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Actuarial Considerations for the Consumer Duty

Donna Cowell & Alastair Black

Agenda

1. What is the Consumer Duty?
2. Expected changes to Actuarial work
3. Considerations and opportunities for Actuaries



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What is the Consumer Duty?

What is the Consumer Duty?

- The Consumer Duty is an update of the FCA's Principles for Business for retail customers
- The 'biggest overhaul for the UK's financial services industry in 20 years'
- The Consumer Duty places an increased emphasis on firms putting the needs of their customers first
- It covers the whole distribution chain
- Vulnerable customers



FINANCIAL TIMES

City regulator pledges 'robust action' to enforce new UK consumer protections

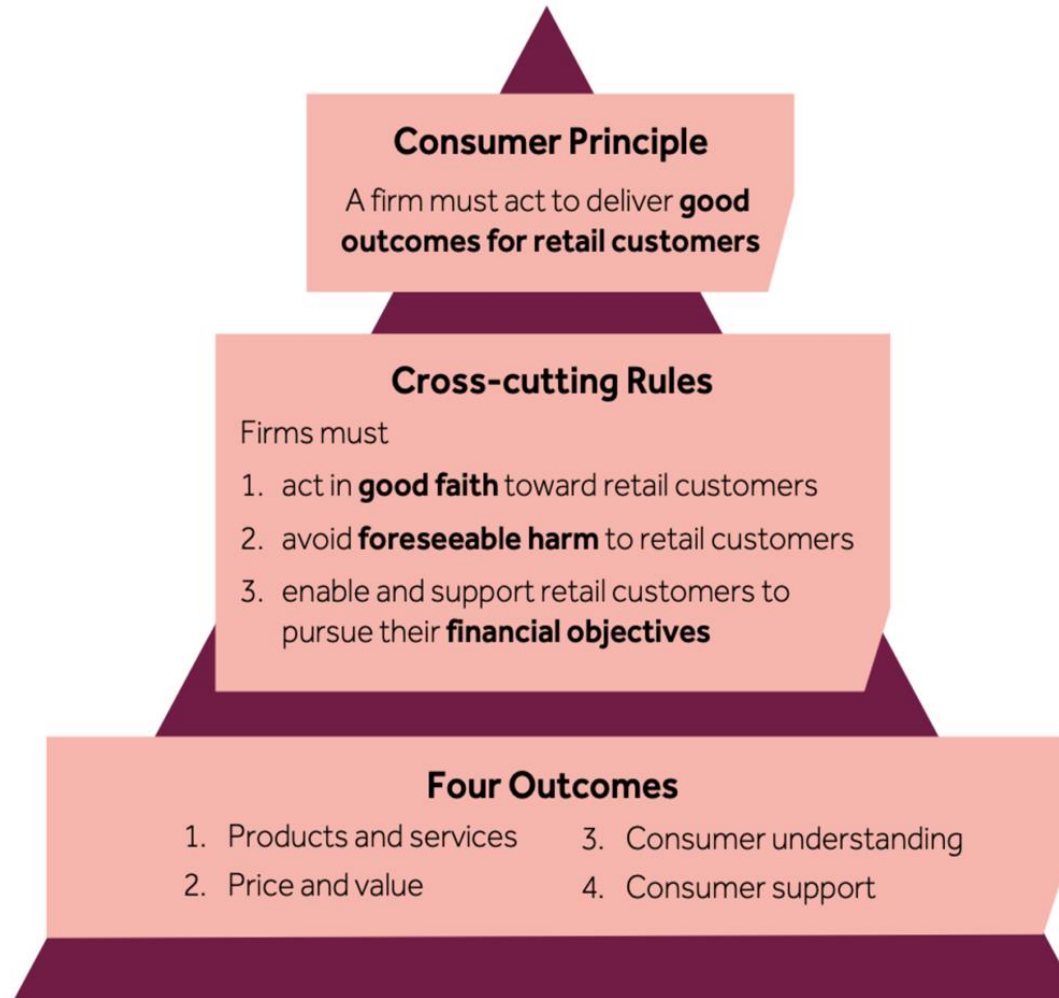


**Give customers a fair deal or else,
finance regulator warns sector**



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What is the Consumer Duty?



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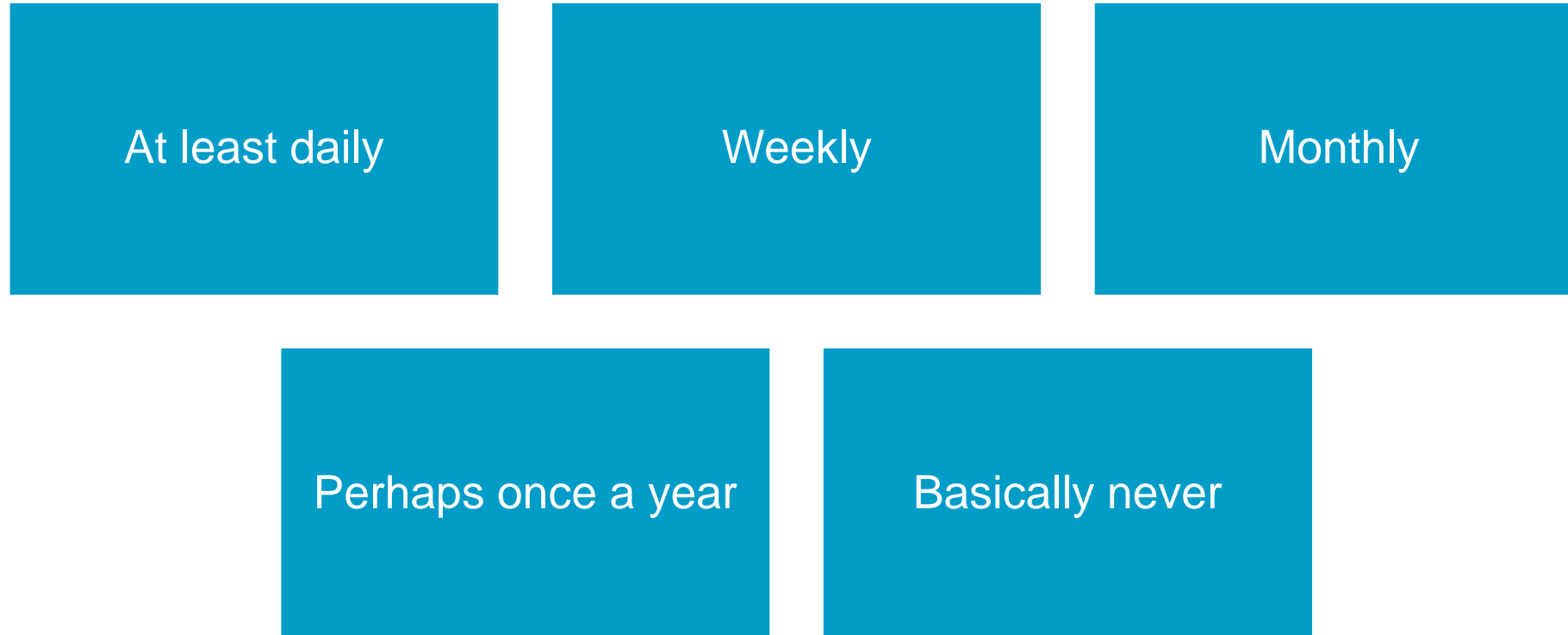
Expectations

Firms should:

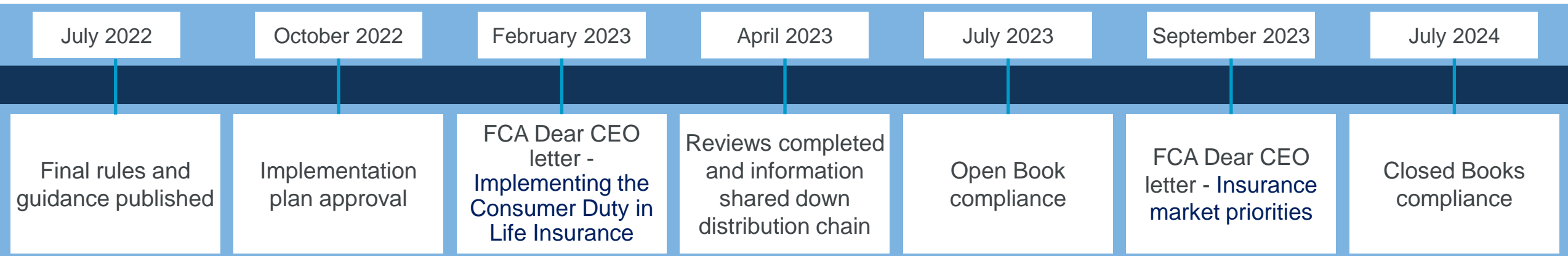
- not seek to exploit customers' behavioural biases, lack of knowledge or characteristics of vulnerability.
- continuously learn from their growing focus and awareness of real customer outcomes.
- ensure that their board or equivalent governing body takes full responsibility for ensuring that the Duty is properly embedded within the firm, and senior managers are accountable for the outcomes their customers are experiencing, in line with their accountability under the Senior Managers and Certification Regime.
- ensure that the interests of their customers are central to their culture and purpose and embedded throughout the organisation.

Poll

How often do you have direct contact with customers?

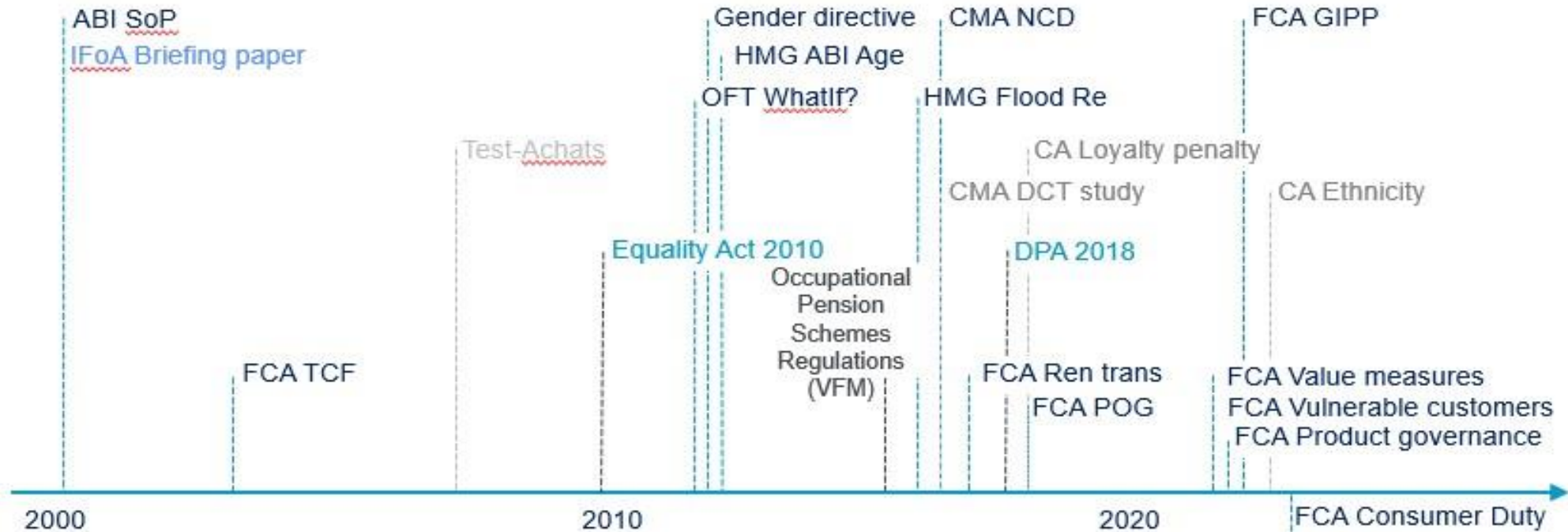


Implementation of Consumer Duty



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Why is the Consumer Duty needed?



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Why is the Consumer Duty needed?

Key drivers for harm

Information,
misleading or
difficult to
understand



Equity Release
400+

Products not
representing fair
value



GAP
6% 70%

Poor customer
service



Service v Sales

Products and
services not
delivering benefits
that customers
reasonably expect



Pension Transfers

Need a Higher Bar

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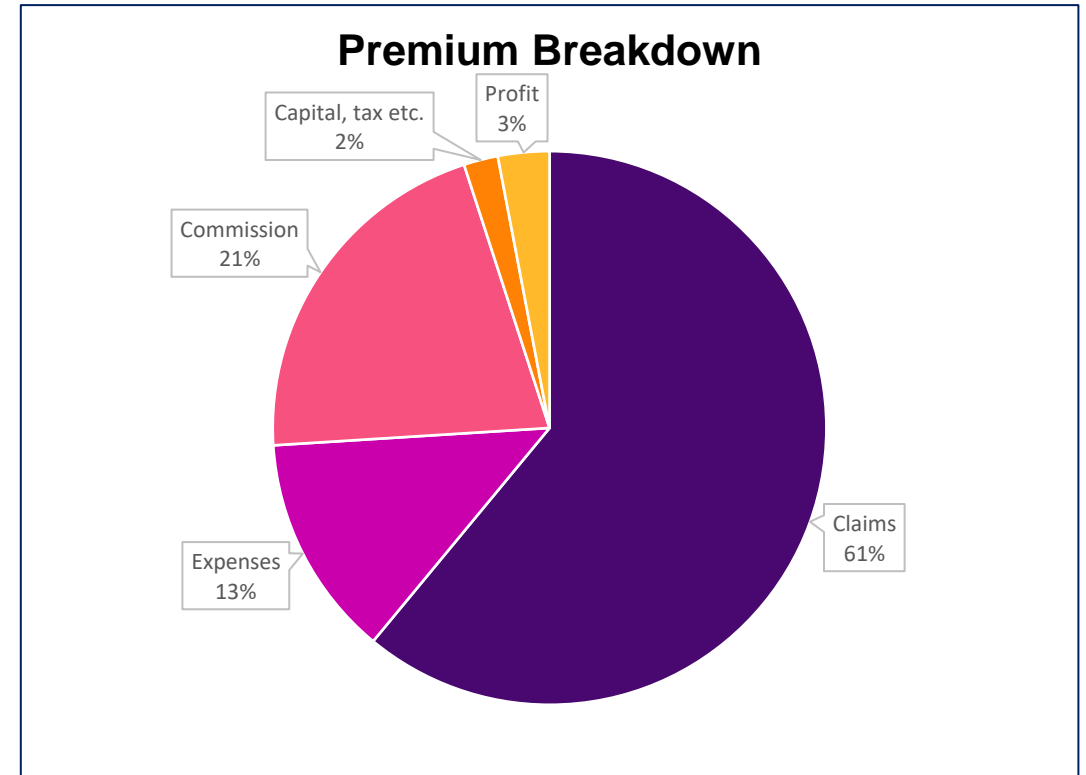


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Scenario 1: Fair Value Assessment

Product CV assessment	Metric
Claim ratio	61%
Customer Benefit ratio	63%
CFI rate	14%
Year 1 lapse rate	8%
Year 2 lapse rate	3.50%
% sales to target market	90%
Declined claims %	0.06%
Profit	3%
Commission	21%
Expenses	13%
Complaints %	0.1%

Gender	Claim ratio	Profit	Mix
M	64%	-1%	62%
F	56%	10%	38%
Total	61%	3%	100%



Scenario 1: What do you think?

Is this product providing fair value?

Yes

No

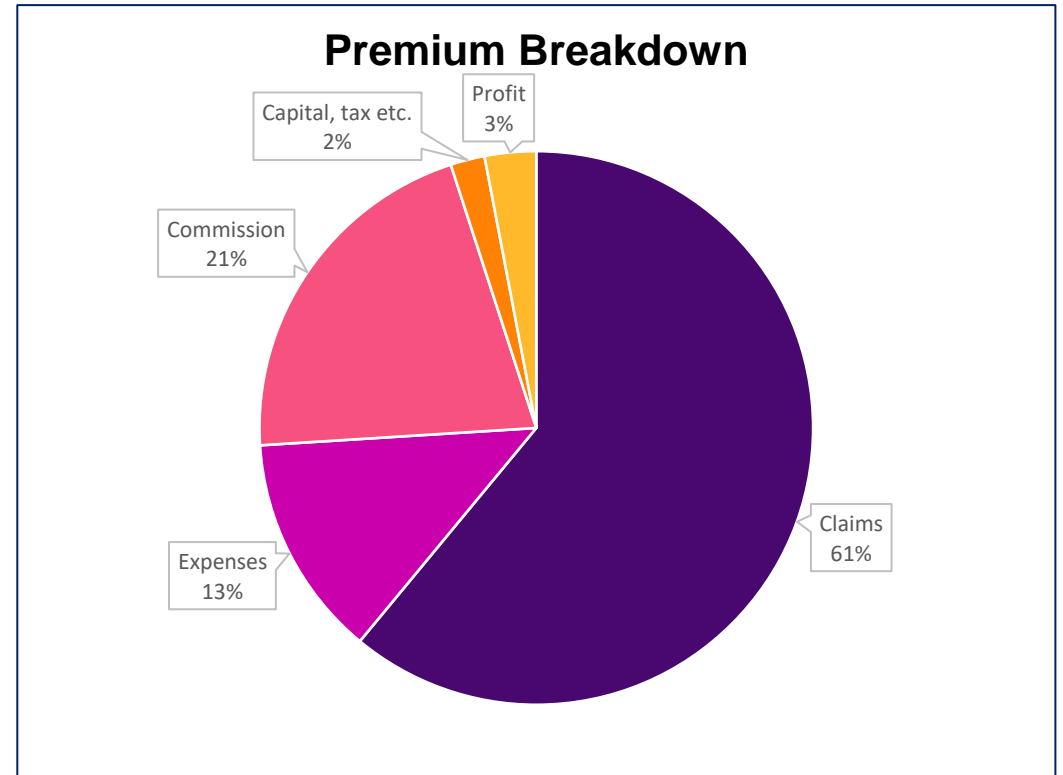
Unsure

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Age	Claim ratio	Profit	Mix
40	26%	15%	4%
45	28%	12%	6%
50	48%	10%	8%
55	60%	2%	11%
60	61%	1.30%	16%
65	69%	1.50%	19%
70	69%	1%	23%
75	73%	0	11%
80	75%	-1%	2%
Total	61%	3%	100%





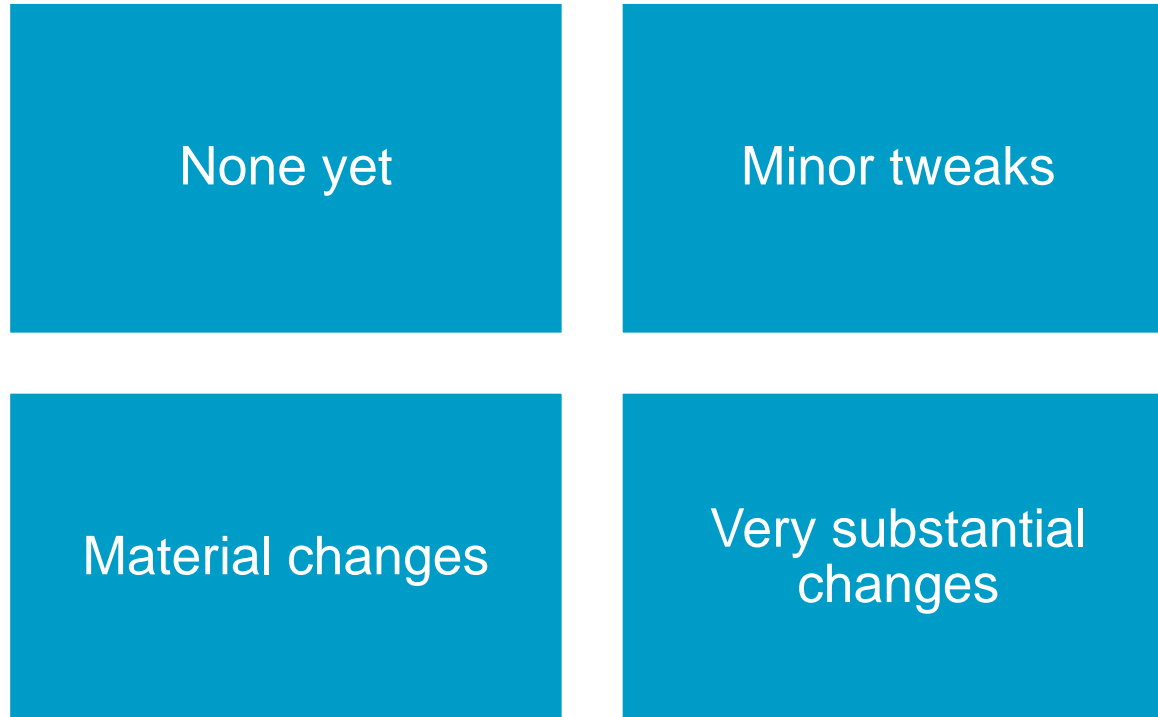
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Expected changes to Actuarial work

Poll

What changes have you made for the Consumer Duty so far?



WTW Market observations to date

Generally good progress for open products

Closed products are more challenging

Varying quality on MI development

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Impacts seen to date

Some examples of changes enacted...

- Reporting, evidencing and value for money
- Distribution focus – commission
- Investment products charges
- Propositional development
- Increase in protection conversations
- More actuarial involvement in operational issues

FCA key areas of focus for insurers going forward

Set out in September 2023 Dear CEO letters on FCA market priorities 2023-2025

Price and Value

- Unit-linked pensions & long-term savings
- Retail annuities
- Life protection products
- General insurance

Consumer Understanding

- Sustainability-related investments
- “Essentials” policies

Products and Services

- Suitability of life protection products
- GI Claims
- Access to insurance

Consumer support

- Service quality – including outsourcing oversight
- Effective customer journeys
- Supporting customers in financial difficulty



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Product design impacts

May lead to earlier, deeper, involvement of actuaries in these areas

Propositional design process:

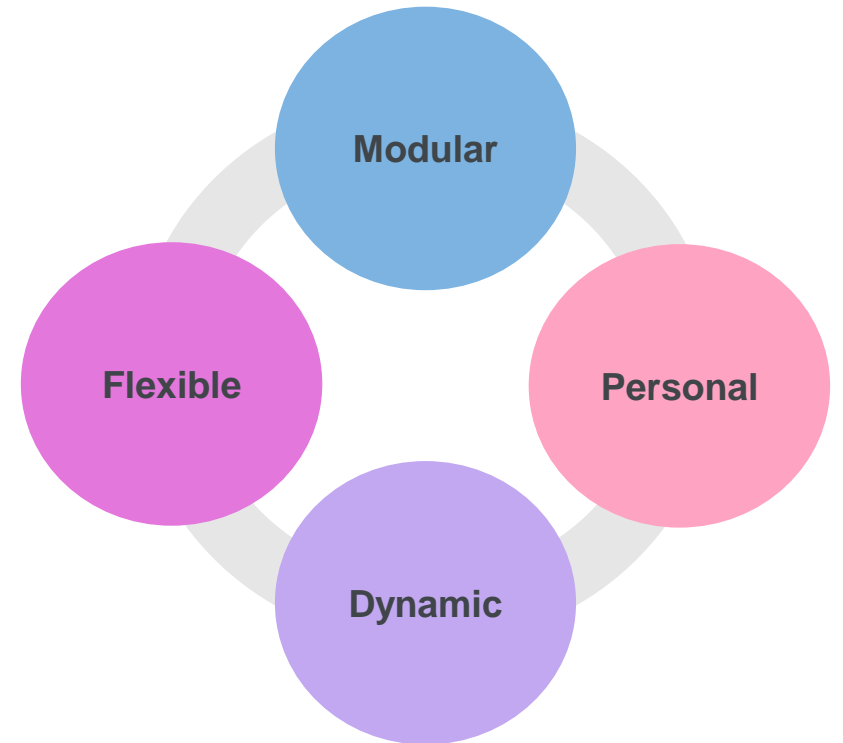
- Impacting **product design** already
- More important than ever to lead with customer **needs** and **objectives**
- Based on **customer value** and must be able to evidence

Structure trends:

- Less monolithic and more **modularised**
- Increased **choice**
- **Dynamic** and **flexible**

Recent examples:

- Messaging for new product changes reference the Duty
- Insurers are having to re-evaluate their development roadmaps





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Considerations and opportunities for Actuaries

Opportunities arising from Consumer Duty

Reasons to celebrate the regulation – and extend actuaries reach

Improved MI, better customer insight & **Board reports**



Focus is on providing customer **value** – not lowest price



Increased focus on products that **meet customer needs**



Enhanced processes can bring **long-lasting efficiency** benefits



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Actuarial work of the future

Consumer Duty “end-state”

True customer
centricity

Dynamic, modular and
flexible products

Insight led customer
journeys

Organisational
efficiency

Insight and data
across the value chain

Granular metrics for
risk & behaviour

Ease of evidencing
and monitoring

Interaction between in-
force and new
business

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Scenario 2: Enhancing products to deliver better outcomes

LEGACY PRODUCTS Limited engagement, complex charging, not flexible		
Group 1	Group 2	Group 3
Group 4	Group 5	Group 6
Group 7	Group 8	Group 9
Group 10	Group 11	Group 12
Group 13	Group 14	Group 15

MODERN PRODUCTS Customer focused, engaging, flexible, low simple charge
New Group 1
New Group 2
New Group 3
New Group 4
New Group 5

Scenario 2: What do you think?

Is the industry doing enough to modernise and enhance products?

Yes

No

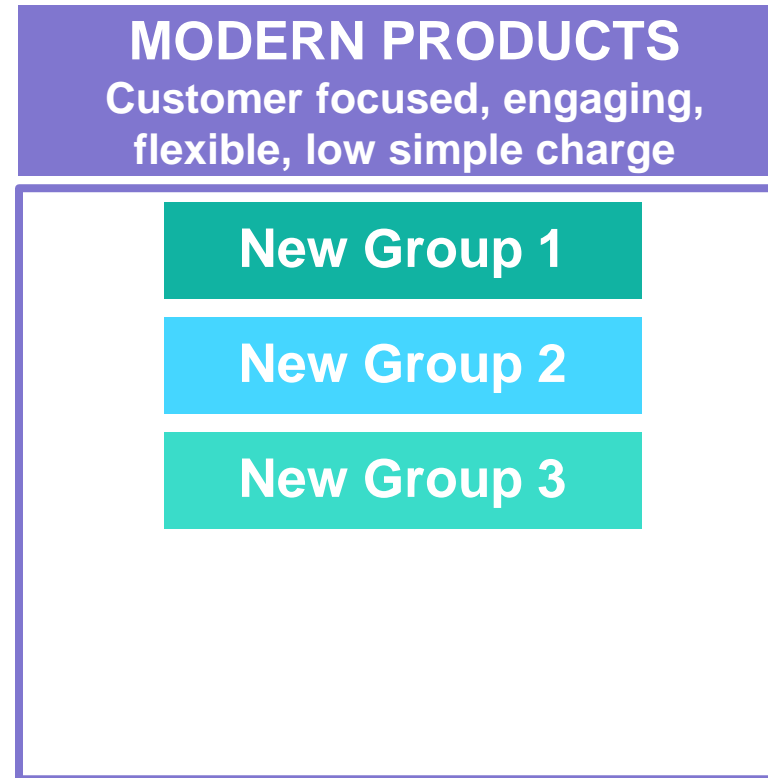
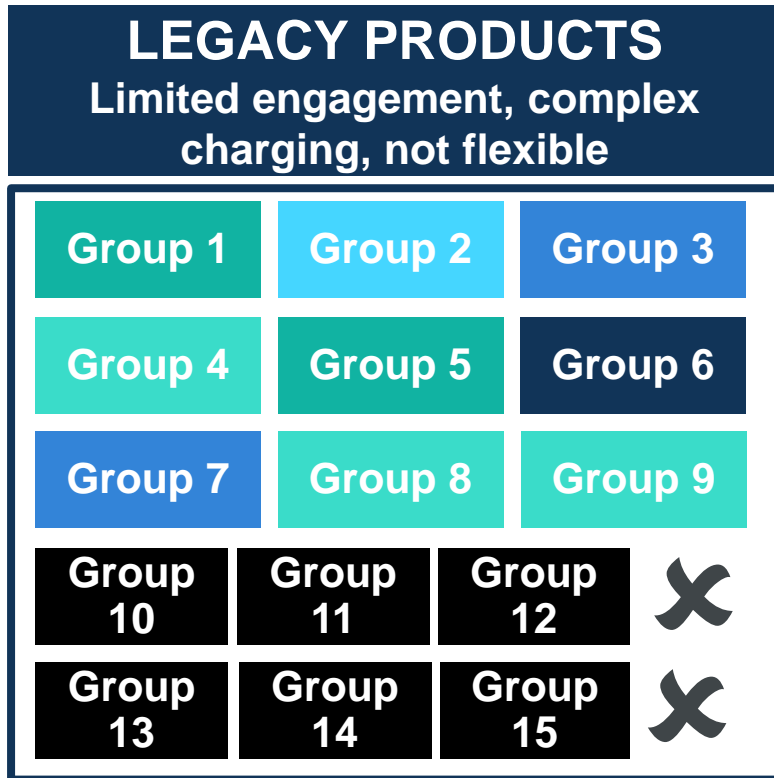
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Scenario 3: Fairness between policyholders



Scenario 3: What do you think?

Are we delivering good customer outcomes for those left behind?

Yes

No

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Summary

Summary

- The Consumer Duty is here to stay
- The Consumer Duty is a step-change
- There is great potential for this to be positive for consumers
- And for actuaries
- Action is needed!!!!

Questions

Comments

The views expressed in this presentation are those of the presenters.

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