



ESTABLISHING YOUR TARGET MARKETS

Explaining Consumer Duty's Products and Services outcome

The Products and Services outcome of Consumer Duty requires all firms to ensure that, and demonstrate that, the products and services they distribute are designed to meet client needs, characteristics and objectives in identified target markets.

BUILDING ON 'PROD' RULES

This requirement builds on existing product governance rules (PROD) and is designed to demonstrate a clear link between the needs of clients within a firm's target market and the products and services they offer.

For firms who have already implemented robust PROD processes this shouldn't be anything new as they will have already identified and defined their target markets.

PROD 3.3.12 – *'the target market identified by distributors for each financial instrument should be identified as a sufficiently granular level'*

ISN'T THIS JUST SUITABILITY?

Yes, but not at the individual client level which remains a key requirement. This is about suitability at a broader cohort level so that a firm can demonstrate a structure or process designed to ensure clients are offered the right products (and services) at the right time.

Granularity means establishing collective, typical characteristics and needs of each client cohort, or subset, within each target market.

"It's an opportunity to re-think more traditional forms of client categorisation"

PRACTICAL STEPS TO MEET THIS REQUIREMENT

1. Understand changes in target markets

When establishing target markets, it's essential that firms are 'up to speed' with the current typical needs of clients within a target market, taking account of recent changes.

For example, the retirement income market is changing rapidly, not just due to legislation (e.g., pension freedoms). The nature of retirement itself is also changing as more people transition into retirement with a more holistic view of its funding, whilst others have no intention of retiring in the traditional sense of the word.

2. Segment target markets into client cohorts

Firms can segment their chosen target markets in many ways and the FCA is not prescriptive about how it's done.

Whilst this means firms must interpret the rules themselves, doing so will help them articulate the value of their products and services, and ultimately provide a key element of evidencing the delivery of good outcomes.

It's also an opportunity to re-think more traditional forms of client categorisation, such as assets under management, placing more emphasis on what's important to a firm's clients.

Segmentation means defining the common characteristics of distinct client cohorts, examples overleaf:

a) Based on the changing nature of the target market

For example, segmenting the retirement income market to reflect the changing nature of retirement:

- Those aged 55 plus with no intention of retiring or working less until forced to do so (via ill health or lack of opportunity).
- Those aged 55 plus transitioning into retirement or semi-retirement.
- Those in 'active' retirement (for example from age 55-75).
- Those in more 'passive' retirement (for example, aged 75+).

b) Based on the primary needs of clients

For example, another way to segment the retirement income market could be:

- Flex first, fix later – the need for flexible income initially and then a scheduled switch to an annuity/ies at a later date.
- Secure some, stay supple – the need for guaranteed income to cover essential expenditure with the balance of funds placed in drawdown.
- Guaranteed all the way – for those (perhaps older) clients whose income requirements are fairly settled.
- PCLS and zero income – for those with other sources of income who want to take Tax Free Cash to fund specific needs.

c) Based on investment preferences

For those segments with an investment element, firms could create sub-groups to reflect client investment preferences, e.g. sustainability.

d) Based on client life stages

This allows firms to capture key life events and reflect typical needs that arise.

e) Based on client occupation

This approach might be appropriate where a firm specialises in working with a specific client occupation, e.g. medicine, sport, agriculture etc

3. Make sure it's documented

Once a firm has established their target markets and segmented it in sufficient granularity to capture the common or likely needs of client cohorts, it's important to make sure this is all documented.

This is a part of the evidence of delivering good outcomes at firm level and a foundation for delivering fair value.

Go to www.consumerduty.org for more information and support on financial vulnerability and Consumer Duty.

