

Treating Customers Fairly Overview

Introduction

Treating Customers Fairly is an initiative of FSA which reinforces Business Principle 6 which states that 'a firm must pay due regard to the interests of its customers and treat them fairly'. The FSA is increasing its pressure on all firms (including small firms) to improve the way they treat customers and to be able to prove that they are treating customers fairly. The FSA want all firms to be treating customers fairly, and to demonstrate how they are doing so. The focus of this initiative is on firms who have retail clients although good business practice would suggest that all FSA firms should take steps to ensure all customers are treated fairly.

The TCF Outcomes

The FSA has found a gap between the aspirations of senior management and the actual experience of customers. The FSA has stated that the gap must close by December 2008, by which time all firms must be able to demonstrate that they are consistently treating their customers fairly. One method of doing this will be to show that they are delivering the six Treating Customers Fairly consumer outcomes identified below:

1. Consumers must be confident that they are dealing with firms where fair treatment of customers is central to the corporate culture. Senior management must satisfy themselves that fair treatment of the customer is built into the operations and processes throughout the firm.
2. Products and services marketed and sold in the retail market must be designed to meet the needs of identified consumer groups and are targeted accordingly. Firms must design products with target audiences in mind, and to ensure then that those products are targeted at customers for whom they are appropriate.
3. Consumers must be provided with clear information and are kept appropriately informed before, during and after the point of sale.
4. Where consumers receive advice, firms must ensure that advice is suitable and takes account of their circumstances. Firms must take steps to satisfy themselves that the advice they are giving to customers is suitable.
5. Consumers must be provided with products that perform as firms have led them to expect and the associated service is both of an acceptable standard and as they have been led to expect. This is not about customer satisfaction. It is about the product or service delivering what is promised.
6. Consumers must not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint. Firms are expected to engage constructively with existing customers.

Management Information (MI)

MI should be able to test whether firms are treating customers fairly as demonstrated by delivering the 6 TCF consumer outcomes. Processes need to be in place to monitor MI and enable the right people to take the appropriate action. Principles of good MI include:

- Information is collected during set periods of business activity.
- It is not just in numerical form.
- Management are able to make good decisions (accurate, timely, relevant, and consistent).
- Measuring performance and identifying potential risks, not just different parts of firms telling each other things.
- Management identifying risks, patterns and performance in detail.

Firms need to have two things:

- A Standard (the level of performance that demonstrates good TCF).
- A Result (How the firm performed against this standard).

All MI needs to be:

- Seen understood and reviewed (by the appropriate level of management).
- Challenged (anomalous or unexpected results are challenged).
- Analysed and monitored (Messages and conclusions are drawn).
- Acted on (Actions taken to remedy situation or investigate further).
- Recorded (Produce evidence that actions have been taken to resolve any arising issues).

Management need to consider the substance and quality of the MI itself.

MI needs to be a mix of routine and ad-hoc data.

Examples of MI indicators relating to the 6 Outcomes

Outcome 1 - Consumers confident that they are dealing with firms where the fair treatment of customers is central to the corporate culture

- Numbers of staff are rewarded for suggestions on improvements
- Objectives and appraisals include TCF
- Percentage of staff complete additional TCF training
- Results of annual staff surveys
- Results of staff CBT on TCF
- Feedback on TCF intranet
- Giving examples of where customers have not been treated fairly and actions taken
- Staff retention levels
- Other work to support TCF training (not just induction CBT but also CII package etc)

Outcome 2 - Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly

- Assessment of product risk against client risk profile
- What testing takes place against market conditions
- Complaints and feedback from customers
- Post product implementation reviews
- Post-sale interviews
- Training developed and delivered

Outcome 3 – Consumers provided with clear information and kept appropriately informed before, during and after the point of sale

- Information signed off by compliance
- Mystery shopping
- Assessing call quality
- Quality of letter writing
- Quality of other documentation

Outcome 4 – Where customers receive advice, it is suitable and takes account of their circumstances

- Review of appropriateness of advice given
- Controls to ensure advice is not given when it shouldn't be

Outcome 5 – Consumers are provided with products that perform as firms have led them to expect, and the associated service is both of an acceptable standard and as they have been led to expect

- Upheld complaints and customer surveys
- Breaches
- Service standards performance

Outcome 6 – Consumers do not face unreasonable post sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint

- Level of complaints
- Root cause analysis of complaints
- Customer query analysis
- Number / trend in relation to customer switches
- Training on complaints

If a firm is seen to have robust systems and controls in place, and the senior management are reviewing and using reliable MI which demonstrates they are treating customers fairly, then the FSA will significantly reduce the level of testing on a firms TCF culture.

Culture

An FSA firm must have TCF embedded in the culture of the organisation meaning that individuals should be educated about TCF and be aware of it when dealing with clients.

Elements of good TCF culture in firms include:

- Good leadership (maintaining high standards of TCF, setting good examples from the top, listening to and acting on staff feedback).
- TCF strategies come from senior management (understanding customers needs, valuing customer feedback, keeping strategies clear and consistent)
- Decision making and challenge (strategies/policies/procedures that are not consistent with TCF can be challenged by all staff and customers, and when necessary difficult decisions are made in order to demonstrate TCF)
- Performance management (Plans for performance management should include some TCF related objectives).
- Reward (Incentive schemes should take into account TCF and not just targets associated with driving profit, increasing income, cutting costs or growing the business).

Action Points

All firms will be expected to have procedures in place which are proportionate to their business model and client base. The FSA leaves implementation of TCF in the hands of FSA firms, so there are a wide variety of ways of approaching it. For a small firm the following steps should serve as an adequate base for instituting TCF.

- TCF Policy.
- A Treating Customers Fairly Monitoring Programme.
- A presentation to be given to all staff so they are made aware of what is expected of them.
- Documentation produced regularly for the senior management that is seen and acted on. Any changes to systems and controls that come about because of incidents reported to senior management need to be documented.
- A risk assessment needs to be completed by the senior management to establish how much risk there is that the firm may not treat customers fairly.
- Regular review of FSA recommendations in regard to TCF.

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