THE CONSUMER DUTY TOOLKIT

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OUR APPROACH TO CO-MANUFACTURING

Now **Consumer Duty** has been in force for three years, firms now largely understand how the regulation impacts their business. One question that we're asked frequently, however, is what are the rules around co-manufacturing? We've therefore created this short guide to explain these rules, how they may affect advice firms and Copia's approach to supporting our clients in ensuring compliance.

We hope you find it useful. If you have any questions, please don't hesitate to get in touch.

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MANUFACTURERS, CO-MANUFACTURERS AND DISTRIBUTORS

Consumer Duty outlines a range of specific rules for both manufacturers and distributors, however, in certain circumstances, firms might find themselves taking on a third role, co-manufacturing.

The FCA defines these as:

- **Distributors:** firms that offer, sell, recommend, advise on, propose or provide a product or service would be regarded as distributors.
- **Manufacturers:** firms that create, develop, design, issue, operate or underwrite a product or service would be regarded as a product manufacturer.
- **Co-manufacturers:** firms that determine or materially influence the manufacture of a product or service.

All firms must understand the roles they are undertaking to ensure compliance with the new rules. This position will vary from firm to firm, and in some instances, firms could find themselves undertaking all three roles.

WHAT DOES THE FCA SAY?

Several different firms are involved in the manufacture and distribution of an investment product and can determine or materially influence customer outcomes. These often include a discretionary fund manager, a platform provider, and a financial adviser.

Each firm has a responsibility commensurate to its role in the distribution chain and the degree to which it can determine or materially influence retail customer outcomes. The actual level of responsibility relates to what their real role is, and this should be clarified in contractual terms between firms in the chain.

All firms subject to the Duty must act to deliver good outcomes to customers and comply with the cross-cutting rules. Each has a role to help avoid causing foreseeable harm and ensure that the final product and associated support will help the customer realise their financial objectives.

Each firm must act in good faith in its design and operation of the relevant products and services and in any interactions with the customer. They must also be able to demonstrate that they are meeting the Duties.

Depending on their role, some or all of the four outcomes will also be relevant. These relate to products and services, price and value, consumer understanding, and consumer support, and are key elements of the firm-consumer relationship regarded by the FCA as instrumental in helping to drive good outcomes for customers.

- **The discretionary fund manager:** The firm must develop a portfolio to meet the needs, characteristics and objectives of a target market of customers. It must develop an appropriate distribution strategy and set charges to provide fair value to customers. The firm must also communicate in a way that customers can understand and offer appropriate customer support standards. It must review the fund regularly to assess whether it meets the needs of the target market, offers fair value and has been distributed appropriately.
- **The platform provider:** As a manufacturer, the firm must develop the platform, including decisions over the range of investments it provides, to meet the needs and characteristics of a target market.
  It must set charges to ensure that its service provides fair value. As a distributor of the fund, the platform provider must obtain sufficient information to understand the value assessment and whether any remuneration it receives would result in the product no longer providing fair value.
  It must design an appropriate distribution strategy, provide appropriate customer service standards and regularly monitor how the platform is used in practice.
- **The financial adviser:** The firm must consider how it meets the Duty in the design and delivery of its initial and ongoing advisory services (where relevant). This includes, for example, considering the needs of the target market, following the consumer understanding rules for its communications and considering if its charges provide fair value.

The firm must consider both the target market for the design of its service and the individual customers it advises. With outsourced investment services, the discretionary fund manager and platform provider are more likely to focus on the target market rather than on individual customers under the Duty.

In addition, the adviser can often also have the clearest oversight of the customer's overall position and an overview of the total proposition. In this instance, it should consider the overall outcomes being delivered for the customer. This should include whether the overall cost to the customer, including all product and distribution charges in the distribution chain, provides fair value. The firm should also consider if the customer is given an appropriate level of information about the overall proposition, in a timely and understandable format, to enable the customer to make effective decisions.

[Source: FCA, FG22/5, Final Non-Handbook Guidance for firms on Consumer Duty 2.20]

WHAT DOES THIS MEAN IN PRACTICE?

Looking specifically at outsourced investment services, advice firms can either be a distributor or a co-manufacturer:

- If you are recommending off-the-shelf investment products, where you have no influence on investment construction, even if it's white labelled, that's a non-manufactured process, so for these services you are the distributor.
- If you are offering a tailored solution where you input into the design of the investment, you will be classed as a co-manufacturer as well as the distributor of the investment services.

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WHAT DOES THIS MEAN FOR COPIA CAPITAL AND OUR CLIENTS?

- Firms using our MPS and MPS Plus portfolios have no influence over the investment product mandate, they are buying an off the shelf, or white label product. For these services, Copia is the manufacturer and the advice firm is the distributor (however, remember that you may be considered a manufacturer under PRIN rules for your own services).

  The advice firm is responsible for assessing suitability of the investment product and specific suitability for the client. Copia is responsible for ensuring that management of the model portfolio is in line with the investment product mandate. With this service, our relationship with the advice firm is on an 'Agent As Client' basis (this is unchanged from pre-Consumer Duty), which means the advice firm is our client and Copia has no direct relationship with the end investor.

  Our MPS and MPS Plus Investment Process Documents clearly set out our responsibilities under Consumer Duty.

- Firms using our MPS Custom service do have influence over the investment product mandate. Therefore, for this service, Copia is the manufacturer, and the advice firm is classed as a co-manufacturer as well as a distributor.

  Under the Consumer Duty rules, the advice firm is responsible for its contribution to the investment mandate. In addition, custom mandates now operate on an 'Agent As Client' basis,' the advice firm is responsible for assessing suitability of the investment product and specific suitability for the client. Copia is responsible for ensuring that the investment mandate is appropriate for the specified Target Market and that management of the model portfolio is in line with the product investment mandate.

  Copia has a direct contractual relationship with the underlying client. In practical terms, this means we need to hold the personal details of each retail investor in our records. However, under our revised Terms of Business we explicitly state that we will not use this information for marketing purposes and this is protected by Data Protection legislation. We also need to confirm suitability on an annual basis, which we will do via the adviser.

  It makes the role and responsibilities of the adviser as a co-manufacturer much clearer, providing additional evidence of the value for money the advice firm is providing to clients.

  Firms using our MPS Custom service will also need to ask their clients to sign an Investor Letter consenting to share their details with Copia for our records.

  It is both the Investment Manager and Advisor's responsability to demonstrate to the Regulator that we are meeting our responsabilities as co-manufacturers under the consumer duties. To do so Copia will on a regular basis look to generate management information via questionaires and surveys wit the advisor's support. This will provide useful feedback to both parties.

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HOW COPIA CAN HELP ADVISERS

Please get in touch with your usual Copia contact if you'd like to discuss further how Copia can help you and your firm.

copia-capital.co.uk/contact
020 4599 6475

UNDERSTANDING THE RISKS

- Investment model portfolios may not be suitable for everyone
- The value of funds can increase and decrease, past performance and historical data cannot guarantee future success
- Investors may get back less than they originally invested.

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