

Consumer Duty

1. Overview

On 27th July 2022 the FCA published final rules on Consumer Duty, referencing the need for firms to act to deliver good outcomes for retail customers. These rules include requirements for both product manufacturers and distributors.

There are **three central rules**:

- (1) Act in good faith,
- (2) Avoid causing foreseeable harm, and
- (3) Enable and support customers to pursue their financial objectives.

These three rules are supported by the **four Consumer Duty outcomes**:

- (1) Products and Services,
- (2) Price and Value,
- (3) Consumer Understanding, and
- (4) Consumer Support.

In addition, as a fundamental statement of the industry-wide required approach to Consumer Duty, the FCA introduced a **new Principle 12** with effect from 31 July 2023:

"A firm must act to deliver good outcomes for retail customers".

Note: This new Principle 12, when applicable, supersedes the requirements of Principle 6: "A firm must pay due regard to the interests of its customers and treat them fairly" and Principle 7: "A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading."

The FCA also introduced a **new Conduct Rule 6** for individuals who are in scope of Consumer Duty:

"You must act to deliver good outcomes for retail customers."

Note: When COCON Rule 6 applies, it supersedes COCON Rule 4: "You must pay due regard to the interests of customers and treat them fairly".

2. Our Approach

Our FCA authorised Principal Sturgeon Ventures LLP's (SV) approach to Consumer Duty has been to review all the requirements and guidance, in considering what "good" outcome means, taking fully into account the examples of "good" outcomes provided by the FCA. From this, SV developed a detailed project plan, with areas

where they felt their existing activities were fit for purpose, areas where improvement was required and areas which required building new processes, MI and frameworks.

The key areas of work undertaken in relation to Consumer Duty included (amongst many other things):

- Developing a new **client feedback programme** with Consumer Duty related questions to obtain continuous feedback from SV's direct clients on their experiences and the clients of SV's Appointed Representative firms.
- Assessing key **client communications** and high-risk communications.
- Developing a new **MI framework** mapped against Consumer Duty outcomes, so that trends in complaints, reviews of outcomes, service and support provided to clients and other metrics can all be clearly monitored through the Consumer Duty lens.
- Developing a **fair value framework** that defines how SV assesses fair value for applicable products, taking into account comparable competitor pricing, including comparable pricing service and value add, and cost to serve amongst other things.
- Updating SV's **governance framework** to include a Consumer Duty champion, SMCR compulsory training, board reporting and attestation requirements, to ensure the governance supporting Consumer Duty is sufficiently robust and updating its governance in relation to fair value and products and services.
- Developing a **product governance framework** which requires each product and service, where Consumer Duty is to be achieved, to be assessed against all Consumer Duty requirements and is built upon the FCA's PROD requirements, with additional detail being included for Consumer Duty purposes. This product governance framework requires a detailed assessment of the product or service against various metrics including; the intended target market; the intended distribution strategy; understanding where foreseeable harm could occur and how that is prevented; understanding how the product or service adequately deals with any potential client vulnerabilities, amongst other things.
- SV also reviews all **financial promotions** prepared by its Appointed Representatives. Where a financial promotion is produced by a manufacturer of any product for which either SV or any of its Appointed Representatives are providing distribution services in scope of Consumer Duty, SV requires the manufacturer to have approved such promotion's content in line with Consumer Duty requirements.
- Producing a new **Information template for all distributors** of products and services (either SV or its Appointed Representatives), which will set out information included within the European MiFID Template (EMT) as well as additional fields, designed to support the product's distributors in understanding what target market the product or service is designed for, how SV envisages sharing information if there are indicators of concern or complaints from consumers in relation to the product or service, and

confirmation that the product and service has gone through the fair value and product governance assessment process.

- In undertaking the **fair value assessment** for its products and services (including those of its Appointed Representatives), SV has determined that in relation to **pricing for its products** where financial advisers are acting on either an agent as client basis or reliance on others, that there is a lower cost to serve as a result of additional work the financial adviser undertakes and we are confident that this is reflected in SV's and its Appointed Representatives' pricing, but will continue to monitor and assess this.
- **Ongoing training and review:** Throughout the process of working to implement Consumer Duty into products, services, governance and culture, the SV team have attended industry forums and events and collaborated with manufacturers, distributors and service providers with whom they work, to ensure the approach is consistent and fit for purpose, with our direct involvement wherever relevant. The SV team have also ensured that training is taken by staff of any of its Appointed Representative which fall within scope of the Consumer Duty rules.

Both we and SV welcome any feedback you may have on the content of this site and for any further questions, please refer to compliance@sturgeonventures.com.

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