



# Consumer Duty management: the business challenge AI was designed to tackle

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The Consumer Duty Act<sup>1</sup>, is a regulation for FCA regulated businesses to prioritise consumer well-being by providing safe products, transparent information, fair treatment, and reliable services. The overarching goal is to protect consumers from harm, ensure informed decision-making, and promote trust in the marketplace.

The open product implementation date has passed. It came into force on 31 July 2023<sup>2</sup>, but marks just the outset of the journey. The closed book deadline is correspondingly 31 July 2024, but the consumer duty is not a one off exercise and requires an ongoing commitment to putting consumers' needs and the outcomes they are receiving front and centre, requiring and properly embedding within a company's policies, practices and culture throughout the whole organisation.

In the rapidly evolving technology landscape, artificial intelligence (AI), emerges as a transformative tool, capturing attention and sparking conversations about its potential impact on banking operations and customer experience.

This powerful tool is not merely a linguistic marvel; it stands at the forefront of a revolution, promising to reshape how companies fulfil their regulatory requirements, not least consumer duty.

"AI is a game changer."

AI is a game-changer. It offers unparalleled insights into customer preferences, behaviours, and needs by enabling companies to collect and analyse vast amounts of data swiftly. This newfound understanding, in turn, facilitates companies' tailoring their product offerings to effectively meet customer expectations. Moreover, AI proves instrumental in identifying and addressing potential product defects or issues, a critical facet of fulfilling consumer duty requirements. Monitoring and analysing customer feedback allows AI to detect patterns and trends, empowering companies to take corrective action proactively.

1 Consumer Duty resources, Financial Conduct Authority, [www.statista.com/statistics/871513/worldwide-data-created](https://www.statista.com/statistics/871513/worldwide-data-created)  
2 Consumer Duty: The next steps, Financial Conduct Authority, Webinar, January 2024, D. J. Hand, "Aspects of Data Ethics in a Changing World: Where Are We Now?" in *Big Data*, 2018, pp. 176-190



Additionally, AI can recommend new paths for customers who are struggling and suggest products to vulnerable individuals, ensuring a duty of care to all customers. For example, financial providers can train generative AI models to detect key phrases, patterns, and sentiments in transcribed phone conversations that signal issues like financial distress, anxiety, emotional stress, and health concerns.

However, any such AI tool needs to be carefully developed with strict ethical considerations. Its deployment must be responsible and ethical to maintain customer trust and confidence. Companies must ensure that the AI systems are transparent, fair, and unbiased and that they do not infringe on customers' privacy rights, abiding by critical data privacy principles (such as GDPR), emphasising transparency, lawful processing, and the protection of individuals' rights. Sometimes, ensuring explicit consent, anonymising data, and adopting privacy-preserving practices are imperative.

**"AI can recommend new paths for customers who are struggling and suggest products to vulnerable individuals."**

## How AI can be employed to achieve the four outcomes of consumer duty?

AI has the potential to help firms achieve the four prescribed outcomes of consumer duty; products and services, price and value, consumer understanding, and consumer support.

AI enables a proactive approach to identify and address potential defects or safety concerns by harnessing the capabilities of advanced analytics and machine learning. The integration of large-scale customer feedback, complaints, and usage data allows AI to conduct a holistic analysis, unveiling patterns and trends that might indicate emerging issues. This comprehensive scrutiny extends to social media and online reviews, providing companies with real-time insights into consumer sentiments. Moreover, by monitoring how customers interact with products through usage data, AI offers a predictive edge, uncovering potential safety concerns and areas for improvement.



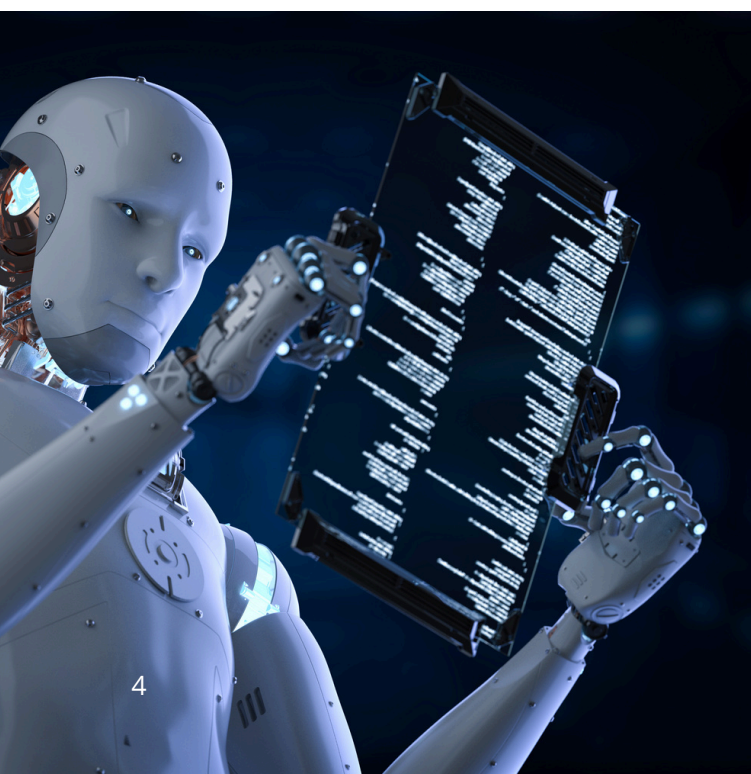
AI empowers firms to provide clear and accurate information about their products and services, including pricing. The deployment of AI-powered chatbots and virtual assistants revolutionizes customer interactions by offering real-time responses to inquiries and explanations of pricing decisions. This not only enhances the accessibility of information and build trust and confidence in the fairness but also ensures that customers receive accurate details about a product's features, ingredients, pricing or potential side effects promptly.

AI systems scrutinise patterns and interactions, identifying any potential biases that may affect customer treatment. This proactive approach helps companies rectify discrepancies, ensuring that customers are treated equitably regardless of their race, gender, or other characteristics, which are crucial in areas such as pricing, advertising, and customer service. The role of AI extends beyond mere detection.

It actively contributes to creating an inclusive business environment by providing insights that foster fair practices. Through the integration of AI, firms can fortify their commitment to fair treatment, aligning with the principles of consumer duty and reinforcing trust with a diverse customer base.

"AI ensures that customers receive accurate details about a product's features, ingredients, pricing or potential side effects promptly."

AI significantly contributes to the delivery of dependable services by automating repetitive tasks and minimising the potential for human error. Through sophisticated algorithms, AI systems analyse vast datasets related to financial operations. This includes factors such as transaction volumes, account management, risk assessment and also new product development. By doing so, AI aids in forecasting and identifying potential operational bottlenecks, reducing the likelihood of delays, service disruptions or product shortages. The automation of these processes not only enhances operational efficiency but also fosters a more reliable service delivery framework.



AI-powered recommendation engines can suggest additional products or services that complement consumers' purchases, enhancing their overall experience and perceived value. They can even personalise pricing based on individual customer preferences, purchasing history and demographics. In other words, AI can determine the optimal price point for each customer, increasing the perceived value of products or services while maintaining fairness and transparency.

## How could AI help firms prevent foreseeable harm and deliver on their Consumer Duty Obligations?

Consumer duty applies across all financial products but to bring the AI opportunity to life we have considered a specific example below, the end-to-end customer journey of a mortgage arrears and repossession.

In the context of mortgage arrears and home repossession,<sup>3</sup> AI can play a crucial role across the end-to-end customer journey to proactively prevent potential harm and guide customers toward recovery. AI can serve as a regulatory tool by leveraging the diverse datasets generated at each customer's touchpoint. It can actively monitor compliance and generate insightful statistics for streamlined reporting purposes.



AI holds the promise of tailoring solutions to individual customer circumstances, challenging the conventional approach of applying blanket policies such as LTV and Rate Thresholds. Instead of rigid, one-size-fits-all policies, AI recommendations can dynamically adjust parameters based on the unique situation of each customer. This personalised approach ensures that solutions are not just applied uniformly but are finely tuned to address the intricacies of each customer's situation.

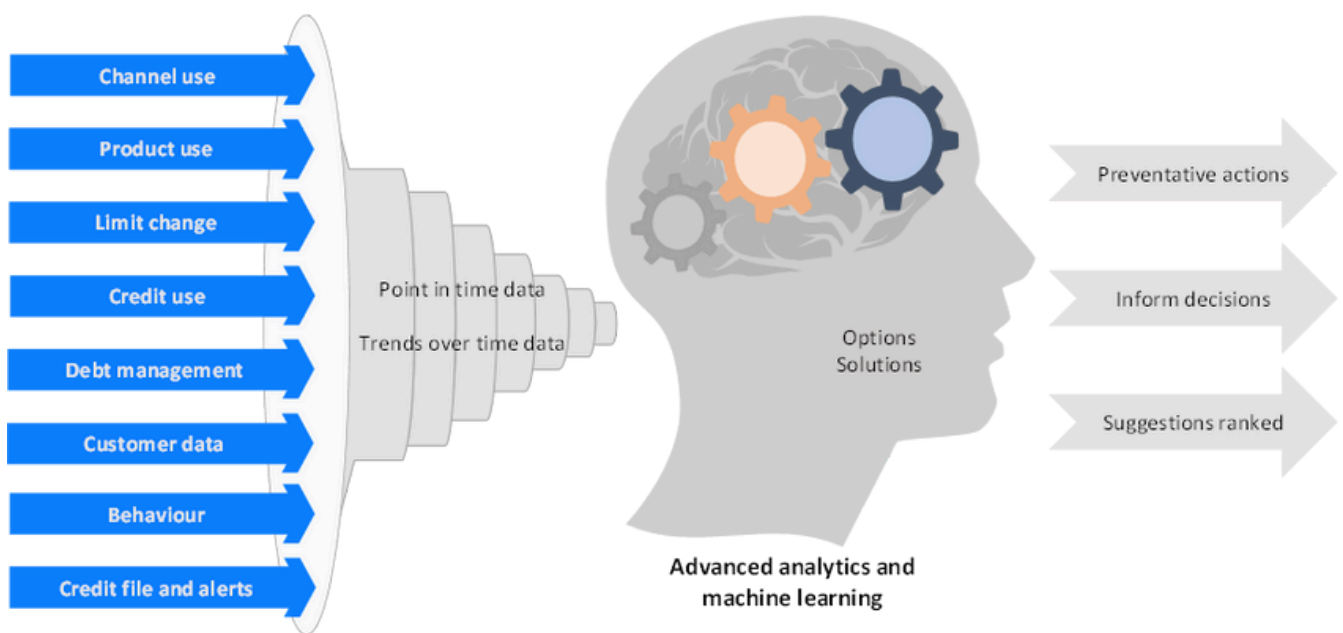
**"AI proactively prevent potential harm and guide customers toward recovery."**

<sup>3</sup> Arrears and possessions, UK Finance, 08 February 2024, <https://www.ukfinance.org.uk/data-and-research/data/arrears-and-possessions>

Rather than approaching forbearance as a generic toolkit where customers are sequentially assigned to the next available tool, AI has the capacity to comprehend individual customer circumstances. It can forecast how those circumstances would evolve with the application of a specific tool or a thoughtfully combined set of interventions aimed at achieving long-term rehabilitation.

This shift from a transactional, trial-and-error methodology to a holistic understanding ensures that forbearance strategies are not merely a collection of tools but a strategic and personalised plan designed to address the unique needs of each customer.

Further steps involve a thorough examination of recent account management actions, exploring financial shifts such as a dwindling balance, excesses, cancellations of direct debits, cash usage, a decline in credit turnover, and monitoring credit file changes. The assessment extends to examining potential signs of stress, including the identification of instances like surpassing credit limits. Finally, the focus can be upon evaluating recovery options, with the ultimate goal of restoring the customer's status, ensuring fair treatment, and avoiding such damaging actions as home repossession unless fully justified.



Take the example that the customer initiates various interactions through different channels to explore available options. Subsequently, they expressed an interest in changing their product, to an interest-only (IO) mortgage. The evaluation then delves into scrutinising the customer's behaviour, assessing activity at both channel and product levels.

At the initial stages, AI algorithms can analyse customer data, including financial behaviour, account management, credit file changes, and any other metadata. By identifying early signs of financial distress or stress, the system can trigger preventative actions such as issuing relevant information, providing support resources, or suggesting alternative services that align with the customer's situation.

Rather than the organisation offering assistance solely upon customer request, AI can identify customers who are likely to require support and initiate proactive engagement, promoting educational interactions and active dialogue. AI-driven insights can inform agents about potential issues and recommend solutions as the customer journey progresses. Moreover, the technology can rank suggested solutions based on historical data, ensuring a tailored and effective approach to address the specific challenges associated with home repossession. Agents and customers have a discussion as per suggested solutions with a recommendation as per rank. The outcome of each can be fed back to the AI for continuous learning.

## How to use AI used responsibly and ethically?

An essential bridge emerges in the seamless integration of AI into the customer journey. As AI provides guidance to agents and customers facing challenges, it ensures that ethical considerations are upheld in its deployment<sup>4</sup>.

This transition underscores the transformative role of AI in mitigating financial distress and also in adhering to ethical standards<sup>5</sup>.

The connection between AI's assistance and the subsequent ethical considerations is crucial in ensuring the responsibility and conscientiousness required in leveraging advanced technologies for consumer well-being.

Below are some key ethical concerns that firms should consider when using AI:

**Bias and discrimination:** AI systems can unintentionally perpetuate bias or discrimination based on factors such as race, gender, or socioeconomic status. This can occur when the data used to train the AI system is biased or incomplete, or when the algorithms used to make decisions are not designed to account for these factors. Firms must ensure that their AI systems are transparent, fair, and unbiased, and that they are regularly audited and tested for potential bias. Furthermore, it is imperative for companies to establish a framework that employs techniques such as eliminating sensitive, bias-prone attributes, re-weighting training data and utilising AI to address the issue of bias and discrimination.



4 UK Finance, Insights, how should firms navigate data ethics?, 26 June 2023, [Consumer Duty resources, Financial Conduct Authority, www.statista.com/statistics/871513/worldwide-data-created](https://www.statista.com/statistics/871513/worldwide-data-created)

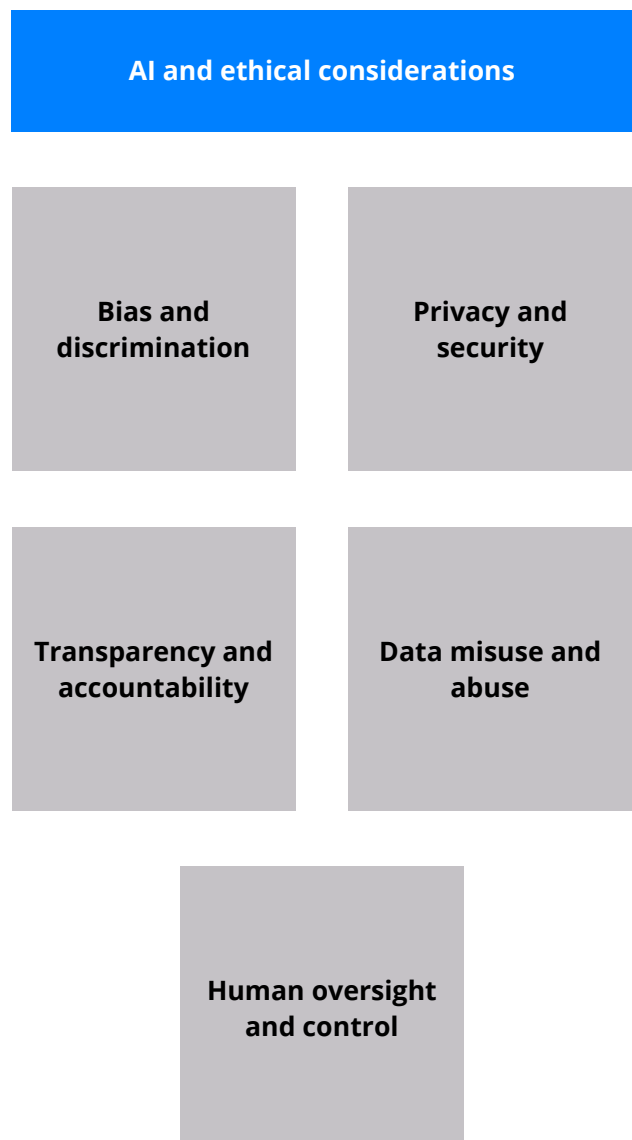
5 European Parliament resolution of 20 October 2020 on a framework of ethical aspects of artificial intelligence, robotics and related technologies, 2020/2012(INL), [Consumer Duty: The next steps, Financial Conduct Authority, Webinar, January 2024, D. J. Hand, "Aspects of Data Ethics in a Changing World: Where Are We Now?" in Big Data, 2018, pp. 176-190](#)

**Privacy and security:** AI systems often rely on large amounts of data, including personal data, to function effectively. This can create privacy and security risks for customers, particularly if the data is mishandled or falls into the wrong hands. Firms must ensure that their AI systems comply with relevant data protection regulations and standards, and that they are designed with privacy and security in mind.

**Transparency and accountability:** AI systems can be complex and difficult to understand, making it challenging to determine how decisions are made or hold firms accountable for any negative outcomes. Firms must ensure that their AI systems are transparent and explainable, with clear documentation and audit trails that enable customers and regulators to understand how decisions are made.

**Human oversight and control:** AI systems can make decisions autonomously, which can raise questions about the level of human oversight and control that is necessary to ensure that decisions are ethical and aligned with the firm's values. Firms must ensure that appropriate checks and balances are in place to ensure that AI systems are used responsibly and ethically and that human oversight and intervention are available when necessary.

**Data misuse and abuse:** The violation of data usage policies is unethical and can result in a breach of data protection policies and laws and a breach of contract. When data is used inappropriately and contrary to its intended purpose, it can have ethical implications, often exacerbating discrimination and bias mainly due to the lack of completeness of the data





## Summary

The integration of AI into organisational frameworks, when executed with meticulous planning and thoughtful design, can substantially elevate the ability of firms to fulfill their consumer duty responsibilities. By harnessing the analytical prowess and data-processing capabilities of AI, companies can ensure a more rigorous adherence to ethical standards and consumer protection laws.

This technological empowerment enables comprehensive monitoring and assessment of consumer interactions, ensuring that fairness and transparency are maintained at every level of operation.

Furthermore, AI can deliver robust top-down assurance to firm leadership teams, including C-suite executives, reinforcing their confidence that consumer rights are consistently upheld with diligence. This implementation of AI technology permeates every stratum of the organisation, offering a valuable tool that benefits all levels, particularly the top executives. AI ensures that these leaders can maintain comprehensive oversight over consumer interactions, fostering an environment where ethical standards and transparency are at the forefront of business operations.

This not only aids in regulatory compliance but also enhances decision-making processes, ultimately supporting the organisation's commitment to fair consumer practices.



## About us

Be | Shaping the Future is a leading pan-European financial services management consultancy, operating in 13 countries across Europe. We are a disrupter to the top-tier consultancy brands, trusted by five out of ten of Europe's leading banks (alongside other leading financial institutions and FinTechs).

We are one of the fastest growing consultancies with dedicated specialist teams in:

- Retail and commercial banking
- AI / Data and analytics
- Risk, regulation and compliance
- Finance & CFO advisory
- Cards and payments
- ESG

We work in partnership with our clients to deliver transformational change and strategic advice, powered by a unique culture, attaining a new quality and price standard.

Bringing deep industry expertise and expert consulting capabilities, we support our clients to tackle their biggest opportunities and challenges to deliver fundamental and enduring change to their businesses.

Our skilled data specialists deliver solutions that address today's critical industry challenges while helping organisations become ready to face the future.

Embed AI and data science to unlock new areas of value, generate new revenue streams, better manage risks, reduce costs and drive timely decisions to meet your business objectives.

## Contact

For more information on how we can help with your retail and commercial banking transformation initiatives, please get in touch.



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David has over 25 years of banking and consultancy experience, having worked with global banks, building societies and dynamic challenger brands.

He specialises in digital transformation and data analytics to drive business innovation and change. Studying changing customer behaviour for many years, he has supported the sector to innovate and change, leading many industry firsts. He previously founded a FinTech start up to bring new insight and innovation to Personal Financial Management.

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Ven has worked internationally for over 14 years delivering complex change and business re-engineering projects for a number of the world's leading organisations. He brings a range of skills to his engagements including project management, business analysis, business and solution architecture. He works effectively across both business and IT stakeholders and is highly effective as the link between both areas.

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