

THE CONSUMER DUTY 2.0 **REPORT**

Consumer Understanding & Industry Expectation

Signal

quadrant

CONTENTS

Foreword Page 3	Executive summary Page 4	Key findings Page 5
Theme 1: Content is king Page 6	Theme 2: Right place. Right time. Page 8	Theme 3: An age appropriate experience Page 10
What are firms thinking? Page 12	Summary Page 13	Appendix: Research methodology Page 14

FOREWORD

At all levels, financial institutions are filled with employees that care deeply about their customers. Unfortunately, while the mission and vision statements may align with this desire to “do the right thing”, shareholder demands and the challenging macroeconomic environment have historically deprioritised software decisions that improve the customer experience, in favour of one-size-fits-all solutions that reduce costs.

The FCA’s new Consumer Duty offers an opportunity to change through a series of guidelines that demand a company-wide cultural transformation, underpinned by modern cohesive technology platforms that support better customer outcomes and enforce better communication between company and consumer.

Quadient are proud to partner with Signal to present this report to you, and we hope you find it enlightening as the first part of your own journey towards sustainably transforming your customer experience to meet the long-term requirements of the New Consumer Duty regulation.



Andrew Stevens
Principal,
Banking and Financial Services,
Quadient

Meeting the needs of customers within the new Consumer Duty framework goes beyond additional governance and controls – that’s why we’ve called this report Consumer Duty 2.0.

The prevailing industry backdrop is one of federated and tactical communications ownership with limited focus on customer need. The FCA themselves quick to highlight that working within the framework requires changes to service models; skills, functional processes – and of course – technology and governance. They want to see evidence of the planning, investment and implementation this change.

We hope the insights in our report shine a helpful light on the longer-term agenda for communications management within your organisation. We are proud to be partnering with our long-term strategic technology partners Quadient on this report – together we help firms achieve excellence in digital communications management – that meets the needs of customers across all communication touch points.



Barney Hosey
Chief Executive Officer
Signal

“THE GREATEST ENEMY
OF KNOWLEDGE IS NOT
IGNORANCE, IT IS THE
ILLUSION OF KNOWLEDGE.”

STEPHEN HAWKING

Executive summary

The gap between customers' perceived understanding of financial communications, versus the reality when tested on comprehension is vast. With Consumer Duty coming into force this is no longer an outcome financial brands can afford to live with.

As the clock counts down to the launch of the FCA's Consumer Duty, most firms are well underway with implementing their plans. But Consumer Duty is a long game. In particular, the shift that's required to meet the expectations of Outcome 3: Consumer Understanding.

Our research focuses on this critical area of consumer understanding and what needs to change in the strategy of how customer communications are planned, designed, processed and measured in order to meet the demands of the duty.

Focused on non-marketing communications we have carried out comprehension research with over 400 consumers. The results overwhelmingly show that these types of messages, such as changes to Ts&Cs, fee increases, and product maturity are particularly difficult for customers to understand, with fewer than 10% of respondents giving the correct answer when tested on comprehension of how their overdraft fees work.

People don't realise they don't understand

However, even more striking than the low comprehension scores, is the contrast of these scores with customer's perceived level of understanding. When asked if they felt they had a strong grasp of financial communications 53% were extremely confident in their ability.

Our approach increased understanding by 3 times

When our financial communications experts applied a blend of content and behavioural science best practice and principles, we saw a huge increase in customer understanding from 8% to 25% for some questions.

This demonstrates the power content within an individual communication has to reduce the understanding gap, however 25% is not likely to be enough to meet Consumer Duty expectation. True success only exists in the transformation of the wider strategy behind how customer communications are planned, designed, processed and measured.

Key insights from our research

53% FELT THEY HAD A
**STRONG GRASP OF THEIR
BANK'S COMMUNICATIONS**

(scoring themselves as 8+ out of 10).

ONLY 8% GAVE THE
CORRECT ANSWER

when tested on comprehension
of a financial communication.



**MORE
THAN 3X**

greater understanding when the
communication was rewritten using
content and behavioural best practice.

ONLY 24%

of respondents always receive
comms from their bank in their
preferred channel.

OVER 50%

of respondents would like to
receive communication nudges
before a significant event.

Theme 1:

CONTENT IS KING



Our research has shown that when it comes to customer understanding content is the key. When we applied both content and behavioural science best practice to a communication about overdrafts, we saw an impressive increase in understanding over the control version. As you can see in the table below.

	Control version	Content best practice version
Q1. How much would you pay in fees if you had an overdraft balance of £1,800 for 1 week?	48%	49% ▲
Q2. How much would you pay at the end of a single day if you had an overdraft balance of £2,500 and had one transaction returned as unpaid?	8%	25% ▲▲
Q3. How much would you pay at the end of a single day if you had an overdraft balance of £1,900 and had two transactions returned as unpaid?	7%	25% ▲▲

Proportion of respondents who correctly answered each question

CONTENT IS KING



MORE THAN 3X

Greater understanding when the communication was rewritten using content and behavioural best practice.

Interestingly the increase in understanding was greatest for the two most complex questions (2&3). These questions required the respondent to overlay two pieces of information; the charge for the overdraft balance amount, as well as either one or two unpaid transactions.

This demonstrates that when multiple messages are involved customers find it harder to achieve full understanding. This may be down to behavioural biases such as cognitive overload or salience and is why clarity of language and examples (personalised if possible) are so important.



CONSUMER DUTY EXPECTATION

Communications need to equip customers to make effective decisions by meeting their information needs. Information must be clear, fair and not misleading, and easily understood by the average customer.



BEHAVIOURAL SCIENCE AT PLAY

Cognitive overload – This happens when too much information is presented in a way that is hard to understand, making it difficult for people to process and apply the information.

Salience – This describes our tendency to focus on items or information that are more noteworthy while ignoring those that do not grab our attention.

Theme 2:

RIGHT PLACE. RIGHT TIME.



We asked all respondents how they like to receive communications from their financial providers and found that two channels dominated fairly equally. 36% of respondents prefer email and 34% letter. And for messages of this type these longer form channels make complete sense.

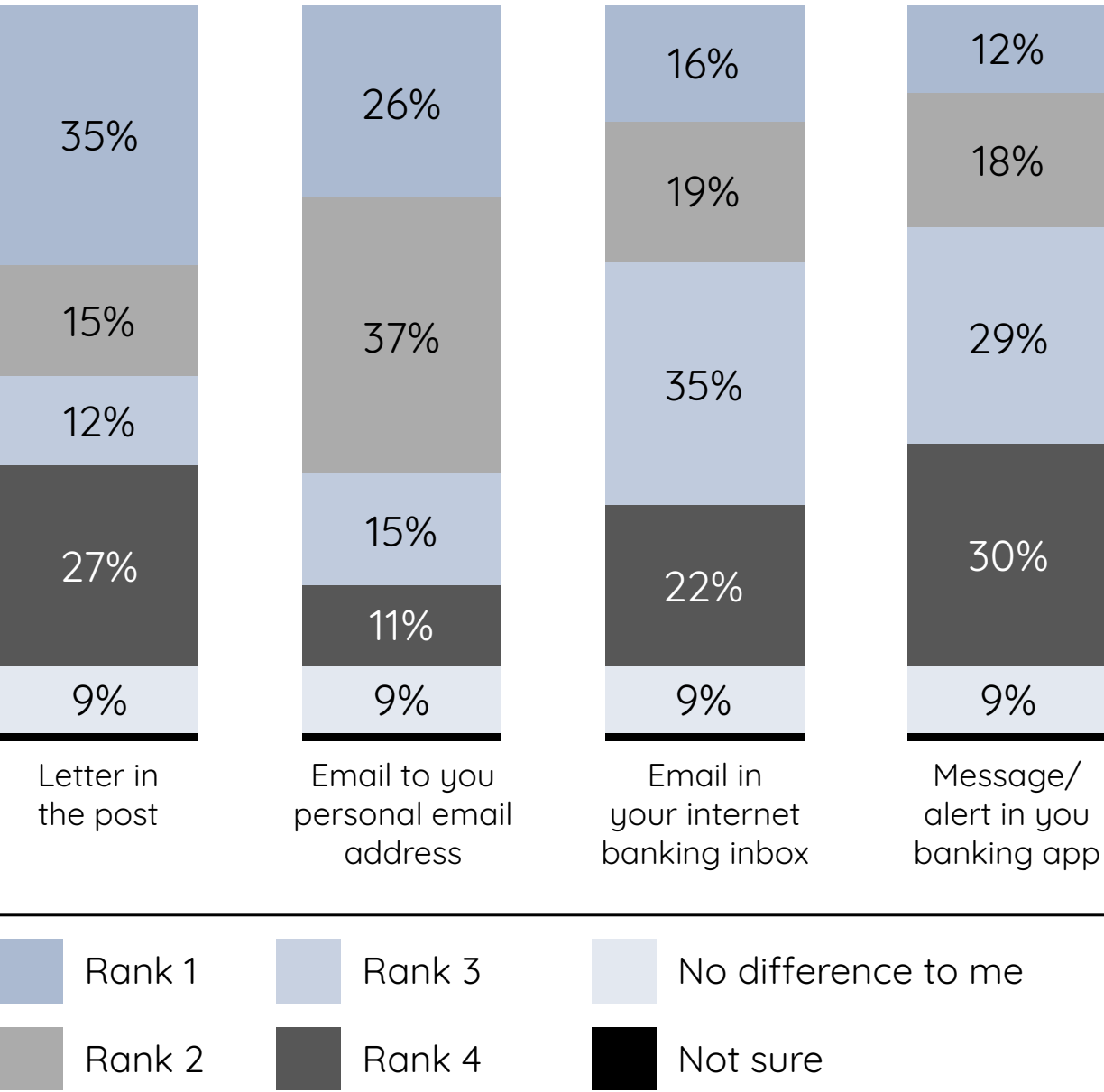
62% were very clear that receiving communications from their bank in their preferred channel was important to them. However only 24% said that they actually do always receive communications in their preferred way. Not a statistic that aligns well to the expectations of Consumer Duty.

ONLY 24%
of respondents always receive
comms from their bank in their
preferred channel.

RIGHT PLACE. RIGHT TIME.



Ranking how easy it is to understand each type of communication



When considering the impact of the channel on understanding, we asked respondents which they found easiest to understand, and letter came out on top, with 35% ranking it as the easiest channel to understand.

This is likely due to many behavioural factors associated with physical mail, such as the ability to keep it in the home and close at hand, to revisit repeatedly, as well as the perceived authority and importance that comes with something printed and delivered to our home.

Customers want information in good time

When asked when they would like to receive a communication about a change to a financial product or service, 63% said they would like to get at least one month's notice. And 58% said they would then find it helpful to also receive a reminder three days before the change.

In many cases it's the regulator that drives the timing of mandatory communications sent by firms. With many needing to be received by customers around 60 days before a change. However, our research clearly shows that customers would find a series of communication nudges prior to a change helpful. With many preferring to receive these nudges as SMS.

Some financial services brands already go above and beyond the regulator expectation when it comes to the number of touchpoints; utilising cheaper, self-owned spaces such as online banking prompts to bolster the customer communication experience.

OVER 50%
of respondents would like to receive communication nudges before a significant event.

CONSUMER DUTY EXPECTATION
Information that is accurate and relevant to customers' circumstance or point in their journey, should be provided on a timely basis, so they can make an effective decision in good time. Firms must ensure that, regardless of the channel, the information provided enables customers to meet their objectives and evaluate any relevant risks.

Theme 3:

AN AGE APPROPRIATE EXPERIENCE



Customer vulnerability is a massive and increasing problem in the UK¹. Consumer Duty makes it clear that firms must take particular care when communicating with customers with characteristics of vulnerability. But vulnerability can take many forms, and often data doesn't afford firms the visibility to tailor communications in the way they might like.

However, age is one data point that most firms will have at their disposal, and during our research both the vulnerability of youth and older age delivered some very interesting insights.

Younger customers overestimate their level of understanding

When self-rating their financial knowledge, 39% of all respondents said they had a high amount of knowledge (8-10/10). Those aged 18-34 were more likely to say they have a higher knowledge of financial matters than those aged 55+ (46% vs 28%). This was in contrast to their particularly low comprehension scores.

Those aged 55+ scored
HIGHEST
out of all age groups when
tested on comprehension.

¹ FCA Financial Lives 2020 survey:
the impact of coronavirus – Published Feb 2021.

AN AGE APPROPRIATE EXPERIENCE



Older customers had the highest levels of comprehension

When tested, those aged 55+ outperformed all age groups on comprehension testing, they were the most likely to get the right answer for all the comprehension questions. Interesting, considering they perceived themselves to have the least financial knowledge.

Channel of choice was less clear for younger customers

Although overall all age groups said they preferred to receive financial communications via letter (34%) or email (36%). The under 35s were far more likely to prefer a message in their internet banking inbox (22%) than any other age group.

Older customers would like more notice of a change

When asked how much notice they would like to get before a change to a financial product or service 63% of all respondents said at least one month. However, those aged 55+ were significantly more likely to say they would like to know at least a month before (71%). They may value the extra time to revisit the communication to ensure they fully understand it, or use the extra time to get in touch if they have any questions.

Younger customers want to be nudged

58% of all respondents thought it would be highly useful (rating it 8+/10) to receive a reminder 3 days before a change to their financial product or service. However, under 35s were significantly more likely to rate it as highly useful compared with over 55s (64% vs 49%).

64%

of 18-34 year olds would most like to receive communication nudges before a significant change to their financial product or service.



CONSUMER DUTY EXPECTATION

Communications should be tailored to meet the characteristics of the retail customers receiving the communication – including any characteristics of vulnerability.

WHAT ARE FIRMS THINKING?



We complemented our customer understanding research with powerful insights from individuals who are accountable for meeting Consumer Duty expectations, within some of the UK's leading Financial Services brands. Here's a snapshot of what they had to say.

Most felt Consumer Duty will have a large impact on their organisation.

"At the moment, it's consuming a lot of resource – thinking about potential gaps we need to close - and then obviously, it's requiring a lot of investment."

HEAD OF SAVINGS, RETAIL BANK.

"There will be a backlog of changes, no doubt, that we'll have to make, some of which we'll have to make quickly, some will take longer."

COMMERCIAL DIRECTOR, CHALLENGER BANK.

"It [Consumer Duty] does force you to re-evaluate kind of everything you've ever done."

HEAD OF MORTGAGES, RETAIL BANK.

All felt that customer communications were crucial in meeting the expectations of Consumer Duty.

"I think that [communication] is one of the most important strands: giving the customer all of the information they need to be able to make an informed choice."

HEAD OF MORTGAGES, RETAIL BANK.

"I think it's absolutely critical because so long as you are presenting information, options, choices to customers in a way that they can understand and act on that information...in a channel of their choice with as little friction as possible, then I think... In my mind, we are doing enough."

HEAD OF SAVINGS, RETAIL BANK.

Most felt the teams that manage their customer communications are well connected.

"I think there's generally a good level of understanding and mutual cooperation between the various departments that are involved in this."

HEAD OF SAVINGS, RETAIL BANK.

"A holistic approach is critical because the customer experiences different things at different times. If you only look at something in isolation, the risk is you miss something else in the journey."

COMMERCIAL DIRECTOR, CHALLENGER BANK.

SUMMARY

Our research shows a clear gap in customer understanding when it comes to actual comprehension of financial communications.

However, even more striking than the low comprehension scores, is the contrast of these scores with customer's perceived level of understanding. When asked if they felt they had a strong grasp of financial communications 53% were extremely confident in their ability.

And it's this result that brings into sharp focus one of the 5 strategic priorities we believe firms should focus on for their next phase of Consumer Duty implementation.

1. Embedding robust communication testing and monitoring process into your BAU.
2. Introducing consistent communication principles and creation skills across all communication owners and authors.
3. Enabling self-serve for the governance, composition and change of communications for business users.
4. Implementing capability for distributing bidirectional communications in the customer's channel of choice.
5. Introducing new roles, processes and technology to gain proactive management of the customer communications experience across all touchpoints in a product lifecycle.

Financial institutions need to stop thinking about a communication as an 'output' and understand that **EACH ONE IS A MID-POINT** in a much bigger journey.

This means switching KPIs to ones based on customer understanding, effort and action. It's about ensuring communications are bi-directional. It's about seeing service as a profit rather than a cost centre. And fundamentally it's about enabling rather than informing customers.

Firms that invest in understanding customer needs fully and create frictionless experiences and interactions will improve metrics such as NPS, and in doing so increase average product holdings and customer profitability.

APPENDIX: RESEARCH METHODOLOGY

We collected data via an online survey as it was the most time and cost-effective way of recruiting a robust and representative sample, large enough size for subgroup analysis.

The survey was recruited via random screening consumers from a leading consumer panel provider, to generate a broadly nationally representative sample.

Demographics

In total, 402 people took part in the research. 59% of respondents were male; 41% female. There was also a good mix of age groups, with 44% aged between 18-34, 30% aged between 35-54 and 27% aged 55 and over.

The sample was recruited across a range of UK regions, ensuring that no region dominated the sample. In total, 35% were recruited from the North and Scotland, 32% from the Midlands and Wales and 33% from the South (including Greater London).

In terms of ethnicity, the majority identify as English (68%), with the other most represented groups being Scottish (5%), Other white backgrounds (5%), African (4%), Irish (3%) and Indian (3%).

The majority are in employment (89%), with two in three working full-time (30+ hours per week). One in 20 were unemployed or homemakers (5% for both groups) and 8% were retired. We also have a mixture of different life stages (28% pre-children, 47% with children and 25% post children).

We have a mixture of education levels in the sample: 17% had GCSEs or no qualifications, 23% had A-Levels or equivalent, 15% had professional or vocational qualifications and 46% had an undergraduate degree or above.

A range of household incomes are also represented: 31% had a low income (less than £30,000), 48% had a medium income (£30,000 - £69,999), and 17% had a high income (£70,000 or more).

Just under one in five identified as having a disability (17%).

Financial products

To qualify for the research, all had to have a current account with a bank or building society, with an overdraft facility. The most common banks and building societies used for current accounts in our sample were Barclays (15%), Halifax (12%), NatWest (12%), HSBC (10%) and Lloyds (10%). Challenger bank current account customers made up 4% of our sample; these being customers of Monzo, Starling and Revolut.

87% had used their overdraft facility and the remaining 13% expected they may need to use it in the coming months (those not using or with no intention to use their overdrafts were screened out of the survey).

When asked how their overdraft works, most say they are charged interest on what is borrowed (48%). Three in ten are charged a daily fee, while 1 in 10 are charged both interest and a daily fee. 12% are not sure what their current charge is.

Our sample is a mix of frequent and infrequent overdraft users. Frequent users are defined as using their overdraft at least once every two months or more often and made up over half of our sample who used overdrafts (52%). Infrequent users used their overdraft less often than this and made up 48% of the sample who used overdrafts. The youngest age group were more likely to be frequent users than the oldest (64% 18-34s vs 37% of 55+).

In addition to this, we also had a mixture of 'heavy' and 'light' overdraft users. Heavy users were those typically overdrawn by over £750 and made up 24% of the sample using overdrafts. Light users were typically overdrawn by less than £750 and comprised 72% of those using an overdraft.



About Signal

Signal is the UK's leading technology and services partner, helping regulated brands provide exceptional customer experience through outbound communications. Our team is led by experienced consultants in strategic CX insight, Consumer Duty, technology and design – all focused on the transformation of customer experience management.

Our advisory, implementation and managed services are set up to tackle legacy systems, accelerate digitisation and establish a strong foundation for dynamic customer experience management. For more information visit signal.co.uk.

About Quadient

Quadient is the driving force behind the world's most meaningful customer experiences. By focusing on Intelligent Communication Automation, Parcel Locker Solutions and Mail-Related Solutions, Quadient helps hundreds of thousands of customers worldwide simplify the connection between people and what matters. For more information about Quadient, visit quadient.com.

Signal

quadient