

Implementation of Consumer Duty (2nd Letter)

19th April 2023

Dear Agent,

As required by FCA, all regulated firms should complete their implementation of the Consumer Duty **by the end of July of 2023** to ensure that robust procedures are in place and are compliant with the new rules.

Further to our letter to you on 19th January, the team at China Taiping Insurance (UK) Co Ltd (CTIUK) have well progressed in line with our own implementation plan which commenced last October and focussed on implementing the Consumer Duty in accordance with FCA published guidance.

This letter is to inform you that:

- Where we are now on implementing the new Consumer Duty rules by the end of April, and
- How we comply with and embed the new rules into our operation and procedures by July, and
- What we would expect our distributors (agents or you) to do, or you are obliged to do, in order to fully compliant with the new rules

Action required from you (if you have not done yet)

- 1- Please read the attached summary of our implementation plan and agree our approach to comply with the Consumer Duty and fulfil your obligations.
Yes/No
- 2- acknowledge and affirm your understanding and agreement to implement and thereafter adopt the Consumer Duty in addition to any existing regulatory principle and rules.
Yes/No
- 3- Share with us a copy of your Consumer Duty implementation plan and progress (optional).
Yes/No

You can reply either from REG or by email to your usual contact at CTIUK.

Consumer Duty Team

China Taiping Insurance (UK) Co Ltd

Summary Report of Consumer Duty Implementation

Since the final FCA Policy Statement on the Consumer Duty was published on 27 July 2022, and the timeline for all regulated firms to implement the new rules was confirmed, China Taiping UK has set up a working group for the project (project team) and drafted the Implementation Plan for the Consumer Duty from September 2022.

We can now summarise the progress of the project as at the end of March 2023 for the works we have carried out and the tasks completed, as well as the remaining works and tasks to be completed:

Works/Tasks have been Completed

- The implementation plan was approved by the CTI Board on 30th October 2022 after several round of amendments and agreement by Senior Management;
- The project team has been working hard and meeting weekly since November 2022 to ensure the delivery of the planned works in line with the project (and FCA) timeline;
- We have identified 8 workstreams and allocated the tasks to the members of the working group who are in charge of relevant functions;
- Four training sessions of Consumer Duty for all the staff have been delivered – one online short course organised by HR and three online seminars delivered by Compliance Team on specific topics;
- A Consumer Duty letter for distributors (or brokers) was sent out in February requesting brokers to respond and advise their readiness and progress on implementation of the new rules.
- Based on those replies/responses from brokers, a pack of training material will be sent out to the brokers who have requested help and a reminder letter will be sent out to brokers who have not yet replied;
- We have completed reviews of policies and procedures for all the business functions. Customer Journeys have been captured across all the customer facing business functions, and ready for reporting on gaps for products and service functions and mapping out to the new rules;
- We started to produce the required MI/Data from February and completed three outcome dashboards for four customer facing functions (Underwriting/Sales, Claims, Payment and Complaints). The remaining one - Underwriting/Sales-will be completed by mid-April. All will be ready for review and test by the end of April.
- We have identified and required 14 measurement data to link to our Consumer Duty outcomes report for us to analyse good or bad outcomes every month. Some of these have been already built in as KPI for the 4 functions mentioned above;
- The external consultant Norton Rose Fulbright (NRF) has been selected and approved after obtaining three quotes required for procurement procedure, who will assess our finished works and peer review against industry benchmark, hopefully starting from the late April;
- Individual responsibility has been updated. Consumer Champions have been nominated at all levels and notified to the relevant people.
- First progress report of the project was submitted to the Operation and Conduct Committee, the Management and the Board in February.

Works/Tasks to be Completed

- The project team will continue to meet regularly on a weekly basis to ensure that the project is delivered by the end of July for implementation;
- All the above MI/Data will be preliminarily built up by the end of April, ready to be reviewed and tested. It is planned to complete the whole data system for the required Consumer Duty data to be mapped, measured, analysed and reported before the end of June;
- We will build an auto-email communication system regularly (quarterly) to remind our customers to inform us the changes of their circumstances including vulnerability.
- The second phase project progress report will be submitted to the Operation and Conduct Committee, the Management and the Board in April.
- Assessment to our works against industry benchmarks and peer reviews by external consultant Norton Rose Fulbright (NRF) is scheduled for April and May. We plan to make further improvements in June according to their recommendations;
- An online broker meeting will be organized at the end of April or early May to report the progress of our implementation plan and provide relevant training;
- We will confirm and announce the appointment of the Consumer Duty Champions at all levels of the company;
- We will work with relevant departments (Administration/Marketing) to update the company's mission statement and corporate strategy and policy documents, to ensure the customer-oriented culture reflected through the whole organisation;
- We will draft and submit an 'after-implementation' operation plan including the project team continuing to work for one year, holding regular weekly meetings to oversee the implementation, and arranging relevant trainings to ensure that the plan is actually embedded and properly implemented;
- At the same time, we suggest to set up a 'central hub' or team responsible for collecting, analysing, feeding back relevant data, reporting the results and proposing improvement measures every month, based on the good or bad data outcomes from our data system built.

This approach, from leading the project from the front line personnels, setting up Consumer related KPI for customer facing units, to having a dedicated unit to monitor and analyse required data for outcomes monthly, and feedback to relevant functions (product/underwriting /sales/claims/payment/complaints etc.), and report to the Management and Board regularly (quarterly), we believe we can properly and thoroughly implement this new duty to our daily practice and embed this consumer focused culture into our entire organisation.

We are adopting the same approach to our distributors (agents), sharing information on our implementation plan and progress with them, and requesting them to meet their obligations to fully comply with the new rules.

What is the Consumer Duty?

The Consumer Duty is a package of measures which is intended to set higher expectations for the standard of care that firms provide to consumers. It comprises three key elements:

1. A new **Consumer Principle** (Principle 12) will require firms to "act to deliver good outcomes for retail customers". Where the Duty applies, Principle 12 will replace Principles 6 and 7 as it sets a higher and more exacting standard of conduct compared to what the existing Principles would have otherwise required
2. **Cross-cutting rules** to help develop the standards of conduct expected under Principle 12
3. Rules and guidance relating to **four outcomes** that the FCA wants to see under the Consumer Duty.

The Consumer Duty will apply to new and existing financial products and services that are open for sale or renewal from 31 July 2023, and for financial products and services held in closed books from 31 July 2024. The Consumer Duty will not have retrospective effect and actions or omissions occurring before the Duty enters force will continue to be assessed in line with the rules in force at the relevant time.

In terms of scope, the FCA has maintained its proposal to apply the Consumer Duty in line with the approach of existing sourcebooks in the FCA Handbook, including to SMEs. Accordingly, where FCA Rules currently cover a firm's relationships with an SME customer, the Consumer Duty will equally also apply to that financial product or service.

The Consumer Duty will also apply to:

- Dealings with high-net worth customers (and this includes the processes applied by firms to determine a client's status as a professional client)
- Ancillary activities, including unregulated activities, which are necessary for the completion of a regulated activity – this is despite concerns from industry respondents that this proposal lacked certainty and could extend the scope too broadly

The FCA has published finalised guidance ([FG22/5](#)) alongside its final rules which will help firms in interpreting the rules and their new obligations.

What's changed since the consultations?

CTIUK like most firms have already kicked off their implementation projects and so will be familiar with the content of the FCA's proposals set out in [CP21/13](#) and [CP21/36](#). However, the final rules and guidance contain a number of changes to these proposals that firms will need to incorporate into their planning. These include:

Cross-cutting rules

Whilst the overarching cross-cutting rules remain largely as drafted, the FCA has confirmed that firms are required to "avoid causing foreseeable harm to customers". This wording was updated to "avoid foreseeable harm" in CP21/36 in response to industry concerns but the FCA has reverted to its original wording.

The FCA's finalised guidance provides a list of examples of foreseeable harms and also contains examples of conduct that is unlikely to meet the cross-cutting standards more generally.

Four outcomes

The four outcomes have been updated since the draft rules were published and now comprise product and services, price and value, consumer understanding and consumer support outcomes.

- Products and services – the final rules confirm that firms will not be subject to both the existing PROD rules and the new rules in PRIN 2A.3. Firms that comply with PROD will be compliant with this outcome, but where products are not caught by PROD then firms must comply with the new PRIN requirements
- Price and value – new guidance in PRIN sets out a list of factors for product manufacturers to consider when assessing whether a financial product or service is providing fair value. The FCA has also confirmed that firms do not need to conduct a value assessment for products or services that do not have any financial or non-financial cost to the consumer (eg free in-credit current accounts or free debt advice services). The final rules clarify that firms are responsible only for prices that they control, and are not required to repeat or challenge other firm's value assessments
- Consumer understanding – the FCA has replaced the notion of the "average retail customer" with "retail customers in the target market", thereby requiring firms to ensure that a communication is likely to be understood by those customers actually intended to receive it. The testing requirement has also been amended, such that testing is now to be conducted "where appropriate" to identify if firms' communications are supporting good outcomes for retail customers
- Consumer support – there is now a requirement for a firm to ensure that it includes "appropriate friction in its customer journeys to mitigate the risk of harm and give retail customers sufficient opportunity to understand and assess their options, including any risks". However, the FCA's guidance recognises that some friction points can act as unreasonable barriers and make it more difficult for customers to act in their interest, so firms should apply judgement and distinguish between positive frictions and harmful frictions (like sludge practices) based on the circumstances.

The FCA has also confirmed that the rules on the consumer support outcome do not apply to a firm which is dealing with another firm which is in turn acting on behalf of a consumer. That said, firms are still obliged to deal with "reasonable requests from another firm in an effective way and in good time to enable the other firm to support retail customers".

Monitoring

Firms are required to monitor outcomes experienced by their customers by regularly reviewing their financial products and services to ensure that they are delivering on the four outcomes.

Although CP21/36 required firms to identify where the outcomes were "worse", the final rules have expanded the scope of this obligation. Firms must now identify whether any group of retail customers is experiencing "different outcomes" compared to another group of customers receiving the same product or service. The FCA also expects firms to become proactive in identifying poor customer outcomes or harm and undertaking root cause analysis to understand the causes for both.

It is worth noting that a firm's monitoring obligations apply proportionately to its role in a distribution chain. However, even if a firm does not have direct contact with retail customers, the FCA expects it to monitor the outcomes of the service it provides and act reasonably to obtain information about the outcomes experienced by retail customers.

For the FCA's part, it has confirmed that it will measure the success of the Consumer Duty by monitoring key outcomes for consumers both through monitoring firms' MI (discussed below) but also through data like relevant FOS final decisions.

Governance

The final rules set out new requirements for the governance process. The FCA expects there to be a Consumer Duty champion at board level (ideally an iNED) and it also expects firms' boards to sign-off an assessment of the firms' monitoring and actions at least annually.

Boards should also have agreed their implementation plans and maintain oversight of their delivery by the end of October 2022, and they should be prepared to share such plans, board papers and minutes with the FCA from this point.

Implementation

As mentioned above, implementation of the Consumer Duty will be phased. Firms must apply the new requirements to new and existing products and services that are on sale (or can be renewed) from 31 July 2023, but have until 31 July 2024 to apply the Duty to closed book products and services. The final rules set out the FCA's expectations of firms during the implementation period which also provides a useful roadmap for firms to refer to in their planning. The key dates that firms should be aware of are as follows:



Management information

MI and data play a fundamental role in enabling firms to assess whether their customers are experiencing the four outcomes in accordance with the spirit of the Consumer Duty. The finalised guidance provides a reasonably comprehensive list of potential data sources which firms could use to evaluate their compliance. It is worth noting that the FCA has not at this stage introduced a regular reporting obligation but it will consult on any future proposals to do so.

SMCR

In the consultations, the FCA suggested that delivering good outcomes for retail customers should be supported by individual accountability and personal conduct under the SMCR. The final rules introduce a new individual conduct rule 6 which reflects the new higher standard of the Consumer Duty, in that all conduct rules staff must “act to deliver good outcomes for retail customers”.

Notably, new guidance at COCON 4.2.31 places an obligation on SMF holders to notify the FCA of other firms’ breaches or its own firm’s breaches of Principle 12 or PRIN 2A, if the firm itself does not do so.

Vulnerable customers

The Consumer Duty aims to raise the standard afforded to all consumers, but the FCA urges firms to consider the new rules and guidance alongside its guidance on the fair treatment of vulnerable customers ([FG21/1](#)).

As noted above, the FCA has recognised that the use of the term "average customer" could be confusing and instead is requiring firms to consider the needs of customers in their target market, including those with characteristics of vulnerability.