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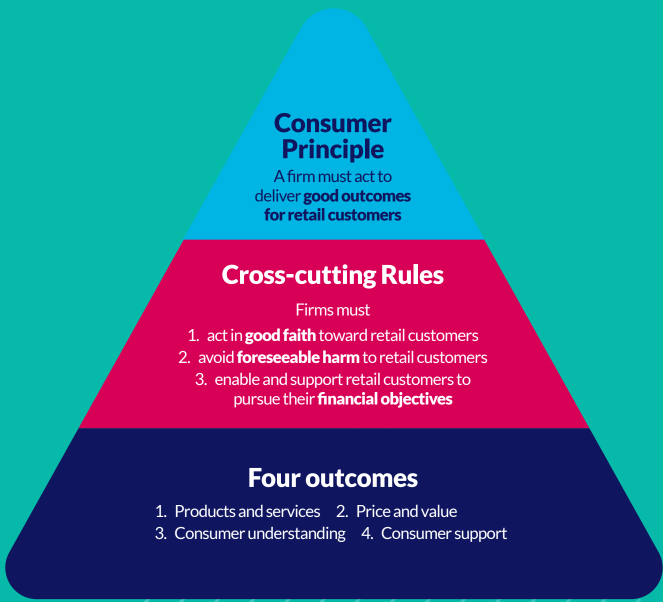
COMPLETETING YOUR TARGET MARKET ASSESSMENT

As part of Consumer Duty, the FCA has highlighted the harm that can occur when products or services are poorly designed and distributed to customers for whom they are not suitable. The wider Consumer Duty objectives of “enabling consumers to pursue their financial objectives” and “avoiding foreseeable harms” can only be achieved if products and services are fit for purpose.

The products and services outcome rules apply to all firms creating, managing, or operating a product or service, even those without a direct relationship to the end customer. They set out a range of requirements, including the need for firms to:



Consumer Duty Structure

- ensure that the design of the product or service meets the needs, characteristics and objectives of customers in the identified target market
- ensure that the intended distribution strategy for the product or service is appropriate for the target market
- carry out regular reviews to ensure that the product or service continues to meet the needs, characteristics and objectives of the target market

This short guide explians how these rules can be implemented within a typical advice firm. The challenge is not only to ensure compliance, but to also ensure your research and due diligence process is as effective as possible. We hope you will find this guide useful.

As always, we would welcome your feedback and discussion. Please do contact us with any feedback or questions.

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EFFECTIVE SEGMENTATION

While Consumer Duty doesn't mandate segmenting your target customers, realistically most advice firms will be serving a range of customers with different needs. By focusing on these needs, you are not only well on the way to ensuring compliance with this part of Consumer Duty, but you have also started to effectively segment your client bank.

As well as ticking the compliance box, effective segmentation can help your firm with the operational side of its business, enabling a greater focus on, and management of, the cost of delivering the advice services. Effective segmentation will also help with tracking and monitoring the quality of outcomes being delivered (another Consumer Duty requirement) and the financial performance of the firm itself.

MEANINGFUL

Customers must demonstrate needs, aspirations or behavioural patterns that are similar within a segment and different across segments.

ACTIONABLE

A company must be able to reach customers within each segment through effective and targeted marketing programs.

SUBSTANTIAL

Segments must be large and profitable enough to make the investment in serving them worthwhile. Otherwise, life gets intolerable.

MEASURABLE

Key characteristics of the segments (e.g. size and spending platforms) must be easy to measure.

CONSUMER DUTY TARGET MARKETS

Taking it back to Consumer Duty, the rules require all firms to identify their target market "at a sufficiently granular level, considering the characteristics, risk profile, complexity and nature of the product or service". For most advice firms this will not only cover their own advice and planning services, but also the products and investment solutions that the clients might use to help meet their needs. To help with this exercise, we have produced the template on the following page:

FILLING IN THE TEMPLATE

Segments and sub-segments

These are the high-level definitions for your target market. As previously mentioned, Consumer Duty rules require these to be "at a sufficiently granular level", so the more detail you can include here the better. You might also find it helps to create sub-segments to cover groups of clients who share the same needs but have very different characteristics. For example, clients who are saving and investing towards retirement might share the same needs from an investment point of view, however, employees or self-employed/business owners will have very different needs from a tax and financial planning perspective.

Vulnerability assessment

This is another key aspect of Consumer Duty. All firms must consider the needs of customers with characteristics of vulnerability in their target market assessment. Customers may move in or out of vulnerable circumstances at any stage, and FCA research found that almost half of UK adults showed one or more characteristics of vulnerability, so your target market is always likely to include customers in this camp. The FCA expects firms to support their staff in identifying signs of vulnerability, for instance through training and resources, and to have systems and processes in place that allow customers to disclose their needs, if they choose. The regulator has produced guidance for firms on the fair treatment of vulnerable customers which gives more information on practical action you can take to achieve this.

TARGET MARKET SEGMENTS WITH EXAMPLES

SEGMENT	SUB-SEGMENT	VULNERABILITY ASSESSMENT	ADVICE SERVICE	PLATFORM SERVICE	INVESTMENT SERVICE	DISTRIBUTION STRATEGY	FOCUS FOR ONGOING MONITORING
Accumulators. Saving and investing towards retirement or another specific goal/lifetime event	Employees	High charges can erode returns. Younger cohorts can be vulnerable to high-risk products & scams	Low touch, with annual review	Cost effective "no frills" solution needed	Low cost, intelligently managed and diversified investment solution	Secondary target for advice firm. Will only take on clients investing below £50k if part of wider family group	Ensure these customers are receiving value for money, and not paying for unnecessary services
	Self-employed / business owners		More frequent, due to fluctuating income and tax planning needs	Cost effective, but with full range of tax wrappers	Low cost, intelligently managed and diversified investment solution	Targeting professional connections networks to engage business owners	Ensure tax planning services are being delivered in a timely manner
Transition to retirement		Clients might prefer face to face contact as opposed to technology. One in 14 people over the age of 65 have dementia and this affects 1 in 6 people over 80. Where possible ensure adviser is known to wider family group	Holistic cashflow planning service, with annual review to ensure plan remains on track	Platform needs to offer full range of tax wrappers and income payment flexibility	Investment solution needs to balance sustainability of income with longer term growth. Could potentially combine investment and annuity into overall portfolio	Core clients – distribution will mainly be focussed on encouraging client referrals	Focus on long term value for money, linked to client age expectancy

See also the "Filling in the template" help on the previous page of this Completing your Target Market Assessment document.

FILLING IN THE TEMPLATE (continued)

Advice service

Having identified the needs of your target client segments, the next step is to document the services you offer to meet these needs. The critical requirements are always meeting the needs of your target clients and ensuring individual client suitability, however, providing these are both achieved, you can build service models that work for your advice firm. For instance, it's fine to be more transactional if you prefer, or you can focus on ongoing service.

Investment and platform services

The next stage will overlap with your research and due diligence process, recording the platform (if required) and investment services that meet the needs of your target clients. By building this link between target client needs and the solutions being used, you can help ensure your customers receive good value for money and avoid paying for unnecessary features or complexity.

Distribution strategy

This stage is more relevant to product providers (manufacturers), however, as an advice firm, you should record your approach to attracting and acquiring your target customers. This includes recognising any adviser training needs that might exist and any potential conflicts of interest that might occur, for example from poorly designed incentive schemes.

Ongoing monitoring

The final stage is to record any areas of concern or issues to focus on when conducting your ongoing monitoring. Firms must regularly review whether the products and services being used are indeed meeting the needs of their target clients and that the distribution strategy remains appropriate. This review should consider whether the needs of your target clients have changed, perhaps as a result of legislative or wider economic changes, as well as whether the platform and investment products being used remain appropriate. Finally, the ongoing monitoring should also record the number of clients being served within each segment, as well as clients who fall out of a core segment due to their bespoke circumstances and needs.

FURTHER READING

The FCA's guidance document for Consumer Duty contains a number of good and poor practice examples for all of Consumer Duty, including the products and services outcome. It highlights the following key questions for firms to consider:

KEY QUESTIONS FOR FIRMS

- Has the firm specified the target market of its products and services to the level of granularity necessary?
- How has the firm satisfied itself that its products and services are well-designed to meet the needs of consumers in the target market, and perform as expected? What testing has been conducted?
- How has the firm identified if the product or service has features that could risk harm for groups of customers with characteristics of vulnerability? What changes to the design of its products and services is it making as a result?
- Is the firm sharing all necessary information with other firms in the distribution chain, and receiving all necessary information itself?
- Is the firm recieving all the necessary information from other firms in the distribution chain, and are they sharing all the necessary information?
- How is the firm monitoring that distribution strategies are being followed and that products and services are being correctly distributed to the target market?
- What data and management information is the firm using to monitor whether products and services continue to meet the needs of customers and contribute to good consumer outcomes? How regularly is it reviewing this data and what action is being taken as a result?
- Where the firm is planning to withdraw a product or service from the market, has the firm considered whether this could lead to foreseeable harm? What action is it taking to mitigate this risk?

Source: FCA FG 22/5 6.80

The FCA has also published a series of podcasts exploring the detail behind Consumer Duty. The Products and Services episode can be found at:

www.fca.org.uk/multimedia/inside-fca-podcast-understanding-consumer-duty-products-services-outcome

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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.

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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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