

Consumer duty - a hot topic



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The July 2023 deadline for firms to have completed effective implementation for the FCA's Consumer Duty initiative is fast approaching

Exactly where asset managers are in their implementation journey's is a hot topic.

To try and gain a sense for this, and to check the confidence levels, Armstrong Wolfe hosted a Regulatory Management Forum on 19 July 2023.

Seven iCOOC member firms participated in the session co-hosted by **Maurice Evlyn-Buften** (CEO of Armstrong Wolfe) and **Terry Yodaiken** (Industry Advisor to Armstrong Wolfe).

A short survey was shared ahead of the call. Terry Yodaiken spent the first 15 minutes running the participants through his perspective, which has been gained through talking to, and advising, various asset management clients of his in his capacity as Managing Director of POD Capital Consulting Limited (a practitioner-based asset management focused consulting firm). Key themes identified include:

1. Initial implementation plans adopted in October 2022 were very generic/one-size fits all and as firms dived into the detail it became quickly apparent that actual implementation was going to be far more nuanced.
2. This was particularly true for firms we were acting as pure Distributors with no Co-Manufacturing responsibilities. Each firm's distribution model and products distributed (including offshore funds) need careful assessment, planning and implementation.
3. For UK Manufacturers, planning and implementation for Products & Services and Price & Value outcomes is relatively straight forward given the ability to rely on PROD and AoV compliance. That said there is some complexity introduced where asset managers have multiple entities fulfilling a Manufacturer/ Co-Manufacturer role, especially where these firms operate different Board with different Directors, leading to potential proliferation of governance structures and Consumer Duty champions.
4. On the topic of governance, this is proving to be challenging for some asset managers, particularly those whose existing governance frameworks around TCF matters and the oversight of Distributors needed work.
5. Likewise, MI is proving to be challenging to obtain or create from disparate data sources. Those asset managers who have already invested in creating data and technology enabled Client Books of Record ("CBOR's") are in a much better position from day one. Both from having readily available data, but importantly having the foundations in place to quickly consume new data sources and deliver business intelligence dashboards from this data, as well as looking at smart integrations. A good example of such a smart integration is the ability to marry-up top-down qualitative Distributor Due Diligence with CBOR driven bottom-up quantitative business intelligence.
6. Solutions to enable information exchange are starting to emerge with AssetQ and FE Fundinfo, in partnership with Door, both recently launching solutions. Problems remain around the lack of market/industry standards.
7. Staying on the topic of MI, the industry moved quickly, efficiently, and pragmatically to provide a new version 4.1 of the EMT which includes Price & Value specific fields. There is still some confusion and different practices been adopted by Distributors and Platforms, especially for offshore funds where copies of public facing 'value assessments' are being requested. These documents do not exist, and this is posing some interesting commercial questions for the manufacturers and UK distributors of these products.

8. There is a wide spectrum of work on the Consumer Understanding outcome with most large and well-resourced firms choosing to use third party firms to conduct independent consumer testing on client facing collateral. This however can be a costly and time-consuming exercise. Small and medium sized firms are finding this more challenging, and we have seen several of these asset managers asking for more cost and time effective solutions to provide assurance here.
9. Asset Managers with direct books of businesses, particularly with those that consider these books to be 'legacy' and traditionally not well serviced are underestimating the risks. Only recently have some of these firms started to consider how to proactively engage with these customers through a consumer duty lens with a view to mitigating risk.

In terms of survey questions asked and the ensuing discussions the following are the key themes that emerged:

1. Most asset managers in attendance have very well-resourced programs of work with senior (executive) level sponsorship and engagement.
2. Most firms consulted are well advanced with their implementation plans with a small number of day-one items to close-out before or shortly after 31 July 2023.
3. Where there is still work to do the consensus showed this was centred around the governance framework and MI/information exchange.

4. On MI/information exchange the main area of focus was on vulnerable customers and complaints, with some firms needing to do work on distribution channels and target markets/marketing incidents/suspicious activity.
5. Most of the asset managers consulted did not have a direct retail book, but consistent with the earlier observation on the limited focus by managers with direct retail investors, those that did have such a book had not considered proactive consumer duty specific engagement with these clients.

In conclusion, the industry has made a reasonably good start to getting ready for the 31 July deadline. This is pleasing to see given the very tight timeframe given by the FCA. Many small-to-medium sized (and some larger) asset managers are now engaging on post-implementation independent assurance work with a view to fleshing out the 'day 2' agenda and roadmap.

31 October 2023 is being seen as the next logical deadline for asset managers, distributors, and their Boards to consider progress on bedding down their Consumer Duty operating model and progressing work on their 'day 2' agenda.

Firms will want to be complete with the majority, if not all, of this work by 31 March 2024 when it is expected the regulator will begin to announce plans for their thematic review of how firms have implemented the duty.

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