-level consolidation exercises.

Are employers and trustees in scope?

Neither employers nor trustees are in scope of the Consumer Duty. They aren't FCA regulated firms and they aren't classed as retail customers. (Trustees are regulated by the Pensions Regulator.) However, they may well be interested to understand what the Consumer Duty will mean for their employee members.

What is Aegon doing for its workplace pensions?

As a provider, we'll adhere to the Consumer Duty for our money purchase and personal pensions and the trust-based schemes including the Aegon Master Trust we support. This will cover all four outcomes and the cross-cutting rules.

How does this link into value for money assessments from Independent Governance Committees and value for member assessments for Trustees?

Where a provider is offering a group personal pension, it must have an IGC or Governance Advisory Arrangement (GAA) which is tasked with making sure members are receiving value for money. Providers must use the IGC or GAA value for money assessment when carrying out its own value assessment under the Consumer Duty.

IGCs operate within an FCA framework but may have developed their own particular value for money criteria. It's likely there will be much overlap but also some differences between these and the FCA expectations within the Consumer Duty.

Master trust trustees also undertake value for member assessments and again, we expect much overlap but some differences with the Consumer Duty's approach.

The Department for Work and Pensions, the Pensions Regulator and the FCA have been consulting on producing a consistent Value for Money framework to be applied across all workplace pensions, initially default arrangements. A later phase will extend this to all funds as well as to individual pensions and to decumulation. The FCA has said it sees the Framework as fully consistent with the Consumer Duty but with no direct mapping between respective criteria, we expect further debate and detail here

We'll continue to work with advisers like you, as we collaborate on this major regulatory milestone, with a shared obligation to deliver good outcomes for consumers.

To keep up to date with the latest Consumer Duty news and further resources and insights visit

aegon.co.uk/consumer-duty