

How we're responding to the FCA's new Consumer Duty



We're currently working through our Consumer Duty requirements, in line with our implementation plan. This newsletter explains that process and tells you how we'll keep you informed of our progress. We'll share all necessary information with our distribution partners ahead of the FCA's 30th April 2023 deadline.

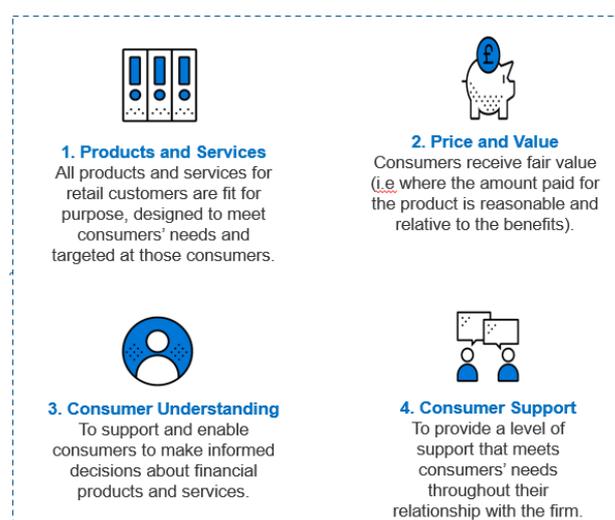
Our view on the new regulations

We fully support the FCA's aims in introducing the Consumer Duty. Our consumer-centred purpose aligns with their drive to:

- improve retail market standards of conduct
- help customers make well-informed decisions.

How does the Consumer Duty affect us?

It affects us both directly and indirectly. We're directly affected by it when we're dealing with our own retail consumers. We're indirectly affected by it when we work through our distribution partners, with the consumer present at the end of the distribution chain.



That dual perspective gives us wide-ranging insights into both the advantages and practical challenges of the Duty. Our group-wide Product Lifecycle Management framework and Product Risk Review processes already incorporate elements of the Consumer Duty. We have reviewed these as well as agreeing other minimum standards to support consistency across our different business areas.

How have we been getting ready for the Consumer Duty?

We responded to the FCA discussion paper and consultation back in February 2022. Then we completed a gap analysis that helped us understand their impact on our business. That fed directly into our current Consumer Duty implementation programme. We've reported our implementation plans to the relevant Boards and appointed a Non-Executive Director Consumer Duty Champion.

What challenges to meeting its requirements have we found?

We have identified and begun addressing several challenges ahead of the April and July 2023 deadlines. These include:

Our Product Lifecycle Management (PLM) process. This process governs how we design, develop and manage our products. We've already updated it to reflect the enhanced requirements of the Consumer Duty. We regularly review our products and services to make sure they're competitive, effective, and fit for purpose.

Monitoring price and value: We have robust measures in place that govern how we manage and monitor the price and value of our products. We have reviewed and updated our value for money framework and are currently completing our fair value assessments so we can supply the information that distributors will need from us by the end of April.

Boosting customer understanding and support: We have reviewed customer touchpoints across our new business and post-sale journeys to understand customer outcomes and improve how we communicate with and support our customers. So, we're reviewing the content of our communications and what we send at different points in the customer journey. We are currently testing our communications where appropriate.

Improving customer outcomes: We're looking at customer outcomes across our end-to-end journeys and defining what sort of evidence we'll need to monitor and report on them. We'll also need to be able to request that kind of information from distributors and share it with third parties.

Do we anticipate any impacts on our external relationships with distributors and suppliers?

The breadth and scope of the new requirements mean that we'll need to:

- work closely with our distributors and suppliers to collectively deliver good customer outcomes
- carefully consider the data and management information we receive and share across our customer journeys, ensuring greater transparency and the right levels of oversight across all parts of the distribution chain
- continue to engage with the regulator and other stakeholders during the iterative implementation period, supporting industry-wide best practice.

Changes to differentiate our lifetime mortgages

During a recent PLM review, we identified that our Flexible Lifetime Mortgage (FLTM) and Optional Payment Lifetime Mortgage (OPLM) products could be more clearly differentiated. So we changed our lifetime mortgage (LTM) target market statements and product descriptions to provide greater granularity and distinction between our products, helping advisers better understand the target market for each.

What's changed?

- We've split our core target market definitions into three sections:
 - Section 1: Core qualifying criteria
 - Section 2: Key points customers must understand about the product
 - Section 3: Which customers might fall into the target market, now including who the product is suitable for, more detail about tax and health status, etc.
- We've emphasised that our target market includes customers who:
 - understand the impact that compounding interest will have on the value of their estate
 - have considered and rejected other forms of borrowing and downsizing
 - are willing to take financial advice and pay the fees associated with entry into the product.
- We've more clearly differentiated the two products, setting out that:
 - OPLM is for people who have enough income to be confident that they can make regular payments covering some or all of their monthly interest, for at least some of the mortgage term.
 - FLTM is for people with limited or uncertain income or, who aren't confident that they can commit to regular payments.
- When describing target customers who might choose to spend their LTM income on discretionary expenses like vehicles or holidays, we've stated that advisers should make sure they:
 - take their personal circumstances into account
 - are aware of how long interest might roll up for on their loan.

This is to provide more clarity on interest roll-up risk, when taking a product at a younger age for a longer period.

- We've further refined the section setting out who the product may not be suitable for by clarifying points like means-tested benefit eligibility.
- We've added a new sentence:
 - "Customers using the product for discretionary spending early in retirement, where discretionary spending may have a greater impact on the total loan amount over time."

Your firm should review the target market descriptions of financial products as part of your distributor advice guidance / compliance governance process. So please share this new content within your firm as needed, and amend your advice and compliance processes appropriately.

You can find our Product Descriptions and revised Target Market statements on our website:
www.legalandgeneral.com/adviser/retirement/later-life-mortgages/product-governance

Further information

If you have any questions about how the new Consumer Duty requirements affect your firm, we suggest you:

- review the FCA website www.fca.org.uk/firms/consumer-duty
- contact your network or compliance provider.

If you have any questions about our response to the new Consumer Duty, please email us at:
consumerduty@landghomefinance.com

Please note that we plan to issue our product Value for Money assessments before the end of April 2023. We'll let you know once we've completed them and uploaded them to our website at:
www.legalandgeneral.com/adviser/retirement/later-life-mortgages/product-governance

END.