

'Intelligibility' Event



There is a key shift from a Treating Customers Fairly (TCF) mindset based on what you do as an FCA regulated firm, to an outcomes-focused approach where it's the results of your actions that matter

Kevin Still

Director of DEMSA

Delivered 5 June 2023 (117 pages)



“Dear CEO” letters in February & March 2023

We’ve published portfolio letters with information on the Duty for:

- asset management, custody & fund services and alternatives
- claims management companies (CMCs)
- consumer investments
- contract for difference (CFD) providers
- credit brokers
- credit reference agencies and providers of credit information services
- credit unions
- debt advice firms
- debt purchasers, debt collectors and debt administrators
- general insurance and pure protection firms
- high cost lenders
- life insurance
- mainstream consumer credit lenders
- mortgage intermediaries
- mortgage lenders and administrators
- motor finance providers
- payments services and e-money
- retail finance providers
- retail banks and building societies

Dear CEO/Director,

Implementing the Consumer Duty for Debt Purchasing, Debt Collecting and Debt Administration Services (“DPCA”) portfolio.

The Consumer Duty (“the Duty”) is a significant shift in our expectations of firms. It introduces a more outcomes-focused approach to consumer protection and sets higher expectations for the standard of care that firms give customers.

We are sending this letter to firms whose primary business model is debt purchasing, collecting and/or administration services to help them implement and embed the Duty effectively. This letter sets out:

- A reminder of the implementation timeline, key elements of the Duty and how it applies to firms in the DPCA portfolio
- Our expectations for how firms should embed the Duty, including how firms evidence the outcomes their customers are getting
- Feedback from our recent review of firms’ implementation plans
- Our approach to supervising the Duty and planned next steps

We expect the Consumer Duty to be a top priority for you personally. We want good outcomes for customers to be at the heart of firms’ strategies and business objectives, and leaders have a key role to play here. Firms’ Boards and senior management should embed the interests of customers into the culture and purpose of the firm.

In addition, we wrote to you in [January 2021](#) setting out our view of the key risks of harm DPCA firms pose to their customers and the markets in which they operate. In that letter, we also set out our strategy for this portfolio to ensure firms understand our focus, expectations of them, and the actions needed to manage their risks and reduce potential harm to consumers. Since our January 2021 letter, we have also introduced

Setting & testing higher standards

They have added an outcome to their commitments to reflect the importance of appropriate treatment of consumers struggling with debt due to cost-of-living pressures

Outcomes they want to achieve:

- Consumers are sold products & services that are designed to meet their needs, characteristics and objectives
- Consumers pay a price for products & services that represents fair value, and poor value products & services are removed
- **Consumers are equipped with the right information** to make effective, timely and properly informed decisions about their products & services
- **Consumers receive good customer service – reinforced by UKRN cost-of-living joint “Dear CEO” letter**
- Consumers have confidence in financial services markets
- **Firms innovate through the Consumer Duty**, supporting the growth of the financial services industry and driving effective competition for customers
- Appropriate access to financial services is maintained
- **Firms support consumers to sustainably manage their debts**

<https://www.fca.org.uk/publication/consultation/cp23-13.pdf>

<https://www.fca.org.uk/publication/corporate/our-strategy-2022-25.pdf>



Setting and testing higher standards is fundamental to an outcomes-based approach. Only selling suitable products that provide good standards of customer service is not controversial, but data shows too many well-established firms are still not delivering as they should.

Our Strategy 2022 to 2025 | Financial Conduct Authority

Impact of CP23/13

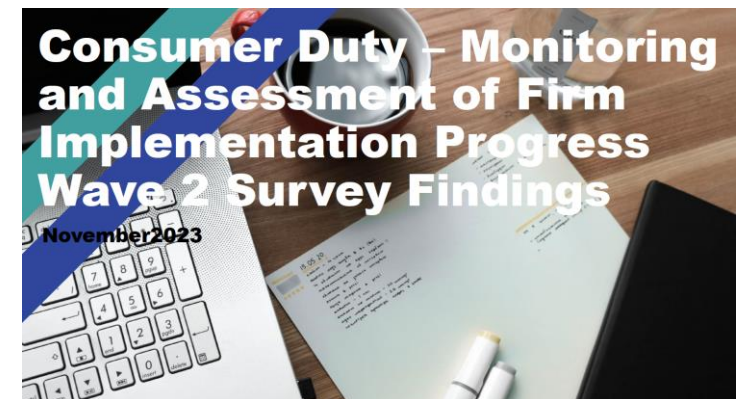
58. For our standardised costs model, we estimate the number of staff which would need to be trained. We assessed these would be staff working in what are commonly termed as 'collections' departments in firms, as well as those dealing with vulnerable customers in financial difficulties. We assessed this may represent on average per firm: 150 staff (large firm); 60 staff (medium firms); and 10 staff (small firms). These numbers are based on information provided to us by some firms during supervisory work. We also assumed the training time required is up to 1 hour per employee.

Consumer Duty firm survey – Autumn 2023 results

- Consumer Duty implementation – areas of improvement – published 20/2/2024
- Question:** "To what extent do you consider the Consumer Duty relevant to your firm?" - **89%** (of 73) agreed in Wave 2, compared with **58%** (of 88) in Wave 1
- 74% of firms surveyed in Wave 2 reported that they had conducted a 'fair value' assessment
- 38% had improved significant consumer contracts and 30% had identified or made significant improvements to their marketing strategies
- Q16.3 is quite telling for debt advice firms, where **only 48% had completed the end-to-end customer journey**
- 60% had assessed the needs of customers with characteristics of vulnerability - 7% didn't think this was applicable
- G27 around financial promotions and communications is a real worry with only 16% having completed this fully**
- G22 is around pre-contract information and contract reviews**
- G22a suggest that most focus had been on customer understanding and support
- Outcomes monitoring (including data and metrics) is the hardest item to implement**



'Art of the possible' – 20/2/2024



**Builds on FCA webinar messages
from 6/12/2023**

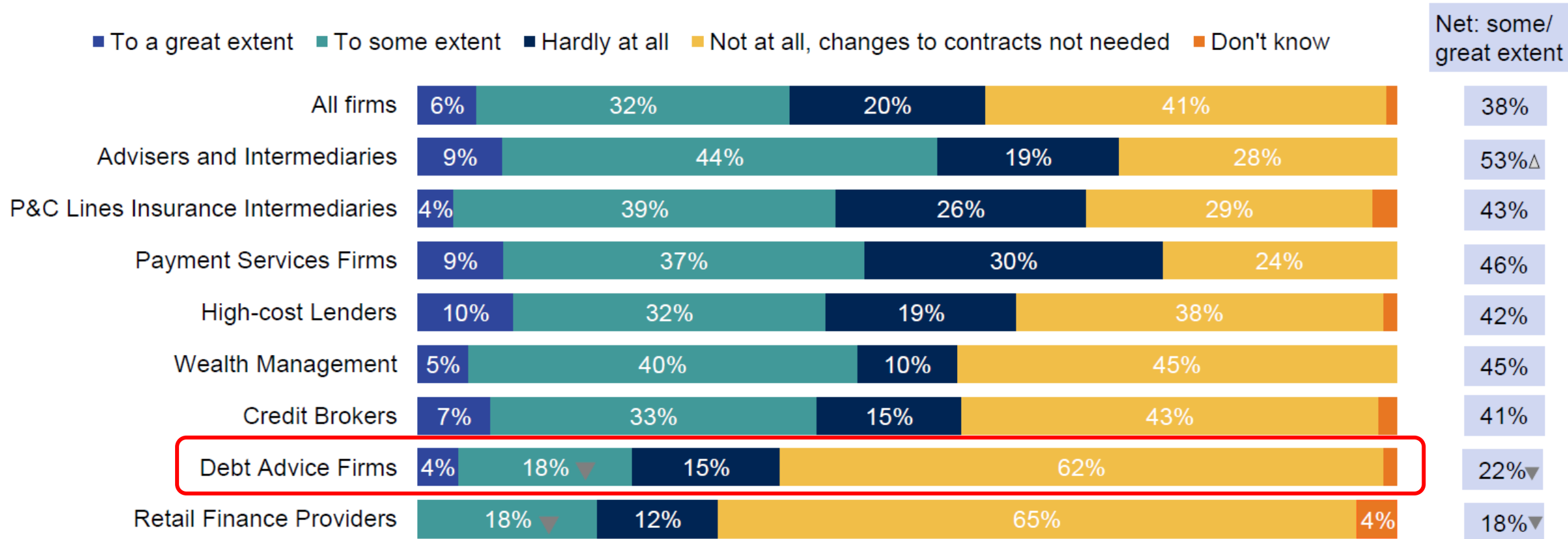
<https://www.fca.org.uk/data/consumer-duty-firm-survey-autumn-2023>

<https://www.fca.org.uk/news/speeches/consumer-duty-art-possible-year>

<https://www.fca.org.uk/publications/good-and-poor-practice/consumer-duty-implementation-good-practice-and-areas-improvement>

G22 To what extent, if at all, have you made changes to contracts with new or existing consumers to meet the requirements of the Consumer Duty?

% firms that had made changes



G22: To what extent, if at all, have you made changes to contracts with new or existing consumers to meet the requirements of the Consumer Duty?

Base: All firms 634 Base: Personal and Commercial Lines Insurance intermediaries 82, Advisers and intermediaries 81, Wealth Management 78, Debt Advice Firms 73, High-cost Lenders 72, Credit Brokers 54, Retail Finance Providers 49, Payment Services Firms 46. ▲▼ significant differences between all firms and portfolios (shown on to a great/some extent only).



Joint regulator “Dear CEO” letter

Recognises that consumers have multiple creditor relationships:

- FCA research in January 2023 indicates 5.6m UK adults have missed payments on any domestic bills or any of their credit commitments in 3 or more of the previous 6 months
- Proactively raise awareness of the support available to consumers
- Early intervention can make a big difference to customer outcomes
- Make referrals and provide information at the right time so customers can access advice and support that meets their needs (such as [Money Helper](#) and the Government’s [Help for Households](#) and websites).
- Monitoring customer outcomes is key and taking action to put things right if they go wrong – these are fundamental of the Duty
- **Use of income optimisation, benefit checkers and social tariff eligibility seem obvious actions for firms and their supply chains**

“As an immediate next step, we will also consider what our shared expectations are in relation to **debt collection** across different sectors”

<https://www.gov.uk/government/news/chancellor-agrees-action-plan-with-regulators-to-support-consumers>

<https://ukrn.org.uk/cost-of-living-working-group-joint-letter/>

<https://helpforhouseholds.campaign.gov.uk/>

28 June 2023

Dear Chief Executive Officer,

The rising cost of living – our expectations of firms

Consumers across the country continue to deal with increased costs of living, and we know many are already experiencing financial difficulty. [FCA research](#) in January this year indicates 11% (5.6 million) of UK adults have missed payments on any domestic bills or any of their credit commitments in 3 or more of the previous 6 months.

As regulators, we have been actively working to ensure firms within our respective sectors are supporting customers in financial difficulty, and that they can be held to account where they are not meeting the right standards.

As economic circumstances continue to change, we urge firms to show restraint on pricing, and where the prices of goods and services have risen as a direct consequence of increased input costs, we want to see firms in our respective sectors pass on any relevant reductions as soon as possible.

We will also continue working together to ensure firms in our respective sectors are supporting customers in financial difficulty recognising that consumers are dealing with multiple payments across multiple regulated sectors which can create an additional burden.

So we are setting shared expectations across our regulated sectors which make clear how we want firms to deal with customers in financial difficulty. We expect all firms across the regulated financial services, energy, water and communications sectors to:

- Consider the customer’s situation, recognising that they may have multiple debts and may be dealing with multiple creditors across sectors, and reflect this in the support you offer.
- Proactively raise awareness of the support available to consumers, and, when customers reach out or indicate they are at risk of falling into financial difficulty, or you otherwise become aware of this, provide support early. This early support can make a big difference to customer outcomes.
- Make it easy for customers to get the support they need, for example by providing different channels for customers to get in touch, recognising that customers in vulnerable circumstances may have particular needs, and proactively promoting social tariff options where these are available.
- Tailor support so it is appropriate to the customer’s circumstances (including their ability to pay and whether they are in vulnerable circumstances). Consider using an objective/standardised measure to assess the customer’s financial circumstances to help minimise the burden of them having to provide different information to different firms.

Practical ‘use cases’:

1. Time-to-Pay (TTP) confirmation

- Resulting in greater adherence and lower breakage rates – very topical with CP23/13 - sustainability
- Value of regular engagement
- Enabling affordability reviews downstream and potentially higher contributions

2. Debt assignment and debt sale (‘goodbye’ and ‘hello’ correspondence)

- Increased engagement from ‘hello’ perspective
- Reduced complaints and call backs

3. Earlier engagement in debt advice (also an objective of CP23/13 – BiFD)

- Consumer Duty compliance
- More effective treatment of customers with multiple debts (holistic approach)
- Less cost-to-serve
- Regular reviews

Aligned with BSI ISO 22458 journey

- 🌐 To look at the journey into debt advice following key creditor correspondence and sign-posting (e.g. arrears notices, default notices, pre-legal correspondence)
- 🌐 Alignment with direction of travel of CONC 8 review
- 🌐 To focus on the more complex correspondence:
 - Duty Policy
 - Suitability letters
 - Debt Management Agreement (for a DMP)
 - IVA proposals (e.g. Equity clause)
 - New SIP 3.1 in March 2023
 - Credit reports for people with an impaired credit file when they present for debt advice

DMP pack in durable medium is substantial:

- Suitability letter
- Debt Management Agreement
- Pros & Cons statement
- Privacy statement
- SFS
- Debt Solutions guide
- Payment authority (e.g. DD mandate)
- Letters of Authority
- FAQs

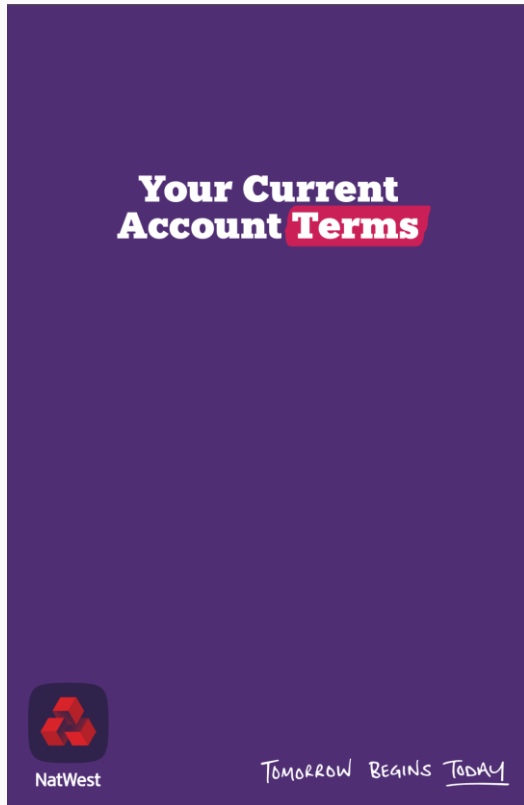
Objectives:

- Simplify core communications
- Make more intelligible
- Introduce 'layering'

Intelligibility analysis

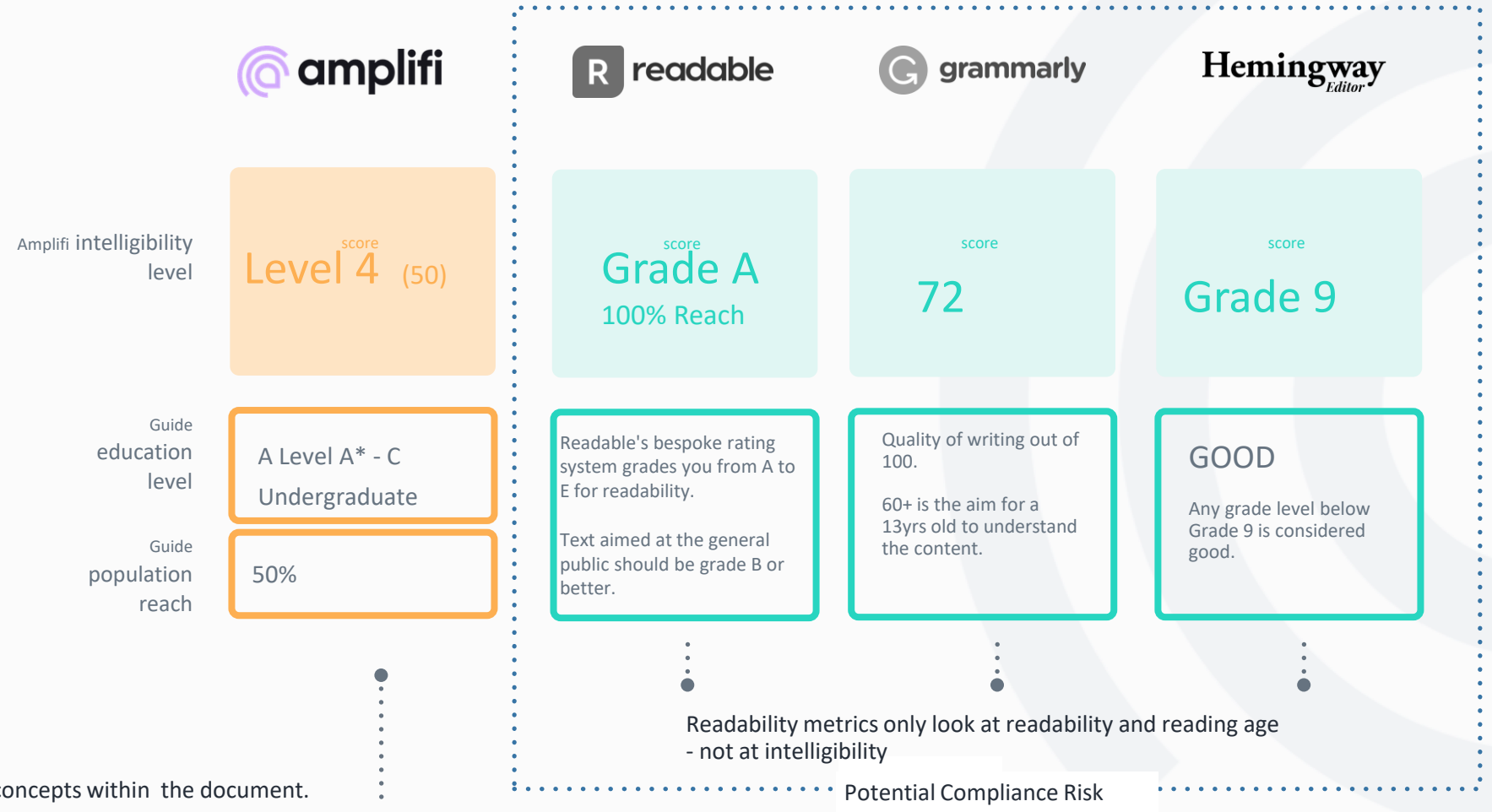
Complexity analysis comparison

The FCA is interested in how information could be presented to consumers better including more interactive disclosure and whether to introduce the practice of layering, where firms to include some information upfront with more detailed information provided later in the process – December 2022 – DP22/6



<https://www.natwest.com/current-accounts/terms-and-conditions.html>

There is inherent complexity of concepts within the document.





Hi there!



Let's make your documents
~~more intelligible~~ simple to
understand.

• easier

• simple



...



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Password

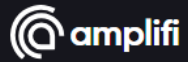


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Labels

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| <input type="checkbox"/> Name | Last Modified ↓ | Intelligibility | Labels |
|---|-----------------|-----------------|--------|
| <input type="checkbox"/> Template Suitability Letter - individual DMP - 200224 v2 | 20 Feb 2024 | 73 | ⋮ |
| <input type="checkbox"/> DMA - amended 020124 - V1223 | 20 Feb 2024 | 74 | ⋮ |
| <input type="checkbox"/> Questions - updated | 20 Feb 2024 | 86 | ⋮ |
| <input type="checkbox"/> Questions - original | 20 Feb 2024 | 50 | ⋮ |
| <input type="checkbox"/> Template Suitability Letter - individual DMP - 170224 | 19 Feb 2024 | 74 | ⋮ |
| <input type="checkbox"/> Duty Policy and Client Charter - generic - 170224 | 17 Feb 2024 | 67 | ⋮ |

Rows per page: 10

1-6 of 6

Complexity Map

Search document...

Your Debt Management Plan with DMC

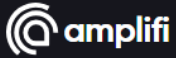
- On 20 February 2024, I spent time with you to understand your goals for dealing with your debts. We made sure to consider your current financial situation and any future events that might affect our recommendations. We created a financial statement based on this information, and you confirmed that you have the necessary technology to access it. You also told us your preferred method of communication.
- We looked at any requirements or qualifications you needed to meet to enter each debt option. We also checked which debts could be covered by each option you were eligible for. You have confirmed that you understand you need to pay your priority creditors, such as private landlords. We didn't find any priority debts that you owe.
- I recommended that you should enter a **Debt Management Plan (DMP)** with us. I made you aware of sources of free debt advice and free-to-consumer DMP firms like StepChange Debt Charity. The estimated plan duration will be different. You have decided to proceed with a DMP with us.
- I calculated your monthly payment to be £267. The disposable income was calculated using the Standard Financial Statement on a household basis. You believe that the DMP is a long-term debt remedy. Based upon an estimated debt balance of £14,500 with 7 debts in the DMP, your plan is projected to complete in 5 years and 7 months. We explored factors that may bring the plan to an earlier completion. We looked at the impact of a DMP on your credit file. You have consented for us to access your credit file and open banking through your DMP and ahead of advised reviews. Thank you for doing this.
- The initial projection is based upon interest & charges being frozen on all accounts in the plan. We will undertake an interim review of your plan after 6 monthly payments have been collected and distributed to the creditors in the plan.
- Your preferred payment method is Direct Debit on 28th of the month starting 28 March 2024.
- {Personal summary statements around meeting objectives - 1}.

Suggestions

- Click on a paragraph button to generate simpler alternatives.
- Click on a sentence to see why it is complex and what you can do to make it simpler.

Minesh looked to simplify further

3 pages



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Template Suitability Letter - individual DMP - 200224 v2

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Complexity Map

Search document...

Your Debt Management Plan with DMC

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- {Personal summary statements around meeting objectives - 1}.
- {Personal summary statements around meeting objectives - 2}

Intelligibility Text Key issues

Intelligibility score

73 out of 100. Your document is likely to be understood by a reader who has a GCSE level of education. This equates to around 82% of the UK adult population.

Level 2



Intelligibility improvement

from 77 Changes made

0%

Original Intelligibility score

Level 2

74

Complexity metrics

| | |
|-------------------|---------|
| Complexity score | 43 +8% |
| Complex sentences | 12% +9% |
| Complex words | 3% |

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Our Duty Policy

- The directors and associates of DMC, are committed to ensuring that the [Financial Conduct Authority](#) (FCA) principle of delivering good outcomes for our customers is applied in all areas of our day-to-day business activities. As a small firm, we are committed to providing you with a highly personalised service with friendly, qualified and knowledgeable debt advisers.
- In adopting the Consumer Duty Principle 12 and cross-cutting rules, we believe that delivering good customer outcomes is about adding value to the service we offer by aiming to:
 - Assess with you the benefits and applicability of 'breathing space' schemes where available
 - Protect your interests, assets and money at each stage of the Debt Management Plan (DMP) product life cycle, from promotion right through to termination and after care. This extends to increasing your disposable income, where achievable
 - Meet, as best we can, your unique needs by offering a friendly, open and professional service. This takes account of nearly one third of our plans being with a couple seeking debt relief together, including their communication preferences
 - We constantly review our service to make sure it's meeting your needs and to keep your Debt Management Agreement with us on track. We want you to tell us if there's anything we can improve, so please speak up!
 - Take account of your preferred methods and time of communicating with us and to accommodate these within our day-to-day practices wherever possible, recording any accessibility requirements or special needs that you choose to disclose
 - Be especially mindful of the needs of customers that may need extra support
- We are committed to ensuring that we:

Intelligibility | Text | Key issues

Intelligibility score ● Level 3

67 out of 100. Your document is likely to be understood by a reader who has a **GCSE (A*-C)** education or equivalent. This equates to around 72% of the UK adult population. ?

Intelligibility improvement 5%

● from 84 Changes made

Original Intelligibility score 64

● Level 3

Complexity metrics

| | |
|-----------------------|---------|
| ☹ Complexity score ? | 39 +18% |
| 😊 Complex sentences ? | 3% -73% |
| 😞 Complex words ? | 4% -33% |

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Existing disclosure requirements

- Where firms must communicate complex information to comply with other disclosure requirements, they should consider what additional steps they can take to **support consumer understanding**
- For example, a **layered approach** can be helpful in providing context or explaining key information upfront in a simple way – such as in a cover letter, signposting more detailed information that consumers may want to consider or may be helpful for reference at a later date

Approach to Testing

- Whether firms need to test mandatory disclosures will depend on the role the mandatory disclosure plays in the firm's overall approach to ensuring consumers understand key information or risks, **including whether the firm is providing additional layered material**

<https://www.fca.org.uk/publication/transcripts/inside-fca-podcast-transcript-consumer-understanding-outcome.pdf>

<https://www.fca.org.uk/news/press-releases/fca-sets-out-ideas-improve-information-provided-retail-investors> - December 2022 - closed March 2023 (DP22/6)

FCA podcast – January 2023

- Under the Duty, what firms need to do is to take a step back, consider their approach more holistically and ask themselves is there more we need to do to support good customer outcomes?
- So, it might mean, for instance, rethinking how some of those mandatory communications are presented to make them more effective.
- So, this might mean taking a **layered approach to communicating** so, considering how to package up the information they provide and really help consumers navigate through, perhaps with some signposting.
- It could also mean providing simple, plain English explanations of any complex technical informational or industry jargon that's in the mandatory communication.
- More complex language - can confuse consumers and cause them to disengage, so there's opportunity there to make those communications simpler. And there's a lot of research showing how simplifying information, making the key points easy to access and digestible can really improve customer outcomes