Developing Standardised Measures for Consumer Duty Compliance, Affordability and Competitiveness in Consumer Lending

Scoping Study

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Foreword

Salad Holdings* commissioned this independent scoping report to contribute to achieving better consumer outcomes.

We commend the Financial Conduct Authority (FCA) for setting out the standard it expects lenders to reach in protecting consumers, especially those who are vulnerable, excluded or underserved, when it wrote to Chief Executives of consumer lending firms in March 2024. Its letter covered three key areas:

• reducing and preventing serious harm

• setting and testing higher standards

• promoting competition and positive change.

The FCA recognised that vulnerable consumers are “price takers” and placed an obligation on lenders to be “price makers” on such consumers’ behalf. This puts a Duty of Care on lenders to ensure their products are competitive and affordable.

Salad Holdings invited researchers from the University of Edinburgh Business School to develop a framework for a voluntary code of practice that responsible lenders could adopt and report against. The researchers’ work follows an established methodology for developing new compliance scores.

This report covers the potential to develop standardised testing for Consumer Duty compliance. It sets out findings from a scoping study and areas for further analysis and development. It draws on interviews with stakeholders, including the FCA.

Adopting and reporting on a code of practice would provide transparency, catalyse accountability among lenders and demonstrate to investors that responsible lenders have lower business risks and are worthy of investment. Such transparency, standardisation and investment readiness would also support the Government’s call to ensure regulators and regulations support growth.

Salad Money will provide raw data for the researchers’ use. We encourage other lenders to do the same, and, alongside stakeholders, participate in the next phase of Edinburgh’s work.

With the active involvement of lenders and stakeholders, Edinburgh’s researchers can develop and test robust, objective metrics for compliance, affordability and competitiveness. They can incorporate credit and open banking data to create a uniquely detailed overview of consumer outcomes to be reported on as part of a voluntary “Edinburgh Score.”

Alan Campbell, Founder, Salad Holdings

Lord McNicol, Non-Executive Director, Salad Holdings

* Salad Holdings advocates for all applicants to Salad Money, a social enterprise fighting financial exclusion and exploitation of UK workers with impaired credit scores by providing an alternative to high-cost lending. Salad Money is a subsidiary of Salad Holdings.

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Executive Summary

This initial report, commissioned by Salad Holdings, presents the findings from a scoping study aimed at addressing issues raised by the Financial Conduct Authority (FCA) regarding the implementation of the newly introduced Consumer Duty requirements. The report represents the first stage of a larger project aimed at developing objective metrics and scales to measure compliance with the duty. The primary goal of this initial scoping study is to explore what is necessary to ensure full CD compliance, with a focus on quantitative measurement and reporting. The report sets the foundation for a broader analysis that will be undertaken through the subsequent stages of the project and highlights key areas that require attention in order to meet regulatory demands.

The data for the later stages of the project will be provided by Salad Money. Salad Money (a subsidiary of Salad Holdings) is a social lender with a mission to provide a fair alternative to high-cost lending. It utilises bank account transactional data rather than credit bureau scores to make lending decisions.

The main objectives of this scoping report are:

- To clarify the regulatory context surrounding the Duty.

- To identify the dimensions, aspects, and variables that need to be measured for the Duty compliance.

- To review existing academic and industry literature on potential compliance measures for the Duty.

- To outline the data and methods required to accurately assess and demonstrate compliance.

Methodology

This study follows an established methodology for developing new metrics or scales/scores. The process normally starts with a comprehensive literature review to identify the existing knowledge base and specify the gaps in need to be filled. The review is complemented with expert interviews with key stakeholders to clarify the required outputs. These inputs were critical in shaping the understanding of the current challenges in meeting the Duty expectations and identifying areas where further development is needed.

Regulatory Context and Consumer Duty

The Consumer Duty, introduced by the FCA, requires firms to deliver good outcomes for retail customers by ensuring that products and services are designed to meet their needs, offer fair value, and are communicated clearly and accessibly. The Duty mandates firms to act in the best interests of their customers, proactively preventing harm and supporting positive financial decisions. A key focus of the Duty is ensuring that firms adopt a customer-centric and data-driven approach, with particular attention to vulnerable customers.

Conclusions and Recommendations

While initial analyses of data sources and reporting requirements have been conducted, detailed guidance for a unified framework remains lacking. Benchmarking, in particular, requires harmonised, comparable metrics. Some measures such as "time to resolution" already exist, nevertheless additional development is essential to ensure consistency and utility.

Existing FCA documents and industry reports, such as Deloitte's 16 key Consumer Duty topics, identify primary data areas: Complaints data, Customer Feedback, and Quality Assurance/Outcomes Testing. These areas provide a foundation for firms to develop robust compliance mechanisms. The report summarises several metrics already available for benchmarking, including affordability and credit risk, product suitability, fair value, customer satisfaction, and customer support performance.

Complaints data, particularly from external sources like the Financial Ombudsman Service (FOS), offers valuable benchmarking opportunities. However, comparisons require adjustments to account for company growth and market changes. Text analysis of complaints could enhance benchmarking by categorising issues and tracking customer dissatisfaction trends, but challenges in accessing and processing this data remain. Customer feedback is well-developed, but standardisation is needed for industry-wide benchmarking.

Outcome testing is the most ambiguous and underdeveloped area, central to the Duty's emphasis on delivering better customer value. The concept of financial well-being underpins this analysis, with financial vulnerability viewed as the opposite extreme of a well-being spectrum. Despite its importance, vulnerability remains vaguely defined, necessitating a clear conceptual framework informed by existing research. Surveys, such as FCA's Financial Lives and CFPB's Financial Well-Being, provide valuable subjective insights but are prone to self-reporting bias, costly, and conducted infrequently. Open Banking (OB) data, in contrast, offers timely, accurate insights and should be central to measuring customer outcomes, complemented by subjective perceptions for a holistic view.

Key areas requiring further development include:

1. Fair Value: Definitions of fairness must be clarified and assessed at three levels: perceived fairness by customers, fairness metrics by lenders (e.g., price-to-cost/risk analysis), and fairness across the industry via benchmarking.

2. Financial Inclusion and Competitiveness: Bureau credit scores may serve as proxies but require further validation. Alternatives must be developed for financially excluded customers.

3. Relending and Persistent Use: Evaluating firms' reliance on relending requires qualitative assessments of business models and quantitative tracking of customer journeys using OB and credit bureau data.

The report highlights the need for clear definitions, standardised metrics, and further research to refine these areas. Establishing thresholds, observation lengths, and new metrics will be critical for comprehensive compliance and improved customer outcomes. These recommendations aim to bridge current gaps and foster meaningful, evidence-based approaches to Consumer Duty compliance.

1. Introduction

This initial report, commissioned by Salad Holdings, presents the findings from a scoping study aimed at addressing the issues raised by the Financial Conduct Authority (FCA) regarding the implementation of the newly introduced Consumer Duty requirements. The banking transactional data, primarily from current accounts could serve as a primary source for demonstrating compliance with the Duty requirements. Access to this data is made possible by EU PSD2 Payment Directive (often referred to as ‘Open Banking’ (OB) in the UK), and Salad Money has kindly agreed to provide such data for future stages of this research. Salad Money (a subsidiary of Salad Holdings), a social lender, utilises bank account transactional data rather than credit reference scores to make lending decisions, focusing on public sector employees. Its mission is to provide a fair alternative to high-cost lending. By using bank data, Salad Money collects detailed transaction data from applicants' bank accounts for up to two years, offering a comprehensive view of their financial lives.

Despite OB data offering highly granular and valuable insights, given the multi-faceted nature of the Duty requirements, additional data sources may be necessary. The report's main objective is to explore what is needed to ensure full compliance, particularly in relation to quantitative reporting.

This report marks the first stage of a broader project aimed at developing objective metrics and scales to measure the Duty compliance. It refines and outlines the scope of the subsequent analysis to be undertaken by the next stage of the wider project. The objectives of the current scoping report are as follows:

- To outline and clarify the relevant regulatory context;
- To review the existing academic and practitioner research on potential compliance measures;
- To identify the dimensions/ aspects / variables that need to be measured;
- To indicate the data and the methods required to measure the Duty compliance.

The project adheres to best practices in scale development, beginning with a thorough investigation of what needs to be measured. To achieve this, we reviewed the relevant regulations, conducted an extensive analysis of existing research, and enhanced our understanding through expert interviews with key project stakeholders.

The previous research review uses bibliometric analysis, which is a quantitative method to assess the impact, influence, and patterns of scholarly publications. It involves the statistical analysis of articles (including citations), reports and other documents to evaluate publication trends and research impact across various fields. Bibliometric analysis is commonly used to track the development of specific topics, and understand the gaps within areas of interests. A high-level overview of the current state of research in the area obtained through the bibliometric analysis, is complemented with more detailed description of several seminal studies.

Expert interviews are a qualitative research method used to gather in-depth insights from individuals with specialised knowledge or experience in a particular field. By engaging with experts, researchers can explore complex issues, gain valuable perspectives, and clarify specific topics that may not be easily accessible through other data sources. This method is particularly useful for understanding nuanced or technical subjects, informing decision-making, and generating rich, detailed information on a research topic.

The rest of the report is structured as follows. Section 2 provides the overview of regulatory context and outlines the main aspects and documents of the Consumer Duty regulations. Section 3 elaborates on the previous research review and insights from expert interviews. Finally, Section 4 concludes with key findings and recommendations.

2. Regulatory Context

2.1 Overview

The new Consumer Duty, outlined in policy statement PS22/9 and known as Principle 12, sets higher standards for firms in their interactions with retail customers. Implemented through PRIN 2A, it requires firms to act in ways that deliver good outcomes, focusing on product governance, price and value, consumer understanding, and customer support. The Duty emphasises **a consumer-centric approach**, aiming to ensure products and services meet consumer needs and deliver fair value and equitable outcomes.

One of the key elements of Consumer Duty is the requirement for firms **to actively monitor consumer outcomes and take corrective action to prevent foreseeable harm**. This encourages a proactive approach to consumer protection and drives innovation and competition within the marketplace, with a focus on aligning products with evolving consumer needs.

Consumer Duty also highlights the importance of addressing **consumer vulnerability**. Firms must consider factors like age, health, and financial hardship when designing products and offering support. Clear communication, tailored assistance, and proactive risk management are crucial in ensuring vulnerable consumers receive appropriate protection and fair outcomes. The Duty mandates that firms embed vulnerability considerations into their culture, continuously monitoring and adjusting practices to enhance consumer protection.

Consumer Duty applies to both existing and closed products, requiring firms to review their offerings to ensure they remain fit for purpose and continue to deliver good outcomes. Closed products, although no longer sold, must still be managed to protect current users. The regulation is forward-looking, requiring compliance for products still in circulation, with monitoring systems in place to track and address potential issues.

The implementation timeline began with firms' boards approving plans by October 2022, followed by the requirement for all new and existing products to comply by July 2023. By July 2024, the Duty extended to closed products.

2.2 Key Outcomes and Cross-Cutting Measures

Consumer Duty consists of four key outcomes – Products and Services, Price and Value, Consumer Understanding, and Consumer Support – designed to ensure that firms consistently act in the best interests of their customers. In addition to these outcomes, the regulation includes cross-cutting measures such as acting in good faith, avoiding foreseeable harm, and enabling and supporting customers to pursue their financial objectives, all of which guide firms in fostering fair treatment and trust in financial services.

Four Key Outcomes: Products and Services

The Products and Services key outcome mandates that financial products and services be designed and delivered to align with the needs, characteristics, and objectives of specific target consumer groups. To ensure products are fit for purpose, firms must develop offerings that effectively address the unique circumstances and financial goals of their intended customer base. This necessitates rigorous target market identification, driven by comprehensive market research and analysis, to accurately determine which consumers are most likely to benefit (FCA, 2022b). By aligning products and services with the specific needs and characteristics of targeted customer segments, firms can enhance consumer outcomes, ensure regulatory compliance, and mitigate risks associated with consumer vulnerabilities (FCA, 2021, 2022a). Appropriate distribution channels are also crucial, ensuring that products are accessible and suitable for the intended demographic (FCA, 2022b), taking into account factors like financial literacy and technology access (FCA, 2021, 2022a). To avoid financial exclusion, firms are encouraged to balance profitability with the need to offer a diverse range of products that cater to various customer segments, including those with specialised needs (FCA, 2021, 2022a). The outcome also emphasises ongoing review and adaptation of products in response to evolving consumer needs (including consumer feedback), market conditions, regulatory changes (FCA, 2022a, 2022b). Lastly, transparency and clarity in terms and conditions are required to ensure that consumers fully understand what they are purchasing and how it aligns with their financial objectives (FCA, 2022a, 2022b).

Consumer harm can arise when products are not designed with the needs of the target market, especially vulnerable customers, in mind, potentially leading to poor customer outcomes where customers do not receive the expected benefits, damaging trust and satisfaction (FCA, 2022a, 2022b). Firms face increased costs if customers encounter unreasonable barriers or exit fees, potentially driving them away and harming the firm's reputation (FCA, 2022b). Ineffective product design, without regular assessments and feedback, risks continuing to offer products that do not meet customer needs, wasting resources (FCA, 2022a, 2022b). Neglecting vulnerability oversight could worsen existing inequalities and fail to comply with legal standards like the Equality Act 2010 (FCA, 2019, 2021; UKGov, 2024).

Four Key Outcomes: Price and Value

This outcome emphasises the importance of transparency, fairness, and accountability in pricing practices within the financial services industry. This involves conducting a fair value assessment to determine if the benefits of a product justify its price, thereby preventing consumers from overpaying (FCA, 2022b). Transparency in pricing is crucial, as firms must provide clear information on fees and charges to enable consumers to make informed choices and compare options effectively (FCA, 2022a, 2022b). While the FCA does not explicitly ban "price walking" – the practice of increasing prices for existing customers while offering lower rates to new ones – firms are expected to avoid exploiting customer loyalty through unfair pricing strategies (FCA, 2022b). Firms must also consider the impact of differential pricing practices on different customer segments to avoid disadvantaging certain groups, particularly vulnerable consumers (FCA, 2021, 2022a). Beyond monetary considerations, firms should evaluate non-monetary costs and benefits, like customer service quality and ease of use, which affect perceived value (FCA, 2022a, 2022b).

Misalignment between price and value can cause consumer harm, leading to feelings of being misled or overcharged, which diminishes trust and results in decreased loyalty and increased customer churn (FCA, 2022a, 2022b). Neglecting pricing oversight can lead to regulatory consequences, such as fines or sanctions, due to non-compliance with standards. Furthermore, failing to consider pricing impacts on vulnerable customers can worsen inequalities, drawing regulatory scrutiny and reputational damage (FCA, 2021, 2022b).

Four Key Outcomes: Consumer Understanding

Consumer Understanding emphasises the importance of clear communication and accessibility of information, enabling consumers to understand and make informed decisions about financial products and services they are considering. This involves using clarity and simplicity in communications by avoiding jargon and complex language that could confuse consumers, ensuring they can easily understand the features, benefits, and risks of financial products (FCA, 2022a, 2022b). Timely information is crucial, with firms required to provide relevant details at critical decision-making points, such as during purchases or renewals (FCA, 2022a). Layered communication strategies are encouraged, presenting key information upfront while offering additional details for those seeking deeper insights, allowing consumers to quickly grasp essential product aspects while accessing more comprehensive information if needed (FCA, 2022a). Firms must also adopt a broad applicability approach, considering their entire suite of communications to meet regulatory expectations holistically. To support decision-making, firms should provide tools and resources that help consumers compare options and assess suitability based on individual needs. Gathering consumer feedback and testing communication effectiveness is essential, ensuring materials are easily understood by the target audience (FCA, 2022a, 2022b). Compliance with regulatory expectations may involve regular assessments or audits of communication materials (FCA, 2022a). Ultimately, by prioritising consumer empowerment through clear, relevant, and timely information, this outcome aims to enhance consumer confidence and engagement in their financial decisions.

Lack of clarity in communication can lead to consumer harm, with customers making poor financial decisions due to misunderstandings, resulting in financial distress (FCA, 2022b). Miscommunication regarding product terms and implications can cause confusion and dissatisfaction, eroding trust and decreasing customer loyalty. Neglecting the needs of vulnerable customers can exacerbate inequalities and invite regulatory scrutiny (FCA, 2021, 2022b). Overall, poor attention to consumer understanding can lead to financial losses due to decreased profitability and market competitiveness (FCA, 2022a, 2022b).

Four Key Outcomes: Consumer Support

Consumer Support focuses on ensuring that firms provide comprehensive and accessible support throughout the entire customer journey, from the initial purchase to ongoing use and any challenges that may arise. This involves offering comprehensive support that caters to consumers at all stages, including those facing changes in circumstances like financial difficulties or health issues (FCA, 2021, 2022b). Accessibility of support channels is crucial, with firms required to provide multiple ways for consumers to seek help, such as phone, online chat, email, and in-person assistance (FCA, 2021, 2022a, 2022b). To effectively meet consumer needs, firms must be responsive, recognising when additional support is needed, particularly for vulnerable consumers or those experiencing temporary challenges (FCA, 2021). This necessitates training and resources for staff to ensure they understand the products and services offered and can identify and respond to consumer needs appropriately (FCA, 2022a). Firms must also clarify distribution chain responsibilities to guarantee that every party involved in the customer experience is aligned in providing consistent, high-quality support (FCA, 2022a, 2022b). Support for vulnerable consumers is crucial, requiring firms to have processes in place to identify and assist these individuals, ensuring they are not disadvantaged. Consumer empowerment is another key aspect, helping customers understand their options, navigate any difficulties, and exit products without unnecessary barriers (FCA, 2022b). Lastly, feedback mechanisms are vital for informing service improvements and enhancing the overall consumer experience by better understanding customer needs and expectations (FCA, 2022a, 2022b).

If customers struggle to access necessary information or assistance, they may experience foreseeable harm to their financial well-being. Poorly designed support channels can lead to consumer confusion and disengagement, resulting in customers abandoning products or services, which may worsen their financial situation (FCA, 2021, 2022b). Inability to access support in critical situations, such as account issues or financial hardship, can exacerbate their problems and increase financial distress. The lack of effective support can lead to increased financial difficulties for customers, potentially harming their financial stability (FCA, 2021).

Cross-Cutting Rules: Acting in Good Faith

"Acting in Good Faith" requires firms to conduct their business with honesty, integrity, and transparency, ensuring that their actions are consistent with the “reasonable expectations” of retail customers (FCA, 2022b). This principle mandates that firms not only provide truthful and clear information about their products and services but also align their practices with what consumers would reasonably anticipate, including full transparency about product features, risks, and costs (FCA, 2022b).

However, implementing this principle poses challenges and industry stakeholders have raised several concerns regarding the implementation of the "acting in good faith" cross-cutting measures, primarily due to the perceived ambiguity and subjectivity surrounding the concept of good faith and "reasonable expectations” (FCA, 2022b)." Industry stakeholders expressed concerns regarding inconsistent interpretations and the challenge of assessing compliance could lead to increased regulatory disputes. There are also fears that the good faith standard might stifle business innovation and require a significant cultural shift within firms, necessitating extensive training and changes to internal policies (FCA, 2022b). Additionally, stakeholders are concerned that heightened consumer expectations could lead to more complaints and reputational risks. To address these issues, stakeholders have called for clearer guidance and support from the FCA to ensure consistent and practical application of the good faith requirement (FCA, 2022b).

To address these concerns, the FCA has issued additional guidance in FCA FG22/5 that emphasises firms must cultivate an environment where customers are empowered to make informed decisions that serve their best interests (2022a). This entails providing clear, accurate information about products and services, ensuring that customers fully comprehend associated risks, and actively supporting them in making choices aligned with their financial goals (FCA, 2022a). Transparency and effective communication are critical; firms must disclose all pertinent information about products, including potential risks and benefits, in a manner that is straightforward and easy for customers to understand, avoiding the use of jargon or complex language that could lead to confusion (FCA, 2022a).

Responsiveness to customer needs is another fundamental aspect outlined in FG22/5. Firms are expected to listen attentively to customer feedback, address complaints promptly, and adjust products and services as necessary based on customer experiences (FCA, 2022a). Consistency in upholding these standards across all interactions is crucial, necessitating comprehensive staff training to ensure that every customer engagement reflects these principles (FCA, 2022a).

Cross-Cutting Rules: Avoiding Foreseeable Harm

The "avoiding foreseeable harm" cross-cutting measure requires firms to anticipate and mitigate potential risks based on their knowledge of their products, services, and customer base. This involves proactive risk management through regular assessments, monitoring emerging risks, and adapting practices as market conditions, consumer behaviours, and regulatory expectations evolve (FCA, 2022a). Firms must communicate transparently and effectively, considering varying levels of consumer financial literacy, particularly for vulnerable customers (FCA, 2021, 2022b). The responsibility to avoid harm extends throughout the entire distribution chain, ensuring that all actions, whether direct or indirect, do not negatively impact customers (FCA, 2022b).

This principle mandates that firms anticipate and pre-emptively address actions that could potentially disadvantage consumers. This includes preventing the mis-selling of products by ensuring clear communication of risks, providing robust support to vulnerable customers, and avoiding the exploitation of behavioural biases (FCA, 2021, 2022b). Firms should also give adequate notice before withdrawing products, facilitate easy switching between products or providers, monitor customer outcomes to identify potential issues early, and ensure effective redress mechanisms are in place (FCA, 2022a, 2022b). These measures help protect consumers from preventable harm and promote fair treatment across all customer interactions.

The guidance in FG22/5 outlines several *examples of "foreseeable harm"*:

- Inadequate product information, which prevents customers from fully understanding the risks associated with a product, or difficult cancellation processes that can result in financial strain or dissatisfaction when consumers cannot easily exit unsuitable agreements (FCA, 2022a).
- Poorly designed products that are not properly tested for the target market's needs, advisers failing to update their guidance in response to changing customer circumstances, can also expose consumers to preventable harm (FCA, 2022a).
- Inadequate support to customers during financial hardship or neglect the needs of vulnerable customers risk causing harm by not accommodating those less capable of making informed decisions (FCA, 2021, 2022a).
- Misleading marketing practices that exaggerate benefits or downplay risks further contribute to potential harm, as does the failure to conduct thorough risk assessments, leaving customers exposed to unforeseen dangers (FCA, 2022a).
- Inaction on emerging risks or new harms signifies a lack of responsiveness that can lead to significant negative outcomes for consumers, exposing firms to negative regulatory consequences (FCA, 2022a).

FCA (2022b) identifies several challenges faced by industry stakeholders with implementing the "Avoid Foreseeable Harm" principle due to **ambiguities in definition**, which create uncertainty and inconsistent application across firms (FCA, 2022b). Industry stakeholders describe how the dynamic nature of foreseeable harm requires continuous monitoring and adaptation, demanding significant investments in data analysis and customer feedback mechanisms (FCA, 2022b). **Resource constraints**, particularly for smaller firms, further complicate compliance efforts, as they may lack the infrastructure and funds needed for comprehensive risk assessments and staff training (FCA, 2022b). Balancing risk management with innovation is another concern; firms fear that overly cautious approaches might stifle product development and reduce market competition (FCA, 2022b). Integration of the principle into existing processes necessitates substantial changes in governance and risk management regulations, requiring time and resources. Training for all levels of employees to understand their responsibilities is crucial, but cultural resistance can pose challenges (FCA, 2022b). Monitoring and reporting on compliance is resource-intensive and might require significant investment in new technologies. Additionally, firms are apprehensive about regulatory scrutiny and potential penalties, which could foster a risk-averse culture (FCA, 2022b). Coordination across the distribution chain also presents difficulties, especially when entities operate under different regulations or vary in their commitment to consumer protection (FCA, 2022b).

Cross-Cutting Rules: Enabling and Supporting Retail Customers to Pursue their Financial Objectives

This rule requires firms to adopt a customer-centric approach by actively helping customers achieve their financial goals. This includes offering relevant information, guidance, and resources to help customers make informed decisions, and ensuring that products and services are accessible and suitable, particularly for vulnerable individuals (FCA, 2021, 2022b). Firms must regularly review their products to ensure they continue to meet customer needs and communicate clearly about any changes that could affect customer outcomes. Additionally, firms should remove any unreasonable barriers that hinder customers from effectively accessing or using products, such as difficulties with switching or exiting (FCA, 2022b).

Industry stakeholders have raised concerns about the implementation of these rules, particularly regarding the clarity of their responsibilities. Firms fear that the regulation could impose an unreasonable level of accountability for customer outcomes, leading to confusion about their obligations (FCA, 2022b). There is also concern that firms may be expected to offer support beyond their authorised services, especially in non-advisory contexts where understanding individual customer needs is limited (FCA, 2022b). Implementing these measures might require significant resources, including staff training, process improvements, and enhanced customer communication. Addressing customer vulnerabilities and behavioural biases also presents challenges, requiring consistent application across all interactions (FCA, 2021, 2022b). Monitoring and evaluating customer outcomes can add complexity to compliance, and firms worry that customer expectations could become unrealistic, leading to dissatisfaction if support does not meet their expectations (FCA, 2022b).

Guidance from FG22/5 stresses the importance of market research and customer engagement to inform product design and service delivery (FCA, 2022a). Communication should be clear and free from jargon to help customers understand their options and the consequences of their decisions (FCA, 2022a). Products must be assessed for suitability to ensure they meet customer needs without exposing them to undue risk (FCA, 2021, 2022a). Support mechanisms, such as financial education tools and personalised advice, are encouraged to aid informed decision-making (FCA, 2022a). Firms should also proactively engage with customers during significant life changes and continuously monitor outcomes using feedback and performance data to refine their offerings (FCA, 2021, 2022a).

Clear product design is critical in helping customers assess whether a product fits their financial goals (FCA, 2022a, 2022b). Providing accessible support services eliminates barriers, enabling customers to seek help easily when needed. Firms should avoid creating unnecessary friction, or 'sludge', that prevents customers from acting in their best interests, such as cancelling services or switching providers (FCA, 2022a, 2022b). Proactive outreach during key life events, such as job loss or retirement, helps customers reassess their financial plans (FCA, 2021, 2022b). Offering financial education resources, like budgeting tools and workshops, improves financial literacy and confidence (FCA, 2022b). Accessibility features, including support for customers with disabilities, ensure equitable access to services (FCA, 2021, 2022b). Finally, feedback mechanisms allow firms to gather insights, identify areas for improvement, and adjust their practices to better support customers in achieving their financial objectives (FCA, 2022b).

2.3 FCA Clarification for Consumer Lending

On 20th March 2024 the clarifying letter (‘Dear all CEO’) has been sent from FCA covering three portfolios: High-Cost Lending, Mainstream Consumer Credit Lending and Credit Unions (referred to as ‘Consumer Lending’). The ultimate goal is set for firms to lend in an affordable and sustainable manner, minimise the risk of adverse consumer outcomes, and offer suitable support to consumers experiencing financial hardship.

The following problems are identified with the expectation that the firms will take steps to address them:

1. Inadequate creditworthiness assessments;
2. Reliance on relending to sustain business models;
3. Credit products that are designed to promote persistent use;
4. Inadequate support and forbearance options offered for consumers in financial difficulty;
5. Ineffective complaints management processes;
6. Failure to meet redress liabilities as they fall due.

The letter describes the economic context that is characterised by increasing vulnerability of borrowers, who are more susceptible to cost-of-living pressures, rising interest rates, and inflation. While the availability of high-cost credit has contracted, demand remains strong, leading to growth in pawnbroking. Credit unions are declining in number, but their membership continues to grow. Borrowing is also on the rise, though at a higher cost, potentially creating financial challenges in future.

Against this context, the following priority actions have been identified under three areas:

- Promoting competition and positive change

    1. *Access to Affordable Credit*

Declined consumers should be supported, e.g. via sign-posting to third-parties, 'benefits calculators'. **Access to credit and affordability** could be enhanced through No Interest Loan Scheme (NILS), clear and competitive interest rates, financial education, flexible repayment options, and utilising technology to improve customer experiences, simplify processes, and lower operational costs.

- Reducing and preventing serious harm

    1. *Responsible and Sustainable Lending*

Lenders must conduct **robust affordability and creditworthiness assessments.** There should be distinction between positive frictions or nudges and "sludge practices"—harmful actions that hinder consumer access. Firms must rigorously test new innovative technologies, such as AI and Open Banking to evaluate their effectiveness, benefits, and potential risks, ensuring that responsible lending practices remain central.

    3. *Reasonable price as compared to benefits of a product or service*

Firms offering higher-interest loans that fall outside the high-cost short-term credit price cap, must be able to demonstrate the **fair value** of these products. Even in markets where a price cap is in place, firms are expected to critically evaluate their pricing strategies.

    4. *Supporting consumers in financial difficulty*

The Tailored Support Guidance (TSG) should be considered when supporting consumers in financial difficulty.

    5. *Handling complaints and redress effectively*

    6. *Mitigating risks of Financial Crime* (including Illegal Money Lending and Domestic Financial Abuse) through appropriate systems and controls

    7. *Robust governance practices* for effective oversight and risk management.

- Setting and testing higher standards

These refer to a number of regulatory documents, including the details of Consumer Duty implementation, and intended revision of Consumer Credit Act. The price cap for high-cost short-term credit (HCSTC) will be reviewed. The cap, introduced in 2015, led to more affordable loans, improved affordability assessments, and reduced over-indebtedness. The Financial Services and Markets Act 2023, introduced significant changes for credit unions, allowing them to offer hire purchase agreements, conditional sale agreements, and insurance distribution services to their consumers.

The firms should consider how the issues outlined in the letter apply to their business and act as necessary.

2.4 FCA Assessment of Consumer Duty Implementation

The FCA has been actively advancing the implementation of the Consumer Duty, publishing reports such as “Findings from our Review of Fair Value Regulations” (2023b) and “Consumer Duty Implementation: Good Practice and Areas for Improvement” (2024a). These reports focus on ensuring firms deliver fair value, act in consumers' best interests, and adhere to principles of transparency, accountability, and consumer protection.

Findings from Review of Fair Value Regulations

The FCA’s review of 14 firms revealed several areas for improvement in fair value assessments. Many firms failed to consider external factors, like market conditions and consumer characteristics, which affect fair value. The FCA urged firms to critically review pricing structures, especially in complex environments, and avoid using overly simplistic models (FCA, 2023b). Additionally, *inconsistencies were found in how firms evaluated fair value for different consumer groups, particularly vulnerable populations. Firms should tailor assessments to reflect how costs and benefits vary across different groups* (FCA, 2023b).

The review also found that firms lacked clear plans to monitor fair value, with the FCA recommending data-driven strategies to track customer outcomes and address gaps. Many firms generalised fair value regulations, and the FCA advised firms to tailor these rules based on their products’ characteristics, including profit margins (FCA, 2023b). Another issue was *the reliance on average results, which could obscure areas of poor value. Firms should provide detailed analyses to better highlight variations in consumer outcomes* (FCA, 2023b).

Consumer Duty Implementation: Good Practice and Areas for Improvement

With new Consumer Duty rules taking effect in July 2023 for new products and July 2024 for closed products, the FCA reviewed how firms were preparing. A key finding was a lack of clear leadership and accountability for Consumer Duty implementation. The FCA recommended appointing senior-level Consumer Duty champions to lead the efforts and ensure consumer outcomes are prioritised (FCA, 2024a). This reflects the need for strong governance and accountability at the highest levels.

Another issue was the absence of detailed timelines for reporting implementation progress to governance bodies. The FCA advised firms to create structured timelines and regularly update boards and committees to maintain oversight (FCA, 2024a). Some firms also failed to engage their risk and compliance teams during implementation planning, potentially exposing them to risks. Early involvement of these teams is essential to identifying and mitigating risks (FCA, 2024a).

Many firms also lacked clear processes for post-implementation reviews and engagement with boards, raising concerns about their ability to meet evolving Consumer Duty standards. The FCA recommended regular reviews of consumer outcomes to ensure ongoing compliance (FCA, 2024a). Finally, the FCA found that some firms were slow in conducting gap analyses to assess readiness. Thorough gap assessments are needed, particularly for high-risk products, to ensure consumer protection is prioritised (FCA, 2024a).

2.5 Product Sales Data Reporting

Issued in April 2024, Policy Statement PS24/3 introduces three new Product Sales Data (PSD) returns to enhance the FCA's oversight of the consumer credit market, improve consumer protection, and reduce the reporting burden on firms. The three returns are:

1. Sales PSD: Captures detailed data on the sale of regulated credit agreements.

2. Performance PSD: Tracks the ongoing performance of these agreements and monitors consumer outcomes.

3. Back Book PSD: Provides an overview of firms' existing credit portfolios as of the start of the reporting period.

These returns will help the FCA monitor market trends and consumer experiences while providing insights into firms' risk profiles and product performance. The reporting threshold is raised from £500K to £2 million in outstanding balances or new advances, reducing the burden on smaller firms.

The first reporting period is from January to March 2026, with Sales PSD due by April 30, 2026, and Performance and Back Book PSD due by May 15, 2026. Larger firms have 14 months to comply, while smaller firms have 20 months, allowing time for adaptation to the new requirements.

Impact on Firms

PS24/3 introduces increased reporting requirements, including data on core agreements, borrower affordability, fees, and arrears management. Firms may need to enhance data collection and reporting systems, incurring significant costs for IT upgrades and ongoing compliance. While these efforts will increase operational demands, the detailed data will enable better market supervision and reduce the need for ad hoc requests from regulators.

The implementation will require one-off costs of £1.2 million for familiarisation and ongoing costs between £43 and £76 million for system changes. Firms are projected to incur £1.9 million annually for data collation and reporting.

Alignment with Consumer Duty

PS24/3 supports the Consumer Duty's goals of transparency, accountability, and consumer protection by enabling the FCA to monitor whether firms are delivering fair value and meeting consumer needs. **The data-driven approach** helps identify risks, ensure product suitability, and support vulnerable consumers, aligning with Consumer Duty's principles.

2.6 Expert Interviews

In order to clarify the main directions for proposed research we have conducted interviews with the key stakeholders. In compliance with research ethics, we can only publish interviews where respondents have given explicit consent. Therefore, only the interview with Salad Money is provided below.

Interview with Salad Money

Consumer Duty and Metrics for Competitiveness

The discussion revolved around translating the Duty principles into actionable and measurable metrics. A central objective is to develop a framework, that evaluates the appropriateness, sustainability, and competitiveness of loans. This framework would incorporate measures of affordability, financial vulnerability, and customer outcomes to demonstrate quantifiable compliance with the Duty standards. The **overarching goal is to provide transparency and level the playing field**, particularly for lenders, who focus on affordable lending but perceive themselves at a competitive disadvantage compared to higher cost lenders.

Affordability and Consumer Outcomes

Affordability was highlighted as a critical metric, both at the point of loan issuance and throughout the loan lifecycle. Lenders need to monitor whether a loan worsens or improves the borrower's financial position over time. Metrics such as **income-to-debt ratios, disposable income, and changes in fixed versus variable expenses** can help assess whether the loan meets affordability standards. Importantly, lenders must differentiate between the impact of the loan itself and broader external factors, such as changes in income or living costs. The interview also acknowledged that **not all loans result in betterment, with neutral outcomes being a valid possibility**.

Salad emphasised its focus on **proactive monitoring of post-loan financial behaviours, including changes in bounced direct debits, bank fees, and credit scores**. These indicators are used to determine whether consumers are maintaining financial stability. However, **challenges remain in defining thresholds for affordability and identifying when a loan becomes detrimental**.

The interview emphasised the superiority of OB data over traditional credit scores for affordability assessment and identifying harmful behaviours, such as gambling, with OB being particular valuable for customers without credit scores (Salad Money, 2023).

Competitiveness: From Consumer and Provider Perspectives

Competitiveness was explored from two angles: (1) how a lender compares with others in offering fair and affordable products, and (2) how accessible the market is to consumers. The discussion raised questions about whether competitiveness should be evaluated based on consumer choice (price takers) or to what extent the consumers can be price makers.

Key issues include the absence of standard benchmarks for competitive interest rates and the **exploitative nature of high-cost credit markets**. The group expressed concern that high-cost credit markets, where APRs often exceed 1,200%, lock vulnerable consumers out of affordable lending options, rendering the system inherently uncompetitive.

Open Banking as a Differentiator

The potential of Open Banking (OB) data was emphasised as a means to gain a competitive advantage by providing a more comprehensive view of consumer finances. OB data allows lenders to assess income, expenditure patterns, and other financial behaviours, enabling more nuanced affordability assessments and early interventions.

Salad's approach to using OB data for dynamic monitoring and post-loan evaluations was noted as a potential model for best practice. This data enables the tracking of declined customers, providing insights into whether they subsequently borrow from high-cost lenders, which could inform competitive benchmarking.

Challenges and Opportunities in Consumer Duty Implementation

1. Defining Detriment and Betterment: A key challenge lies in framing the impact of loans on consumers. Metrics must capture not only immediate affordability but also the long-term financial trajectory of borrowers.

2. Addressing Market Disparities: High-cost credit markets and the lack of standard benchmarks for fair pricing highlight systemic issues in defining and measuring competitiveness.

3. Data and Reporting: Consumer Duty introduces new data reporting requirements, especially for lenders with significant loan books. Lenders must balance data collection and analysis with practical implementation challenges.

Recommendations and Next Steps

- Develop robust metrics for affordability and competitiveness, incorporating OB data to create a holistic view of consumer financial health.

- Advocate for clear regulatory guidance on competitiveness benchmarks and affordability standards.

- Explore how the framework can address systemic issues, such as the dominance of high-cost credit providers.

- Collaborate with the FCA to align on definitions and expectations for Consumer Duty, particularly around competitive practices and consumer outcomes.

2.7 Summary and Discussion

In summary, the Consumer Duty and PS24/3 require firms to deliver good outcomes for retail customers by ensuring products and services are designed to meet their needs, offer fair value, and provide clear, accessible communication. It mandates firms to act in the best interests of customers, proactively preventing harm and supporting positive financial decisions. The Duty also emphasises a customer-centric and data-driven approaches and special focus on vulnerable customers.

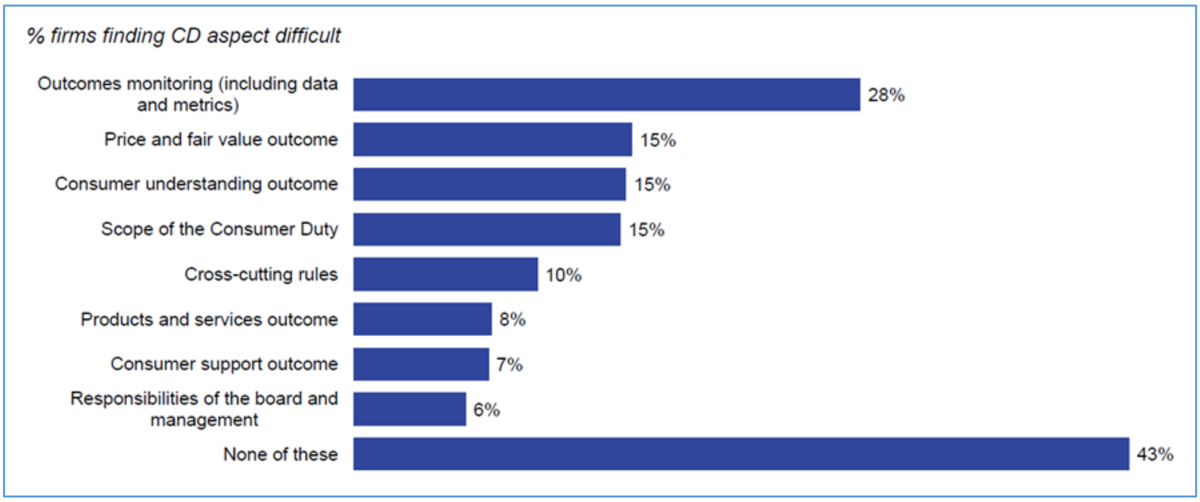
This initiative, while generally perceived as highly positive, has raised concerns within the industry, particularly about the cost and complexity of compliance, especially for smaller firms. There is also apprehension about **the clarity** of firms' responsibilities in ensuring consumer outcomes.

In Spring 2023, FCA commissioned Ipsos UK to survey 1,230 firms subject to the Consumer Duty to assess their readiness for the 31 July 2023 implementation deadline for open products and services. In Autumn 2023, a second survey of 634 previously unsurveyed firms was conducted to evaluate the impact of additional engagement.

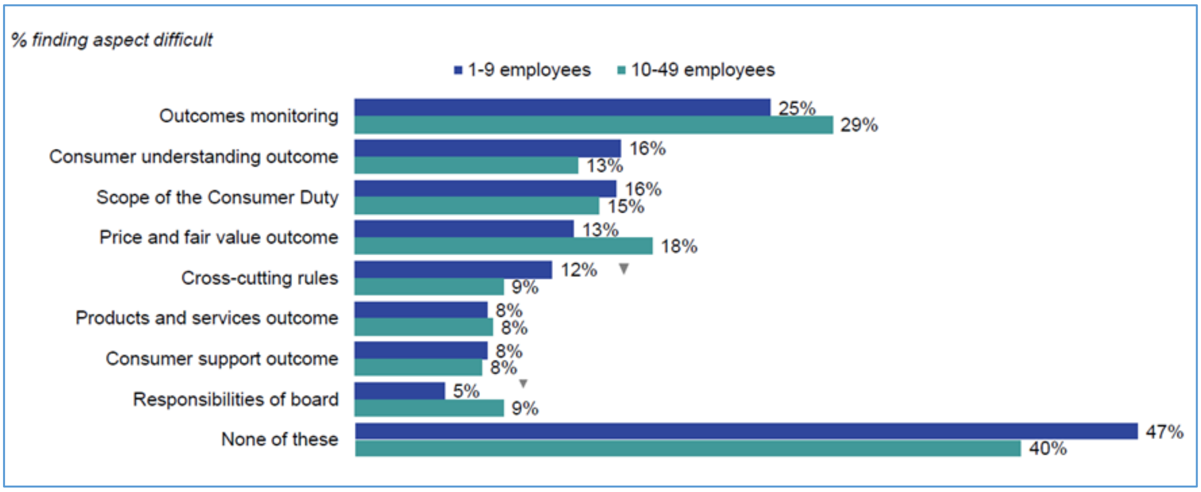
One of the key questions aimed at identifying the specific aspects or areas that firms find particularly challenging to implement (Figure 1). The most challenging one is ‘Outcomes monitoring (including data and metrics), which received 28% vote from all firms, and 29% from firms with 10-49 employees. This aspect is followed by: Price and fair value outcome, Consumer Understanding, Scope, Cross-cutting rules.

Figure 1: Consumer Duty: UK firms' readiness survey (IPSOS)

a)



b)



Source: Ipsos (2023) 'Answers to the question "Which of the following aspects of the Consumer Duty, if any, are you finding it difficult to implement?" a) from all firms; b) from small firms. Base: 1-49 employees, 546; 1-9 employees, 389; 10-49 employees, 157; All firms, 634.

These results confirm our initial impression that the most pressing issue is understanding what the positive outcome means and how to measure it. This is intrinsically linked to understanding consumers, since different types of customers have different needs. Yet the 'Know Your Customer (KYC)' practice is better developed as compared to outcome metrics, thanks to advances in marketing research and the constant need to identify the target market. The area linked to KYC, which will require further investigation is vulnerability, since it is one of the most prominent topics of Customer Duty. Therefore, the rest of the report focuses on defining and measuring the outcome, with the emphasis on vulnerable customers.

At the same time we acknowledge the importance of the fair value outcome, and especially in the light of insights from the Salad Money interview which raised concerns about the level playing field, and disadvantages that responsible lenders face. Although we will provide some thoughts on the fairness aspect, we feel the topic deserves a separate report and more in-depth investigation.

In consideration of the concept of customer ‘competitiveness’, there is a strong link to earlier discussed problems of outcome measurement, since this can be one dimension of the outcome.

The rest of the report focuses on the outcome monitoring with the aim of providing an overview of the research that has been done already and the gaps that could be addressed through further investigation.

3. Research Background Analysis

To review the existing research on potential compliance measures for Consumer Duty, we employ a funnel approach. We start by a broad search of academic literature and industry reports using keywords to get an idea of the volume of the activity and key trends. We structure the search using the priority dimensions identified earlier and the conceptual model presented in Section 3.2. We then review key studies under each heading.

For academic literature, this study used the Web of Science (WoS) digital bibliographic platform, which is a popular collection of academic papers that provides indexing, cross-referencing and citation analysis. The initial search 'Consumer Duty' returned only 1 relevant paper, published in the ACCOUNTING ECONOMICS AND LAW Journal, and providing a very high-level theoretical overview on the financial policy. This is not surprising, given the recent nature of Consumer Duty regulations, and underscores the importance of developing the research agenda in this area.

However, since the introduction of the FCA's Consumer Duty guidelines, many professional services firms, particularly in law and management consultancy, have been preparing to offer frameworks and guidance to affected firms on meeting these new regulations. While much of the publicly available information from these firms is high-level and generalised, we highlight two specific examples that may provide valuable insights on potential compliance measures and a firm's overall approach to evidencing positive consumer outcomes.

3.1 Guidance from professional services consultancies

3.1.1 Consumer Duty Alliance & Kroll – 'Developing an Effective Assessment Framework'

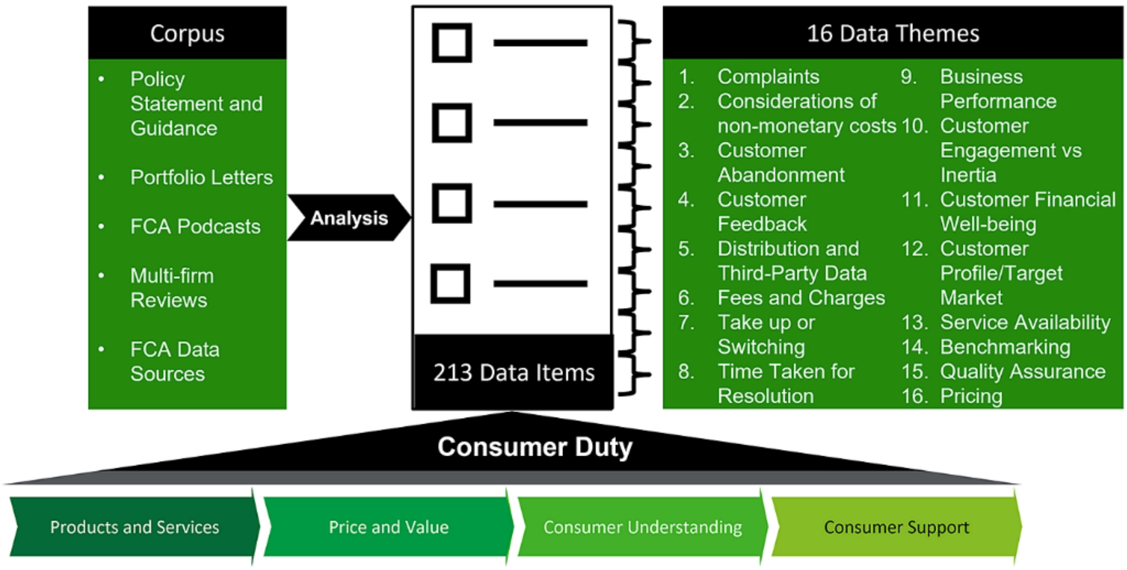
The Executive report produced by the Consumer Duty Alliance (independent, not-for-profit community interest company) and advisory firm Kroll takes a holistic view on how firms should approach the definition and measurement of the four Consumer Duty outcomes, with a focus on how the ultimate Board Reporting that evidences good outcomes for consumers should look. The report therefore offers guidance on "the essential **constituents of the Board Report**, the assessment itself, including the **role of relevant management information**, and how to structure the Board Report to ensure it is aligned with the regulator's expectations and sector wide good practice, recognising proportionality for small firms" (Consumer Duty Alliance & Kroll, 2024).

3.1.2 Deloitte's 16 Data Themes

Deloitte have analysed 36 FCA Duty-related publications, resulting in the identification of 213 data items which they have mapped to the four Duty outcomes and 16 data themes (Lonen et al, 2024).

Further work outlined within the report maps these data themes to each of the four outcomes, using different weightings. The data required to create measures used for outcome monitoring will come from various sources. For example, firms should have existing Management Information (MI) systems that can contribute to many measures under these data themes.

Figure 2: Deloitte's 16 Data Themes for Consumer Duty



Source: Deloitte: Lonen et al, 2024

The analysis offers firms a valuable reference to enhance their understanding of necessary data requirements, assess their ability to deliver good customer outcomes, and address any gaps in their data collection practices. The report highlights three key areas as the most critical for demonstrating compliance with the four Consumer Duty outcomes: Complaints data, Customer Feedback, and Quality Assurance/Outcomes Testing. Examples of relevant data include formal complaint volumes, root cause analyses, informal complaints such as those on social media, customer satisfaction scores, survey results, and customer file reviews.

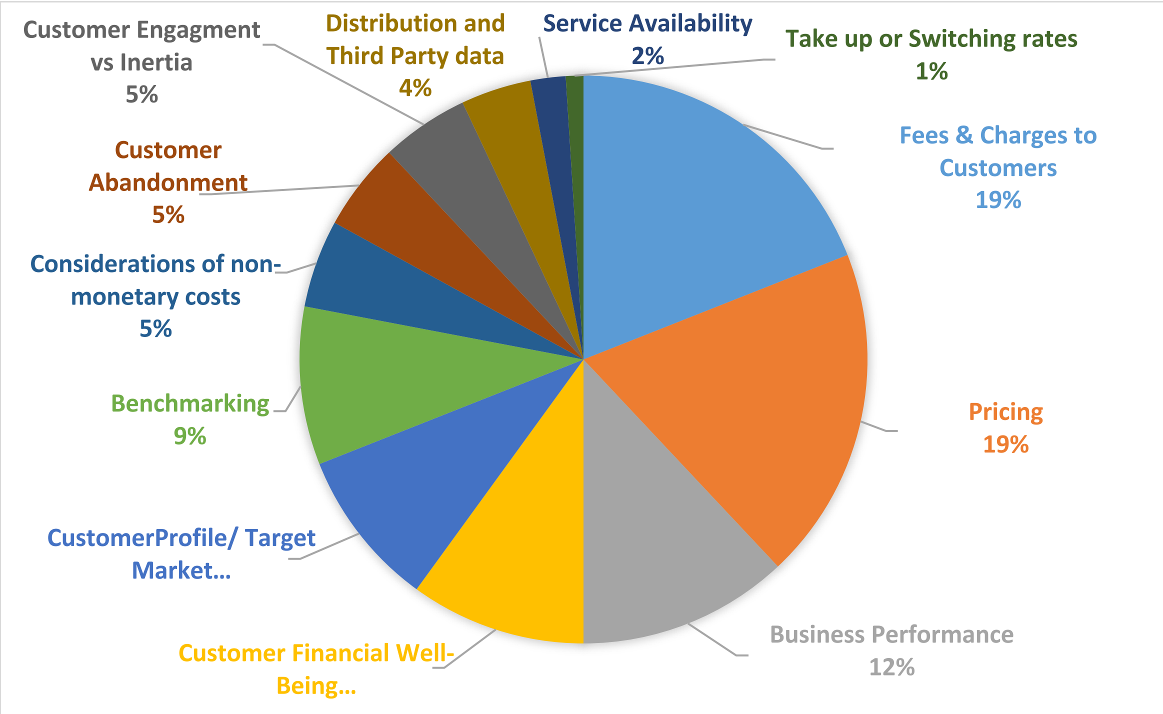
Figure 3 gives an example of the weightings of the ‘Price and Value’ key outcome.

However, the authors themselves acknowledge that this analysis is only a starting point. While the methodology is not fully detailed, it appears that some NLP techniques were employed, with the resulting schemes derived from keyword frequency. However, this approach may not accurately capture the true significance of each topic. Besides, the themes represent a mixture of data sources (e.g. Distribution and third party data) and what needs to be measured (e.g. Pricing).

While most firms have established formal complaint recording and management information systems, it remains unclear whether these data can be effectively mapped to specific outcomes, or used to compare outcomes across different customer groups. The existing measures will require review, and new measures, including the data for those measures from within and outside the organisation, will need to be developed. Firms must define what constitutes good customer outcomes, determine the metrics they will use for assessment, and establish baselines or thresholds for action. Additionally, firms need to segment data to monitor outcomes for distinct customer groups and evaluate how customers with vulnerable characteristics compare to others.

Defining and measuring outcomes remains an open and unresolved challenge, further underscoring the importance of this report's focus. Notably, Consumer Financial Well-being emerges as a key theme, both in our analysis and as validated by Deloitte. The next section provides a deep dive into the concept with the objective of validating through existing academic literature the dimensions to be measured.

Figure 3: Distribution of Data Themes for 'Price & Value' Outcome (Deloitte)



Source: Deloitte: Lonen et al, 2024

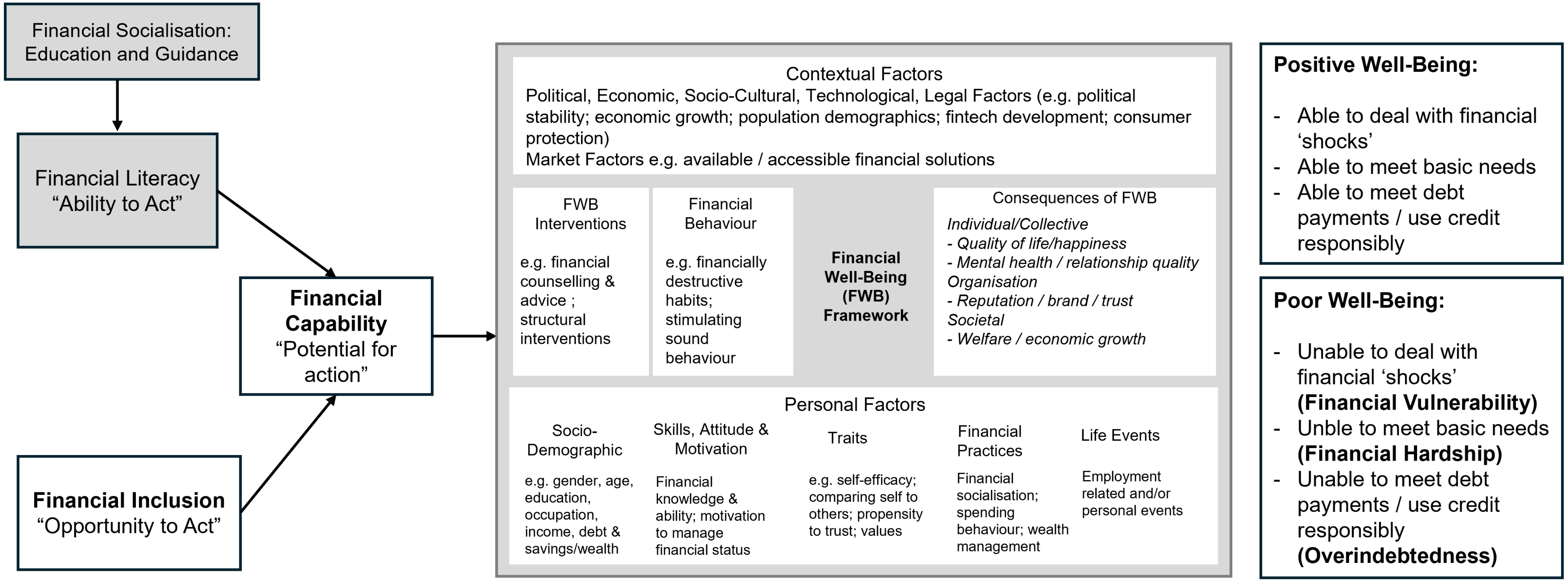
3.2 Conceptual Model & Terminology

Our first aim is to provide a model of many terms used in the context of good or bad consumer outcomes, particularly for vulnerable consumers which is a key focus of the Consumer Duty regulations. We centre our model on work done by Bruggen et al (2017) to define a financial well-being framework, considering both antecedents and the consequences of positive and poor well-being.

In constructing our model, we find that there is no common or widely used definition of many of the key terms, and we therefore investigate and suggest relevant definitions in the sub-sections below.

The search then focussed on the dimensions of ‘outcome’, as seen in the right-hand panels of the diagram in Figure 4.

Figure 4: Conceptual Model of Key Terminology related to Financial Well-Being



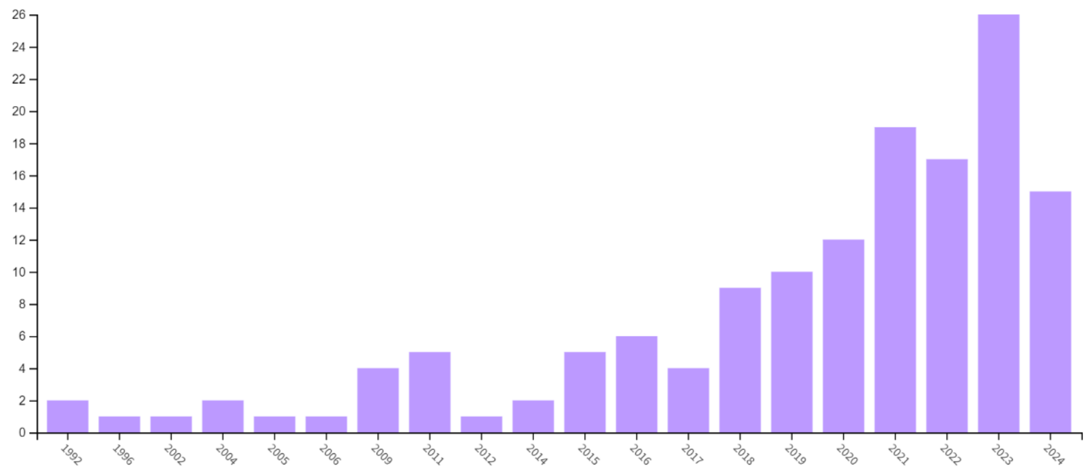
Sources: Financial Well-Being Framework, adapted from Bruggen et al (2017); Antecedents - based on Sherraden M (2013)

3.2.1 Financial Well-Being/ Capability

The search with these keywords returned 1969 papers. Since we are interested in quantitative measurement, the term 'measure' was added to refine the results, reducing the number of papers to 155. Adding term 'open banking' led to no papers, 'financial transactions' gave 1 paper. It should be noted that WoS only covers registered publications with ISSN or ISB, thus working papers, industry reports and some conference presentations may not be captured. Despite this fact, this points to a gap in academic research - the work on financial capability/ well-being has concentrated on surveys, which relies on self-reported measures. Even taking into account any under-estimation of search results, there is a clear need for measures based on the objective financial transactions.

Nevertheless, the previous research has developed some useful dimensions/ aspects that can serve as a starting point for the objective data analysis. Therefore, this literature is summarised below in bibliographic graphs, with some illustrative examples of most influential studies.

Figure 5: Time line of academic publications on Financial Well-Being/ Capability



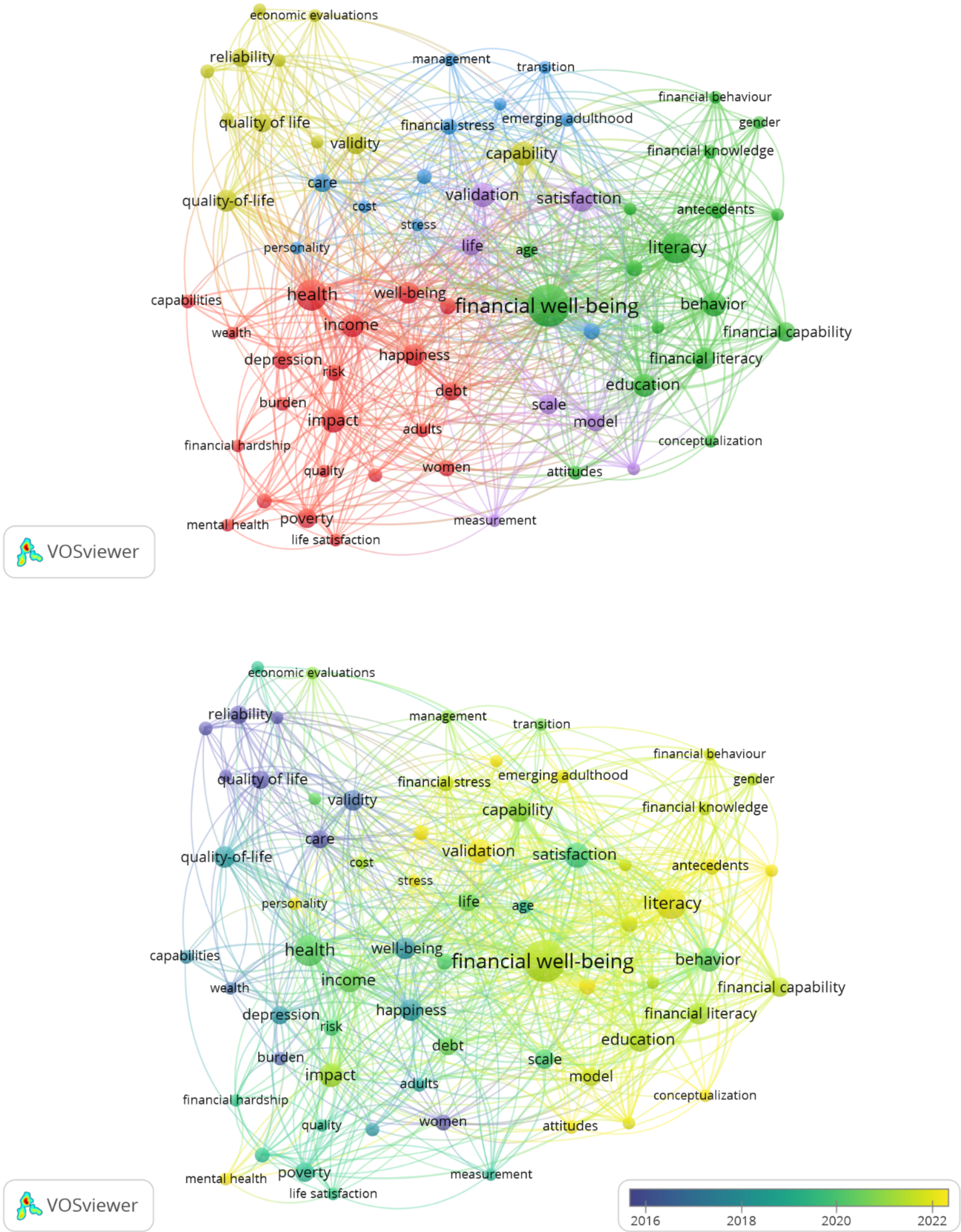
In order to identify the relationship (interactions or connections) between different topics represented by keywords, a science mapping approach or network analysis was employed (Donthu, Kumar, Mukherjee, Pandey, and Lim 2021; Ramos-Rodrígue and Ruíz-Navarro 2004). This analysis aimed to unveil relationships between different themes by assessing the content of selected publications within a specific field. The underlying assumption of this technique is that frequently and simultaneously appearing keywords are indicative of thematic correlations, as evidenced by Jia, Zhou, and Allaway (2018). This approach expands our comprehension of conceptual elements and themes (i.e., topics), serving as a foundation to delve deeper into the substance of each theme and pave the way for future research directions. The network connections were visualised with the VOSviewer software[1].

There are 5 main topics/ dimensions emerging from Figure 6. The green cluster which has the main keyword of 'financial well-being' refers to education and knowledge, highlighting the importance of this intervention. The red cluster points to health problems, including depression

[1] https://www.vosviewer.com/

and mental health. It is interesting to note that ‘debt’, ‘poverty’ and ‘women’ also appear to be connected to health topic. Smaller yellow, blue and purple clusters refer respectively to quality of life/economic evaluations; age stages and transitions; models and measurement.

Figure 6: Keyword co-occurrence in publications on Financial Well-Being/ Capability



Key Studies

There is no universally adopted definition of financial well-being. Yet there are recurring elements, and some overlapping concepts as can be seen from Table 1 developed by Canadian psychologists (Aubrey et al., 2022). It should be noted that all these scales and definitions are based on interviews/surveys and include subjective perceptions.

Table 1: Most cited definitions and dimensions of Financial Well-Being

Author (s)	Definition
Consumer Financial Protection Bureau (CFPB, 2015)	A state of being wherein individuals can fully meet their current and ongoing financial obligations, can feel secure in their financial future, and be able to make choices that allows them to enjoy life.
Kemper & Poppe (2017)	The extent to which individuals can meet all of their current commitments and needs comfortably and have the financial resilience to maintain this ability in the future.
Muir et al. (2017)	Financial wellbeing occurs when individuals are able to meet their expenses with some money left over, are in control of their finances, and feel financially secure now and in the future.
Brüggen et al. (2017)	Individuals' perceptions of being able to sustain current and anticipated desired living standards and financial freedom.
Netemeyer et al. (2018)	No original definition was proposed by the authors, who relied on definitions provided by others.
Sorgente & Lanz (2017, 2019)	Subjective financial well-being corresponds to individuals' emotional and cognitive evaluation of their own financial condition, that is to their subjective experiences of that condition.

	Author (s)					
Dimensions	Consumer Financial Protection Bureau (CFPB, 2015)	Kempson & Poppe (2017)	Muir et al. (2017)	Brüggen et al. (2017)	Netemeyer et al. (2018)	Sorgente & Lanz (2017, 2019)
Income Adequacy	X	X	X	X	X	X
Life Enjoyment	X	X	X	X	X	X
Temporal (present vs. future)	X	X	X	X		
Relativity (vs. others)						X
Control (financial management)	X		X		X	X
Cognitive evaluation (satisfaction)	X	X	X	X	X	X
Emotional evaluation (stress, anxiety)	X		X		X	X

Source: Aubrey et al. (2022)

The dimensions given in bold are those singled out by all authors: Income Adequacy, Life Enjoyment and Cognitive evaluation (satisfaction). Income Adequacy can be measured objectively from financial transactions, and this is equivalent to Affordability checks that should be conducted by all responsible lenders. Cognitive evaluation (satisfaction) is clearly subjective and requires evaluation by the customer. Life Enjoyment can be partially inferred from transactions, but there is also a subjective element.

One of the most popular and cited approaches is the one developed by the US Consumer Financial Protection Bureau (CFPB, 2015, 2017). They distinguish 4 main constructs with the main dimensions being Security and Freedom of Choice that should be measured in Present and Future (Table 2). Building on this conceptual framework, CFPB conducted qualitative interviews with 59 adult consumers and 30 financial practitioners. Information gleaned through these interviews, along with expert opinion, was used to develop an initial pool of candidate items. The initial pool of candidate questions arising from qualitative interviews was assessed through cognitive interviews and subsequent three rounds of surveys totalling over 14,000 respondents were used to develop and confirm the scale model.

Table 2: Constructs and dimensions of Financial Well-Being

	Present	Future
Security	Control over your day-to-day, month-to-month expenses	Capacity to absorb a financial shock
Freedom of Choice	Financial freedom to make choices to enjoy life	On track to construct your financial goals

Source: CFPB (2017)

After extensive development and evaluation work CFPB produced a relatively short scale (Table 3) by following the key steps that are universally accepted for the survey scale development:

1. Concept Definition: Establishing the concept to be measured based on theory, prior research, and qualitative insights.

2. Item Creation: Designing an extensive initial set of questions for refinement through testing.

3. Feedback and Review: Consulting experts and users to ensure clarity, relevance, and accurate interpretation of items and response options.

4. Psychometric Analysis: Testing candidate items through surveys to refine the scale, assess reliability, and examine consistency across demographic groups (e.g., age, gender).

5. Validation: Using additional survey questions to ensure the scale measures the intended construct and aligns with related benchmarks.

Once developed, scales combine individual item responses into a single score. This can be done using simple methods like summing responses or more rigorous approaches such as Item Response Theory (IRT). IRT accounts for differences in item importance and respondent characteristics, offering higher reliability and flexibility compared to traditional scoring methods.

Table 3: Consumer Financial Protection Bureau Scale

How well does this statement describe you or your situation?
1. I could handle a major unexpected expense
2. I am securing my financial future
3. Because of my money situation, I feel like I will never have the things I want in life
4. I can enjoy life because of the way I'm managing my money
5. I am just getting by financially
6. I am concerned that the money I have or will save won't last
How often does this statement apply to you?
7. Giving a gift for a wedding, birthday or other occasion would put a strain on my finances for the month
8. I have money left over at the end of the month
9. I am behind with my finances
10. My finances control my life

Source: CFPB (2017)

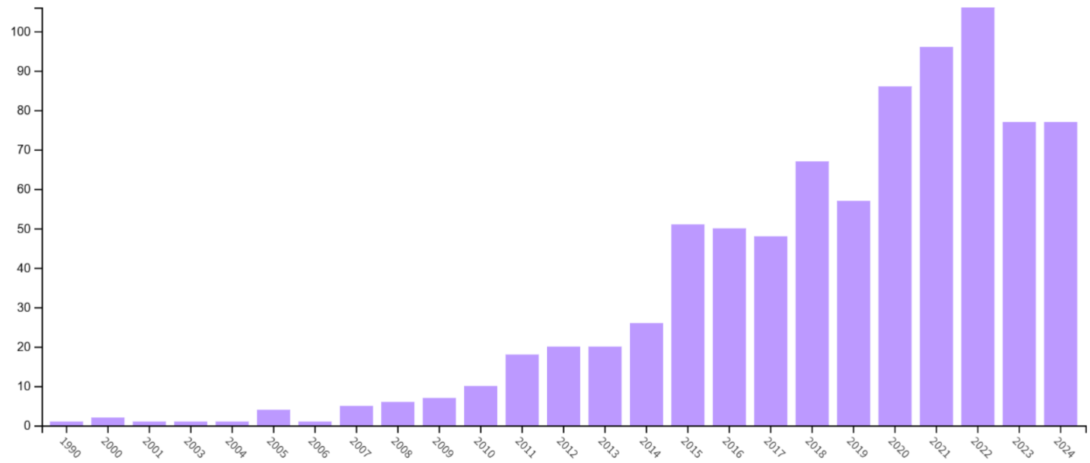
To give an example of survey research in the UK context, Harrison et al (2017) analysed the role of financial capability in achieving the well-being for young adults. The data came from the Money Advice Service's 2015 UK Financial Capability Survey The survey comprised a total of 3,461 respondents drawn from across the UK, of which 744 were young adults aged 18-24. Using a range of factors including attitudes, goals and planning, financial confidence and financial dependency, three distinct groups of young adults emerged: Planners, Dreamers and Drifters.

Although the scales reviewed in this section have been designed for surveys, there are clear elements that can be measured objectively. Yet previous research strongly suggests a subjective qualitative element of satisfaction that would require solicitation from the customer. The scales are used to measure unobserved latent construct, such as financial capability/ well-being. Financial Vulnerability, which is the central topic of Consumer Duty, can be thought of as an extreme of the capability construct, and therefore, elements/items of the capability scales are applicable to vulnerability measurement. Yet as the next section will show there are certain nuances in analysing this area, which are not captured by general financial capability scales.

3.2.2 Financial Vulnerability

Although Financial Vulnerability (FV) can be seen as the opposite for well-being, the search with these keywords returned far more papers – 17,466. Filtering on 'measure' reduced the number of papers to 838. Similarly to well-being, adding term 'open banking' led to no papers, 'financial transactions' gave 2 papers. Therefore, the same gap is present with this dimension, irrespective whether we look at the positive side (well-being) or negative side (FV).

Figure 7: Time line of academic publications on Financial Vulnerability



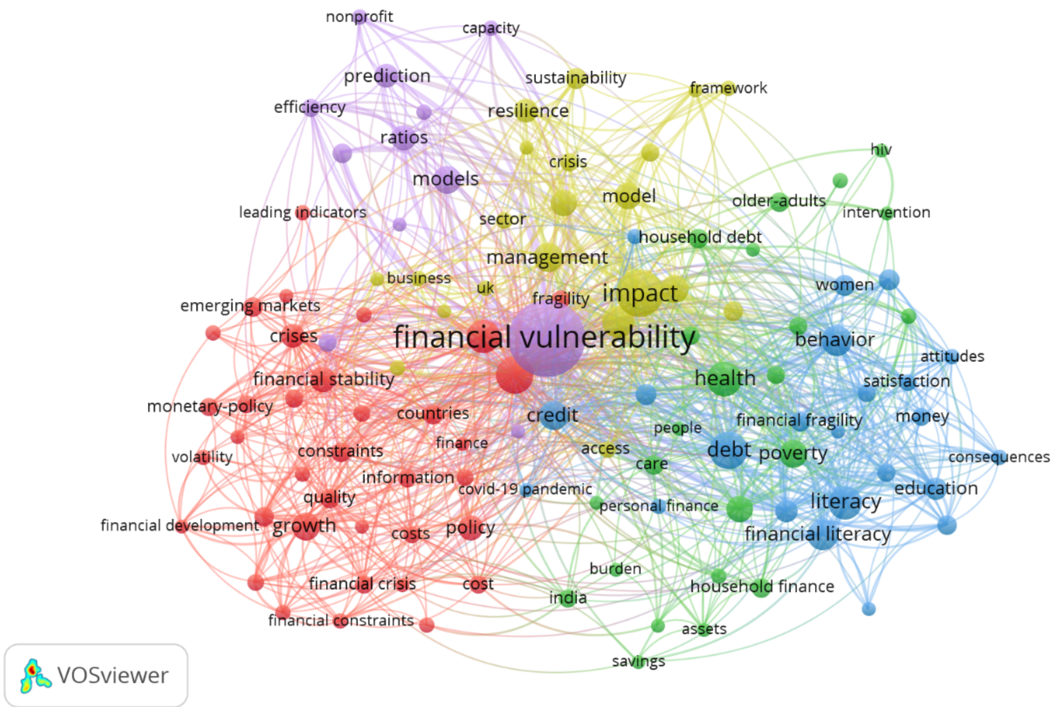
Key Studies

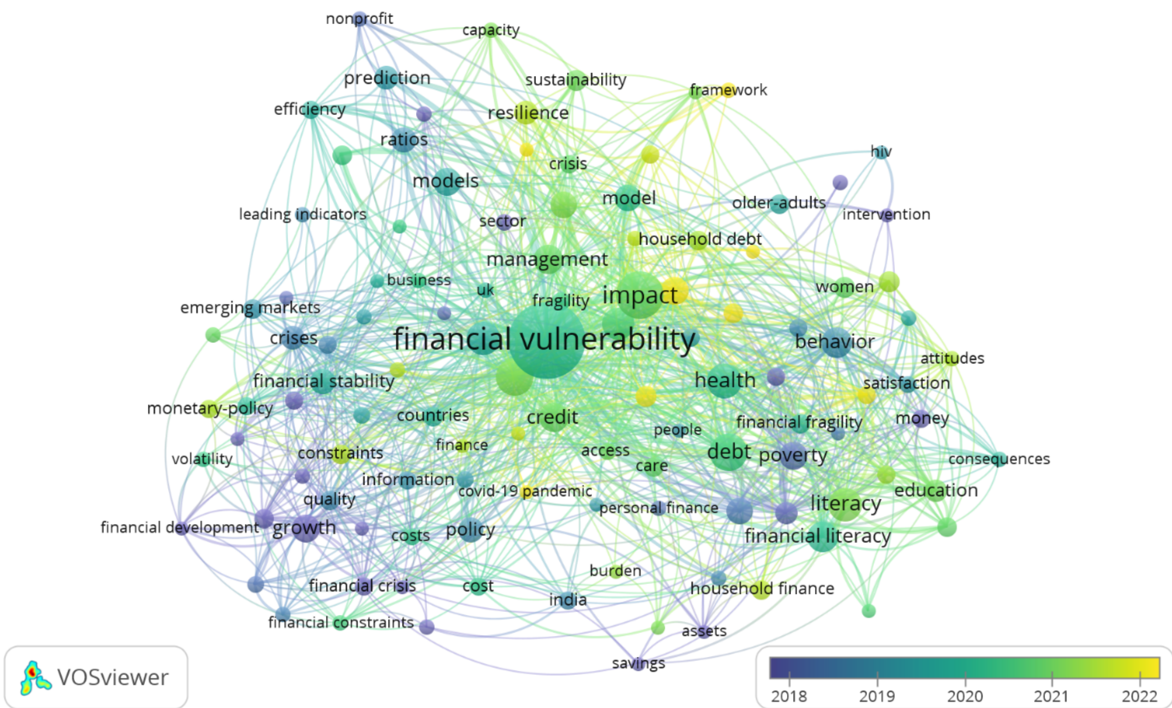
There is no official or universally accepted definition of FV. In the UK much of existing conceptual work has been linked to Financial Conduct Authority's (FCA) seminal work, which includes qualitative explorations and the development of the Financial Lives survey (FCA, 2017, 2021). We follow the FCA definition and guidance: "A vulnerable customer is someone who, due to their personal circumstances, is especially susceptible to harm, particularly when a firm is not acting with appropriate levels of care" (FCA, 2021, p.3).

According to FCA, key indicators of being 'financially in difficulty' or having 'low financial resilience' include having insufficient funds in their account, being over-indebted, having low or erratic incomes or low savings and being unable to withstand an unexpected increase in monthly expenses such as rent.

The researchers (including the authors of this report) are increasingly drawn to financial transactions as the source of wealth of information that can provide answers to a wide range of questions in social science and policy (Olaffson and Pagel, 2018; Gathergood et al., 2019; Muggleton et al., 2021, Harrison & Andreeva, 2021; Harrison et al, 2022; Goh et al, 2023, Kim et al, 2023).

Figure 8: Keyword co-occurrence in publications on Financial Vulnerability





FCA indicators provided the background and a starting point for Harrison & Andreeva (2021), Harrison et al (2022), who developed a number of quantitative measures using financial transactions data provided by Salad Money. It was not possible to replicate all the measures used by the Financial Lives Survey from the available data, but these two studies developed approximations to the key indicators:

- **Low financial resilience/financial shocks withstanding**.
  - This requires the analysis of *monthly account balances*, that are used to show if individuals would struggle to sustain an unexpected expenditure of £100 in a month, without causing their bank account to go into overdraft, or further into overdraft. The average of the user-monthly median (mid-point) account balance was suggested as the reference point. This shows the proportion of individuals would struggle to meet an unexpected expenditure of £100 in a month and would be forced into overdraft unless they had savings to fall back on.
  - Evidence of *returned direct debits* (an indicator of difficulty in being able to meet financial obligations) is another signal of low financial resilience. A key indicator of those 'in difficulty' is whether individuals in at least three of the last six months have missed paying domestic bills or meeting credit commitments. Returned direct debits (RDD) can proxy missed bills. It is not a perfect indicator since it is not known whether the direct debits are for domestic bills or credit commitments, but it is nonetheless an important indicator of the state of an individual's bank balance. RDD occur when a company attempts to take money from an account (in accordance with an agreed direct debit mandate), but there are insufficient funds in the account to cover the amount requested.
  - Additional key indicators could be *savings*, yet with access only to bank account data, the full picture is not possible, since transactions categorised as 'savings or investments' can be observed only for a very small number of people. This can be used as a proxy for savings, but with caution.
- **Reliance on benefits.** Bank account transactions can show the income structure, and high proportion of benefits would signal financial insecurity.
- **High use of credit and loans.** It is possible to analyse the *outgoing transactions to credit providers*, and thus calculate the amount of credit repayments. It should be noted that it is impossible to separate the interest component, since this requires additional information about terms and conditions on the credit product. In some case it is possible to get this information from the internet.
  - Individual credit providers can be identified by means of Natural Language Processing (NLP) analysis of the transaction reference, and then categorised into traditional, new, high-cost lenders using additional information. The *% and # of high-cost lenders* in individual credit repayments indicates high need for extra funds and financial exclusion, since it is likely other sources of credit are not available.
- **Persistent overdraft use.** The number of days in overdraft and the negative balance are visible through bank account transactions, high values suggest struggles to live within the means.
- **Buy Now Pay Later (BNPL).** The majority of BNPL users do not show excessive over-indebtedness and overindulgence. Yet a small segment of individuals is at risk

from continued use. High amounts spent on BNPL combined with other financial circumstances of heavy users may signal financial trouble.

Kim et al. (2023) investigate further the FV indicators using bank account data, and add the following details to dimensions listed above and also some variants/ alternatives to these dimensions:

- One can consider **financial shocks withstanding** as the continuum, ranging from the point when individuals are unable to withstand financial shocks in any month ("never withstands financial shocks"), representing extreme financial vulnerability, to the point when individuals can withstand financial shocks in all months ("always withstands financial shocks"), reflecting financial resilience. It also possible to categorise this continuous measure using some meaningful thresholds. This approach allows for comparisons across varying degrees of financial vulnerability and helps determine whether specific behaviours follow a monotonic pattern.
- Insufficient disposable income can be considered as the alternative way to measure **financial shocks withstanding**. This is defined as having an average monthly disposable income of £100 or less. To evaluate whether individuals can manage a financial shock, we examine their capacity to cover essential expenditures or whether they would face deprivation.
- Similarly one can treat **Days in Overdraft** as varying between 0% of months observed and thus signalling financial health (“overdraft never”) and 100% of months and thus signalling financially hardship, with some meaningful threshold. When an applicant has at least one or more days in overdraft (OD) per month for more than 50% of the months throughout their account history could be selected as the separating point between vulnerability and hardship.
- **Insolvent:** When an individual has made at least one or more payments under the transaction category of debt management and insolvency in their history.
- **Being a gambler:** An individual is considered a gambler if they have spent £100 or more on average per month on gambling expenditures.
- **Burstiness in spending**: A high variability of expenditure, especially concentrated a short period of time, can signal vulnerability, e.g. because of compulsive shopping behaviour.

Goh et al (2023) proposed to quantify distress by examining **overdraft** use since negative balances indicate a deficit, essentially borrowing from the bank. Three aspects of negative balances measure vulnerability or hardship:

- Number of days in a negative balance, which represents how long an overdraft is used.
- Ratio of the (average) minimum balance to the (average), median balance, which reflects the magnitude of the overdraft amount, analogous to the definition of credit default, which considers the duration (90 days past due) and the materiality of the overdue amount (Ernst & Yong, 2018).
- Fluctuations in the minimum balance, demonstrating the volatility of the lowest financial position for the individual.

Going back to the conceptual model, one should note the distinction between ‘vulnerability’ and ‘hardship’. Vulnerability implies a potential to get into financial hardship. All the variables described above can be used to measure both, the problem is identifying thresholds or levels of this construct, and the points when vulnerability turns into hardship. This is one of the most prominent gaps, for which Goh et al (2023) propose a hidden Markov chain analysis to arrive to data-driven definition of different stages of financial hardship.

3.2.3 Over-indebtedness

We can define consumer over-indebtedness as “a situation in which consumers hold excessive and problematic debts, reporting persistent difficulty paying their debts and living expenses and finding their debts to be a heavy burden” (Leandro & Botelho, 2022).

The bibliometric search with this keyword returned 409 papers, adding similar terms: Household Over-indebtedness, Personal Bankruptcy, Personal Insolvency, Multiple Borrowing, Consumer Bankruptcy expanded the number to 948. Filtering on ‘measure’ reduced the number of papers to 20. Similarly to previous dimensions, adding term ‘open banking’or ‘financial transactions’ led to no papers. Therefore, the same gap is present with this dimension, although there are some papers that focus on how to measure over-indebtedness, none of them used objective financial transactions.

Figure 9: Time line of academic publications on Over-indebtedness

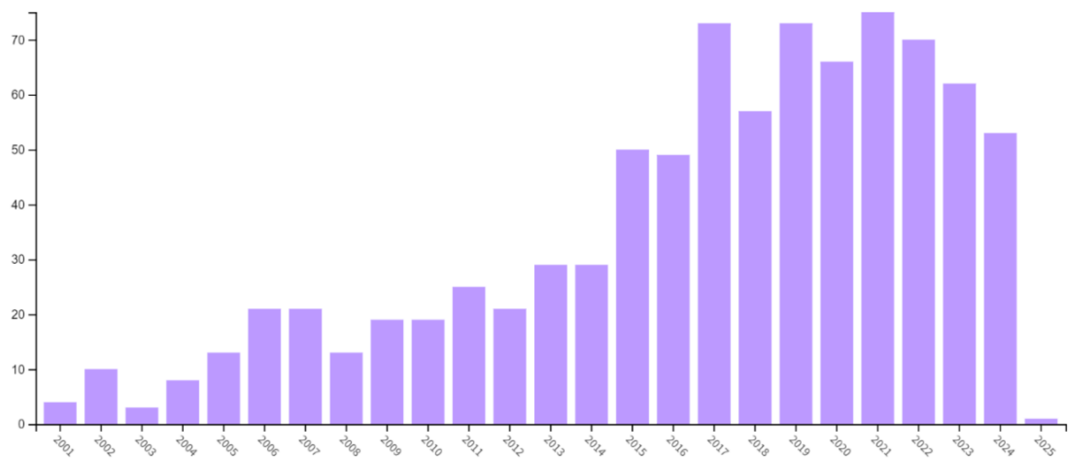
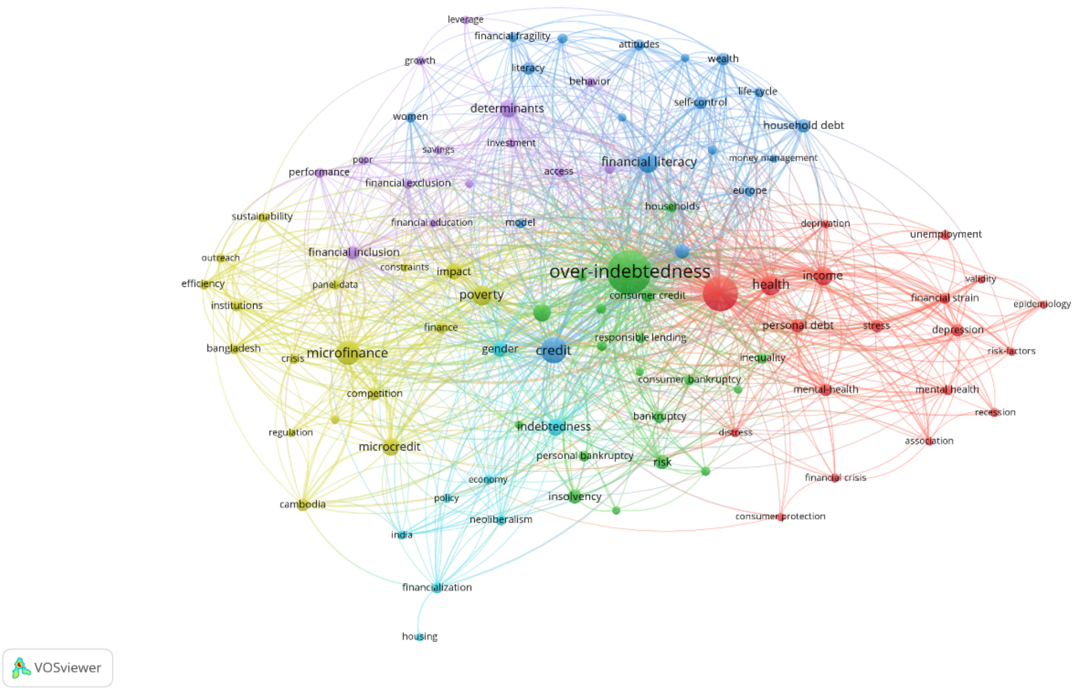
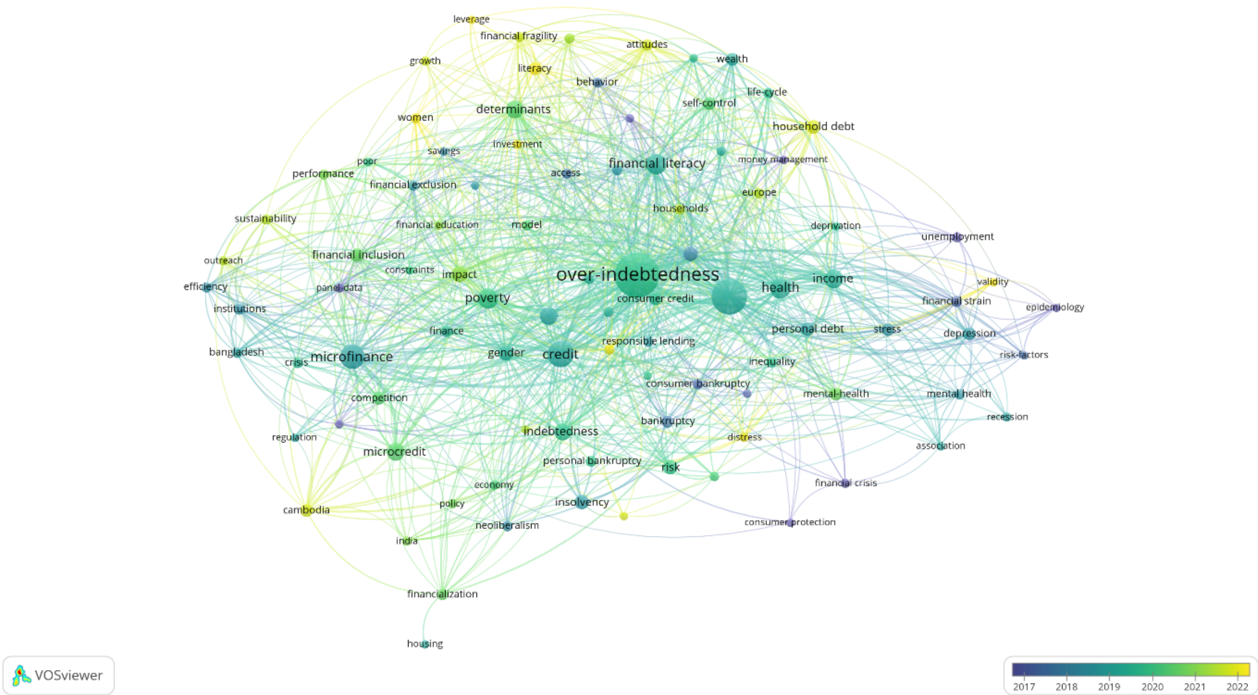


Figure 10: Keyword co-occurrence in publications on Over-indebtedness





In the UK, over-indebtedness has previously been defined as answering yes to either of these survey questions (1) I find keeping up with bills and commitments a heavy burden (2) I have fallen behind on, or missed payments, in three or more months out of the last six months. Whilst other countries have different definitions, there are common dimensions: economic (amount of debt to repay); temporal (medium to long term); subsistence (basic expenses that have to be met ahead of debt repayment; and psychological (the distress caused by over-indebtedness (d'Alessio & Iezzi, 2013).

Table 4: Model Parameters for Over-indebtedness indicators

Parameter	Estimated Parameter Coefficient	Standardised Estimate	Relative Importance Score	Average Marginal Probability
Intercept	-1.925			
Has loan for consolidation	4.584	0.047	4.2	51%
Private renting	0.315	0.045	4.0	3%
Social renting	0.431	0.074	6.6	5%
Has 3+ children	1.050	0.029	2.6	12%
Single parent	0.209	0.027	2.4	2%
Social Grade D or E	1.067	0.093	8.3	12%
Northern Ireland	0.527	0.063	5.6	6%
Value of home <£100k, South East	0.831	0.035	3.1	9%
Value of home <£100k, London	4.464	0.022	1.9	49%
Unemployed, Wales & West Midlands	1.952	0.042	3.8	22%
Own home outright, Wales	0.670	0.054	4.7	7%
Household income <£10k, Household size 3+	1.159	0.038	3.4	13%
Has savings £10k+	-2.127	-0.200	-17.8	-24%
Aged 65-74	-0.919	-0.185	-16.4	-10%
Aged 75+	-1.211	-0.126	-11.2	-13%
Scotland	-0.259	-0.046	-4.1	3%

Source: Money Advice Service, 2016

In 2016, the UK Money Advice Service (now the UK Money and Pension Service) undertook a study to identify characteristics associated with over-indebtedness and likely concentration of over-indebted people across the UK. It found that although one in six people in the UK is over-indebted, few of them seek advice. To identify factors that predict over-indebtedness, they tested a wide range of variables and found 16 characteristics that had a strong (statistically significant) relationship with over-indebtedness. Table 4 shows an extract from the technical report of the parameter estimates of the final model. Some highlights from the report are:

- **Home Ownership:** 25% of people who rent their homes are over-indebted, compared with 12 % of home owners. This figure rises to 29% among social tenants (compared with 21% of private tenants).
- **Family Type**: 20% of families are over-indebted, compared to 13% of those without. This rises to 26% of families with three or more children.
- **Marital Status:** 28% of single parents are over-indebted, compared with 18% of two-parent families. This rises to one-third of single parents with three or more children.

- **Household Income:** 24% of people with household incomes below £10,000 are over-indebted. Above that income level, about 15% of people are over-indebted regardless of their income band. Factors other than income are more important above this threshold.

- **Age group:** Younger people are more likely to be over-indebted. Among those aged 25-34, about a quarter are over-indebted, with levels of about 20% among those aged 18-14 and 35-44. The figure falls to about one in 20 among those aged 75 or over. Younger people are more likely to miss payments and older people to find bills a heavy burden.

In their systematic review of academic literature on over-indebtedness, Leandro & Botelho (2022) summarised the antecedents found to be the drivers of over-indebtedness, which correlate well with the aforementioned study. In summary:

- **Individual socio-demographics:** particularly age, family type and number of children. Marital status, levels of education and long term illness/disability also correlated with likelihood of over-indebtedness. Lower socioeconomic status and prior convictions for property crime also found to predict over-indebtedness, although more recent studies shows it can reach across class boundaries
- **Lifecycle:** higher likelihood of delinquency among young couples with young children, and middle-aged singles with children
- **Assets & Financial Resilience:** Homeowners less likely to be chronic debtors. People with higher net wealth more likely to hold debt because of greater credit access. Problem debtors more likely to be employed part-time, self-employed and unemployed.
- **Psychological:** poor self-control strongly associated with over-indebtedness (leads to compulsive buying). Consumers with less self-control use more high-cost credit and are more exposed to financial shocks. Individuals with greater time-present orientation more likely to remain in debt.
- **Financial Literacy:** those with lower levels of debt literacy usually transact in a higher cost manner. Money management skills are important, but numeracy plays no role
- **Social environment:** Debt problems correlate across household. Social acceptance of debt leads to more indebtedness. If social comparison is important to individual, this leads to status-driven indebtedness
- **Loan related:** Household debt servicing is one of the most significant determinants of household financial vulnerability. Purpose of loans strongly related to over-indebtedness
- **Unexpected shocks:** e.g. job loss, poor health for individual or household members. Domestic discord and problems with neighbours also correlated with over-indebtedness

The review recommends that to mitigate and prevent over-indebtedness, predictive models to anticipate over-indebtedness before it occurs and monitor to avoid worsening should be deployed. They highlight a number of model specifications suggested by the extant literature:

- Expenditure and over-indebtedness (not just income and credit commitments, but all other expenditure)
- Well-being-related scales to identify the financially ill-prepared and/or candidates for delinquency
- Financial ratios to monitor insolvent households.

3.3 Credit Sources for Financially Vulnerable Customers

Financially vulnerable customers are often characterised by low credit scores and limited or poor financial histories, which significantly hinder their ability to access credit, making them unattractive to mainstream lenders or we can use the term ‘uncompetitive’, meaning they do not have much choice. They frequently belong to communities that have traditionally been underserved in terms of financial inclusion. Consequently, these consumers are financially vulnerable and may face financial hardship due to the lack of easy and affordable access to credit. Despite these challenges, many of these consumers seek out alternative solutions to mainstream lenders, especially when confronted with unexpected expenses or immediate financial demands.

It is important to consider the range of alternatives available to financially vulnerable consumers. Firstly, if we are able to identify pre-existing use of some of these solutions, then that in itself may be an ex-ante indicator of financial vulnerability. Equally, benchmarking a firm’s product offering, on price and terms for example, against competitors serving customers with similar financial backgrounds/ behaviours and demographics may provide important measures of ‘fair value’.

3.3.1 Short-term / High Interest Credit

Many uncompetitive customers still have borrowing options, albeit from a limited and high-cost section of the market. Table 5 provides a summary of main options, with typical borrowing costs and terms (as at November 2024).

Table 5: Short-term / High Interest Borrowing Options for Uncompetitive Customers

Product Type	Key features / terms	Typical APR	Example providers
Pay Day loans / Short-term loans / Bad Credit loans	Borrow £50 - £5000 typically, over 1-36 months. Fast turnaround	Up to ~1300%	Lending Stream; Quidmarket; Drafty; Pounds to Pocket
Guarantor Loans	Borrow £500 - £15,000 typically, over 1-5 years. Requires a guarantor to co-sign; longer repayment terms; helps build credit	~35-50%	Guarantormyloan; 1+1 Loans
Doorstep Loans	Borrow £100 - £1,000 typically, for up to 1 year. Loans delivered and collected at home; weekly repayments; local providers	~750-950%	GR Finance; Cockle Finance; Handycash
Sub-prime Credit Cards	Cards for those with poor credit history; lower credit limits (typically £500-£1000)	~35%-60%	Capital One; Vanquis; Aqua Card
Buy Now Pay Later	Consumers make purchases and pay in instalments. Repay typically in 2 months. No affordability checks, not FCA regulated or covered by Consumer Credit Act	Typically 0% if repaid within promotional period (however late payment fees levied)	Klarna, Clearpay

3.3.2 'Community Solutions'

In addition to commercial providers of short-term loans, there are a number of what we term 'community-solutions', many of which have grown up over decades e.g Credit Unions and even centuries e.g. Pawnbrokers. Table 6 summarises main sources of finance in the community, which sit on a continuum from socially-orientated and responsible community lenders to illegal and highly exploitative loan sharks. A challenge, from a measurement perspective, is that at the most vulnerable end transactions are likely to take place using cash.

Table 6: Community-based alternative sources of credit

Type	Description	Typical cost	Example
Credit Unions (also known as Community Banks)	Member-owned financial co-operatives; provide competitively priced loans and promote financial education. Loans can range from £50-£3k or higher	Varies on customer type - ~12-43% APR	Local or occupation based e.g. London Mutual Credit Union; University Credit Union; NHS Credit Union
Not for Profit Community Finance (Community Development Finance Institution)	Small-sum loans. Typical loan amounts can range from £200 - £3k. Can provide alternatives to high-cost credit to those who cannot access mainstream banking	Typically ~200-280% APR	Fair For You; Fair Finance; Conduit; Salad Money
Pawnbroker	Large chains and independents; short-term loans using personal items as collateral. Typically repaid over 6 months, with loan values commonly in the range £100-£1k, although they can be less or a lot more	Varies widely – typically ranges from 80-~200% APR	H&T; Cash Converters
Loan Sharks	Unlicensed moneylenders who charge extremely high interest rates; often operate outside the law and use intimidation to collect debts	Exorbitant interest rates (illegal / unsafe)	N/A

4. Conclusions and Recommendations

Our recommendations focus on addressing critical gaps and refining approaches to data analysis and reporting under the Consumer Duty. While some initial high-level analysis of data sources and reporting requirements has been conducted, there is a notable lack of detailed guidance to support the development of a unified framework, especially for benchmarking. Effective benchmarking requires a set of standardised, comparable measures. Although suggestions such as "time to resolution" have been made, further work is essential to establish and harmonise these metrics.

FCA documents and industry reports offer some foundational guidance, which requires further refinement. Deloitte, for instance, distils the Duty into 16 key topics and highlights three primary data areas: Complaints data, Customer Feedback, and Quality Assurance/Outcomes Testing. These areas provide a valuable starting point for firms to develop robust reporting and compliance mechanisms. Table 7 summarises the measures that may be already available and can be used for benchmarking, along with the data they should use.

Table 7: Measures & Benchmarking Data Potentially Already Available

	Purpose	Measures	Data
Affordability and Credit Risk	To ensure that loans are affordable for consumers and to identify potential over-indebtedness or credit risk	Default rates, repayment behaviour, debt-to-income ratios, and loan-to-value ratios, credit scores, CCJs	Borrower financial data (e.g., income, expenses, existing debts), credit performance data, and open banking data, credit bureau data
Product Suitability and Usage	To confirm that products meet consumer needs and that they continue to deliver value over time	Customer retention rates, usage rates of financial products, # of applications for a product over time	Product usage patterns, consumer profiles, and transaction history
Fair Value Assessment	To ensure fair pricing and that no consumer group, particularly vulnerable ones, is overcharged or receives poor value	Price-to-benefit ratios, fee structures, comparison of charges across customer segments, and profitability per customer group	Product pricing data, customer segmentation data, and historical transaction data
Customer Satisfaction	To monitor customer satisfaction and identify areas where the firm may be falling short of delivering positive outcomes	Satisfaction scores, customer complaint rates, resolution times, and feedback ratings on product suitability and support services	Customer feedback surveys, complaint logs, and service interaction data
Vulnerability Indicators	To ensure that vulnerable customers are receiving fair treatment and that products and services are appropriately tailored to their needs	Proportion of vulnerable customers identified, outcomes for vulnerable customers compared to other groups, and arrears or default rates within this segment	Demographic and financial vulnerability data (e.g., age, health conditions, financial hardship indicators), usage patterns, and support interaction data
Complaint and Dispute Resolution	To assess whether the firm is addressing consumer concerns promptly and fairly, especially around product suitability and support	Number of complaints related to product fairness, time to resolve complaints, and satisfaction with dispute resolution	Complaint records, resolution timelines, and customer feedback on resolutions
Customer Support Performance	To ensure that customers are receiving adequate support and that any issues with products or services are being effectively addressed	Response times, volume of support requests, and effectiveness of support (e.g., resolution rates and follow-up actions)	Customer service logs, call data, and interaction records

The majority of these measures are not new, and are already used by lenders for decision-making (or at least should be used as part of good practice), e.g. affordability, credit risk assessment, customer satisfaction. However, even with these established measures, additional harmonisation work may be required to ensure comparability across the industry.

The complaints data can be a valuable source of benchmarking, especially the data from independent external/ third parties. Complaints to Financial Ombudsman Service (FOS) can provide the required information, and there is already the summary statistics directly downloadable from the FOS website. Yet it should not be taken directly for benchmarking, since even for the longitudinal analysis within the same company, the comparable base should be considered that would correct for the company growth/ market expansion. For comparison between companies, it is necessary to define the set of similar companies/ competitors and again to consider adjustments that make benchmarking meaningful.

There is an additional value in analysing the text of complaints, since it can provide the information necessary to group complaints by severity/ topic, develop the weights/ adjustments for benchmarking and track the dynamics of issues causing the customer dissatisfaction. However, this information, whilst public, does not have a convenient download function, and will require web-scraping, which will need certain permissions.

Customer feedback is a well-developed area, since all companies already assess customer satisfaction as part of their CRM/ marketing strategies. Yet again the standardisation is required for benchmarking.

Outcome testing remains the most ambiguous and underdeveloped area, which is why much of this report is dedicated to exploring it. Key suggestions are provided below. As the Duty prioritises delivering better value for customers, the concept of financial well-being serves as a fundamental basis for evaluating relevant outcomes. Financial vulnerability, viewed as the opposite of well-being or as one extreme of a continuum, offers a critical perspective if well-being is considered a spectrum.

Although vulnerability is a central theme of the Duty, it remains poorly defined. Developing a clear conceptual framework, informed by existing research, is essential for meaningful analysis. It should be noted that at present the key concepts such as ‘financial well-being’ and ‘financial vulnerability’ are measured by surveys, and there is a lot of conceptual work linked to the development of survey scales/ questions, e.g. CFPB financial well-being framework/scale. The equivalent for the UK is Financial Lives survey by FCA.

While surveys offer valuable insights into individuals' subjective perceptions, they may be prone to self-reporting bias. Additionally, they can be costly to administer and are often conducted at infrequent or lengthy intervals. In contrast, the objective current account/Open Banking data can provide much more accurate and timely insights, and therefore, should be central to measuring and reporting the customer outcomes. Nevertheless, despite the advantages of transactional data, it should be complemented by subjective information, such as customer perceptions, to provide a holistic view. All conceptual frameworks suggest subjective elements to well-being/ vulnerability.

For all data types, it is critical to clearly define what needs to be measured and how. The existing surveys can provide a good starting point to this process, as the survey scales normally rely on extensive development. There have been already promising examples that translated the questions on vulnerability from Financial Lives survey into objective measures derived from OB data, as discussed in detail in Section 3.2.2.

Even these already defined measures require further efforts to establish appropriate thresholds and determine appropriate lengths of observation.

However, there are aspects that have been only mentioned in the current report, and will require much more work and analysis, additional research, new metrics and data:

- Fair value. The definition of fairness should be clarified, since it is ambiguous and can be interpreted in many different ways. Fairness can be perceived differently by the borrower, the lender and the regulator, and therefore, requires the assessment at these three levels:
    - Perceived fairness from the customer, which will need the survey or some other way to provide the subjective assessment;
    - Fairness metrics from the lender, which can be done through price-to-cost/risk analysis, and comparison across different segments of the customer base;
    - Fairness comparison across the industry, which will require benchmarking with the competitors, and therefore, pooling the relevant indicators and identifying the segment of firms to be included into the comparison.
- Access to financial products/ customer competitiveness/ financial inclusion.

    To certain extent bureau credit scores can serve a proxy for this construct. Yet more research is needed to understand the relevance and quality of this proxy, and identifying alternatives, especially for financially excluded customers.
- Reliance on relending to sustain business models/ Credit products that are designed to promote persistent use.

    This will require a combination of qualitative assessment of the firm’s business models and marketing strategy and quantitative assessment of customers’ journeys. Financial transactions/ OB data are essential here to observe the refinancing patters, and to link them to vulnerability/hardship measures discussed above. Credit bureau data might be necessary to see a complete picture of borrowing.

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