Designing for Consumer Duty: Transcript

In my last Podcast I talked about my enthusiasm for Consumer Duty, the new regulatory framework governing financial services. I am enthusiastic because Consumer Duty represents a complete change in our approach to regulation, changing the locus of control from the regulator to the regulated. The Financial Conduct Authority is the first regulator to move in the direction I have been arguing for, for many years. All I can say is hoorah! And I hope they stick to their guns. I say this because many voices are calling for more detail, they want to be told what to do, but this is regulation that expects **them** to decide what to do.

In this Podcast I'm going to talk about how to comply with Consumer Duty in a way that is in complete contrast to the methods promoted by command-and-control thinkers. What I'll be describing is a method that is tried and tested. While historically it hasn't been driven by any need to comply with regulations, it has achieved the same ends as Consumer Duty – beneficial outcomes for customers. For example, one of the largest Danish insurers applied this method in their life business and achieved an immediate 25% uplift in sales with an associated improvement in customer service. It illustrates an obvious truth: brilliant customer service is a competitive weapon. In *Beyond Command and Control* I described how one of the largest UK insurers dispensed with out-sourced contractors and found that focusing on customer-determined outcomes was achievable with less than half the original resources employed. The book has other examples, all with similar profound results. Each case demonstrates the need for a fundamental change from a top-down command-and-control organisation to a system designed for the purpose of meeting all customer demand with the expertise required to exactly meet the variety of customer needs. In Consumer Duty language, getting it right the first time, every time.

Consumer Duty means 'getting it right' in terms of the **customer experience**, a big change from 'right' being defined by current controls employed in financial service organisations – activity targets, service levels, adherence to protocols and the like. These represent the current ethos: managing cost. What the many who have achieved astonishing improvement in customer service have understood is: If a service organisation is designed with a purpose of being customer-outcome focused, and is able to understand each and every customer's need, and then works to serve that and only that; the cost of service provision will be optimised; as services improve, costs fall. It is to manage value, not cost. Consumer Duty is a competitive weapon. Much of what I just said will jar with conventional command-and-control management thought; managers find it hard to conceptualise an organisation working that way. But more and more do, because it works, and it works very well. The question becomes: how did leaders who crossed this thought Rubicon get there?

The simple answer is they realised first-hand how inadequately their services dealt with customers. Not through reports and the like but by actually studying how their system works or doesn't work for customers. It reveals how cost-management is the primary cause of dysfunction. Leaders immediately understand that their activity reports, scorecards, promoter scores and the like aren't telling them the true story. They learn how poor-quality services create costs. They can also see the opportunity: if we can service customers amazingly well, we will grow. The question is: what stops us doing that? The answer: the way we have designed and managed the system. When that is understood the question is: how do we design and manage it differently, for the better? The answer as I have said is to manage the organisation by focusing on value, not cost; costs fall as a consequence. A counterintuitive idea. And there are many counterintuitive ideas that have to be learned, so how you make this change matters. And it matters a lot.

My advice is this: Anchor your implementation of Consumer Duty by establishing it, as quickly as possible, in your customer transactions. Make it alive there. It can be done in weeks, if not months – speed depends on leadership. When you do that all other changes – and there will be many – will be grounded in knowledge of how other parts of the organisation need to support the core purposes of what will now be customer-focused service designs. It is to design outside-in; replacing current top-down methods and controls with better controls. By embedding Consumer Duty in transactions, you will learn so much and consequent changes will be fast and knowledge-based – you'll know you're doing the right thing.

The important innovation in Consumer Duty is that the regulator expects **you** to choose how to comply, the regulator is not in tick-box mode, the regulations do not provide a 'right' answer, the regulator expects you to determine how you'll go about it and what metrics you will employ to monitor and improve your delivery against the principles and purpose of Consumer Duty. When you start outside in, you'll understand the need for completely different ways to think about metrics, so the need to get that worked out and working where you transact with customers is the top priority. If you work that out by other means or anywhere else, you'll be likely to get into trouble. The Method I'm going to describe starts not with plans or governance, it starts by establishing Consumer Duty as the way of doing business. Not only is it tried and tested, it is fast, knowledge-based, innovative and doable.

But before I talk about how to make this change, I want to air some concerns about what not to do. We are already seeing some firms treating Consumer Duty as a large-scale change programme, starting with creating a governance structure, a gap analysis – assessing elements of Consumer Duty that may be missing in current operations, to determine what has to be done for compliance – then workstreams, mapping every service process – then prioritising change activities and managing all that with project management teams reporting on adherence to the plan, achievement of milestones and so on. No doubt people who embark on such endeavours have concerns about the nine-month window they have for compliance. Well, no wonder…

Now, let's be honest, have you ever seen such large-scale change programmes actually work? And, by the way, it always takes years to discover that they generally don't. The problems, in this case, start with the first step. If you're conducting a gap analysis by focusing on the gap between (your interpretation of) requirements of the regulations and (your perceptions of) current service processes, nothing you are doing will change your thinking in the right way about customer-outcome metrics because you are ignoring the most important lever for effective change: you have no idea about the things that matter to your customers.

So, the first and probably the most important difference between what I'm going to describe and conventional top-down change programmes is that it starts with thorough knowledge of customer demand. The second big difference, and I've already mentioned it, is speed. While the regulator is allowing nine months for implementation, many industry commentators worry that it will take longer. Well… I'm going to describe how Consumer Duty can be alive and well in weeks and months.

Perhaps the third big difference is efficacy. This works. But, for the moment, staying with the notion of understanding customer demand, I want to raise a second worry, that firms will spend a vast-fortune on Big Data in pursuit of knowledge about customers. It sounds attractive. Gather data about your customers and their behaviour, use computing power to define and segment groups of customers, aim products and services at those groups. But does it work? Will it deliver Consumer Duty? Does it tell us anything about customer demand?

Big Data reminds me of the time I was working as a prison psychologist, back in the 1970s. A group in head office was collecting as-big-a-data-as-they-could-at-the-time in order to crunch it in statistical models according to catastrophe theory, in the hope of predicting a prison riot. A riot occurred, their model hadn't predicted it, no catastrophic shift in their data charts, so what did they do? They went back to the data to manipulate variables to see if they could replicate the event on the model… It occurred to me the best way to predict a riot is to listen to the senior officers on the Wing.

It is the same with Consumer Duty, the voice we need to listen to is the customer. Each and every one. The problem I saw in the 70s is here today. Big Data will aggregate, correlate and segment customers. The best we might get is data about people's characteristics, needs, motivations, and behaviours, but to treat these as a proxy for understanding demand in customer terms is to make a fundamental error. It will hide the richness of true demand. Thus it will create errors; products promoted that fail to meet needs and opportunities missed by not understanding needs. Frequently, what's missing in Big Data is anything about the people who aren't customers. Yet many may have been in your call centres, branches or digital channels. And, if your Big Data is all about your current customers you run the risk of intrusion as you bombard them with marketing material that you think meets their needs.

Big Data is predicated on the idea of 'push' – we use data to define markets and design products to promote to them. Consumer Duty requires that we think 'pull' – how do customers pull the value they want? It's about customers, not markets.

So, we come to the first step in designing an organisation that is compliant with Consumer Duty, that precisely meets the variety of customer demand, that is capable of getting it right first time and is driven by measures of customer outcomes; the first step is to generate thorough knowledge of customer demand, in customer terms.

It is immediately accessible, it's there to be found in every transaction between your organisation and customers. You need to know the types, frequency and predictability of customer demand in customer terms. You may think it an impossible or difficult task but it is surprisingly easy and you always learn that demand is more predictable than you would have imagined. It can be done in weeks with the sufficiency to move to the next step. I should add that we provide on-line guidance on how to do it, with advice on how to avoid common mistakes.

The first distinction you'll be making is between value and failure demand. Value demand is demand we want – the reason we exist – failure demand is demand caused by a failure to do something or do something right for the customer. If yours is like most financial services organisations failure demand will account for anything between 50 and 90% of all demand. Obviously, it will occur to you that if you could get rid of it you'll knock a big hole in your operating costs and/or create greater capacity to serve customers. Don't be tempted to shout at people to do something about it. Failure demand is a signal of ineffectiveness. Only when you have designed an effective system will you eradicate it.

Now you have the first measure that will be used for governance and reporting. The volume of failure demand is, by definition, a valid proxy for the rate of failure to provide perfect Consumer Duty. Don't feel bad about it, just look forward to the day when it falls like a stone.

The second group of measures are the types and frequencies of the bulk of value demands. Next, you will establish a measure of end-to-end time for every major type of value demand. Be careful, this means end-to-end time from the customer's point of view, don't be fooled into thinking any current measures of time reveal that. Once again, these measures usually do not impress. Don't worry about it, at least you know. They, like failure demand, will fall quickly once you get going. Again, we provide on-line guidance on how to do that too.

Now you have three of the measures that you'll be using as the platform for governance when you're up and running. Failure demand, the frequency of all major types of value demand and end-to-end time for each. The next step is to take each major value demand and create a front-line team that will work with you – yes you, the leaders, need to be there – and focus clearly and as slowly as necessary on what the nominal value is for each and every customer. The nominal value is whatever it is that matters to the customer, their need, their circumstances, their preferences, the problem they seek to solve or the opportunity they want to address. What you will see is the variety of nominal values that exist in each major type of value demand. Customers are not all the same. Effective Consumer Duty requires that understanding, for outcomes are defined in customer terms.

Perhaps now is the time to reflect on the regulator's requirement to recognise vulnerability. How best to achieve it? Some advocate signing up to commitments, worthy, but would that change anything? Many say it requires staff training, it might, but that is best prepared when we know what it looks like predictably in our transactions with customers. It doesn't surprise me that Big Consultancies are pushing Big Data as a means to recognise vulnerability. One player has identified no fewer than 1100 types of vulnerability – yes 1100, gawd blimey – and is flogging an online tool with questions to be asked for each type. The mind boggles… How is anyone to be sure they have identified the right type? How do we ensure we have surfaced vulnerability? Will this bamboozle front-line agents as they focus on the list of 1100 and the questions for each over focusing on the customer? Another Big Consultancy wants insurers to capture data about their customers and interactions and send it for Big Data analysis which, in turn, will allocate what they call a resilience score for each customer. The mind boggles more… will the score be valid, could we be labelling customers with the risks that brings?

These can only be expensive exercises with doubtful value. The Big Consultancy pitch is the bigger the data set, the better the analysis, so lots of insurers need to sign up. It is a commercial trap. Once you're in the pack and your data is part of the Big Data dataset you're stuck in a long-term deal of questionable value. Big Data doesn't and cannot replicate the variety of customer demand. It segments customers and so hides variety. Similarly Big Consultancies are advocating Artificial Intelligence as a means to analyse customer transactions to produce vulnerable customer types. Really? Computers work on rules, rules can't deal with variety, only people can. These so-called solutions for assessing vulnerability may appeal to people who work in what I call the management factory. It gives them something to do. It won't give them knowledge. It will lead to bad decisions.

The knowledge that needs to be developed has to be developed where transactions with customers occur. It seems an obvious thing to say if you want to create a service that focusses on providing and improving good outcomes for customers. The fastest, most expedient way to understand vulnerability is to focus on each customer's nominal value. Vulnerability is part of the context and circumstances surrounding any need. Types of vulnerability will become evident in the conversations between your front-line agents and customers, emerging from exploring the customer's nominal value – and for both those you are able to serve and those you are unable to serve. You will build your own database of vulnerabilities identified for those you helped and those you didn't help, enabling you to keep a knowledge-base of solutions for different types and determine better services and products for those you were unable to help. Building your own knowledge of customers' nominal values, you will know how to ensure vulnerable customers are more easily identified and better served.

It is the same with the problem of asymmetry; customers rarely have as much knowledge as insurance providers; asymmetry inevitably occurs in most transactions. The question becomes, what does this customer need to be told to diminish the risk of not knowing or understanding? What does the customer need to know to properly serve their nominal value in order to make an informed decision? It is to seek clarity about each customer's financial objectives and circumstances, providing support and communications in that regard and, thus, in Consumer Duty terms, avoiding foreseeable harm.

It follows that underwriting expertise will need to be developed in the front line. It's not a matter of which product best fits a customer need, it's a matter of what needs to be underwritten to meet the customer's nominal value. I know this will raise concerns amongst conventional thinkers, but be patient, the underwriting expertise required will become evident as you learn more about customer demand in customer terms.

So, to summarise, you'll be designing a customer service function that explicitly seeks to understand the customer's nominal value, that gets to know all that's relevant about the customer, that shares information that helps customers make informed choices and that designs services and products accordingly.

There are two complementary ways to get up and running. The first takes us back to what I said early on. Leaders need to appreciate, by studying their system, just how non-Consumer-Duty their services are today. You should take a series of transactions with customers and for each ask: At what point did we explore what mattered to this customer? What did we learn about each customer that was relevant to them and the problem they sought to solve? How did we ensure that the service or product provided exactly matched their needs?

The second way is to take high-frequency predictable value demands (demands you get a lot of) and, working with your front-line team, work out what value work is required to meet each customer's nominal value. And when you think you've got it, take a customer demand and do it, provide the service, then immediately rate it against perfect Duty and review what was done. And so on, for all major value demands. You may think this will be slow. You could say that, but this is slow in order to go fast. Before you extend working this way to more service agents you need to be as close to 100% confident you've got it right.

As you put customer demands through this process, you'll see diminishing of the associated failure demand, reductions in end-to-end time and reductions in activity cost, because the activity is now reduced to only doing the value work. These measures, expressed over time will be your evidence of continuous improvement. Note well: these are important measures in that they provide evidence of improvement, but they are lagging measures and, as such, should never be used to control the work.

Control of the work in Consumer-Duty front-line teams employs leading measures. The first is knowledge of value demands, the type, frequency and predictability. The second is a measure of how well the service delivers value in customer terms; each transaction being documented in respect of the customer's nominal value, the knowledge or information shared to inform decisions and how well the outcome matches the nominal value. These measures form the basis for governance of improvement.

Let me finish by quoting the regulator. The FCA says: Firms **must** embed a focus on acting to deliver good outcomes in each of their business functions. This ranges from high-level strategic planning to individual customer interactions as well as products and services development, sales, servicing, distribution and support.

And my advice is get started at the level of customer interactions, strategy must be informed by knowledge of operations. From there you will be able to determine how best to comply with all other Consumer Duty requirements. It's a simple thing, you shouldn't think about establishing governance until you know what needs controlling. Obviously.

If you follow this guidance, you'll have Consumer Duty up and running in all transactions with customers. It will be fast, it will be knowledge-based, it will drive out costs as services improve, it will increase sales and it will change the culture of your organisation, energising your people.

I know much of what I've said may sound strange to conventional managers, some may even think it impossible. But, as I said at the start, it is real, it has been and is being done with many financial services organisations, and it is practical.