



# CONSUMER DUTY AND THE CORRESPONDENCE CRISIS

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# INTRODUCTION

Within financial services, much time and effort is spent on developing consumer communications that relay as much information as possible regarding their product or service, whilst also meeting regulatory disclosure requirements.

Yet all this time and effort is wasted if the consumer doesn't engage with and read it.

Simplify Consulting has carried out a consumer survey to understand the extent of this issue and we've found that readership of financial communications is concerningly low across different demographics, products and providers.

For example, only 15% of respondents said they will read all parts of a communication sent to them.

Consumer Duty is encouraging firms to focus on Consumer Understanding through their communications though it has very little to say directly about readership.

Our survey results are a real wake-up call to the industry. How is it going to tackle the issue of Consumer Understanding if communications aren't being read?



# CHAPTER 1: CONSUMER UNDERSTANDING = WHAT IS REQUIRED?

The Consumer Understanding Outcome aims to ensure consumers understand the products or services being offered by a provider. With the cross-cutting rules in Consumer Duty, consumers should be equipped with the right information to make financial decisions that align with their financial objectives and achieve good outcomes.

Under the Consumer Duty's Consumer Understanding Outcome, firms must communicate information in a way which is clear, fair and not misleading.

Before Consumer Duty, firms needed to ensure their communications were clear, fair and not misleading. Whilst that still stands, the FCA has raised the bar with the new Duty and set higher expectations for firms' communications. Firms are now required to evidence that the communication can be effectively understood by the consumer and is timed to support consumer decision-making.

Firms will need to;

- 1 Understand the communication needs of their target customer base;
- 2 Tailor communications to the identified needs and ensure they are clear, fair, not misleading, effective and timely;
- 3 Evidence consumer understanding of communications, monitor and adapt.

# UNDERSTANDING COMMUNICATION NEEDS

What information consumers need to know and how it's presented to them are things firms can no longer make a generic assumption about. Firms will have to start making better decisions based on thorough data and analysis.



This shows that there is a clear lack of engagement and readership with financial communications. Consumers are casting over the content to try and locate information or messages they think they need to know, or, will just read very little.

On asking what discourages reading all or part of their financial communications, the top 4 reasons were;

- 1** The length of the communication is off-putting (65%)
- 2** I don't always have the time (51%)
- 3** Too much technical jargon (45%)
- 4** No immediate clear action or response is required from me (45%)

Lengthy messages and complex information require time and attention from the consumer to read, understand, consider and act upon. It's possible that between working life and family life, this isn't something the consumer has time for. However, it is not enough to accept this as a fact of modern living and firms should also consider whether the consumer doesn't have the capabilities or capacity that such complex and over-engineered communications ask of them. We live in a time where the average person now has many more distractions, and communications need to take this into account.

Communications should be constructed with this in mind, and an understanding of who the customer is, what they understand and don't.

*“ Poor engagement and readership present a real risk to the consumer that they miss out on, or do not understand important information about their product or service. This may negatively impact their decision-making; they could make a wrong decision, or make no decision, and ultimately receive outcomes that do not meet their financial goals and needs.*



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Firms need to be clear on who their target customer base is. They need to identify some broad characteristics of those customers to try and recognise their capabilities for understanding the information presented to them and therefore, their communication needs.

The identification of characteristics also needs to consider those of vulnerability and the FCA's four drivers of vulnerability can be used to guide this. When all consumers receive communications from their financial service provider, "vulnerable" or not, the outcome needs to be the same – understanding.

Albeit the journey to achieve that, may look different.

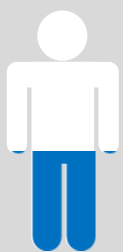
## TAILORING COMMUNICATIONS

To avoid foreseeable harm to the consumer, firms need to significantly improve consumer engagement and readership by tailoring communications to their target customer base so they can be effectively understood. Whilst this may sound simple, if a communication is going to a wide-reaching customer base where there are a variety of characteristics and communication needs, a balance will need to be sought.

The development of communications can already be resource intensive for firms if they're manual or automated. Tailoring them further to fit every customer base will be costly and most likely, not realistic to achieve. A considered and pragmatic approach should be taken based on the risk of consumer harm.

For example, younger pension investors who've auto-enrolled into a new pension may need a product summary on their Annual Statement which briefly explains what their product is, why they have it and the benefits of it. If younger investors don't understand the purpose and benefit of the product, they may reduce or stop contributions. But including this product summary on all pension statements could be an irritant to a mature pension investor who is well aware of the purpose and goals of their pension product. In such a scenario, a firm would need to weigh up the feasibility and costs of including this variation, based on the potential risk of consumer harm.

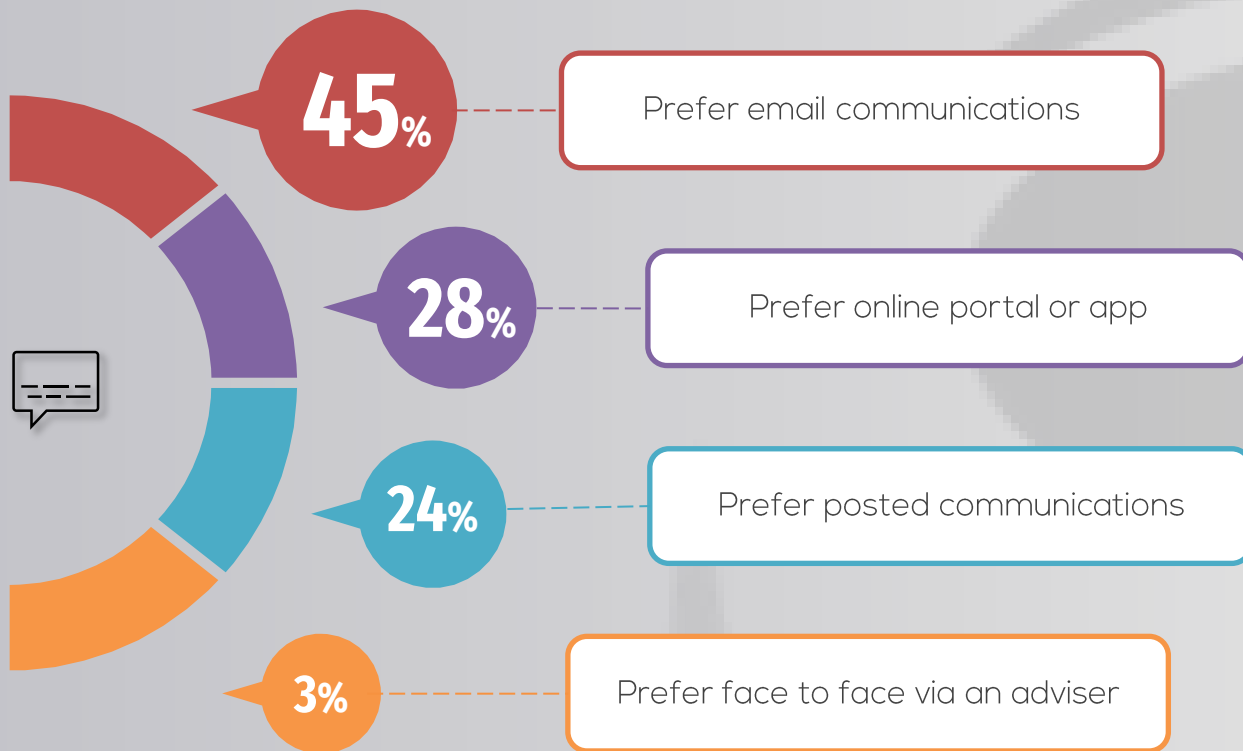
Tailoring communications should also consider the desired communication channel.



### Less than half (44%)

of respondents receive the majority of communications via their preferred method.

How consumers receive their communications and whether it aligns with what they want may have a large impact on engagement too.



Whilst 45% of respondents prefer email communications and 28% prefer communications via an online portal or app, we still have 24% of respondents who want communications posted. We don't know the reasons for this, but it may be that digital journeys simply don't work for all consumer groups. Receiving communications by post requires the recipient to simply open the envelope and read what's inside, but digital journeys will usually require online logins and so the recipient will need to remember their username, password, and possibly memorable data before they then navigate to where the communication might be stored. This could be a real barrier for some consumer groups, especially vulnerable customers.



## EVIDENCING CONSUMER UNDERSTANDING

It will be an FCA requirement under the new Duty for firms to monitor if their communications are supporting consumer understanding, though there will be no regular reporting requirements from the FCA. Regulations aside, this is crucial for the consumer. The intensifying messaging and comprehensive information consumers receive today can in part be attributed to regulatory disclosure requirements. But have communications grown unwieldy at the expense of consumers, to satisfy the regulator? Or is the real problem a lack of understanding of what consumers need and of internal capabilities to produce effective and smart communications?

When firms have acted upon the poor engagement and readership issues, and met the regulatory requirements from the Duty, ongoing monitoring and cyclical reviews are essential to continuously evolve and adapt communications to support consumer understanding.

Firms will need to identify and document their monitoring approach and rationale and agree on what MI will be utilised. Testing of both content and channel is an option for evidencing consumer understanding and in a good project fashion, acceptance criteria for what a good outcome looks like must be agreed.

Another consideration is who the 'voice of the customer' actually is; will it be a Focus Group or the firm? Testing priorities must be described as it may not be necessary or realistic to test all communications and holistically, all testing should be proportionate to the risk of consumer harm and the resource available to the firm.

Testing outputs may contribute as a data source to MI and internal reporting but a firm will need to assess what other MI must be available to enable them to monitor the outcomes of their communications. Firms should already have in place some MI to measure customer feedback, such as complaints or Net Promoter Scores but it's very likely that there will be gaps in the MI where communication outcomes are not explicit.

## CHAPTER 2: WHAT'S BEHIND THIS?

The cause of low engagement with financial communications appears to be systemic within the industry. Consumer Understanding, as we have seen, is dependent on readership and engagement with the communications being sent. So if across different products and demographics, readership remains low, then financial services as an industry must explore why this is the case, before appropriate solutions can be found.

Our analysis of the reasons why a large proportion of consumers don't read all or part of their communications, indicates there are 5 thematic causes:

- 1 Incorrect Authorship
- 2 Understanding the Customer
- 3 Risk Aversion
- 4 Industry Navel Gazing
- 5 A Lack of Innovation

Let's look at each one in turn:

## 1. INCORRECT AUTHORSHIP

Sometimes, those with expert understanding are not always best placed to offer understandable explanations to others.

When we look at who authors the communications within Wealth Management, do we put as much emphasis as we should on those who can take complex subjects and make them readable and intelligible to others? Often, we find the authors of these communications are subject matter experts (SMEs) themselves. These SMEs are experts on the process, the regulations and the system functionality. But they're not necessarily experts in what the average customer understands, or what language would help to explain something complex, to help make a difficult decision regarding their financial future.

SMEs are usually supported by Marketing departments with branding and tone of voice guidance which is important to ensure there is consistency and standardisation across all communications within a firm. Tone of voice guidance will set the standards for how firms speak to their consumers and the language used, such as keywords or phrases and is often aligned to a firm's vision and strategy.

Compliance teams may also play a role in co-authoring communications or supporting SMEs when the content touches on regulatory and legislative topics. They'll ensure that information is correct and explained accurately and that any regulatory requirements have been achieved. It may then become challenging to overlay or maintain the tone of voice guidance.

As a result, we see a high prevalence for the use of jargon. If the authors are all people who understand jargon, then it creates an echo chamber, whereby nobody questions whether what seems common knowledge to the group, would be understood when sent to customers. Understanding the 'voice of the customer' is vitally important when constructing communications, and by bringing the right skills together, a strong facilitator can ensure that the competing voices are given equal importance.

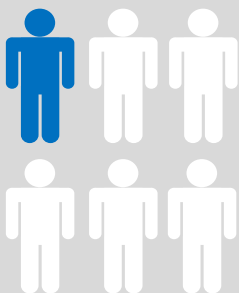
Clearly, Marketing, Compliance and SMEs are hugely important in the process, but alone they may not be able to create the communications that are required.

## 2. UNDERSTANDING THE CUSTOMER

We talk often about the customer, but customers fall into an infinite number of different groups and sub-groups that are not considered enough. Financial services providers are guilty of failing on two counter-intuitive points:

**a** They have a misconception about who 'the customer' is;

**b** They do not consider enough how communications need to reach and be understood by different groups.



According to a 2015 OECD study

# 1 in 6 adults in England

are not able to follow the structure of sentences or paragraphs<sup>1</sup>.



It is important to remember that a large proportion of society will not be able to understand basic information, and when it comes to financial services,

**47% (almost half)**

of people do not feel confident making decisions about financial products or services<sup>2</sup>.

And yet, despite this information being readily available – the financial industry as a whole is driving towards standardised, automated communications, triggered to everyone without human interaction.

Whilst cost optimisation and commoditisation of standard processes are clear objectives for providers of financial services to strive towards, this should not be at the expense of consumer understanding. Vulnerability is an ever-increasing area of focus, and firms will need to make sure that they consider how they are communicating with their customers in a more nuanced way, taking into account, who they are, what they understand, and what support they need.

It is vital that firms understand “who the customer is”, using target markets and customer segmentation. This information also needs to be available in the right format, and aimed at the right audience. Most firms will have tone of voice policies, which is great, but beyond advice on certain punctuation and grammar, do they give more insight beyond trying to use short sentences? Making this more relevant by giving real insight into what the customer may, or may not understand will increase the benefit of this documentation.

### 3. RISK AVERSION

When we discuss this problem with financial services providers, and those who have been involved in the process of creating communications, time and again, the regulations are cited as a central cause of this issue. In many people’s eyes, the regulations are actually counter-productive, forcing firms to add more and more lengthy prose into customer communications.

There are undoubtedly certain rules about what must be included, and the regulator would argue that this is in place for the benefit of the customer. Ensuring that the customer is given key information and given it in a consistent manner to allow comparison is important. Equally, there are regulations already there to make sure that firms are providing communications in a clear manner, which Consumer Duty will add to and help further instil.

There is perhaps a distinction to be made here between the regulations themselves. Firstly with how firms are interpreting these rules, and secondly, how they can manage the risks of decisions going against them later by the Financial Ombudsman. If there is an inherent risk aversion within the firms then this can be an underlying reason why further prose is added to client documents, especially as they are reviewed and amended over time. This can lead to a lack of cohesion, and therefore confusion for the customer as to what they are being told and whether they need to take any action.



*Too often I have see a good piece of customer-centric communication be added to and amended to satisfy a regulation, or even more so, an extreme interpretation of a regulation. The end result is nowhere near what the first draft looked like, and was difficult to explain in the workshop, let alone to a customer.*



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#### 4. INDUSTRY NAVEL GAZING

Financial services as an industry can be extremely inward looking. The consequences of lacking the correct authorship, having a lack of customer focus, or becoming bogged down in the rules means that the communication serves the purpose of the firm itself rather than the customer.

If the communication is giving too much attention to the firm, then the message to the customer can be lost. The customer becomes a cog in the process that needs to complete a certain action, rather than the ability to perform their request or provide the right information as the key driver of the communication. Consumer Duty requires that customers are given the right information at the right time, but that doesn't always align with the needs of the firm. Equally, providing the customer with the space and time needed to reach a decision, or not proceed with an action that could be to their detriment, becomes less important. Firms need to be aware of this and challenge themselves as to whether what they are providing and when is based on the customer need.

If the customer message and action is lacking, not only will this reduce the readership, it will make those customers, trying to decipher the important parts, less clear about what is required. This may result in a decay of engagement, ultimately leading to a worsening of the results that we have seen in the survey.

## 5. A LACK OF INNOVATION

The way that customers receive information from their financial services provider has changed significantly over the last few years. We now see an abundance of digital-first, or digital-only propositions, which aligns with what we see as the desired communication channels of our survey responders. The journey to give customers full control is ongoing, with some laggards still not allowing customers to select their own preferences.

However, we also see a lack of innovation in the content and the format of the communications. We often see that correspondence largely remains in written format. Where provided digitally, it is usually the same content, but just converted to a PDF and attached to an email or digital message. There has been a lack of innovation in embracing how technology can fundamentally shift how information is delivered to the customer.

There is now the ability to deliver far more communications using audio/visual technology, which can not only give customers more choice but also allow the firm to embrace the diversity within the customer base. We could also see even greater personalisation that allows customers to define the information that is important to them. If we look at an annual or quarterly statement for example, whilst there is key information that needs to be included based on the regulations, many customers would benefit from defining a dashboard according to what they would like to see, and how they would like to see it. Allowing customers the ability to create their own messages would give more ownership, and drive up the engagement and readership of communications.

Correspondence can often be an afterthought for change initiatives, coming at the end after the 'really important' requirements (often relating to what the business needs) have already been defined. Whilst it's understandable, and often needed, to get the system performing certain functions before the correspondence is defined, that does not mean that customer engagement shouldn't be considered up front.

Consumer Duty can help give this the importance that it needs, and by putting the needs of the customer at the forefront, it is possible to become truly innovative where engagement with the firm is put at the centre of the communications strategy.



## CHAPTER 3: WHAT'S THE SOLUTION?

Firms need to develop a customer-centric communication strategy with a primary goal of increasing consumer engagement and readership through effective monitoring and feedback loops.

Delivering on Consumer Duty is a must and by developing a communications strategy that puts the customer at the forefront and seeks to achieve engagement and readership, compliance with Consumer Understanding can be achieved in a way that isn't just a box-ticking exercise.

Understanding and getting to know the target customer base should be a critical discovery phase, to recognise customers' capabilities and capacities. The FCA's drivers of vulnerability should be a key tool in this phase to aid the inclusion and diversity of all characteristics and communication needs.

Tailoring communications to the target customer base or group and their communication needs will be challenging for any firm, whether their communications are manually produced or automated. Therefore, the tailoring of communication needs to be proportionate to the risk of consumer harm if the information is not understood.

Strategic solutions will need to look at the communications in total and not just individual elements that may be aligned to good or poor outcomes. Cyclical reviews of all communications are essential to embedding continuous improvement and maintaining target levels of engagement and readership. A suite of effective MI which monitors consumer understanding should feed into reviews and improvements to keep the customer at the heart and centre.

The right skills and expertise need to be employed to write communications in a way that meet the needs of the customer base and focus less on risk aversion to the firm.

A much closer look at who is writing and contributing to communications is needed. Such roles, like Marketing, Compliance and SMEs must come with the right skills and capabilities to write clear, readable and intelligible communications. The writers must be able to take complex subjects and regulatory requirements and convey them in a much simpler way that talks to the target customer.

Specialist knowledge may therefore be needed for this role and so internal people must be sufficiently upskilled with the right training. Alternatively, external expertise can be employed from 3<sup>rd</sup> parties who have specialist knowledge, understand diversity and inclusion as well as the challenges firms face in financial services with regulatory heavy communications.

Make use of innovative technologies and machine learning solutions that enable firms to efficiently tailor communications and provide real-time engagement and readership feedback.

New technology allows us to provide more ways for the customer to delve into more detail where they need it or find routes to answer questions they may have. Not all customers will want, or need this, but using technology that gives the customer the choice to find out more detail as and when they need it, will give firms the means of tailoring their communications to customers, without creating large inefficiencies within the process.

With new technology, we can also see AI solutions that can essentially playback communication engagement and tell firms where readers perhaps stall and take more time to read something, what they don't read and where they start looking for more detail and routes to answer their own questions. This playback is invaluable to continue the development of consumer communications and maintain engagement and readership.

# CONCLUSION

Our survey results show there is an evident issue with the readership of financial communications. For so long, firms have continually needed to add complex information to their communications to meet regulatory requirements, all at the expense of the consumer who simply doesn't understand and therefore doesn't engage with what's being said.

Consumer Duty's expectation for firms to ensure consumers understand their communications is the right thing to do but firms must focus on readership quality and engagement by;

1

Developing a customer-centric communication strategy which aims to increase consumer engagement and readership

2

Employ the right skills and expertise to write communications which meet the needs of the target customer base

3

Make use of technology and AI which provides innovative solutions to tailor communications and monitor engagement and readership

**At Simplify Consulting we can help businesses assess their approach to correspondence using our communications framework, based on the principles of Consumer Understanding. Get in touch ahead of the Consumer Duty deadline to see how we can help you.**

**View the full survey results here: [Consumers and Financial Communications Survey March 2023](#)**

# AUTHORS



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