



Grant Thornton

# Consumer Duty Outcome Testing

How to meet the FCA's expectations

2024

# Background

**The Consumer Duty requires firms to assess, test, understand and evidence the outcomes their customers are receiving. Firms will therefore need to design and implement testing programmes to determine whether their customers are receiving ‘good outcomes’.**

It is complementary to, and does not replace, traditional controls testing whose basic tenants are design and operational effectiveness. Instead, Outcome Testing focuses on evaluating the real-world impact and effectiveness of financial products or services for consumers, prioritising factors such as suitability, transparency, value for money and avoidance of harm.

The FCA requires firms to establish a robust framework for testing the actual outcomes their customers experience throughout their product lifecycles. This goes beyond traditional metrics like sales figures or complaint volumes. The focus is on assessing if products and services deliver fair value, prevent foreseeable harm, and meet customer needs in order to provide a good customer outcome.

Here's where the challenge lies. Now that Outcome Testing is a regulatory requirement within the Consumer Duty, firms need to clearly articulate measurable success criteria specific to their offerings and target markets.

Imagine a bank testing the Products & Services Outcome for a mortgage product. How do they quantify ‘fairness’ for diverse customer segments with varying financial literacy and goals?

Furthermore, gathering reliable data for testing presents difficulties. Firms need to move beyond internal metrics and capture the customer voice. This might involve surveys, customer journey mapping, or in-depth interviews. Integrating these qualitative research methods into existing data analysis processes requires a shift in mindset and, in some cases, new skillsets within the organisation.

The road ahead requires a strategic approach. Firms should have already mapped their customer journeys, pinpointing key customer touchpoints, and identifying potential areas where outcomes might fall short. Investing in robust data collection methods and fostering a culture of customer-centricity are crucial. Partnering with specialists in Outcome Testing methodologies can also provide valuable guidance and insights into what other firms within the industry are doing.

By embracing Outcome Testing as an opportunity for continuous improvement, firms can also gain valuable insights into enhancing customer experiences for every customer journey. With proactive planning and a commitment to customer well-being, firms can navigate this new regulatory landscape and build stronger, more resilient relationships with their customers.

So, how to comply? What should firms be doing now to ensure they meet the FCA's expectations for assessing the outcomes their customer receive? We set out in the following pages our observations and practical guidance on what firms should be doing now to ensure they meet the new standards.

It is critical that firms invest the time and resources to get this right. This is clearly a key focus area for the FCA, as seen by the Consumer Duty being heavily referenced within the FCA's ‘Commitment 2: Putting consumers’ needs first’ within the 2024-2025 Business Plan.

# What is Outcome Testing?

Outcome Testing is a systematic process for evaluating whether a financial product or service actually delivers the intended positive results for customers, moving beyond traditional process-based compliance checks. In essence, it ensures firms are not just doing things right, but doing the right things the right way to ensure a good outcome for their customers.

**Outcome Testing has a number of key parts. We see these as being:**

<b>Agreeing 'good outcomes'</b>	While these should have been agreed prior to the 31 July 2023 deadline, it is critical that all individuals at all levels of the firm understand what constitutes a 'good outcome' for their customers. Without this, Outcome Testing will lack direction and be applied inconsistently across the business.
<b>Determining outcomes</b>	Outcome Testing aims to determine whether a customer has experienced a favourable or unfavourable outcome. To effectively enact the Consumer Duty, firms must establish clear definitions of "good outcomes" tailored to every customer journey and every product and service. This proactive step helps to remove the prior subjectivity that may have existed in outcome determination. It's particularly important that assessing outcomes goes beyond a mere checklist of adherence to firm policies and processes. The pivotal factor lies in ensuring outcomes are consistently and objectively determined, devoid of subjective influences.
<b>End-to-end vs point in time testing</b>	There are several methods for testing outcomes, with two primary approaches being 'end-to-end testing', which involves reviewing the entire customer journey, and 'point-in-time testing,' which focuses on specific interactions. While we anticipate firms will employ a blend of both methods, the choice between them should be guided by factors such as the nature of the customer journey under assessment and the scale of the organisation conducting the testing.
<b>Confirming sample sizes</b>	Sample testing will likely form at least one part of your Outcome Testing work. The size of the sample must be carefully determined to ensure that any conclusions you draw from the sample can be relied on (ie if possible it should be statistically significant). Furthermore, the sample selection methodology (ie how cases are selected) should be documented and based on established sampling techniques and principles.
<b>Use of data and MI</b>	Identifying and obtaining the right data and MI is critical for determining whether good outcomes have been provided to customers. Without this, firms will not be able to evidence whether their customers are receiving good outcomes. Such data could relate to complaints, product performance, customer satisfaction surveys, vulnerable customers and sales, and distribution data. MI needs to be based on the intended good outcomes, not just traditional indicators of poor performance or foreseeable harm.
<b>Interaction between 1/2/3 LOD</b>	Outcome Testing would primarily fall within the remit of the 1st line of defence (LOD). Nonetheless, as stipulated by PRIN 2A.8.1R, the outcomes received by retail customers should be a 'central focus' for the Risk and Internal Audit functions. Consequently, firms must incorporate Outcome Testing into the annual plans of the 2nd and 3rd LODs. These should be developed in collaboration with the 1st LOD to leverage synergies across the organisation. Testing and monitoring should be proportionate to the size of the organisation.
<b>Internal reporting</b>	The results of the Outcome Testing must be reported to relevant governance forums and ultimately to the governing body of the firm who have an obligation to provide an annual assessment on conformance with the Duty. How this information is reported, how frequently and where it is reported will have a significant impact on the value the firm derives from performing this testing.
<b>Identifying weaknesses and making improvements</b>	Linked to the above, it should be quick and easy for governance forums to determine which weaknesses the has identified and which changes should be made to rectify these. To make meaningful change will require a customer-centric culture with a mindset of continuous improvement ensuring good customer outcomes across the organisation.



# Key Outcome Testing questions

Performing Outcome Testing is essential for firms to demonstrate compliance with the new Consumer Duty rules as it provides concrete, substantive evidence of whether their products and services are meeting regulatory requirements. This type of testing allows firms to assess the real-world impact of their offerings on consumers, ensuring they provide their customers with 'good outcomes'.

The below represent a number of questions that firms should be able to answer about their Outcome Testing programmes.



Are good customer outcomes clearly defined?



Which harms or risks is the Outcome Testing seeking to identify and mitigate?



How does your Outcome Testing programme ensure there is more focus on testing higher risk products or activities/customer interactions?



How does your Outcome Testing programme support your ability to demonstrate compliance with the Four Outcomes and the Cross-Cutting Rules?



What testing methods are you using to test customer outcomes and are these appropriate for the types of products/activities/interactions you are testing?



If you are performing sample testing, how have you selected your sample and does it allow you to draw reliable conclusions?



How do you ensure that the testing and conclusions drawn are consistent and objective, regardless of who performed the review?



What steps are you taking to address any foreseeable or actual harms that have been identified through the testing?



How are any identified foreseeable or actual harms reported through your governance chain and does each committee receive the information it needs to make informed decisions?

# How we can help

We have significant experience of helping firms to design, implement and perform Outcome Testing, both prior to and after the 31 July 2023 Consumer Duty deadline. The below points represent some of the ways we can support you with developing, implementing and performing your Outcome Testing, providing you with confidence that you are meeting regulatory requirements and expectations.

## Design/review the Outcome Testing Methodology

- Reviewing the Outcome Testing approach your firm has developed to provide independent and objective constructive recommendations to ensure this meets regulatory requirement and expectations.
- Working with you to design an approach to Outcome Testing that is pragmatic and proportionate to your business, ensuring you obtain the maximum value for money from performing this testing.
- Sharing best practice that we have seen elsewhere within the industry.

## Design/refine how Outcome Testing is reported to governance committees

- Develop standardised reporting templates tailored to the needs of your governance committees. These templates should clearly outline the objectives, methodologies, findings, and implications of outcome testing exercises, ensuring consistency and clarity in presenting complex information to committee members.
- Utilise data visualisation techniques to present outcome testing results in a visually appealing and easy-to-understand format. Incorporating visual elements can help committee members quickly grasp key insights, trends, and outliers, facilitating more informed decision-making and oversight.
- Review and improve qualitative narratives that accompany quantitative findings to provide better context, explanations, and insights into the underlying factors influencing outcomes.

## Training staff involved in Outcome Testing

- Deliver tailored workshops designed to familiarise your staff with outcome testing methodologies specific to your business. These sessions would cover key concepts such as defining measurable outcomes, selecting appropriate testing methodologies and interpreting results.
- Offer hands-on training sessions where staff can actively engage in conducting outcome testing under simulated scenarios. Providing access to real-life case studies and interactive exercises to apply theoretical knowledge, identify challenges and practice problem-solving skills in a controlled environment.

## Providing a fully outsourced Outcome Testing service

- Leverage our knowledge and experience to conduct Outcome Testing on your behalf. Our people are experts in the Consumer Duty requirements, ensuring that all testing activities are conducted in accordance with applicable regulatory requirements.
- Provide customised outcome testing solutions tailored to the specific needs and objectives of your firm's products and customers. Whether it involves assessing the quality of your customer journeys or customer communications, or identifying areas for process improvement, our services are designed to deliver actionable insights that support your firm's ability to deliver good customer outcomes.
- Produce clear and concise reports outlining the findings and implications of our outcome testing activities. Our transparent reporting process ensures that governance committees have access to timely and relevant information to fulfil their oversight responsibilities effectively. Additionally, we offer ongoing support and guidance to assist you in interpreting the results, addressing any concerns and implementing remedial actions as needed.

# Key contacts



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