TEALIUM

Tackling the Consumer Duty

Contents

Foreword

Perhaps not since the arrival of the General Data Protection Regulation (GDPR) has there been a more significant shift in customer protection as there is with the Consumer Duty.

While it may seem odd that a mandate has to be established to ensure banks and insurers put the customer at the centre of their operations (shouldn't this be ethical business practice anyway?), the implementation of the Duty will reshape both sectors.
But the Consumer Duty brings a different element to it that other regulations don't. It is governed by the need to deliver 'a good outcome' at every interaction between a customer and their bank or insurer. This is a fundamentally unquantifiable measurement – it's not structured and is instead open to interpretation.

In its defence, the Financial Conduct Authority (FCA) – the body behind the Consumer Duty – is sharing best practice on what such a soft measurement can be and will continue to support a more defined means to demonstrate compliance. But at outset it means that systems need to be reconfigured and infrastructure laid out which can measure the intangible.

As a result, getting ready for the first deadline in July this year can't be delayed. The outcome of any customer engagement needs to be captured and analysed, meaning that the entire customer journey needs to be audited and understood. If there are any areas where the outcome can't be proven, then systems need integrating which can showcase success.

However, the disruption in the short term has to be seen in the longer term and with the bigger picture in mind. Ensuring that a good outcome is embedded throughout the customer experience, within every engagement, and from the early stages of onboarding will drive loyalty.

After all, if a relationship is positive and beneficial, why will they leave? Banks and insurers have the opportunity to use the imperative from the FCA to truly put their house in order – as they did with the onset of the GDPR.

But it's not a simple process. Stakeholders throughout a business need to understand their role in the Consumer Duty and subsequent compliance, and those leading implementation and those behind customer experience need to act swiftly. July will come around very fast.

Heidi Bullock
CMO, Tealium

What does the Consumer Duty mean for my business?

There are two answers to the question “what does the Consumer Duty mean for my business?” – one lies in its outcome, one in its implementation. But before we explore these, it’s important to cover why it is coming into force.

At the core of the Consumer Duty (which the Financial Conduct Authority (FCA) is earmarking for a 31st July deadline), is a shift in a customer-first culture in banking and insurance. The FCA’s approach is that such a mandate is delivered by ensuring every engagement with a bank or insurer results in ‘a positive outcome’. Advice and support must be constructive, supportive, and appropriate – as must the products being offered and agreed.

It’s making financial services more responsible for the wellbeing of their customers. In this regard, banks and insurers must treat its arrival as an opportunity to enhance the customer experience and drive loyalty, rather than be seen as a (not insignificant) systems overhaul.

Positive foundations

The Consumer Duty aims to put the customer's financial welfare at the centre of banking and insurance operations. Financial services companies must ensure they are a customer-first operation and – crucially – they must prove it (this we'll revisit as it's not straightforward).

What this means in practice is that every bank and insurer must deliver against a guiding Consumer Principle "that requires firms to act to deliver good outcomes for retail customers".

This is applicable throughout the customer lifetime with the business, and in order to deliver on this, financial services companies are expected to ensure every engagement and interaction with a customer has a positive outcome.

Not only does this demand an infrastructure overhaul – as we'll see below – but it will demand an agreement on what 'a positive outcome' looks like.

Loyalty driver

The result of this change will be an enhanced experience for the customer. Yes, it puts pressure on financial services companies to be more responsible, to understand their customer at a granular level and build an appropriate profile accordingly. But, this can only, in all truth, be a good thing – it will mean banks and insurers will have to implement a system which creates an iteratively more refined customer profile.

In doing so, all interactions become constructive and supportive – inappropriate advice or unsuitable recommendations will (in theory), become obsolete. Equally, every discussion with a customer support line, every in-bank experience, every online chat becomes a moment against which to measure success. Even Terms & Conditions are covered – they must be clear, concise, and readily understandable.

Through creating a universally positive experience which makes the customer feel understood, valued and genuinely supported, there's a reduced likelihood to churn in search of a better relationship. The Duty should be seen as a retention catalyst in this regard.

Infrastructure overhaul

Let's be clear, adhering to the Consumer Duty is not going to be straightforward. Leaving aside the definition (or lack of it, currently), in what constitutes a 'positive outcome', the scale and granularity of the directive means a full system audit.

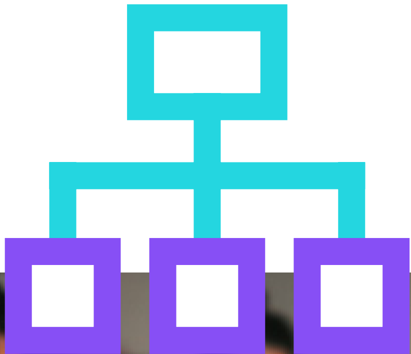
It demands a review of how, where, when, and why customers approach the business – from the first point of contact through to someone who's been with you a decade. The journey must become more than a nurture programme aiming to get them to a commercial success (for the business), and instead a nurturing through their own lives to what they define as success.

Essential Analytics

Every step along the way needs to be analysed to see how to measurably demonstrate a positive outcome. What systems and tools can be used to understand if the interaction delivered against its purpose? Did it make the customer feel understood? Are they better for it?

However, the systems can't be analysed in siloes. More than ever, the Duty puts pressure on banks and insurers to unify all their data together and ensure that the record a call centre operator sees on their screen is identical to that seen by a teller in the bank itself. There has to be complete consistency, otherwise the ability to define success becomes a guessing game.

The other critical function sits in analytics. Artificial Intelligence tools will be key to success, through being able to truly predict what the customer needs, based on the information held by that institution. AI must be able to identify potential vulnerabilities or signs of concern. Responsible lending relies on a full picture of the customer and, where possible, their future self – this can't be done without sophisticated machine learning tools.



Rewards and restructuring

If we revisit the original question - "what does the Consumer Duty mean for my business?" – then it becomes clear that from an operational perspective it means a significant amount of infrastructure and processional change.

But the long-term rewards lie in improved customer retention through a more responsible, customer-first model. It can make a financial services operation so much more than 'just a provider' – it can make it an essential part of the customer's life.

The Duty demands change (and fast, it's less than six months away), and it will bring disruption in its implementation. But the rewards will prove it worthwhile.

Which internal stakeholders need to be brought on board to create our framework?

The implementation of the Consumer Duty will impact all areas of a consumer-facing business. Dependent on the scale of transformation required (both short term for implementation and long term for maintaining compliance), those involved across the business need to be identified and brought on board as a priority.

Bringing the stakeholders together requires not just understanding the changes being made (and their role within them) but buying into the purpose of the mandate. So, who are these senior stakeholders and what's their role?

Chief Executive Officer
Goes without saying. As the individual holding the ultimate responsibility for the business strategy and overall operations of the company, they must be a critical factor in the implementation and long-term management of aligning to the demands of the Duty.

Chief Operating Officer
If the CEO is ultimately responsible for the strategy, then the COO is responsible for how the company will achieve this strategy – including oversight of compliance demands. In this regard, the Consumer Duty must be front and centre.

Chief Financial Officer
The regulatory factor of the Duty means that the office of the CFO must be aware of not just the impact of non-compliance, but the cost on the business of any necessary changes within operations. This will include a stake in agreeing partners for the digital transformation requirements.

Chief Risk / Compliance Officer
The punishment for non-compliance with the Consumer Duty are yet to be confirmed, but other operational regulations have historically come with significant fines. Ensuring compliance to the Duty is paramount in avoiding such costs to the business, both financially as well as reputationally.

Chief Marketing Officer
Non-compliance with the Duty brings reputational risk, given the fundamental nature of it being a consumer / customer-centric mandate. As the stakeholder ultimately responsible for the brand perception, the CMO must understand the pitfalls. They are also the most senior operational individual around customer experience, customer engagement, and the marketing strategies for the business. Understanding how the Consumer Duty impacts all of these is critical in order to comply and put appropriate safeguards in place that deliver on the promise the Duty sets out.

Head of Customer Experience
Delivering a "positive outcome" across all consumer touchpoints with the business means the individual responsible for CX has to be one of the foremost decision makers in not just who to partner with and how to adapt existing customer journeys, but in how to put changes into force.

Head of Internal Communications
Being a customer-first operation goes beyond infrastructure changes. It must become part and parcel of company culture, and the individual heading up IC must ensure that awareness of the Duty (and its purpose) remains front and centre for every employee. It must be ingrained in how the whole business engages with customers and delivers the best possible experience throughout.

As is evident, the Consumer Duty touches the roles of almost every senior stakeholder. But it also involves the mid-level managers and team leaders who are responsible for ensuring customer service and customer experience teams understand the expectations of the Duty.

Tailoring deployment

Depending on where the business is already in terms of its customer-centricity, the need to educate teams will fluctuate. Equally, the processes internally – some operations might already have a high degree of integration tools, some may not. Putting these in place will need the involvement of the IT teams.

Once the systems are in place, the data and analytics teams must ensure that evidence can be brought out to demonstrate compliance, as well as be fed back into the business to iteratively improve and maintain the company's compliance.

The Consumer Duty is – on paper – straightforward: ensure a company is customer-first in nature and delivers a positive outcome at every interaction. But delivering on this mandate is complex and requires the support from the whole business – it mustn't be seen as 'yet another compliance demand' on the company and instead be understood as a full cultural and operational shift.

With the deadline for delivering on expectations coming in June, the urgency in bringing the teams together is getting more pressing by the week. It can't be left until the last minute.

How can we define a "good outcome" as expected within the Consumer Duty?

Perhaps the most difficult question to answer within the demands of the Consumer Duty, is how to define 'a good outcome'. For an essentially soft metric, it's a tough one to judge compliance against, and it will be interesting to see how frameworks stabilise to bring structure on measurement.

The Financial Conduct Authority's statement that "firms will need to… evidence whether those outcomes are being met", puts the onus on brands to make the decision on what constitutes a compliant audit, which is far from straightforward.

But for now, brands must understand the four pillars of a 'good outcome' and how aligning against these can be approached. The rules relate to the following:

Products & services

Price & value

Consumer understanding

Consumer support

These must be considered in relation to the "needs, characteristics and objectives of their customers – including those with characteristics of vulnerability – and how they behave, at every stage of the customer journey".

To tackle the challenge, it's perhaps useful to identify a structured process:

1. **Customer status identification**
2. **Solution identification**
3. **Recommendation & action**
4. **Customer engagement**

Let's look at these individually.

Customer status identification

Simply creating customer personas isn't enough in terms of the Consumer Duty. They play a role, but each customer needs to be understood in and of themselves, especially when it comes to identifying vulnerabilities (or the potential for them to arise).

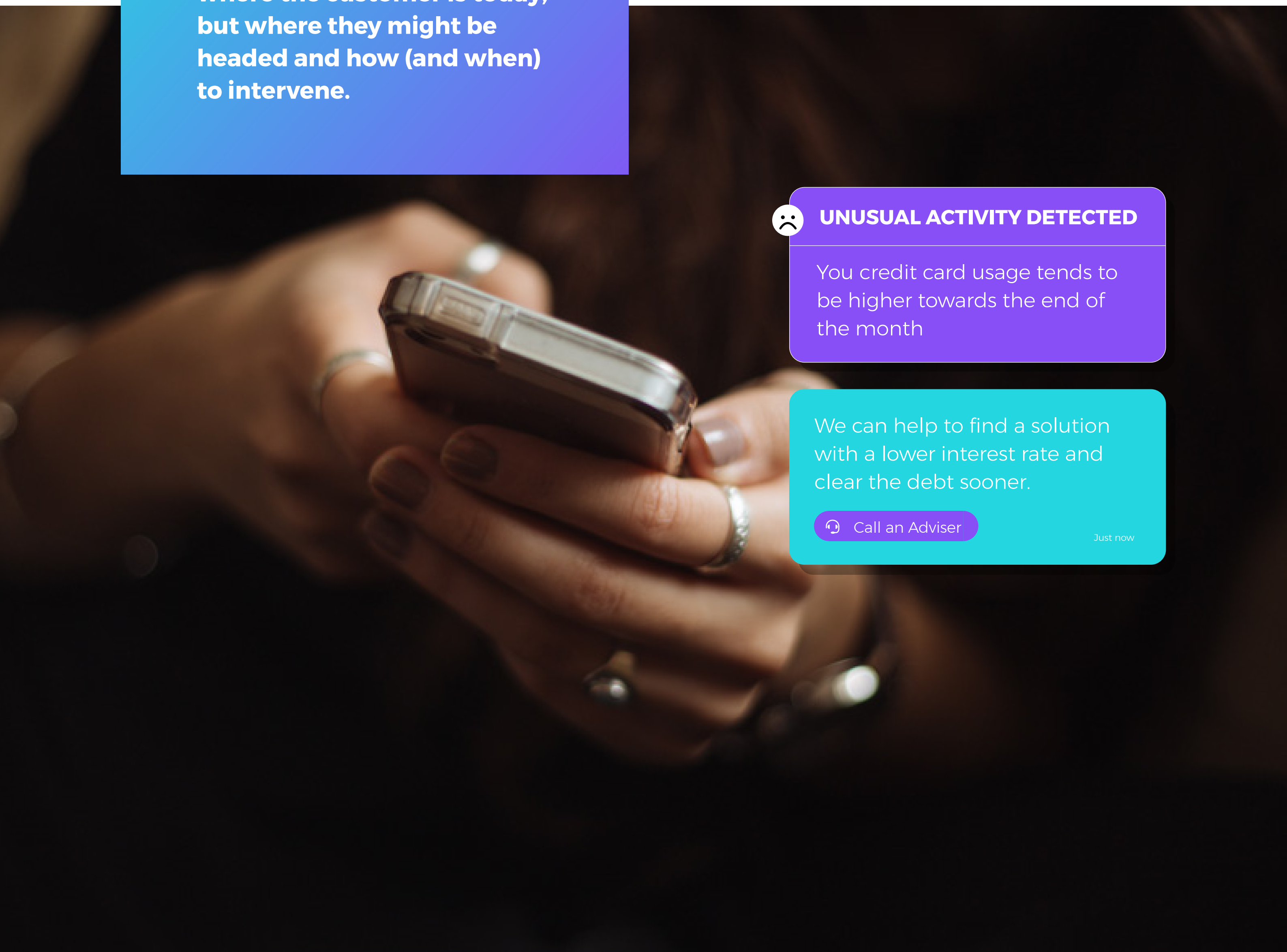
In banking, this can be achieved through analysis of spending data trends; is their salary remaining the same yet being used up sooner in the month? When are they using credit cards more often – does it suggest their money has dried up close to payday? And are they clearing their credit card or simply making minimum payments and not clearing the debt?

Solution identification

Depending on what the vulnerability might look like, alternative, constructive advice needs to be shared in order for problems not to escalate.

If their credit card isn't being cleared, moving them to a loan will almost certainly involve a lower interest rate and a structure mode of repayment and settling of the debt. Moving to a zero percent card is another option and while not guaranteeing the debt being wiped out, at least stops it stagnating and the customer losing money through minimum payments which don't have any true impact.

These markers are essential in understanding not just where the customer is today, but where they might be headed and how (and when) to intervene.



Recommendation and action

Understanding the journey consumers go on – not just as a customer, but as an individual with their own life events – is key to addressing challenges. Machine learning tools come into their own here when it comes to seeing how other customers with similar trending data evolved, and how their issues were ultimately resolved.

Turning this anonymous data into pseudonymous is a key next step. This involved using the analytics at hand to identify customer profiles and the actions required to engage with them. In creating these, banking and insurance companies can't ignore the sensitivity they bring with them through being such personal parts of an individual's life, and potentially the most impactful.

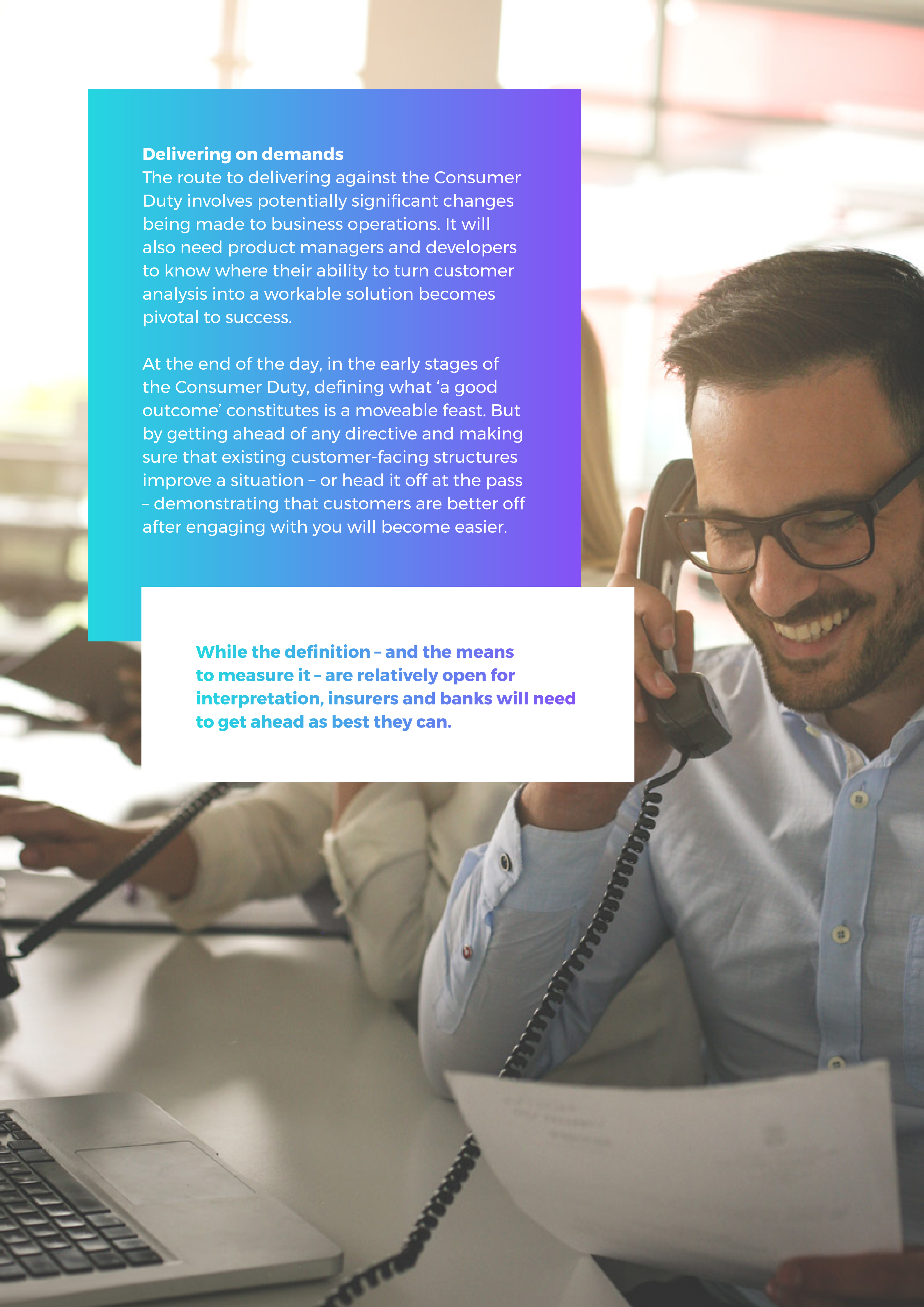
Get the tone wrong and it won't land – and worse, risks alienating or making the customer actively disengaged. Equally, get the recommended next step wrong and it risks exacerbating the issues at hand. Finally of course, as highly regulated industries, banking and insurance need to ensure that all subsequent engagements comply with all regulations and compliance demands over and above the Consumer Duty.

Customer engagement

This is the critical frontline of the Consumer Duty – not just in resolving any problems, but in being able to prove that in doing so, the customer had a 'good outcome'.

Outbound marketing needs to be perfectly aligned with what that customer needs. This should include digital and physical marketing engagements and recommendations, as well as human routes such as call centres. Crucially, these must all be unified within the operation so a single view of the customer is consistent, and poor advice (leading to a poor outcome) isn't an option.

By identifying the customers at most risk, using the analysis above, banks and insurers can reach out proactively. This is crucial – while many people will confidently go to their bank and say they need support, an equally large number will probably hide from the issue. Going to them, and not waiting for them to come to you, is sacrosanct to success.



Delivering on demands

The route to delivering against the Consumer Duty involves potentially significant changes being made to business operations. It will also need product managers and developers to know where their ability to turn customer analysis into a workable solution becomes pivotal to success.

At the end of the day, in the early stages of the Consumer Duty, defining what 'a good outcome' constitutes is a moveable feast. But by getting ahead of any directive and making sure that existing customer-facing structures improve a situation – or head it off at the pass – demonstrating that customers are better off after engaging with you will become easier.

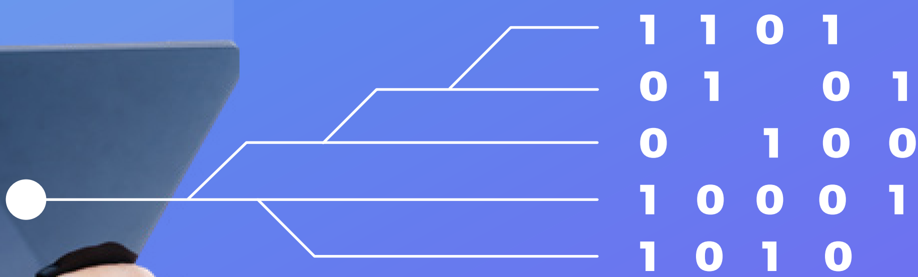
While the definition – and the means to measure it – are relatively open for interpretation, insurers and banks will need to get ahead as best they can.

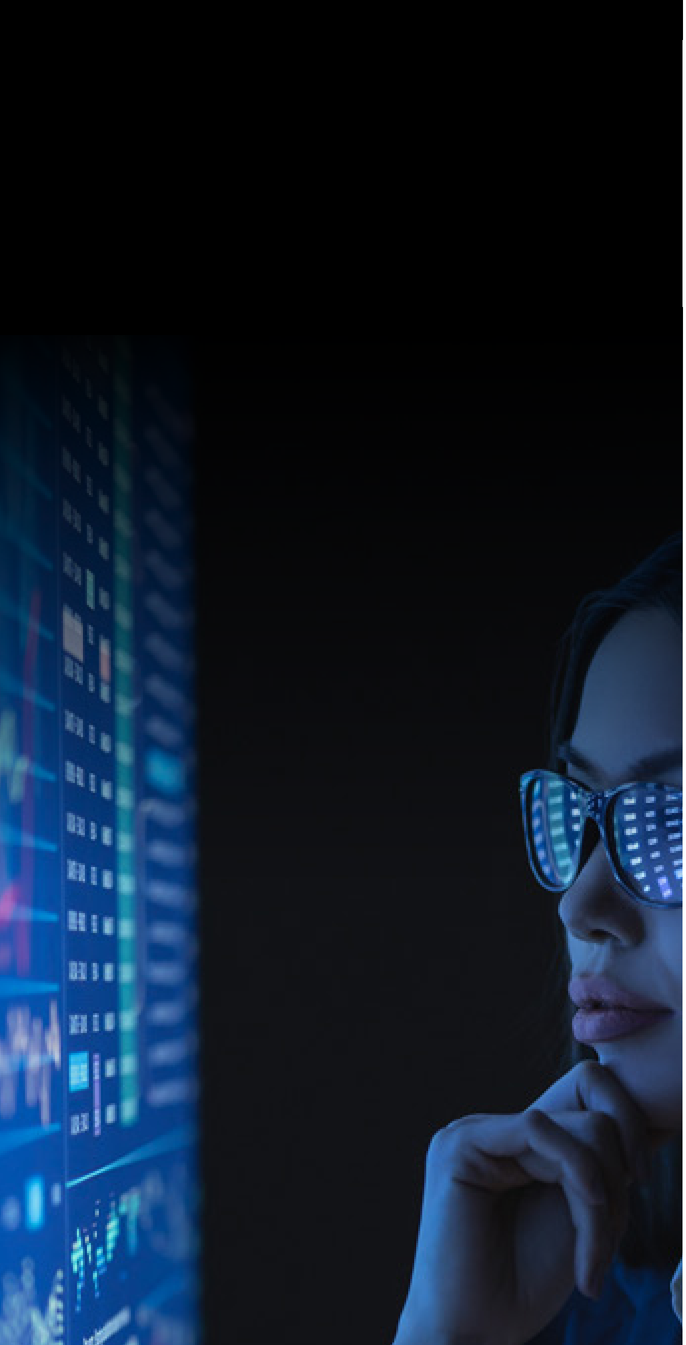
What framework do I need to establish to bring the right customer data together to comply with the Consumer Duty?

Analyse existing systems
Before undertaking any redevelopment it's important to audit what you already have in place – from that which captures customer data, which unifies it, and which analyses it to inform future customer engagement.

Incumbent systems obviously hold plenty of customer data, and so the first job is to centralise all of this into any new Duty-placed infrastructure. This can then inform the basis for understanding a customer's known needs and their previous behaviour (and therefore help to categorise into a suitable persona).

Within this process, it will become apparent where siloes exist or where data stitching is ineffective – or worse, missing.





Create an integrated stack

Once existing data is brought together, it's important to build on this by considering where touchpoints exist throughout the customer journey and establishing a fresh stack approach. It needs to take into account everything from initial browsing and conversion into a purchase and through the product lifecycle to completion or renewal. It must look at every possible event along the way such as a problem, issue, change in circumstance, and complaint resolution.

This will ensure that every potential point of data capture is collectivised – a critical foundation to being able to deliver appropriate advice, support, or product promotion.

Without such a stack, the issue of fragmented data will remain, creating multiple different versions of the same customer depending on where their profile is accessed. When this comes to compliance with the Consumer Duty, such a flawed model fundamentally undermines the ability to demonstrate a 'good outcome', as it will be based on disparate personas.

Take a 'life journey' approach

The creation of the stack must take a fresh look at the definition of a 'customer journey', and instead of considering it as a product-led process, it has to be framed as a life journey. This is a direct result of the industries the Consumer Duty informs.

Insurance and banking are so intertwined with how we live. Every aspect of our life is dependent in some way or other on both, and so as a result looking purely at product misses the wider point (and arguably undermines the ability to deliver a good outcome).

Customers must be understood in terms of where they may be on this life journey, and what is to come. Products and services align with events, rather than the other way around. So, knowing when a customer's life is significantly changing – be it buying a house, getting married, graduating – is key to giving proper, suitable, trusted advice (and therefore complying with the Consumer Duty).

Embedded intelligence

Creating a detailed, robust understanding of the customer today, only covers half the requirements to being able to deliver a good outcome. Product recommendations and support advice demands an understanding of how the customer's needs are changing and will continue to do so.

Such a demand is impossible without bringing other (pseudonymised) data into the equation to create an accurate persona – now, and in the future. Therefore, in order to be able to create the optimum profile of the customer, Artificial Intelligence (AI), and Machine Learning (ML) has to be at the heart of operations.

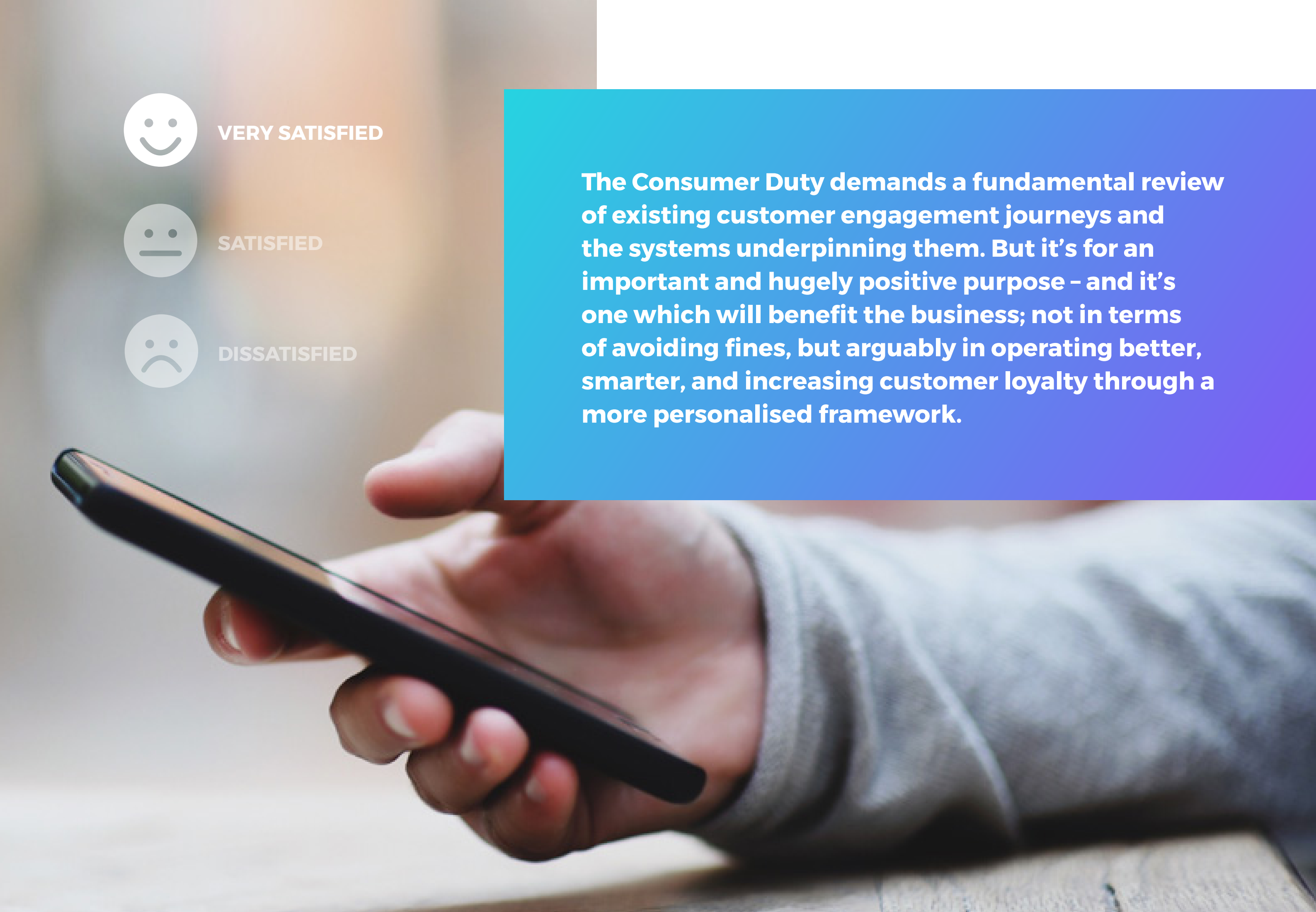
Through embedding such technology, the system can identify where similar behaviours existed before, and how this impacted future changes in persona; where it changed customer needs; and where it affects product suitability. This is absolutely critical when we consider vulnerable customers.

Dynamism at the core

Given the nature of the Consumer Duty, any infrastructure needs to be agile and dynamic. With every engagement demanding a good outcome, such an achievement is impossible without the most recent 360-degree view of the customer – and achieving this is impossible if it's based on legacy rather than contemporary data.

This becomes even more essential when we consider how a change in customer circumstance causes heightened frequency of interaction. Impending change, increasing vulnerability, or a significant life event will inherently mean more engagements with an insurer or bank. This can create a potentially dangerous negative feedback loop: a system which fails to unify data in real-time creates false profiles leading to potentially damaging advice or product recommendation.

The ramifications to the business for such a failure are significant as laid out in the mandate. The FCA will 'issue fines and secure redress for customers who have suffered harm through a firm's breach of the Duty'. There's also the reputational damage of failing consumers at any point – let alone one where there is increased sensitivity or heightened anxiety.



The Consumer Duty demands a fundamental review of existing customer engagement journeys and the systems underpinning them. But it's for an important and hugely positive purpose – and it's one which will benefit the business; not in terms of avoiding fines, but arguably in operating better, smarter, and increasing customer loyalty through a more personalised framework.

What tools can I put in place to measure a positive outcome after a customer interaction?

Measuring the esoteric
A recurring theme within the implementation of the Consumer Duty is speculation around the definition of “a good outcome”. It’s easy to initially see this as an ostensibly esoteric metric based on soft qualifications.

But an evidence-based approach is critical. As such, means of proof must be identified and implemented throughout the customer journey in order to capture the data that will demonstrate compliance. So how do you turn the esoteric into the tangible?

Understanding the behaviour being measured

An important step is identifying what demonstrates a true interaction that demands subsequent measurement. Without this, any attempt to qualify an event becomes either moot or misleading if it didn't prompt a response or reaction from the customer.

If we take email communication as an example, then merely sending it doesn't show an interaction took place – so it can't be included within any reporting analysis. Therefore, every team involved in any type of customer engagement needs to identify what should underpin a point of contact as an associated, measurable action.

The creation of a 360-degree view of the customer will ensure that all touchpoints are considered in this regard. Establishing such endpoint measurement throughout is essential to maintaining a contemporary, immutable version of every customer, and therefore inform any product decisions or advice from customer support.

Identifying actions

Once the interactions are identified, and the behaviour associated with them, it's important to establish where a tangible action can be associated and measured. An immediately obvious example is around documentation.

Let's say a customer is enquiring about a loan, and the policy summary and terms and conditions have been sent over. Attaching the document can show it's been downloaded, or the email read – but this is not enough to demonstrate a good outcome has taken place. Simply opening a file doesn't give an insight into whether it was understood.

Instead, companies should look to host assets in a manner where they can be analysed for data which can inform whether a good outcome took place.

Embedding insight

Despite being a soft metric, ‘comprehension’ can be measured, if we align it to the time involved in interaction. If, for example, a terms and conditions document was opened (and the Consumer Duty puts the onus on companies to make them more understandable of course), how long was it open for? A few seconds suggests the (common), ‘scroll to the bottom and sign’ behaviour – it doesn’t imply the information has been ingested and understood (let alone positively).

At the other end of the scale, if the document was open for far longer yet was active, this can suggest that the customer had trouble reading and understanding what they were signing up for. In this regard document dwell time can give a telling insight into whether the customer is fully aware of the product – and if there is any doubt, the insurer or bank can actively reach out directly to check they know what they’re signing. Rather than being a headache, T&Cs could arguably become a key factor in measuring outcomes.

Research analysis

Initial browsing habits can equally inform whether information has been properly understood. Ten seconds suggests a rush and no intake of information – ten minutes suggests either confusion (or departure from the page). There’s a ‘Goldilocks Zone’ where the engagement from the customer is ‘just right’ to show engagement and understanding.

Such online behaviour can be translated to customer service also – be it over the phone, through a chat function, or in person. Call handlers can make an informed decision on whether they feel the customer has properly understood what they’re buying and if there’s any doubt, they can double check and feel confident the decision is informed and appropriate.

The need for detail

Of course, the simplest answer to measurement would be to send the customer a questionnaire after each event. And while this should be utilised where appropriate, it can’t be the sole means to prove compliance to the Consumer Duty. It’s too open to error – either because customers will click without consideration just to get the survey pop-up away, or because customers don’t click at all. If there’s not an action to measure, there’s no way to show compliance.

Therefore, insurers and banks need to interrogate all points of engagement with the customer and identify what a good outcome would be. Is it comprehension of an important document? Is it following the advice of a customer service representative and switching product or taking on a new one? Is it researching selected or recommended financial options?

Once these are identified, the tools to measure them will become evident – dwell time, reading time, and page views for example can all be an indicator. It is possible to measure what might otherwise initially be seen as esoteric. It just needs some reverse thinking.

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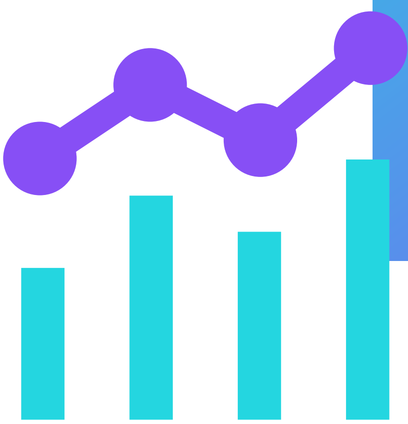


How do I demonstrate my compliance with the Consumer Duty?

As with all regulatory issues, the ownership for compliance sits with the governance team within the business (indeed, some larger operations have a dedicated Head of Consumer Duty leading the charge).

However, responsibility sits throughout the Board and senior management team who are being personally held to account by the FCA. Arguably, the Consumer Duty is as important a mandate as the General Data Protection Regulation (GDPR), in its impact on operations and the fines or penalties involved with failure to adhere.

On top of this, the implementation of the systems which deliver compliance demand inclusion and buy-in from all key stakeholders in the business.

By definition this means that not only does everyone need to understand their role but understand how they prove the success of the fulfilment of their role. So, for a company to demonstrate its compliance, everyone needs to know how to demonstrate their own.

Divide and conquer

The FCA has already broken down the four key pillars that make up the Duty: products and services, price and value, consumer understanding and consumer support. These are all baked into the customer journey and while they can't be treated as siloes, they can be considered in isolation in order to identify how compliance demonstration is achieved.

By analysing each pillar in and of itself, the net result is an understanding that it's greater than the sum of its parts and is a more digestible challenge to approach. Understanding each pillar individually also future proofs the business for innovations and developments which will affect the customer.

Embedded testing

Product and service advancements should be isolated to the appropriate pillar and handled by those within the business who sit at its core. This ensures focused change management and potentially limits disruption. It avoids the need to consider micro change within a macro model which can become overly complex and time consuming (and ultimately potentially non-compliant).

But most importantly, the owners of those processes (and the transformation involved), can identify proof of success at every turn and embed it into subsequent operational change.

This bakes Consumer Duty compliance into every aspect of a bank or insurer's business. Identifying compliance – and subsequently being able to demonstrate it – must be considered an implementational necessity throughout a tech stack.

It must also be a constant in terms of how customer profiles are not just created and maintained, but in how they're accessed across the business. Customer journeys must be analysed to ensure that the 360-degree view of the customer is consistent at every point of contact with that persona, be it an outward marketing action, or a reactive response to a customer contacting a support line.

Iterative learning

Given the 'soft' nature of proving adherence to the Consumer Duty – after all, a 'good outcome' is open to interpretation to some extent – it's important to consider that once systems are in place they're fit for long-term compliance.

There will be lessons which need to be learnt about both good and bad experiences (as we cover below), and there needs to be constant analysis within the business of the success of existing systems and analysis. Every aspect of the consumer experience must be constantly scrutinised and adapted appropriately.

This potentially demands difficult conversations about where standards aren't being met, but it's only through analytics and discussion on insights that advances can be made. These conversations need to ensure that agility and flex is baked into how the business handle the Consumer Duty – it's not simply a case of implement-and-be-done.

Learn from others

Helpfully, the FCA is leading ongoing discussions with businesses to understand how they're achieving compliance in order to subsequently share with others in their own journey.

As such, the answer to "how do I demonstrate my compliance", could be part-answered by "look at how others have successfully done it". Now, the analysis from the FCA is not solely philanthropic in nature – its core purpose is to ensure mandates and regulations are met. But the manner in which they're sharing insight of those ahead of the curve with the Consumer Duty mustn't be ignored.

How do I identify when third-party data is essential to delivering a positive outcome, and how do I source this?

The most straightforward answer to this is that understanding when third-party data is essential is down to identifying when there's a gap in your knowledge of the customer and their circumstance, that risks hindering your ability to deliver a good outcome.

This – as with a lot of the responsibilities within the Duty – is most critical when it concerns vulnerable customers and those who are experiencing significant change in their lives. However, knowing the unknown is easier said than done.

Insight at points of contact

Every interaction with a customer brings with it an opportunity to deepen insight about them. But it also brings the opportunity to identify where there may be changing circumstances which demonstrate a need to revisit their persona and decide if changes in classification are required.

In doing so, this can highlight where third party information can influence such a decision.

Identifying drivers of change

In some instances the time to source third-party data may be explicit. For example, if there is a fresh enquiry about home insurance, then there's a need for analysis on the circumstances behind it. If we consider what this might be, it could be that there's a house move happening or potentially buying a new (or first) house. These are major life events.

Even if it's for a re-mortgage, this has significant financial impact, even if this can't really be classed as a life-changing moment. However, the enquiry could equally be that it's time for policy renewal and the customer is simply sourcing and comparing quotes – a hygiene factor more than anything bigger.

Vulnerabilities

One of the most influential factors behind the creation of the Consumer Duty is protection of the most vulnerable. For these customers the wrong advice could have seismic implications, yet the most appropriate could bring genuinely positive life-changing impact.

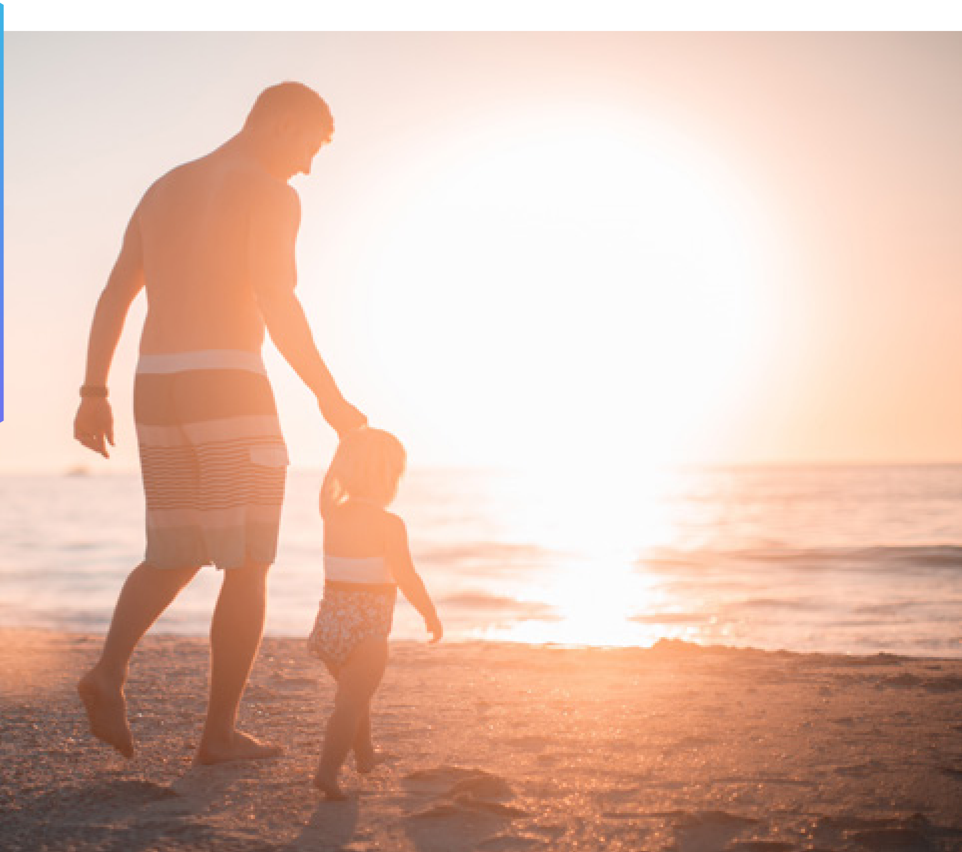
Where there are flags around vulnerability, every interaction must be analysed. If scrutiny suggests a change in circumstance for reasons involving third-parties then there is a duty to source this information in order to ensure the full picture of the customer exists.

The right product amid a crisis

The current cost-of-living crunch has exacerbated difficult financial circumstances for the vast majority of the population, from hiked utility costs to the rise of everyday household and grocery essentials. Banks in particular will see this first-hand with increased enquiries about loans and credit cards.

In such circumstances, the third-party information from utility providers is essential in understanding whether the request is to get through the day to day. If this is the case, then agreeing a credit card rather than a loan isn't in the interest of the customer – the significantly higher interest rate make the former a false economy – and thus cannot be seen as a good outcome.

But without understanding this through third-party data, you can't demonstrate that you delivered a good outcome. It's simply not possible to understand this scenario if the data to complete the picture sits outside your own four walls.



Inconsistencies

One factor in knowing where the need to source external data is required is through identifying inconsistencies. Unifying the customer data held across the business will show where there is either conflicting, missing, or out-of-date information.

Where this is witnessed, there's a need to understand whether the problem can be fixed through sourcing the data afresh through the insurer or bank's own channels – this is especially true where it's legacy information on owned products or services.

However, there may be scenarios where the inconsistency is due to old (or missing) data held externally. This may be well down to the influencing factors behind a customer's insurance policy (for example) – what does the policy cover, is it still valid, is the value still the same, does the customer still have the asset?

Without knowing this information it's not possible to true 360-degree view of the customer (and therefore be confident of delivering a good outcome with any recommendations or counsel). Car insurance for example involves a depreciating asset – renewing a policy requires insight into the value, while taking on a new one demands clarification on the claims history to ensure it aligns appropriately for a quote.

Thinking beyond owned data

Part of the crux of the Consumer Duty is giving the right advice to the customer at every touchpoint. But this counsel can't be given – and a good outcome created – without the full picture of the reasons behind the enquiry or customer engagement.

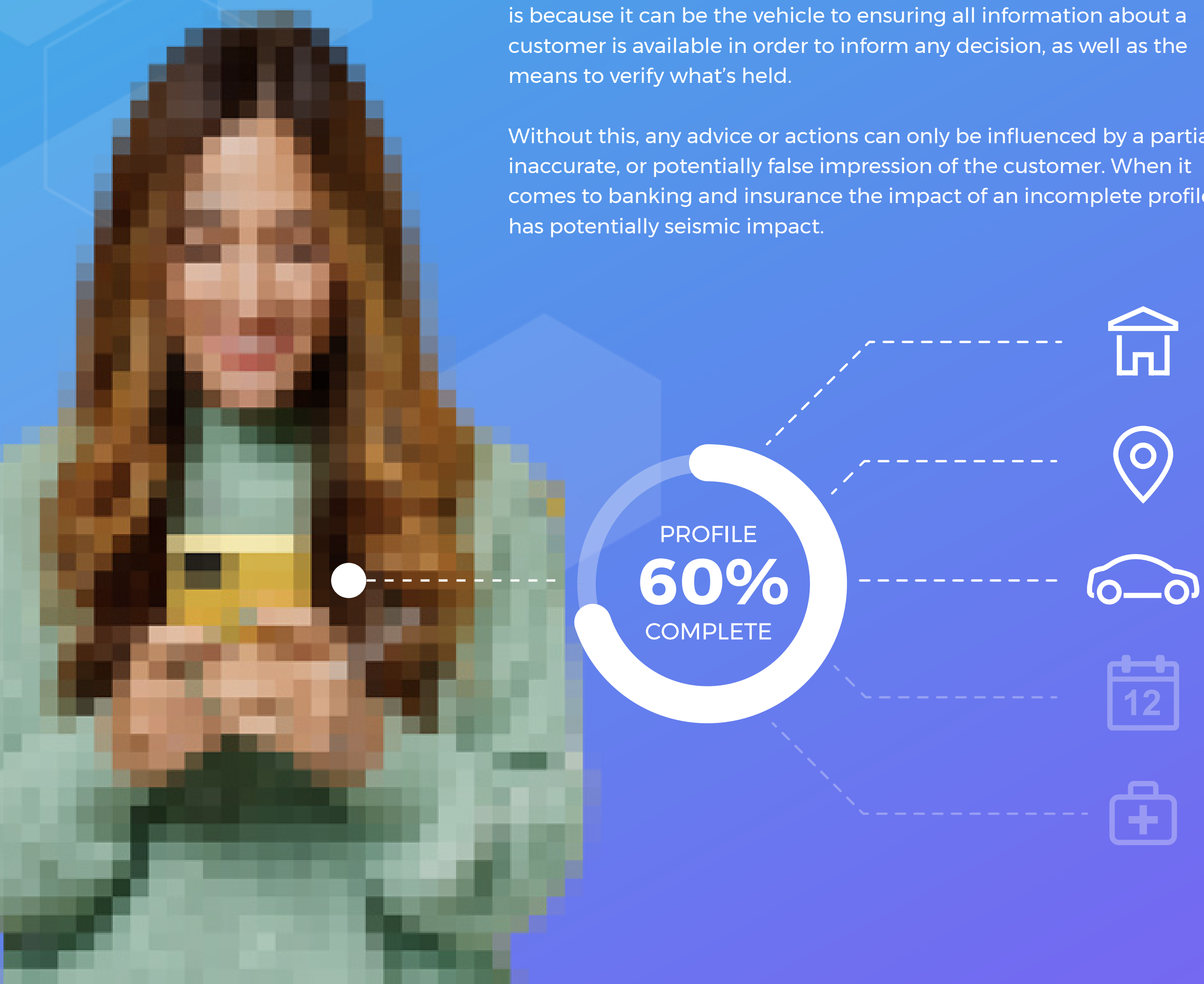
It can't be assumed that you hold all the information you need to deliver on the Duty. Questions should be asked at every point to see if the holistic view of the customer is wholly known. And where there's uncertainty, analysis must be done to see what's missing, and where to source it.

Without this process, it's simply not possible to demonstrate compliance.

Where does legitimate interest come into consideration to delivering a positive outcome?

Given the purpose of the Consumer Duty, legitimate interest could be considered an intrinsic factor in delivering a good outcome. This is because it can be the vehicle to ensuring all information about a customer is available in order to inform any decision, as well as the means to verify what's held.

Without this, any advice or actions can only be influenced by a partial, inaccurate, or potentially false impression of the customer. When it comes to banking and insurance the impact of an incomplete profile has potentially seismic impact.



Protecting both parties

In both banking and insurance, the need for mutual protection is key – with illustrations easily found. A customer taking out a loan must be able to repay it, for example. If they don't, the bank is at risk of needing to write off the value of the loan, and the customer risks major damage to their credit facility or, worst case, bankruptcy.

In insurance, a policy must be fit for purpose. If the right (or complete) information wasn't there at outset, then the cover is fundamentally flawed. We can see this with health insurance – a claim needs to cover the impact of the event behind redemption of a policy, otherwise the customer is left exposed. But, equally, the insurer needs to know they'll pay out what the policy covers and not more, otherwise the underwriting is unsound.

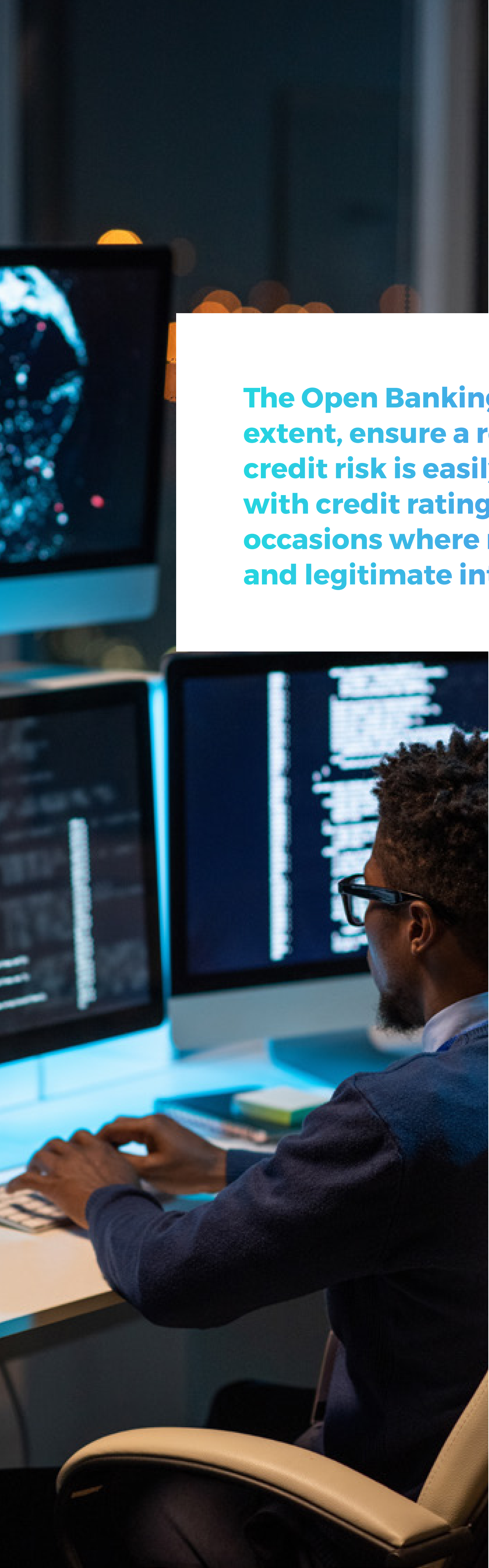
Verification

In both the examples above, the basis for the products was inconsistent. As such, legitimate interest has to have played a role to not just ensure the data was made available in order to complete a picture of the customer, but also to verify it.

The healthcare example is useful here. If an individual is looking for critical illness cover, then underlying health conditions or policy claims need to be known from previous insurers, as well as other healthcare service providers (both public and private). In some instances this may be easier to source than in others – private healthcare is notoriously closed, but in shaping a policy the information it holds is crucial.

When it comes to providing a good outcome therefore, the insurer needs to have access to this information in order to propose the right policy and claim levels.

Such understanding is also key when it comes to complaints and escalation as well as FCA-induced punitive action. Banks and insurers will need to show the decisions to lend or insure were based on a full and accurate picture of the customer to avoid fines and penalties.



Fraud prevention

Claims based on inaccurate information risk being identified as fraudulent, potentially leaving the customer in severe financial problems. Yet with the right information at point of creation, a policy or financial product should be created which avoids this scenario.

The Open Banking protocol can, to a certain extent, ensure a robust picture of a customer's credit risk is easily identifiable when combined with credit rating agencies. However, there are occasions where more information is required, and legitimate interest applied.

This may be around incomings and outgoings, and any changes in circumstances. Considering the growth of Buy Now Pay Later (BNPL) schemes, this is perhaps more apposite than before. With consumer protection lacking with BNPL compared to that with credit card risk, not knowing the exposure a customer has to such loans simply undermines the ability to deliver a good outcome.

Vulnerable customers

It's a consistent theme within any conversation about the Consumer Duty that identifying those customers most at risk is pivotal. The classification of a customer as vulnerable and understanding their potential trajectory simply can't exist without third-party data – some of which will need to be sourced under the remit of legitimate interest.

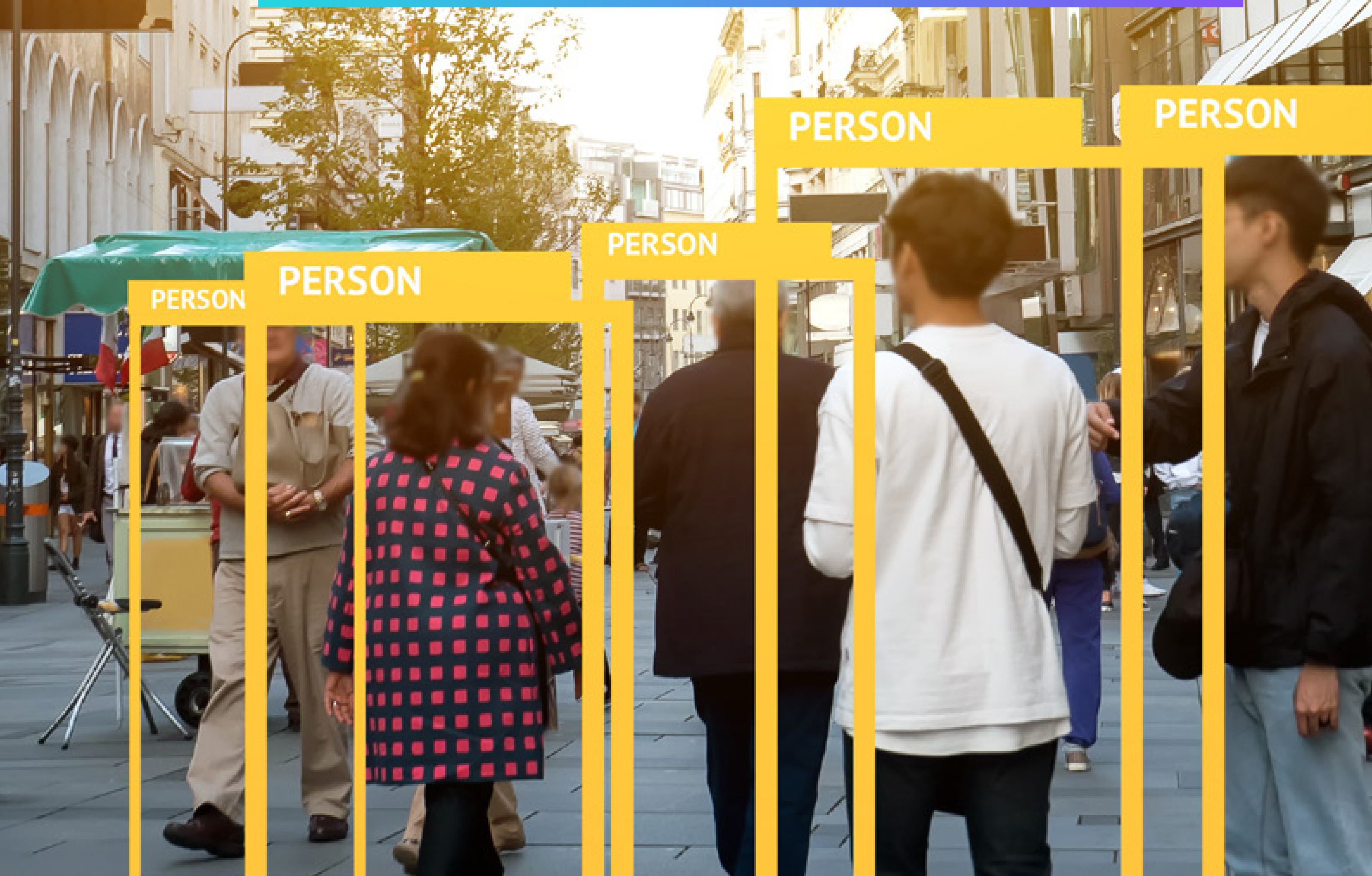
The healthcare scenario above is a clear example of this. Knowing whether a customer is getting into difficulty based on incomplete information simply isn't possible. The lack of a 360-degree view of the customer means decisions are made – and products awarded or recommended – that are inherently not suitable, and bring potentially significant ramifications (for both the individual and the insurer or bank).

Macro impact of ignoring legitimate interest

When we look at the machine learning (ML) nature of creating customer personas and the Consumer Duty, it becomes evident that legitimate interest must be embedded throughout. Incomplete pictures of a single consumer risk creating false biases in any ML system that supports the classification of a whole customer base.

This means that under the Consumer Duty it isn't possible to demonstrate a good outcome – it's based on flawed ML, and therefore can't be guaranteed to be the right product for that specific customer.

The Duty puts the onus on the bank or insurer to put the customer at the centre of their operations. But it's a moot shift if flawed or incomplete profiles remain acceptable – without a full understanding, any recommendation or product is open to error. As a result, the role of legitimate interest is one of the most sacrosanct elements of a good outcome and the subsequent compliance banks and insurers need to demonstrate.



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