



payments and crypto network

Consumer Duty

A series of guides addressing the subject of Consumer Duty for UK authorised Electronic Money Institutions (“EMI”) and Payment Institutions (“PI”).

Guidance is provided for firms and is not intended as legal advice.

Guide 3: FCA multi-firm review (Good practices and next steps)

This third guide follows on from the second guide which described the background to, and findings from, the FCA’s Consumer Duty multi-firm review conducted on a selection of firms within the ‘payments portfolio’. This third guide provides details of the FCA’s suggested ‘good practices’ and the next steps that should be taken by payments firms.

Whilst the multi-firm review took place in 2024, and builds on a 2023 Dear CEO Letter, the FCA have unsurprisingly included Consumer Duty as a priority in their Dear CEO Letter dated 3 February 2025. Further review work to be conducted by the FCA should therefore be expected.

1 Good practice suggested by the FCA

1.1 Approach to implementation

The best firms considered that the implementation of the Duty, and delivery of improved customer outcomes, aligned with their own long-term interests. They tended to have:

- **Clearly defined target markets** with sufficient detail, including characteristics, risk profile, complexity and nature of the services, to support the identification of risks associated with delivering poor consumer outcomes or causing consumer harm.
- A **systematic implementation approach**, building on the clearly defined target markets, to establish what ‘good outcomes’ look like (given the particular services), and approaches to pricing, service value, promoting consumer understanding and providing consumer support; and
- Strong **governance and control frameworks** which they used to scrutinise and challenge the firm’s implementation of the Duty and deliver any required enhancements, comprising:
 - Clear responsibilities for the Duty
 - Board oversight and challenge of reported information



- Provision of appropriate management information (including metrics that directly monitor / evidence the delivery of good consumer outcomes aligned to each of the 4 outcomes). MI structured around Red / Amber / Green (R/A/G) rated measures with conclusions drawn from the data which clearly identified shortfalls and required mitigating actions together with allocated responsibilities; and
- Timely action to address identified issues.

1.2 Products and services

1.2.1 Establishing the target market

The target market for the services that are offered should be documented in a sufficient level of detail and consider the characteristics, risk profile, complexity and nature of the services. Setting the target markets relatively widely may not always be appropriate, noting that exceptions do exist, for example, with low-risk services that are designed to meet the needs of a broad range of consumers. The FCA note that an inappropriately wide target market will cause difficulty identifying the true risk of the services delivering poor consumer outcomes and identifying potential harm.

1.2.2 Agent and Distributor oversight

Payments firms are responsible for the actions of their Agents and/or Distributors including in relation to the Duty and must therefore have appropriate systems and controls to oversee their activities in an effective manner, including compliance with the Duty. The FCA observed that the best firms had *“clear and consistent intermediary oversight arrangements enabling them to identify shortfalls in delivering good consumer outcomes”*.

Monitoring processes must therefore be adapted to ensure that Agents and/or Distributors are brought within scope. Initial onboarding activities, and provision of training, will need to be supported by ongoing monitoring to ensure that Agents and/or Distributors comply with the requirements of the training and, by extension, the Duty.

The FCA highlight the following good practices:

- *Clear governance structure to monitor delivery of good consumer outcomes, via intermediaries, and taking-action to address shortfalls in a timely manner.*
- *Clear consumer outcomes that principal firms expect their intermediaries to deliver.*
- *Providing their agents with the information they needed to comply with the Duty.*
- *Regular monitoring of agents’ compliance with their obligations under the Duty.*
- *Regular summary Board MI on intermediary oversight, with RAG rated measures identifying any shortfalls, mitigating actions and action owners.*

1.3 Fair value assessments



A key element of the Duty is the requirement to ensure that services provide fair value to retail customers. Fair value assessments must be conducted to ensure that the price a consumer pays for the service is reasonable compared to the overall benefits that they can expect to receive. The FCA will not accept the assertion that services are provided at a competitive price and therefore represent fair value – a formal assessment will need to be undertaken and documented.

Fair value assessments will need to consider at least the nature of the product including the benefits that will be provided, any limitations that are part of the service and the expected total price customers will pay, including all applicable fees. Benchmarking prices against competitors is not a substitute for a broader consideration of costs and benefits but could be incorporated into the assessment. The fair value assessment should consider how any differing usage charges may affect different groups of consumers based on what is known about how those groups use the services. The assessment should conclude with a clearly articulated rationale for asserting whether fair value is provided.

The FCA highlight the following good practices:

- *The best firms clearly set out whether they considered they were delivering fair value to their customers for each of their products and services and provided a clear supporting rationale.*
- *These firms considered the differing groups of customers who used a product or service and how the costs and benefits fell on those groups.*
- *Where they identified shortfalls in the delivery of fair value, they set out the remedial actions they were taking.*
- *They considered a range of relevant factors to form a view as to whether price was reasonable in relation to the benefits received.*

1.4 Consumer understanding

The Duty requires firms to support the understanding of retail customers to make informed decisions about financial services.

The FCA observed examples of good communications specifically tailored to their retail customers, the complexity of the services and the communication channel used however there appeared to be limited monitoring of consumer understanding after communications were made. In this regard, some good practice observed by the FCA included:

- Firms testing communications to ensure they were clear for consumers
- Pre-testing among target consumers or using groups of staff with similar characteristics to the target market; and
- Monitoring the impact of the communication.

The FCA expects firms to have an effective way of testing communications, including regularly assessing whether communications support effective customer decision-making, in order to identify and deal with any shortfalls. Firms could consider including a number of different approaches to assess customer understanding of communications, including emailed customer surveys and the number / nature of complaints.

The FCA highlight the following good practices:

- *The best firms had clear arrangements in place to ensure their customers received the support they required to make informed decisions in relation to their products and services.*
- *Such firms' procedures tended to go beyond first and second line reviews of text and included some form of testing consumer understanding of their communications.*
- *Testing arrangements included testing consumer understanding both before and after communications were sent out. Examples included:*
 - *Pre-testing communications directly with consumers or using standardised reading ease tests. These consider factors such as average length of sentences and average number of syllables per word.*
 - *Post-testing communications after issuing them using online customer surveys.*
- *Some firms tested communications using A/B testing. This involves testing particular wording that is different in 2 otherwise similar versions of a communication to determine which is easier to understand.*
- *Firms demonstrating an effective approach to testing consumer understanding provided comprehensive MI that included a range of data from regular reviews to provide management with assurance that customer understanding was appropriately supported.*

1.5 Consumer support

The FCA expect firms to provide readily accessible and effective support channels that are appropriate to their target market and which meet their needs, help them to act in their own interests and realise the benefits of the services being offered. The FCA expect firms to clearly signpost customer support services to consumers via appropriate channels.

The FCA observed that a common source of complaints related to the lack of communications from firms when customer accounts had been frozen. Noting that firms are often prevented from responding to some customer enquiries due to financial crime requirements, some firms reviewed their customer support in this area and, where possible, were able to improve communications regarding the reasons for account freezing.

The FCA highlight the following good practices:

- *The best firms were able to demonstrate that they had considered the support needs of their customers, including those who were vulnerable.*
- *They provided support channels appropriate to the needs of their target consumers.*
- *They had clear internal service level agreements (SLAs) on delivering support and addressed any shortfalls in a timely manner.*
- *Their MI enabled likely issues with customer support to be identified using complaints and SLA data. Swift action was taken to investigate and fix issues.*

1.6 Governance

The Duty should be reflected in the governance arrangements, strategies, people policies and incentives all of which should be aligned to support good customer outcomes. Importantly, the Board should be able to demonstrate that it considers Consumer Duty matters in an appropriate manner and exercises their responsibilities under the Duty.



Information provided to the Board, including in relation to the Duty, is typically documented in 'Board Reporting Packs' (see the management information section below), however the FCA observed that there was little challenge raised by Boards in relation to their firms' implementation of the Duty.

The lack of Board-level challenge could be an indication of the need for increased Consumer Duty awareness training, for the Board as well as throughout the firm. The Board Reporting Pack would ideally have a 'Compliance' section, comprising sub-sections for various compliance matters including Consumer Duty; clearly structuring the reporting information in a consistent manner will assist Board awareness and discussions. It remains important to record the discussions held at Board meetings in formal minutes.

The FCA highlight the following good practices:

- *The best firms demonstrated that their boards regularly considered and challenged the extent to which they were delivering good consumer outcomes and were remediating shortfalls.*
- *This included remediating shortfalls in delivering good consumer outcomes via their Agents and Distributors.*
- *Such firms tended to have more detailed minutes providing evidence of the nature of the discussion, challenge by the Board and Consumer Duty Champion and the remediating action required.*
- *Concise MI packs were provided to the Board that allowed proper consideration of Duty matters.*

1.7 Management information

The provision of appropriate management information ("MI") is key to the ability of a firm to assess and evidence whether it is meeting Consumer Duty requirements and ensuring good customer outcomes.

The FCA expect firms to have a comprehensive suite of MI that is relevant to the business, including metrics and triggers that are clearly aligned to each of the outcomes and clear allocation of ownership for monitoring consumer outcomes. A focussed approach on a reasonable number of appropriate metrics that can be used consistently over time is better than excessive metrics with no clear use.

The FCA highlight the following good practices:

- *Setting out the good outcomes they wish to deliver under each of the outcome lenses and linking the MI measures to them.*
- *Including traffic lighted red, amber and green statistical thresholds or similar on each measure to identify shortfalls requiring investigation.*
- *Clearly setting out remediating actions with action owners, target completion dates and progress updates.*
- *Assessing whether the remediating actions had been effective in raising standards.*



2 Next steps for firms

The FCA designed the Duty and its outcomes-based approach to create an environment which supports healthy competition and innovation based on high standards. It is vital that firms have adequately considered the requirements of the Duty and have fully implemented these in a way that is appropriate to their business. This will help to ensure they deliver good outcomes to their customers and can readily identify and remediate any shortfalls before they lead to significant consumer harm.

While firms can be proportionate in their implementation, it should cover all relevant areas of their business even when there is a small number of retail customers. The FCA's work indicates that many firms need to take additional action to fully embed the Duty, and they should do so without delay.

Firms should read the requirements of the Duty and the results of the FCA's review and consider how their firm compares in order to address any shortfalls (which are likely to exist).

The Board must, on at least an annual basis, review and approve an assessment of whether the firm is delivering good customer outcomes which are consistent with the Duty. Evidencing the monitoring activities and Board reported MI and decisions is critical (not least because this information may be requested by the FCA).

