

Regulator Assessment: Qualifying Regulatory Provisions

Title of proposal: On the customer understanding of transactions – publication of findings

Lead regulator: FCA

Date of assessment: 28 September 2016

Commencement date: The findings were published on 12/04/2016

Origin: Domestic

Does this include implementation of a Cutting Red Tape review? No

Which areas of the UK will be affected? Whole of UK

Brief outline of proposed new or amended regulatory activity

Prior to the QRP, the FCA undertook thematic work as a response to a recommendation arising from the Parliamentary Commission on Banking Standards. The PCBS recommended that firms *'demonstrate that they are fulfilling a duty of care to their customers, embedded in their approach to designing products, providing understandable information to consumers and dealing with complaints. A bank has a responsibility to ensure that customers have had a reasonable opportunity to understand a transaction, having regard to their knowledge and personal circumstances'*.

On 12/04/2016 the FCA published a table of 5 examples of good practice the FCA had observed. It also published a reminder that it is important for firms not to confuse customer satisfaction with customer understanding, that firms should continue to check their customers' understanding regularly and that the FCA will continue to monitor this area.

We consider that this publication creates no costs for business because the expectations set out in it are wholly inherent in the existing rules and add no new obligations to those rules for any firms.

The publication can be found at: <https://www.fca.org.uk/news/newsstories/customerunderstanding-transactions>

Which type of business will be affected? How many are estimated to be affected?

Total firm population is roughly 90 retail banks and building societies

Price base year	Implementation date	Duration of policy (years)	Business Net Present Value	Net cost to business (EANDCB)	BIT score
2016	2016	10	0	0	0

Please set out the impact to business clearly with a breakdown of costs and benefits

There will be a negligible net impact to business as a result of publishing these five guidelines or reminding firms of their pre-existing responsibilities. This is because the FCA found that nearly all firms surveyed generally met most of the required standards already. We expect the additional costs for firms who do not follow the new guidelines to be less than £50,000. As this is a retrospective impact assessment it is not proportionate to collect data on costs at this time to inform our calculation.

Please provide any additional information (if required) that may assist the RPC to validate the BIT Score.

It is possible that a few firms may start to incorporate some of the following practices into their BAU processes:

- using consumer group discussions to inform product development
- implementing greater simplification of products
- implementing a more personal approach such as 1 to 1 calls with complainants
- using educational videos to demonstrate key features and limitations in a more engaging and interactive manner
- ensuring individual sales personnel are consistently checking for the customer's understanding

However the marginal costs of these are small and we expect that only a small number of firms would need to change their practice in order to meet these standards. As mentioned above most firms are already including some of the areas of good practice above and will not need to implement other areas of good practice. Firms are already required to consider their customers' information needs by 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 examples of good practice that we have published should support firms in meeting the requirements of Principle 7.