0:02

Good morning, and thank you for joining us today to discuss consumer duty.

0:08

I'm Rebecca Hickman on Managing Associate in the Financial Regulation team at ..., and this is the fourth session in a series we're running on consumer duty.

0:18

Monday morning, we gave an overview and scene setting of what can shima duty is that we're running at a series of product specific sessions throughout this week.

0:29

So, today's sessions is on payments and E money.

0:33

Yesterday, we covered current accounts and savings.

0:37

And all sessions are recorded, so if you miss the session, just let us know.

0:42

Just a quick plug this afternoon for those of you who are interested. We're covering mortgages.

0:48

So I'm joined today by my colleagues, Conrad Benjamin, and Nicola Bally.

0:54

Conrad is a Compliance Manager and Financial Regulation team, and Nicole is a managing associate in the team Both have a particular focus on the regulation of payment services.

1:07

So could we move on to the next slide, please.

1:11

So the first slide is really just a continuation of what we've been discussing all week and to set the scene. It sets out the key aspects of the new requirement.

1:22

We're going to focus today's session on the scope of the new role in Britain Trial and how to meet the new requirements by focusing on the four outcomes identified and identified by the FCA.

1:35

All of this will be discussed in the context of the cross cutting roles.

1:41

Next slide, please.

1:44

It's worth remembering that all of this, because shima duty is underpinned by a concept of reasonableness.

1:52

So when assessing consumer duty, we need to think about it in the context of what standards would be reasonably expected of a prudent man.

2:02

What is reasonable will depend on the type of product or service being offered, its complexity, and the role of the Fam takes, as well as the characteristics and financial objectives of those in the target market.

2:16

We can move to the next slide, please.

2:22

So this is the agenda for today and what we intend to do is talk through some of the tricky issues starting with scope of the duty, then the four outcomes and where we're seeing questions And what we see is, it might be problematic.

2:39

I'm going to hand over to Conrad Now, who's going to talk to us about escape duty.

2:45

Now, some of you will be quite familiar with the fact that there's been quite a bit to push back to the FCA when those providing payment services.

2:52

Any money through the consultation, responsive, essentially suggesting that consumer duty should not apply to those businesses and services.

3:02

However, the EFCA I have disagreed, I can't ban, emphasize enough what a profound impact this is going to have on non bank payment, any money fans, and the way they are regulated, and the relationship with the regulator.

3:18

So with that in mind, conrad's, over to you please.

3:22

Thank you, Becca.

3:27

Backslide.

3:35

All right.

3:37

Again, helps you to understand the scope of patients at which firms fall within the Scope safe deposit takers, banks, As the payment activity. Within those bytes for non bank payment providers, face the fans which authorized under the ...

4:01

and also for two types of activities of color fonts.

4:09

ISO files a shelf, Abdul Regulation on the pier sauce fisherman.

4:15

Uh, to the payment services providers situation applies to business conducted with consumers, with my current surprises and also. Charities where their turnover is less than one million pounds.

4:35

In the payment sector, supplies across payment types, across the whole set of activities, which results in payments apply to all of the service providers or agents, web activities can have an impact of influence over the eventual retail customers, outcomes.

4:58

So think about, whoever, wherever the reaction has been taken by someone other, the initial five.

5:06

You got to think about yet how those agents factors can influence the eventual customer outcome and making sure that those acts, those outcomes are good for the consumer.

5:19

Next slide.

5:24

We thought helpful, once again, to confirmed the regulatory basis payments paid within Skype. As it has been about a contention within the industry, you can see that GC and Gas.

5:43

22 nine, Policy Statement, 29 Paragraph 1.9, It clearly states that directly to firms, including those in the money and the payment sector.

5:56

Just to drill down on some of the principles that will say some of the goals of the principles: X 12 is where the consumer rights for a spouse House, incentive funds needed to actually deliver good outcomes for retail customers, sense, trend, to light.

6:21

sites and the obligations under Pencil 12 and the JC can be found into other such guidance, one of which is friend to eye 1.17.

6:34

The final box to the right hand side sets out what's that print size.

6:40

So in general terms, 12 imposes hiring more exacting standards of conduct emulations fans in the retail market relative to 6, 6, 7. Once again as this application. 6, 7 where principle applies ..., that's the principle to treat customers fairly seven as a communication principles, current notwithstanding, indication phelps's, those two principles call it much. better.

7:20

You go to customers.

7:21

First, principles are not effective, and delivering, and securing fair outcomes for consumers throughout the consumer journey of sexuality products, and service life cycle, and, therefore, in order to strengthen the obligation on funds.

7:41

To think about outcomes, have upfront sensor sites, will ever services entities. Which, once again, is that, if there's a higher standard?

7:53

hire Paul to Claire ... also described the principal 12 as being a paradigm shift for the street in relation to Y in which they treat customers and focus on outcome based regulation. Next slide, please.

8:17

Uh, we thought it would be helpful, just to look at some of the specific context. The history of how rules and principles have been applied to payment firms in financial services sector.

8:30

one, that they, the characteristics of firms in the sector is that, they are driven by rapid change caused by technological advancements, innovation, and evolving customer relations.

8:46

So, how customers, consumers, want to actually visualize business using their smart phones on their iPads, laptops, etcetera.

8:56

All those things, drive the innovation and the payments facts are kept rightful, ripe for change. Changing regulation pipe sector, which comes from your back PSB regulated by the FCC under the ....

9:17

The electronic money regulations, historically, because of the simplicity of the payments products, that's payments, activities, post, a fault, low risk of customer harm and poor customer outcomes. And that resulted in ...

9:38

XJ balls, compared to other sectors of the financial services industry.

9:45

And as a result, compliance is focused, I feel, legal obligation of expensive financial crime.

9:54

Far more prescriptive than Lambda, ..., just to run through the timeline just to, once again, to bring out how things have changed over the last decade or so has the original one dimensional payment Services Regulation, and that was seven results If they type a 2002, the European Commission Report that the legal framework sets.

10:29

FIDO money directed this whole batch of elements in the money market.

10:36

So moving on to the Electronic Money Regulations, it helps you haven't thought was I actually encouraging all funds to set up.

10:45

An electronic money schemes activity introduced a new protections safeguards for customers.

10:56

three patients PST to which most people know about and that's ..., OK, let's get that most fundamental change in White, which regulates was a step change in regulation.

11:13

Moving on to full, for instance, for business, this is simple.

11:16

Once again, it does make such 1019 actually extended its principles, business, bank payment to ensure that there is a consistent approach Which funds provide payment services Whether they are authorized under FISA spikes or ..., makes results in the move towards more principles based regulation requiring greater understanding and ... whenever you're carrying out payments, activities. And finally, five.

11:55

Back space, Further shift towards, for instance, price regulation and also an architecture, stack up expectations of the CA by payment service providers.

12:13

Next slide, please.

12:19

one of the things which characterizes the paint's activities, is that they're often the number of players, or actors, within the, payments, service, activity, itself. So when you and what a side effect around, some of those axes, so in relation to a money issue is there also agents distributors which which, which relies upon ....

12:52

So the issue may well design the product or service and it's extremely useful other agents and distributors to the issue of systems but I see the important points which agents and distributors comply with the machete when acting on their behalf.

13:17

Emulation too.

13:21

First, payment stations to the money firms where they are when they issue a money.

13:28

There is a safeguarding response. Let us say these firms often rely upon credit institutions, banks to safeguard consumers money, once again, the consumer's home, the bank safeguarding.

13:48

Funds to ensure that they're all, there are no harm streams, losses, consumer monies.

13:55

Emulations payments, Initiations says, the payment change when it comes back to say that payment initiation service provider will save the account, providers are executed.

14:12

Emotions, her merchant acquirers, the age distribution chain also includes the car's tip sheets have influence over the retail customer outcomes as well.

14:27

I start to consider acquiring this assumption that my colleague Rebecca spanned the pump when she turns to the screen.

14:40

Next slide, please.

14:45

Um, we thought it was important to emphasize some implications for non bank payment fans looking at the Skype JJ.

14:57

So we've already talked about innovation within this sector which is rapidly growing and becoming more complex and the capture of bank PSP as a reflection by the FCI of the fact that say they recognize that there is a risk of concert Hall by the by the scale of growth In this sector. Entity, right? Teacher and shrink the payment sector, they want to, once again to reduce the chances of that by bringing them in Skype with JSON.

15:34

And it's an excellent example of ERGs.

15:39

From as a sole reliance on rules based regulation to more outcomes focused regulation by the, by the regulator, extends Skype for Regulation, current coverage of payment firms beyond the approach, documents, family. And so the ... Handbook, which is which is fast. I'm sure you all know.

16:06

Implementing badging cause space to sweep fruits, risk governance, frameworks, which halted, how how they conduct their business. And, I'll say, Relations.

16:22

Oversight of risks.

16:28

The inclusion of can see what type of person.

16:35

Over.

16:36

Well, they have to.

16:38

That cuts the existing policies, look at the existing system procedures to ensure that the consumer cheat sheet obligations are captured within that policies, captured processes and procedures and the way in which one gets effect to to the charity and will lead to good outcomes for their consumers throughout the product's. life cycle.

17:04

Stage, not because the journey will certainly took a payment service providers having took, we think, right to reconsider, aspects of the business model aspects of their products, or services of the consumer target group strategies culture to enable them to consistently deliver those.

17:27

Good outcomes for, for their customers, throughout the customer journey, can make my own place.

17:43

Thank you. So I'm going to take over here, thanks, Conrad. And if we move on to the next slide, please.

17:47

I'm going to discuss the product and services outcome, which primarily applies to the manufacturer of products and services.

17:58

And firms are manufacturers.

18:00

If they create, develop, design, operate, or carry out a product or service, services include those involved in the carrying out of a regulated activity or activities connected to providing payment services are issuing a money. So if you're not speaking, please, can you go on mute?

18:21

What this means in practice, I think as Conrad has explained, is that both the payments, any money businesses, those involved in the payment value chain needs to be considered in life to the consumer duty and this expectation is wider than those that just distribute the product.

18:41

However, I think the way that the FCA have positioned this within the guidance appears to almost complete distribution chains and payment value chain.

18:52

However, the outcome and my reading of what the FCA is saying is that the payment services any money businesses.

18:58

one needs to think about both those involved in the distribution and sale of a product and those involved in the payment chain chain arrangements When considering the design of the product. For the purposes of the consumer duty assessment and, and Dan Conrad slide gave some examples of some of the distribution chains and payment value chains. We've been considering different types of payment services businesses.

19:27

What this means is it's actually considering the role and different actors in the payment chain and what impact they have on customer outcome.

19:37

Now, I was quite surprised when I read in the guidance that And the FCA you a credit institution providing an account to allow E money or payment service provider to safeguard customer funds would need to be considered in light of the consumer duty.

19:53

And they've had it in the section related to distribution.

19:57

Um, however, having thought about it, I think what they're saying here is that when designing a product, which relies on others, excuse me, to help provide that product or service.

20:10

The choice of who is appointed and the role they play needs to be considered by manufacturers to ensure this choice avoid foreseeable harm.

20:18

IE, in this example, the customer funds of faith got it appropriately and hopefully the customer doesn't need their money.

20:27

I also wanted to just pick up on another thing on, on Conrad slides. And I'm sorry, it's not on the screen. It's a couple of slides back. But I'm in relation to merchant acquirers.

20:39

There was a comment again in the guidance from the FCA that says a distribution chain also includes match and acquirers to the extent that activities have material influence over retail customers.

20:53

We've been scratching our heads a little bit about what this means.

20:56

It could simply mean that the consumer duty applies to acquire as web, our customer base and merchants or within the definition of retail customers so SMEs and sole traders.

21:07

However, we also started thinking about whether the SAA have got other types of arrangements in their site here.

21:14

So, for example, we're seeing emerging trends of where payment match into acquirers are involved in the distribution of lending products, particularly by now pay later projects.

21:27

Now the merchant acquirer often will provide or sometimes also provide the gateway services to the merchant.

21:34

And through those Gateway services, they can also then surface a buy now pay later population on behalf of the lender.

21:41

Now in the range meant the acquirer is distributing, they lend as product.

21:47

And therefore, I think, you know, that's an example of a distribution chain in relation to lending, but a payments by being brought into Skype as a distributor, as opposed to manufacture of a product.

21:59

And it means thinking them what additional obligations need to be considered when entering into the contract, where the buy now pay later, lender or the staff to think of that product within the gateway.

22:13

So, consequently, the design of a product should consider what role is to be provided by third parties? Who is the best person to provide that role, and what oversight you have over them to ensure they're performing that role in such a way that it enables you to live, to deliver good outcomes to customize.

22:31

So, what houses the same products and services?

22:34

Well, we've covered some of this in earlier sessions, so I intend to keep it brief, but the products and service outcome is really about the design of products and ensuring that the design meets the needs of your target market. So first you need to identify who your target market is, who is your customer base base going to be.

22:53

And the rules require them to identify the target market at a sufficiently granular level.

22:59

However, where the parties say, simple, the FCA say this market can be quite widely defined.

23:05

Say, for example, money remittance, perhaps is likely to be a mass market product. Nafo could have quite a wide target audience.

23:14

However, if you offering acquiring service, you will want to think quite catch me about the types of merchants you're targeting and their sophistication when designing both the product and in particular, the pricing models.

23:27

After having identified your target market, next, you need to consider the needs, characteristics, and objectives of customers in that target market when designing a product.

23:39

And I think a money is a good example of how identifying the target market and designing a product for that market could play out.

23:48

Say, for example, if you're offering any money account, which aims to provide an alternative to a current account, for example.

23:55

Well, mice start in thinking that the customer base is going to be quite wide.

24:01

However, in designing that project and identifying the target audience, you will also need to consider how easy it is for customers to understand the key features such as the difference between safeguarding and ....

24:13

CF protection, lack of interest rates, or even perhaps the treatment of offline transactions where car payments are available. For example.

24:24

Clearly ensuring the customer understands these things and the way that you explain them will be important when creating customer comes as nicco will come on to explain.

24:34

However, you will also need to think about customer understanding as part of the design phase.

24:39

So, the design of a product and the target audience identification can become quite cyclical, but, ultimately, need to work together.

24:50

Testing of customer understanding should also take place in the design phase, and this is one of the things that you need to evidence has taken place during the design phase to show good governance.

25:04

In designing products, fans also should identify whether products might exploit biases, of lack of understanding, and make any changes necessary to avoid customer harm.

25:16

And I started to think about this in the context of merchant acquiring.

25:21

So, the risk of behavioral biases or lack of understanding has also been identified by the payment systems regulator as part of its caught acquiring market review.

25:34

Specifically, the PSR highlighted that merchants are often tied into acquiring services and ancillary services such as terminal hire, but it can be periods of time.

25:46

I hit there due to contractual clauses, or because of complex system integrations.

25:52

The product design features can mean that merchants are often reluctant to shop around, or terminate the agreement, even when those pilots might not be working well for them.

26:03

And, the PSR remedies may therefore, go some way to help alleviate concerns of the ...

26:09

as well enter the consumer duty, but, I still think firms need to conduct the assessment from a congenial consumer duty lens and think about what additional adjustments may be needed to ensure good outcomes for retail customers.

26:25

As well as designing products, as part of that design, You need to also think about how you're going to distribute a set of products and the expectation is that you will distribute the product to the intended target market.

26:42

It's also going to be important that you develop MI to evidence that the actual sales that take place, demonstrate that you have sold the product to the target market and not to others.

26:53

And that's one of the other things that you'll need to think about governance purposes.

26:58

And finally, just on governance, you know, how do you demonstrate good governance on all of this stuff?

27:04

So, in terms of product design, I would think, start by thinking about whether you have a product approval committee for the launch and review of new and existing products?

27:16

If not, you perhaps want to think about getting one in place.

27:21

Oh, it doesn't necessarily need to be a committee, you could produce a governance framework that ensures signore oversight on key areas, such as products, marketing, legal, compliance, finance, as appropriate.

27:36

You also need to ensure that this committee, or product governance framework, overseas material proposition changes, as well as the intended role of products.

27:49

The last thing I wanted to discuss on the products and services outcome. If we move on to the next slide, paint phase is ancillary products.

27:59

And although this is not just relevant for products and services outcome, I think it's an appropriate place to start thinking about this when designing a product and what could be and celebrate for the provision of your payment or E money service.

28:14

I've got the definition of ancillary activities here, which are effectively unregulated activities, which are carried on either in connection with a regulated activity. Or held out for being for the purpose of a regulated activity.

28:29

And some of the examples I've been thinking about here or currency conversion services.

28:35

Could be an example of an ancillary service if you're providing a money remittance, savez or a foreign currency transfer service in connection with a current account.

28:48

Where they have currency conversion service is necessary to be performed before.

28:53

You can then perform that regulated service of remitting or transferring the funds in that currency than I think it was that currency conversion service is carried on in connection with or even for the path that solve that regulated Sabbath and can be born it bought into scope for the consumer duty.

29:14

Another example we've had questions on is in relation to gateways in context of acquiring activities and particularly unregulated higher of payment, gateway terminals, decision points of sale terminals, and retail shops.

29:31

I think whether those activities and services of bought into scope would depend on how the arrangements are structured, so if the provision of the Gateway unregulated haya, that gateway is tied to the provision of the acquiring sabbaths.

29:49

So they operate together then I think there's a risk that bought into Skype.

29:53

However, if they can operate separately so you can continue to license the terminal gateway.

30:02

even though the customer can swap as assets around for different acquiring services then there's an argument that that the the unregulated tyra arrangement hasn't been built into the scope of the consumer duty.

30:15

I also think this question comes interesting in the context of TPP services.

30:21

Say, for example, in the context of an account information service provider, they may use a technical service provided on the technical integration into the account to get access to the data, and those types of arrangements could fall within the definition of ancillary activity.

30:39

And then, finally, the context of payment initiation services.

30:44

Perhaps a gateway providing the technical integration between your payment initiation service and the match and online platform.

30:53

And, again, that role could be considered part of the app and answer.

30:58

Send every step is where it is necessary and to be carried out for the performance of the regulated activity, IE you can't provide the best service for the merchants and the payer and nest that Gateway binds the integration.

31:12

I think all this means is that the role of these actors in the Division of Payment Status or even money services will need considering the purposes of consumer duty.

31:21

This means that the design phase and fair value both.

31:27

And can we move on to the next slide please?

31:32

Because I want to talk about price and value now, retail customers experienced homme where they don't get value for money according to the FCA.

31:45

There is a specific focus and a consumer duty of the price and Value outcome roles, which aim to ensure that the price the customer pays for a product or service and reasonable compared to the overall benefits.

31:59

Now, there's value.

32:00

Assessment, can be looked at, in the context of different products, and needs to be looked at in the context of different products, because they offer different benefits, well, which will have an impact on the assessment of value.

32:14

Characteristics, such as the quality of a product or service, the level of the customer service, or potential barriers of getting access to service.

32:23

Genuinely how well a service provider meets customers' needs, can all determine the benefit against the price of a product.

32:33

Apply, then, needs to be considered in the context, So what is the price charged?

32:40

Manufacturing firms must consider all of the costs and charges the customer pays.

32:48

For a product or service over time, say, for example, all of the fees and charges customers make in Cairo for the life of the product.

32:57

Firms also need to consider whether customers will incur costs, which may not be financial.

33:02

A non financial cost swelling paid half the time and effort it takes to access or buy a project or even switch or cancel a product.

33:13

And also another non financial cost is use of customer data where the customer has knowingly or unknowingly pay with the use of their data. That's also an example of a price or cost.

33:29

So, what I wanted to talk about is to try and pull out some tricky examples that we've been considering in relation to this price value outcome. And if we could move on to the next slide, please.

33:41

I've set out some examples where I think the assessment can be a little bit tricky and where I think the FCA might be looking to focus. So, the first one is money remittance and the FCA actually spelled out in the approach document that money remittance need to consider.

34:00

Their charges and fees are all consumers of their money remittance services and they gave me an example: things to consider to include the extent to which the services meet consumers redid my expectations. I think what they mean here is such as the quality of the service, the ease of use, the timing of the transfer.

34:21

They also suggest that the assessments includes any limitations of the money remittance service.

34:28

Say, for example, I think that talking about how transparent a service provider has been with the charging model, they also emphasize that characteristics of vulnerability need to be taken into account, in relation to the target market.

34:44

And that's it in a assessing, such things as what may impact their ability to access, use the service.

34:53

In the context of currency conversion services, this is an area that that worries me a little bit, which although we're not regulated services, as I say, I think there's a risk in some contexts, they could be brought into the scope of the consumer duty.

35:08

I think one of the things then, you need to think about is pricing models, particularly where the service cost is set as a percentage of the transaction.

35:18

The EFCA have highlighted in the context of insurance.

35:21

But I think is read across here that, um.

35:24

Servicing fees charged as a percentage of value of a product can lead to customers paying substantially larger than others.

35:33

Even though the cost of providing the service and the benefits customers receive may be similar, Say, for example, say a fee of 2.75% is charged for conducting a currency conversion service before transferring those foreign currency funds.

35:49

A transfer of £100 will cost £2, 75.

35:53

Batch transfer of one thousand will cost £27.5, if you've got my math, right?

35:58

Um, is their service really that different?

36:02

And I think this, this, this needs to be thought about in the ration to regulated products and services as well that uses this type of charging structure. So what comes to mind our balance transfer fee and running remittance services?

36:16

And in such circumstances, firms must consider whether the relationship of the price customers and different groups pay. It's reasonable relative to the benefits they receive.

36:27

For example, there may be funding costs which justify that that that price differential different grades.

36:35

Another interesting area where we're seeing some of this play out and receive questions is in relation to acquiring fees.

36:42

The FDA say that bans charging different prices to different groups of customers are not necessary in breach of the duty.

36:50

Good tonight.

36:52

They also say that the price value outcome does not require firms to charge, or customers the same amount.

37:00

However, where firms charge different prices to separate groups of customers, they must consider whether the price charged provides fair value for customers in each pricing group.

37:12

And how do you do this? Well, transparency can play a big part. as I said before, products.

37:19

As I said before, products that meet other aspects of the duties, such as being designed for a particular target market and being transparently sold, can go towards indicating the product is offering fair value as customers are empowered to shop around.

37:35

Transparency uprising Heywood would be key.

37:38

This is also a particular concern for the payment systems regulator.

37:42

As I mentioned earlier, as we've seen from the acquiring markets study, the proposed remedies from the PASA aim to help customers understand these structures used to summary boxes and also give matching customers greater visibility of how providers compare enabling them to shop around at deals.

38:04

There's clearly an interplay here where consumer duty and the PSAP pose remedies, even for various firms, not designated, under the PSR remedies.

38:16

I still think you should carefully consider the recommendations and remedies by the PSR to a transparency going forward as this will go toward your fair value assessments.

38:28

However, the SAA have also explained that transparent information is not the end of the story, the fair value assessment, as summarized on the previous slide, is still required.

38:40

So when providing a fee structure, perhaps a blended fee arrangement for acquiring services, you will want to consider your customer base, whether they are in charge of services they don't use, and therefore, are they on the right charging model? For example, have you set the blended fee on the basis that they're going to take a number of online transactions, but actually, in reality, it's mainly face to face?

39:07

In which case, you know, is there actually a difference between the cost to, to them, to the amount that they're paying, and your expectations of them, and the value they're getting. And that all needs to be considered when we're looking at those types of blended based structures.

39:24

Finally, because I know I'm running out of my designated time slot, I just wanted to flag the account information statuses, and the use of data here, which is that the last block on, on the screen, At the bottom of that diagram, When assessing fair value, firms also need to consider whether customers will incur other costs, which may not be financial, non financial costs, as I say, may, include, data.

39:52

And in the context of account information, services, customers will share certain data with the eighth staff, or need to evaluate that value exchange is timing, that's customers getting bad value from the sharing of that data.

40:08

This fair value can be assessed using a number of metrics, I think, say for example, there is a convenient benefit to be able to, for example, see all of your accounts in one place, which has value to a customer.

40:21

Seeing all your accounts in one place, which may enable you to identify where charges may be incurred because of the use of an overdraft, perhaps stopped the unnecessary subscription services for example.

40:34

Or just simply empowering customers to take action.

40:38

So they can save cost, has a value.

40:41

Providing financial oversight on top of account information services has value. Nudges to sweet funds again has value.

40:49

So, all of these are examples of value that can be provided by the counter mation seven.

40:56

On the other hand, funds need to be careful not to impose on reasonable non financial costs as well.

41:03

Say, for example, an unfair or misleading information could make it hard for our customers to assess their options and whether their status has value to them.

41:12

This may lead to customers not realizing their financial objectives.

41:16

In effect, this increases cost relative to the benefits of product.

41:20

Therefore, it's important that communications are clear and customer journeys are transparent, a great answer. Customers understand the bargain they are getting into, what it means, what it costs them in terms of data access.

41:33

What they're going to get out of it.

41:36

Also, they can assess the value exchange and whether it works them.

41:40

So I'm going to hand over to Nicola now. but I just wanted to flag one final thing when conducting the price value exchanges, the CIA through and find a little nasty nugget Internet guidance, which said that if you self identify issues, you need to enter into remediation, even if you haven't received customer complaints.

42:02

I'm gonna leave that thought with you and hand. Begged to Nicola. Thank you.

42:06

Thanks, Rebecca. Haidar everyone, OK, so moving on to outcome three, consumer understanding. And so just really quickly to recap: Where can we find the consumer understanding outcome? So, the relevant rules, or in print, to a five, and these, require that, ensure that that communications meet the information needs of customers.

42:32

And what those new rules tell us is that, in practice, firms are going to need to ask themselves certain key questions, at each stage of the customer life cycle, to assess that compliance. And these questions can largely be broken down as follows.

42:45

So, the first hurdle is for firms to ask themselves whether the customer has the right information, in order to avoid any foreseeable harm, and secondly, for them to assess whether they can meet the financial objectives. As, of course, those are two of the sort of fundamental cost-cutting rules underpin, the consumer understanding outcome.

43:07

Then, what follows on from that is a series of subsequent questions. Firms are going to need to ask themselves that communication. So, is that information effective? Is engaging, is simple? Is it timely? Is it relevant? And, of course, if the answer to any of those questions is no, then likelihood is you're going to need to look at your communication strategy with customers to make sure that you are compliant with the consumer duty.

43:31

So as I say, that's just a very brief recap on the rules.

43:34

But if we move on to the next slides, What I want to do now is sort of bring this to life in the context of payment services specifically. And I think that are going to be certain key areas where non bank b.s.p.s, in particular, will want to focus their attention.

43:51

So the first of these is financial formations. And I think this is an area where perhaps some payment, any money firms, have slightly farther to go than other firms who are subject to the more prescriptive financial information regime and FISMA and he may therefore have more formalized process is already in place that they can build on for consumer GT.

44:11

Now, of course, payment firms are already caught by the principles, and be clubs, too, which requires them to have communications, which are clear, that it's not misleading, but I think it's a fundamentally important point that payment funds understand that the consumer understanding outcome will impose a significantly higher standards on site.

44:32

It won't necessarily be sufficient for firms to demonstrate that, that communications were clear. Well, they're also going to need to demonstrate, is that those communications were easily understandable and appropriate for the target market.

44:45

So it's going to mean a shifted approach and culture. It's going to need thinking about the policies and procedures, prompt, and prompts like going to need to be put in place and what a suitable financial information will mean in the context of particular target market. So as an example for money remittance firm, that might be driven by considerations around things like whether English is the customer's first language but the target market is individuals', whoever missing from the spot came. Whereas for TPP, it may in some cases be able to tailor its communications to a more tech savvy audience.

45:20

So that's one of the first points. I think. The second point that will be a focus for non bank PSAPs is in assessing what information firms need to provide over and above the schedule for PSR requirements.

45:34

Now, many of you will remember that when the FCA first consulted on consumer duty, the view that payment firms in the industry was taking was that because firms were already subject to specific disclosure requirements in the ..., they would not need to go beyond that to comply with consumer duty.

45:52

What the FCA policy statements?

45:54

Her sach's compliance with those specific rules will not necessarily be enough to satisfy that consumer understanding outcome.

46:02

And, so, I think there's a really important exercise here for firms to work out where those information gaps are and just bring that to life slightly. So, one example of this might be, for example, where firms are terminating an open-ended framework agreement or withdrawing a project.

46:19

Now, although firms might be complying with the obligation in the ... to provide humans NHS that termination, what the consumer duty is, Guidance requires that firms look beyond this and more holistically at the customer's information needs, at that point in time. For example, what are that customers rights and obligations in the termination, which will process, what are the options going forwards? And is that information being effectively communicated?

46:49

And then finally, in terms of just general principles, it's not going to be enough FM system fully comply with the obligations in break 55 of the .... Which required that the information is provided to customers in a clear way, on a durable, medium, and in a language agreed with the parties.

47:06

So, these will continue to be the baseline statutory requirements will apply to communications, but pay MFS will also need to ask themselves whether the way that they are providing that information is effective. And the FDA has been really clear that firms are going to need to get creative in some cases.

47:24

So, that might be, for example, by layering information, by using keys, key information sheets, and more visually stimulating material in terms of design, to ensure that the most important information is brought to the customer's attention.

47:40

Then, just as well, what I wanted to do is sort of call out a couple of very specific examples of how the consumer understanding outcome might impact on specific E money and payment products.

47:53

So, if we take money in the first instance, as Rebecca has highlighted, there are some quite obvious features of E money, which firms are going to need to communicate to customers, so that they can assess whether the EMR product is suitable for them, and whether it will help them to meet their financial objectives.

48:10

Probably the most obvious feature of that is around the requirement on many firms to safeguard funds, and the consequent lack FSCS protection.

48:19

But also, depending on the target markets, other features, such as the lack of overdraft facility, because ultimately E money is a prepaid products, as well as the inability for customers to be paid interest on their balance, that's also going to be important information for the customer.

48:37

Now, what I think is quite interesting, canvas, that these consumer understanding outcome won't simply bite at the outset of the arrangements when the customer is assessing whether the project is suitable for them. In some cases, there may be a positive obligation on firms that when they can see consumers are using e-mail products in a way that is inconsistent with these features, for example, they might be using the product for the static storage of funds on a long-term basis. Or perhaps they've become aware the customer's frequently trying to spend more than ever available balance. The firm may need to proactively communicate information at that time on the specific features of the product, highlighting any money put it may not be suitable for them.

49:20

So I think firms are going to need to think quite carefully about the type of an eye and the indicators that they might see, which will require them to assess whether the customer has the right information at that point in time.

49:31

And then the final example that I sort of wanted to call out is in the context of TPP.

49:37

So can see my understanding. And consumer understanding outcome will impact on potentially pistes who are offering payment solutions at the point of sale.

49:49

And I think the key question here for pests or be, what level of information they will the gateway provider will need to provide as part of that sort of distribution chain. Not only in terms of how the arrangements operate, but specifically, how they might differ from more traditional payment methods.

50:08

And this is because customers may not intuitively understand that when they're selecting a particular payment methods, they may not benefit from the same by protections that they might be used to, for example, if they were using their credit card and benefiting from Section 75 rights. And of course, this information may have an impact on the payment method the customer cheeses.

50:29

And of course that logic can be applied to other alternative payment methods like the NPL as well.

50:35

OK so if we now move on to the next slide to talk about outcome for and consumer support.

50:46

OK, so again, just to very briefly recap, this outcome is set out specifically in print to a point six, and this requires that firms design and deliver customer support in a way to ensure the customer's needs are met.

51:01

Now, of course, that sounds really straightforward in practice, but what it will require firms to do is look critically at their target markets, understand the specific needs of the target market, and then look at all of the ways that the customer might suffer foreseeable harm. And, if so, what an adequate customer support arrangement in those circumstances might be.

51:23

So to bring this back to payment, fem, specifically, there are a number of circumstances where customers may suffer foreseeable harm, as a result of the payment projects they are using. So, some examples of this might include things like security, fraud concerns.

51:39

So that might be where the customer is a victim of a scam, such as an ACH fraud, or where the customer is worried that someone has fraudulently access their account.

51:49

It might also include situations where a payment has gone wrong. For example, if that payment has been incorrectly executed by the PSP or if the payment is delayed.

51:59

And it might include things like operational concerns, say, outages, which prevent the customer from accessing the services for a long period of time. And then over and above that, they will, of course, be situations where customers are vulnerable, and this arrangement needs to be tailored accordingly.

52:17

And so I think the key practical tasks for payment, and the money funds do now is to map out each of those customer touchpoints and ask themselves whether in each of those cases the right level of support is being provided.

52:30

And I think there were some specific features of payment service arrangements that deserve some further thoughts.

52:35

Her, and I think one of those is around the availability of certain communication channels. And that's particularly the case, given that a number of payments, any money firms, for example, TB pays acquire as a money institutions. They tend to offer digital early sepsis.

52:52

And what that tends to do is then flow through to the sport arrangements, which also tend to be, in many cases, digital only as well, so FAQs, Web, chats, et cetera.

53:04

And the FCA has commented on this. And it helpfully said that there's no issue in principle with digital only support arrangements, particularly if the firm's target market is very tech savvy.

53:17

However, if a farm does provide support, mainly freight one channel, there are various factors for it to consider to ensure that it still delivers good customer outcomes. And what the FDA explains here is that firms are going to need exceptions, policies to deal with non-standard issues and with vulnerable customers. Because, of course, even the most tech savvy customer may become vulnerable at some point in time, let's say, if they get into financial difficulty.

53:44

And some of these specific exempt exclusions, I suppose. Where an exceptions policy might be needed that the FDA has called out are situations where, for example, the customer wants to report a significant fraud. So although it might be OK for this via digital channel to report lost or stolen cards, the greater the potential financial impact on the customer, the more likely that human interaction, for example, by telephone, might be needed.

54:12

Equally, if a customer needs to complain or they're seeking redress, some cases the customer will also need to be able to speak to human being and other communication channels like FAQs or Britain e-mail correspondence webchat might not necessarily be appropriate depending on the type of complaints.

54:31

And I think it's worth noting here that the FCA has specifically called out payments and many farms in the context of complaints and it's effectively said that in the FDA's feed, the complaints processes of a number of firms is not sufficient.

54:45

So they've seen evidence of customer harm, both because firms have not properly understood perhaps that complaint obligations under desks, but also, um, why consumer support has not kept pace with growing demand.

55:00

So, so that's the sort of first layer, I suppose, of compliance with the consumer support outcome.

55:06

In other words, how the firms provide support, and three what channels. But I think there's an important second layer of compliance, which of course is to ensure that those communication channels are working effectively. For example, do customers have to wait for lengthy periods of time before they can speak to a customer support agent?

55:24

Does the customer have to scroll through multiple layers of confusing FAQs before they get a suitable answer?

55:30

All I'm saying hi Rachel, cool drop offs, where customers are having to wait too long on the phone and if so then how confirmed solve this, For example, can they put callback arrangements in place? What does the complaint state to say that's going to also be really important. And I think fundamentally to sort of bring all of this together how offense documenting that they have properly considered the customer support arrangements to comply with Consumer GT.

55:56

So all of these are going to be points that the payments need money funds going to need to think through very carefully.

56:03

And so that hopefully gives you a snapshot of some of the things you'll need to think through to achieve the full customer outcomes. I'm now going to pass you on to comrades who I think is going to take us through some of the practical implications and also the timeline and deadlines ABTA comrades.

56:23

I thought would be helpful, just to run through some of the practical implications of meetings, I would say, so, emulations, governance? So looking at embracing as you mature.

56:38

So it's very much performance cabinets, oversight, culture, and strategy. So a good example of how that can do that is the agenda to actually have a standing item, something on consumer and customer outcomes to evidence.

56:56

That is a subject of consideration, discussion, debate, and decision making, emulations to your business strategy.

57:07

Once again, think about how your future strategy can incorporate ... and delivering customer outcomes throughout activities. Emotions, and funnel goals. There is an obligation, a real need to understand, you know, get beneath the skin of spending guidance subjects access, how emulation. So. yeah, it does have a vast implications. How business is conducted at several levels in relation to perform a gap analysis. Emanations.

57:48

Where your current company that's business doesn't align with the consumer cheat sheet responsibilities and take appropriate action to ensure that it does.

58:00

An emulation circuits you want to try to think about how to develop metrics, which enable you to capture the evidence that you all climate. And delivering good outcomes for your customers, to our journey. There are some key dates, which needs to be mindful of.

58:23

Boston, with aside regulation, I think the key here is have an implementation plan by the end of October, because that's something you asked you to produce, and if you haven't got it, got it.

58:35

I have some questions to answer ..., Gap Analysis, licenser Porting, between October and December.

58:44

If I switch to Work Console fair value issues, trade and Exchange launch starts between 24, and they're going to expect a faulty pulled on how you deliver your customers. You say, energy budget for next slide, I think we're running close to time.

59:08

So I guess that's, we should maybe turn to questions at this point.

59:19

I Wonder Conrad, and we are at time now. So if people do have questions, why don't you e-mail us using our contact details on the last slide. And we'll be more than happy to help you. and if we could just bring back up that last side and just leave you have, or with the thought of the timelines.

59:40

Um, I was hoping that, yeah, thank you. Because I think timelines for this is going to be key.

59:49

Know, that there's things you need to start thinking route for October. And, yes, there's a July 23 deadline, but, actually, you can't sit on your hands until June 23. You know, this need starting to think about now.

1:00:04

Um, otherwise, I think what's left to say is, thank you very much for joining us today, and, again, if you have any more questions, please feel free to e-mail us.

1:00:15

Otherwise, we have the Mortgages session this afternoon. So, we look forward to some of you joining us for that.

1:00:22

Thanks very much, bye. Bye.