



May 2006

AIFA Member Factsheet

Developing TCF

Introduction

This factsheet is targeted at the smaller firm trying to successfully implement TCF in its business. As a result, we do not cover some of the issues that concern the FSA around product development and corporate governance but we do focus on helping you to consider TCF in the practical aspects of dealing with customers on a face to face basis, and the implications for you when processing the paperwork, working with providers, handling complaints etc.

We also recognise the time constraints that you face and the limited resources that will be available to you. Many of you may not have a separate compliance function with space to lead a programme such as this, nor the funds to invest in consulting support. In reality, you will have to implement TCF whilst doing the day job of completing business, gaining new customers and servicing the ones you've already got.

You will find this factsheet is written in a bullet point style that encourages you to consider the key issues. Similarly, each section is written in the same format so that you can quickly and easily find your way around. Each page is devoted to a separate topic.

As a result, this cannot be an exhaustive guide to what you must do to deliver TCF, but it will get you underway and point you to the issues you must consider so you can identify solutions which will enable you to deliver TCF effectively. The topics covered are:

Page 1	The introduction to the factsheet
Page 2	An introduction to TCF
Page 3	Marketing and the sales process
Page 4	TCF in the back office
Page 5	Managing relationships with third-parties (such as providers)
Page 6	Your management responsibilities
Page 7	How are you doing?
Page 8	Other places to look for more information
Page 9	Appendix 1
Page 10	About AIFA and this factsheet

Each page will be laid out in the following style:

- What is this topic about and why is it important?
- What are the key issues you need to bear in mind?
- What are you trying to achieve?
- Areas to address and action to be taken.

We hope that in this way you will be able to access the key issues and apply them effectively across your whole business.

An introduction to TCF

What is this topic about and why is it important?

In its simplest form, TCF is about your company taking action and behaving in a way that is customer focused. For example:

- Factoring the impact on customers into business decisions.
- Assisting customers in understanding the product they are buying and the risks relating to that product in a changing environment.
- Delivering the agreed and promised service.

It is important because:

- Treating customers fairly is one of the FSA principles for business.
- TCF is a priority for the FSA, and it will focus on it for some time to come.
- Failure to deliver TCF results in the industry getting a poor reputation which makes it harder for intermediaries to generate new business.
- It presents the opportunity for you to improve the way in which you serve your customers and gain advantage over your competitors.

What are the key issues you need to bear in mind?

TCF is about the way in which you do business and over time it should be 'business as usual'. So it is about:

- The culture of your business.
- The way you do things, the way in which you behave, the way in which you view the world.
- How you manage people; and
- Your systems and processes.

To enable TCF to be viewed in this way it is the responsibility of senior management to set the tone and direction, and lead its delivery. You cannot leave it to your compliance manager. Although no specific rules have been issued regarding TCF, it is still an over-arching requirement (along with the other 10 principles which apply to FSA regulated firms), as outlined in the PRIN sourcebook. It is up to you to interpret TCF and apply it in a way that is appropriate to your business.

This doesn't mean you can ignore it - your business decisions should be influenced by what FSA has to say about TCF (see last page), the expectations of the market place and the approach adopted by other players in the financial services sector.

What are you trying to achieve?

A consistent understanding across your company of what TCF means in your business and the consistent delivery of TCF by all parts of it; management, front office, back office and third parties with whom you do business such as providers.

Areas to address and action to be taken

- Develop a clear set of TCF principles against which your business can operate.
- Communicate these principles to everyone in a way they understand and which relates to their day to day jobs.
- Establish a way of managing the business that serves to reinforce your TCF principles.
- Reinforce the message by your words, deeds and behaviour.
- Involve your customers in the development of your business.
- Make your expectations clear to other parties with whom you operate (providers, and fund managers) so that you can jointly deliver.

Marketing and the advice process

What is this topic about and why is it important?

For many this will be the central aspect of TCF: the whole concept of a customer ending up with a product that they need and understand and one where they recognise and understand the risks presented by that product. For this reason a strong TCF capability in this respect should be considered very important.

What are the key issues you need to bear in mind?

Your focus needs to be on a range of issues that set the context in which your services are promoted and business is completed. In other words, this is not just about the nature and clarity of documentation, but is also about:

- The design of your advice processes.
- The language used in the advice process.
- The way advisers are rewarded and managed.
- The focus that your measurement systems bring to the activities and behaviour of your advisers and other customer facing staff; and of course...
- Your promotional and sales materials, and customer documentation and letters.

What are you trying to achieve?

Your aim must be to give the customer every chance to purchase a service or product that meets their needs. This means that the focus must be on offering and finding the right solution for the customer, not one that meets the adviser's needs or that of your company. This could include recommending no product.

Thus you need to establish a context where the needs of the customer balance the desire to achieve your business aims. This is a difficult challenge and represents the hardest challenge of TCF in a world where economic reality demands that business is completed and growth targets are achieved.

Areas to consider

- Endeavour to ensure that customers understand the risks and product features, and informing customers of particular features which could be important to them like MVRs.
- Enabling customers to understand how future external events may impact on the suitability of the product.
- Making terms and conditions as clear and easy to understand as possible.
- How will you prevent complex products being offered inappropriately?
- How can you overcome the reality of customer financial illiteracy?
- Ensuring that products are targeted at specific and understood groups.
- Offering the most suitable product at the initial review and during the ongoing relationship.
- Remunerating advisers for both volume and TCF performance (compliance, persistence, satisfaction, retention etc.)
- Developing advisers' skill levels to ensure they fully understand products.
- Testing products and materials with customers to check understanding.
- How will you overcome the fact that customers may place emphasis on the information given verbally by the adviser rather than the documentation? (Even if they don't realise this at the time of the advice.)

TCF in the back office

What is this topic about and why is it important?

The processing part of your business is important because it interacts with your customers on a daily basis and can help them to understand the products they have bought.

From this contact the back office can also clearly see what customers don't understand and where they are confused. They are often the first point of contact in respect of a complaint, therefore they present an opportunity for the business to learn and improve as long as the information they gather is used by management and advisers to improve what they are doing.

What are the key issues you need to bear in mind?

There are some key issues for you to manage around the links between the front and back office and the general sense of well being of the back office. It needs to feel that it is very much an important part of your service and the delivery of TCF. This will make demands on your management skills and the focus and motivation that you bring to the team.

Alongside you need to find ways to open up the communication channels so that issues learnt in the back office are freely transferred across the business and remedial action taken as a result. Similarly, you need to ensure that front and back office act in a coordinated way to deliver your service – how will you make sure that processes and systems operate in tandem?

What are you trying to achieve?

Depending on your success, your customer will either feel they have been handled by a seamless service where the back office values them as much as the front office wanted them during the sales process or, on the other hand, they may feel unloved and at worst consider that you are not concerned about them once they have 'signed on the dotted line'. The extreme test of this whole company TCF ethos could come when they make a complaint and they see how you resolve it.

Areas to consider

- How does the back office provide a seamless TCF service to the customer?
Advisers can make a wide variety of promises:
 - Is the back office aware of these?
 - Can it deliver on them?
- Can it support the customer in a similar way to the sales process or does it feel like a separate company?
- Does the back office feel wanted by the company or does it feel like a second-class citizen?
- How will you build the back office staff skill levels so that staff understand your business and are able to respond effectively to customers contact and queries?
- How will you collect and learn from 'queries' as well as complaints?
- Can you build the capability of staff to use language appropriate to the complainant's financial literacy?
- Are sufficient resources allocated to complaints handling?
- How do you prevent the development of aggressive internal cultures predisposed to view complaints as unjustified?

Managing relationships with third parties (such as providers)

What is this topic about and why is it important?

A customer doesn't just rely on you; they are also reliant on providers, fund managers, or other third parties who provide products or services to you or process them for you. Customers don't care who is responsible for the different parts of the supply chain, they just want to understand what they have bought and have the best product or service for their needs. To achieve this you have to work closely and effectively with your delivery partners.

TCF strongly encourages the strengthening and deepening of these relationships. In essence you are the representative of the customer in this process and have a special role to make sure that it all fits together to deliver what they have paid for.

What are the key issues you need to bear in mind?

You need to ensure that the companies with whom you do business can operate in a way that will enable you to fulfil your TCF principles and aims. To achieve this you need to consider their ability to support you, both when you form the relationship with them and on an ongoing basis, and if they can't live up to the standards you set then you need to consider what action you need to take.

What are you trying to achieve?

A seamless service across multiple suppliers that work in a coordinated way to deliver:

- The service agreed with the customer.
- The products that the customer thought they were buying.
- The best product for their circumstances and needs.
- Clarity of, and willing accountability for, handling customers concerns and complaints.

Areas to address and action to be taken

- Selecting partners using TCF capability and values as key criteria.
- Reviewing partner performance against your TCF policies.
- Opening the flow of feedback between you and your partners on your collective performance, and how it either helps or hinders you from achieving your TCF principles.
- Ensuring staff skill levels are sufficient to understand the range of services and products that they deliver.
- Ensuring providers supply you with sufficient information to allow your staff to:
 - Understand the products they sell.
 - Be able to identify who those products are targeted at and who they are suitable for.
 - Spell out and explain any charges and features such as tax implications.
 - Enable customers to understand how future external events may impact on the suitability of the product.
 - Endeavour to ensure customers fully understand the risks and product features.
 - Provide documentation that is as clear and easy to understand as possible.
- Considering whether the remuneration that you agree does not conflict with your TCF responsibilities.

Your management responsibilities

What is this topic about and why is it important?

Delivery of TCF is the responsibility of senior management in every business. The FSA have made this clear on many occasions and the first thing they will look for is how senior management have responded to their expectations.

Given the fact TCF is about culture and strategy as well as processes and systems, there can be no doubt that the senior management team is central to it's delivery – no-one else in the business has the degree of influence required in these areas to bring about the changes required.

What are the key issues you need to bear in mind?

Change only happens if people understand clearly what is expected of them and they are committed to delivering it. You need to paint a clear picture of what TCF means in your business and then win people's desire to make it happen. This shift will only happen if the management team reinforce the message regularly by words, actions and behaviours.

You also need to ensure the necessary controls and systems are put in place to support and reinforce the delivery of TCF. This covers:

- What you reward people for.
- What you control, monitor and measure.
- How you run team meetings and what messages and behaviours are reinforced at those meetings.
- How you make TCF visible across the business so people don't forget what is expected.

What are you trying to achieve?

A shared view of TCF across the business with people acting against a clearly understood set of TCF principles that guide and inform their actions.

Areas to address and action to be taken

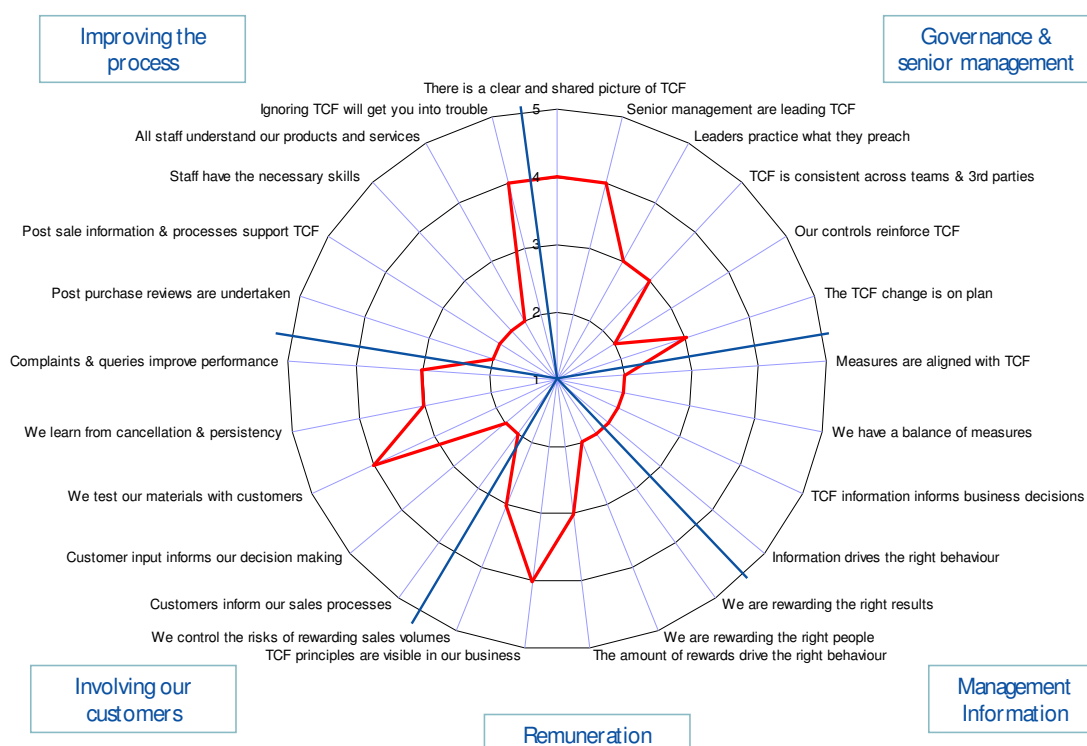
- Review what TCF means for your business and identify what you need to do to ensure you deliver it.
- Provide the business with a clear definition of what TCF means in your firm (your TCF principles).
- Win the commitment of your management team to these TCF goals and support its delivery by their day to day activities and behaviours.
- Establish a way of managing the business (the objectives you set, the aspects of performance you measure, the rewards you offer, etc) that serves to reinforce your TCF principles.
- Consider whether senior management/staff bonuses and incentives should be linked to TCF performance.
- Identify whether back office staff can be rewarded for good TCF practice (handling complaints, spotting trends, improving clarity for the customer, responding flexibly to customer needs, etc.).
- Remunerating advisers for both volume and TCF performance (compliance, persistence, satisfaction, retention).
- Establishing an appropriate set of TCF controls and management approaches for the sales staff.
- Using performance information to spot adverse trends.
- Review how you use team meetings and whether the approach adopted reinforces or undermines the TCF message.

How are you doing?

Having explored the key components of TCF, you and your team will want to know how you are currently doing and where you need to focus your efforts so you successfully deliver your TCF goals. In this regard, we offer a simple method by which you can rate your performance, monitor progress and carry out a gap analysis on your firm's implementation of TCF.

Use the chart in Appendix 1 to carry out a gap analysis – join the dots to get a better picture. Score your firm from 1 to 5, with 1 being not at all and 5 being always.

A completed chart will look like the image below:



- Why not get the rest of the team to complete the graph and say what they think so that you get an understanding of the whole business' perception of your progress?
- Having reviewed your firm's performance, carry out a gap analysis.
- Build a programme of change to address those gaps.
- Review your firm's position in six months time to see how you have progressed.

Other places to look for more information

What is this topic about and why is it important?

It's important because we cannot cover everything in a short document such as this. You need to go and look elsewhere to broaden and deepen your knowledge, and to understand the FSA expectations.

What are the key issues you need to bear in mind?

It is likely that you have a perspective of the world that is your own unique view. Although it is hard to believe, not everyone will share this, so you need to open up to other perspectives and approach these views and opinions with a desire to learn and see things the way others do.

Remember, not even your spouse or partner always sees things the way you do, (just think how often you disagree about an item on the news), so how can you expect customers to do so when they have differing objectives and expectations?

What are you trying to achieve?

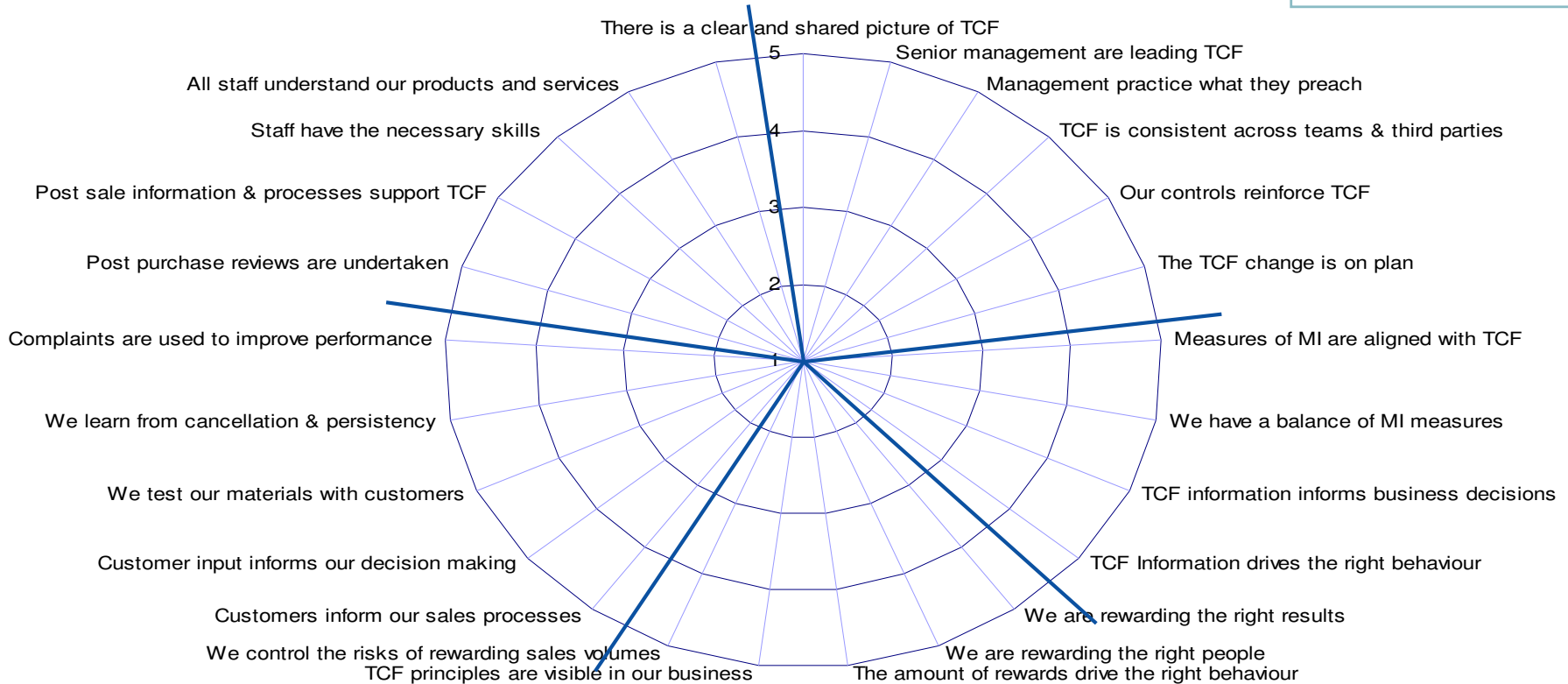
- A deeper understanding of what customers want from your services and advice.
- A better understanding of how they interpret what you tell them and what action they take as a result.
- A clearer picture of the way they reach the decisions they do, the trade offs they make and the short cuts they take which could expose them to unsuitable risks or the dangers of buying the wrong product.
- An appreciation of how the world outside financial services views what we are doing and how we behave, and how they often see it as being inappropriate and unfair, whether we like it or not.
- An awareness of these issues across your business so your staff are making decisions, taking action and behaving in ways that are more balanced and which lead to TCF becoming self-sustaining, rather than reliant on your energy and persistence alone.
- Faster growth and better performance because you understand your customers and their needs better than the business next door, and can deliver what they want in a way they want.

Areas to address and action to be taken

- Think about how you will meet with customers outside the sales process to:
 - Explore their expectations of your service.
 - Get them to explain what they understood and didn't understand in the sales process.
 - Test what they really did understand and they clearly don't understand.
 - Identify what parts of the sales process were really clear and made sense and which parts didn't, and find ways to make it clearer.
 - Ask them what they think of how you handled processes after the sale was completed.
 - Get them to explain their expectations of the support you need to offer on an ongoing basis.
 - Ask what other products and services they buy that they really enjoy buying and understand why – can you build some of the lessons into your own service?
- Review the TCF materials on the FSA website at www.fsa.gov.uk/tcf. FSA have recently launched a TCF self-assessment tool for small firms
- Read the complaints letters in the financial press and see what you can learn about how customers feel; identify how you can avoid similar problems in your business.

Improving the process

Governance & senior management



Involving our customers

Remuneration

Management Information

About AIFA and this factsheet

This factsheet has been designed to develop members' understanding and complement their own TCF programme. It is specifically NOT written to instruct members what they should be doing in their businesses – merely to reflect recent comments and publications from the regulator. Members may find it useful if reviewing their progress against the FSA's stated objectives.

It is AIFA's role to lobby policy makers and regulators to ensure light touch and proportionate regulation. As part of our remit we endeavour to bring insightful and plain English information to the market. This factsheet has been prepared in this spirit. Firms are advised to seek professional advice rather than rely on comments in this brief text.

For more information on AIFA, contact the address below.

Prepared on our understanding as at May 2006.

AIFA

Austin Friars House, 2-6 Austin Friars, London, EC2N 2HD
Tel: 020 7628 1287 Fax: 020 7628 1678 Email: info@aifa.net
Web: www.aifa.net