

# Treating Customers Fairly

A practical guide by AIFA



# Foreword

by Chris Cummings  
Director General AIFA

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Since its introduction by the Financial Services Authority (FSA), Treating Customers Fairly (TCF) has become one of those catch-phrases that's so easy to say it's possible to forget what it really means.



When it was first unveiled, it seemed to be targeted at larger firms, who had “customers” that weren't being treated fairly or, in some cases, even appropriately. But then the FSA decided that all regulated firms should address TCF and it set out a roadmap for how TCF would spread across the sector. Firms drew up plans, conducted a “gap analysis” and then implemented and embedded the programme. However, the language used by the FSA may have seemed alien to firms who didn't have the benefit of large compliance departments or management consultants waiting to explain the jargon.

As we reach the FSA's final deadline, it's become clear that TCF has delivered some real improvements for firms. AIFA has worked to ensure the TCF burdens falling on IFA's are as light as possible – and as clear as they could be made. That's why I'm happy to present this guide to you. Along with our own good practice notes, I think this guide should help demystify TCF and play a significant role in helping you run a better business.

Chris Cummings  
**Director General AIFA**

# TCF The Concept

With the final TCF deadline of December 2008 fast approaching, AIFA, put together this follow up guide which was produced by Scottish Widows, to provide information and practical assistance for firms to meet the December deadline.

This guide is again aimed at firms, who may wish to use some of its ideas and concepts as the basis for their own work.

The impact of the economic climate, combined with the decline in consumer trust in financial services, presents an unprecedented challenge for intermediaries in the UK.

While consumers are increasingly technologically savvy, the desire for advice from trusted advisers remains, and the wider market conditions are driving firms to provide an even higher quality service to their clients.

The introduction of the Treating Customers Fairly (TCF) programme provides you and your firm with the focus to reaffirm the traditional ties with your clients, maintain a competitive edge and ensure that you're satisfying your clients' expectations. It also serves as an opportunity to create and maintain business ties with stakeholders and to look more closely at the management of your business.



This initiative, which presents itself as a significant example of the FSA's move to a more principles-based regime, brings together the FSA's focus on firm's senior management to deliver fair outcomes to consumers. At the same time, it offers firms the flexibility to deliver these outcomes in the way that best suits their business.

To further reinforce this message of consumer confidence, the FSA has also initiated a number of other

interrelated consultations. These are all designed with a common goal to raise standards in the way firms carry out their business activities, culminating in an increase in consumer confidence in the wider financial services industry. AIFA produced a factsheet in March 2008 titled, "Practical assistance with TCF Management Information". This factsheet, aimed at firms, focused on the thought-process surrounding the collection, analysis and actioning of Management Information (MI).

## Overview of TCF

TCF aims to help ensure that customers fully understand the features, benefits, risks and costs of the financial products they purchase. Subsequently, it also aims to minimise the sale of unsuitable products and encourage best practice before, during and after a sale.

However, it's not just about process and practice, it's more fundamental than that. The principle can only be effective if the firm and people running the firm have a desire to want to treat their customers fairly.

This does not mean that firms are not already treating their customers fairly, it may just mean analysing and recording the good work you already do and taking action if things go wrong.

Unfortunately, sitting back and doing nothing is not an option. The FSA has formulated six clear consumer outcomes which build the basis of their work, and their role is simply to ensure these outcomes are delivered and embedded into the culture of the business.

### Outcome 1

Consumers can be confident that they're dealing with firms where the fair treatment of customers is central to the corporate culture.

### 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.

### Outcome 3

Consumers are provided with clear information and kept appropriately informed before, during and after the point of sale.

### Outcome 4

Where consumers receive advice, the advice is suitable and takes account of their circumstances.

### Outcome 5

Consumers are provided with products that perform as firms have led them to expect, and the associated service is of an acceptable standard and as they've been led to expect.

### 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.

The FSA's 'Conduct of Business Rules' have always supported the principle of TCF and it's important to recognise that these principles have always been there. So if you've been following them, you're probably already implementing TCF in much of what you do. In order to satisfy the FSA, you just need to take extra steps to demonstrate how you are achieving this.



# TCF and your customer

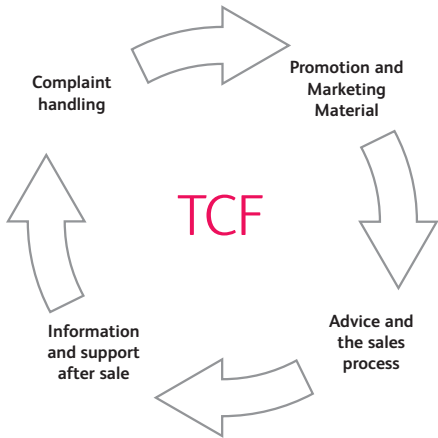
While there are many examples of what TCF is, there are also an equal number of examples of what TCF is not. One key message is that it's not about creating satisfied customers. In other words, it's easy to assume that because your business has not received any complaints, you're treating your customers fairly. However a satisfied customer could still have been treated unfairly but just not know it.

Similarly, frequent communication doesn't mean effective communication. For example, we can't assume that all customers would like to receive their statements by post. While older customers may still appreciate this method of communication, younger customers may be more inclined to download their statements online.

With that in mind, many firms may have at one stage hoped that the FSA would produce an all-encompassing, jargon-free communication detailing the step-by-step actions firms need to take in order to meet the December deadline. However, this type of intervention would go against the very principle the FSA is trying to promote. It's not a one-size-fits-all approach, clearly you can't expect the same MI to be collated by a sole trader to that of a large distributor. Similarly, you wouldn't necessarily approach TCF in the same way if you were a mortgage adviser, to the approach taken by an investment adviser, or even if you were an IFA specialising in decumulation compared to an IFA working in the investment management sector.



What the FSA has provided is a clear insight into key areas within any product life cycle where it would be “good practice” for firms to put extra checks in place:



In practice this means identifying potential gaps in your practices, looking specifically at how a consumer would view the way you conduct your business.

Once gaps have been identified, a firm can develop procedures and put checks in place to plug them.

This process should be repeated for the whole sales cycle, beginning at the initial stage of sales and marketing and running right through to any complaints that may arise from the advice given.

The desired outcome is that any stage of customer contact should be analysed. By completing this analysis, the customer should get a consistent experience regardless of where they touch a firm.

Only once a firm has looked at the wider picture and assessed the true customer experience are they able to ensure that they're capable of putting a customer at the centre of its business. At that point, they should be able to build the right insight tools and start to implement the right initiatives. Of course, there's an added advantage of this: it will not only allow a firm to build relationships with its customers and increase customer value, it will also ensure that TCF is culturally embedded within the organisation.

This should then allow a firm to generate the right long-term recommendations to strengthen relationships with its customers, and produce a “roadmap” to get there. At the same time, producing short-term recommendations that a firm is able to implement straight away will allow them to capitalise on the insight that's been generated. This analysis produces the desired outcomes and goes some way towards fulfilling the FSA requirements. Likewise, it also perfectly marries what firms need to achieve for regulatory purposes with straightforward commercial benefits. That commercial benefit could come in the form of reduced costs through better management or an increase in sales through customers getting the right product and service.

# TCF deadlines and key dates

A number of TCF related deadlines have been introduced by the FSA to maintain momentum of deliverance. The first came in March 2007, and by this date firms were required to have reached the 'implementation' stage of TCF. One aspect of this was a requirement for firms to complete a "Gap Analysis" of their business.

At the 'Implementation' stage, firms should have understood and embedded the principle of TCF into their business, employees, and through their ongoing strategy, culture and operations. This would have included the use of the completed "Gap Analysis" to start to review their performance against the six consumer outcomes. After this stage, firms were expected to have fully "embedded" the principles and TCF should have become part of a "business as usual" culture.

The second deadline of March 2008 represented the point by which firms should have the "appropriate Management Information (MI)" in place and should be testing their practices against their TCF outcomes. So by March, firms should have had a process in place that collated and analysed MI during the course of their day-to-day business.

The final deadline of December 2008 demands that firms must be able to demonstrate to themselves and the FSA that they're consistently treating their customers fairly. Essentially, firms will have to prove that they've followed the cycle of TCF and can now demonstrate that senior management have instilled a culture and understanding of what the fair treatment of customers means. To do that, firms should be continuing to produce and analyse MI. More specifically, where problems are identified, they should be managed through and documented as "lessons are learned".

**Final Deadline**  
Dec 2008

# Management information

In light of the above, MI will undoubtedly be the priority for both firms and the FSA during the end of 2008 and beginning of 2009. This means that firms need to have the relevant information readily available to enable them to comply with their regulatory obligations for the December deadline. This will require firms to demonstrate the continued use of MI or other proportionate measures to validate that they're treating their customers fairly.

So what is MI? MI is information that's collected during a period of business activity. It may be about

customers, staff, calls, visits, meetings, sales, parts of a process etc., but it's not just numbers. Overlaid with the quantitative data could be qualitative information such as praise received from customers or feedback from any FSA visit or the results of a 'root cause analysis' of complaints. The analysis of the data and interpretation of its meaning is what turns data into useful MI. Once MI has been obtained, plans should be made as to how it will be used. Responsibility should then be assigned so that the information is being seen and used by the right people and outcomes are drawn from the data.

What's clear is that good MI should enable management to make good decisions, so it needs to be:



The first task of any firm is to consider what existing management information is in place. A good starting point for this could be the bi-annual FSA Retail Mediation Activities Return (RMAR) reporting data, information taken from your new business register, "key performance Indicator" (KPI) figures from your Training and

Competence arrangements and possibly complaints data, if any.

For most firms, achieving TCF MI should be about interpreting information already held, but perhaps not currently viewed in a TCF context. By pulling all the information together under the heading of TCF, a firm can see all

the potential risks and view the evidence holistically.

It may be that some firms wish to take this further and identify areas of potential business risk that can't

currently be evidenced by existing MI. If this is the case, new data may be required. This would be a positive step, as a firm would be using risk to define where to target their MI needs.

## Obtaining and reporting

Before gathering MI, you first need to identify which areas of your business are going to be examined, whether it's sales, after sales care, complaints handling, marketing, advertising/financial promotions, culture or values. Once a firm has decided which areas to consider, an assessment of TCF performance is needed. A firm can then start collating data under these headings and, where applicable, start to collect new additional data. Again, consider the existing data already collected and focus on different ways of utilising it to avoid repetition of work.

To evidence this process, a firm may wish to create an MI plan documenting:

- which TCF MI is being gathered
- why and how
- the frequency the TCF MI (including summary reports) are produced and circulated
- who they're circulated to (clearly including senior management)
- and then how issues which are highlighted by the MI are prioritised, escalated and then followed up.

MI should be produced and monitored regularly to avoid issues rather than used on a reactive basis when issues are already apparent. There should also be MI that's produced for, or requested by, management on a particular issue.

# Analyse and challenge

Once the MI has been gathered, the most valuable stage of analysing the data can begin. While this may seem like a laborious task, often presenting MI in one place can reveal trends that are at first not apparent in others. Many intermediaries work so hard servicing their clients they easily forget to look at the wider picture.

Firstly, firms should sense check the data. Does it make sense? Are there any widely unexpected figures? Next, refer back to the six TCF outcomes and consider how they apply to your firm; assess your current practices, which should already be included in a firm's TCF plan, and if your current firm's practices do not meet the TCF outcomes, develop appropriate measures to address this and establish ways to monitor it.

Then complete "your own vision of TCF" and how it relates to your consumers. Develop your view on what TCF means, develop measures and monitoring practices to review this. Again, plans should already be in place. Plans need to be ongoing and can change if other areas are identified.

A good tip is to review "the FSA's TCF self assessment tool". While not a checklist, it is a useful tool to consider. It can prompt areas you may not have already considered and point a firm in the direction of the sort of MI that could be expected to evidence an outcome. When you have read this document, then consider if the firm's current MI enables you to do this.

The FSA self assessment tool can be found at:  
[http://www.fsa.gov.uk/smallfirms/resources/factsheets/pdfs/tcf\\_tool.pdf](http://www.fsa.gov.uk/smallfirms/resources/factsheets/pdfs/tcf_tool.pdf)

It's very important that MI is used by the right people in the right way. If information is collated it must also be used. MI is not about information being obtained and stored in a folder titled "TCF" – it's about the way that information is used, actioned or acted upon, and, crucially, that it is recorded.

# Record the results

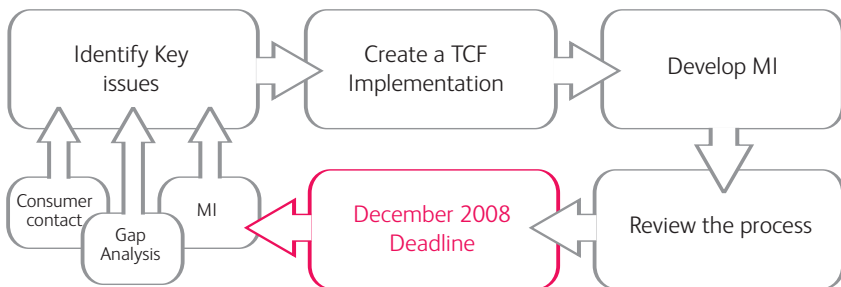
If we look back at the cycle of TCF we can see how fundamental the process of obtaining and scrutinising MI is to the principal of TCF.

Initially, a gap analysis should have identified the areas where a firm may need to develop, leading onto the creation of a firm's TCF plan. The plan should guide you towards developing your MI to illustrate trends or areas that may require further analysis.

Once information has been used and outcomes recorded the process should start again, either with new information or at the next cycle.

TCF is not a "once in a lifetime" initiative, it's a "culture" that should, once embedded, be at the forefront of the firm's thinking throughout their day-to-day business activity.

The length between cycles depends on a firm and the length of time considered appropriate before a review takes place. One of the biggest challenges for firms is the ability to "benchmark" their advice against the wider market. However, a firm can still set realistic targets, based on their knowledge of existing and expected consumers.



Finally, record what a firm has found. Keep a record of the plans you made, the MI you obtained, any challenges made and the conclusions reached. Once the initial cycle is completed, it's ready to begin again at a review date set by you and your firm.

# Conclusion

In the run-up to the final deadline of December 2008 where firms must be able to demonstrate they are consistently treating customers fairly, intermediaries will undoubtedly see a marked increase in regulatory supervision, with firms being assessed predominately on their implementation and outcome of deciding how they'll treat their customers fairly.

This document hopefully demonstrates that there are no right or wrong answers when it comes to a firm's implementation of TCF and no suitable one-size-fits-all approach. What it does set out to conclude is that TCF should be considered "business as usual" by a firm, it should not require significant

amounts of extra reporting or work for any firm but should represent the opportunity to evidence the good work that is already taking place. It should also provide a unique opportunity for firms to take advantage of consumers increasingly self-directed involvement in their own affairs.

Finally, with the financial services market under increased scrutiny and regulatory pressure and with competition intensifying, companies must look for ways to protect their brand and reputation and seek ways to prosper from their consumer relationships. TCF can be a valuable business tool, allowing firms to stand back and self-examine their own businesses.



# Appendix 1. Management Information Matrix

Focusing on a typical Sole Trader, this matrix identifies how a firm could relate back to the six TCF consumer outcomes by providing examples of Management Information (MI) that a sole trader may already collate or have available, but perhaps has not considered in a wider TCF context.

This document is purely an example – many firms will have considerable other information that is appropriate. Not all outcomes may be relevant to a firm, and the interpretation of what MI best represents which outcome is for a firm to consider.

{ Matrix overleaf



# Appendix 1. Management Information Matrix

Core Business Area	Business Process	Example MI – Data	Example MI – Qualitative data	Consumer Outcome
<b>Culture</b>	<ul style="list-style-type: none"> <li>Senior Management</li> <li>Staff awareness and expectations</li> <li>Leadership and Motivation</li> <li>Values and Ethos</li> </ul>	<ul style="list-style-type: none"> <li>Operations and outcome of annual TCF review</li> <li>Business plan</li> <li>Meeting minutes</li> </ul>	<ul style="list-style-type: none"> <li>Clearly articulated and recorded TCF policy</li> <li>T&amp;C and observed meetings report</li> </ul>	<p><b>Outcome 1</b> Confident Consumers</p>
<b>Financial /Prudential</b>	<ul style="list-style-type: none"> <li>Strategy</li> <li>Finance</li> </ul>	<ul style="list-style-type: none"> <li>Business plan</li> <li>Board/Management meeting minutes</li> </ul>	<ul style="list-style-type: none"> <li>Holiday/Illness contingency</li> <li>Budget Planning</li> <li>Reports from external consultancy</li> </ul>	
<b>Customer Acquisition</b>	<ul style="list-style-type: none"> <li>Financial Promotions</li> <li>Marketing</li> <li>Service choice</li> <li>Service delivery</li> <li>Advice processes</li> <li>Client reviews</li> <li>Referrals</li> <li>Introductions</li> <li>Lead Generators</li> </ul>	<ul style="list-style-type: none"> <li>Number of leads per advert</li> <li>Type of leads against target audience</li> <li>Client service agreements</li> <li>Financial Promotions register</li> <li>File checks and reviews</li> <li>Allocation of business between providers</li> <li>Number</li> <li>Source</li> <li>Sales</li> <li>Leads</li> <li>Conversion rate</li> </ul>	<ul style="list-style-type: none"> <li>Consumers feedback to Financial Promotion</li> <li>Any areas where Financial promotion is misleading to consumers</li> <li>Any examples of inappropriate targeting of Financial Promotion</li> <li>Compliance assessment of lead generator</li> </ul>	<p><b>Outcome 2</b> Products and Services meet the needs of the customer</p>
<b>Communication with clients</b>	<ul style="list-style-type: none"> <li>Suitability letters</li> <li>Marketing and Advertising</li> <li>Financial Promotions</li> <li>Pre and post advice</li> <li>Service delivery</li> <li>Service proposition</li> </ul>	<ul style="list-style-type: none"> <li>File checks and reviews</li> <li>Financial promotions register</li> </ul>	<ul style="list-style-type: none"> <li>Communications are clear and transparent</li> <li>Observed meetings and role plays</li> <li>Client Surveys</li> <li>Consistent use of fact find and risk profiler</li> <li>Consistent use of research tools</li> <li>Use of standard documents</li> <li>Complaints/queries related specifically to communication and understanding</li> </ul>	<p><b>Outcome 3</b> Clear Information</p>
<b>Sales and Advice process</b>	<ul style="list-style-type: none"> <li>Advice process</li> <li>Recruitment selection</li> <li>Training and development</li> <li>Performance management</li> <li>T&amp;C processes</li> <li>Remuneration and reward policies</li> </ul>	<ul style="list-style-type: none"> <li>New business Register/Product Sales data:</li> <li>Advised/non-advised</li> <li>Provider spread</li> <li>Business spread like life/PHI/Mortgage</li> <li>Not proceeded with rates</li> <li>Re-contacts achieved</li> <li>Average commission income</li> <li>Volume of sales</li> <li>File checks</li> <li>Persistency rates</li> <li>Declinature data from insurers</li> <li>Protection penetration</li> <li>Hours of CPD conducted</li> </ul>	<ul style="list-style-type: none"> <li>External news on TCF – press, FSA</li> <li>Local markets trends</li> <li>Ad hoc external knowledge (FSA practice notes)</li> <li>Observed clients meetings and role plays</li> <li>Performance management vs. on going standards</li> <li>Feedback from FSA visits/contact</li> <li>Feedback from any external consultants that may have been retained</li> <li>Optional external file monitoring feedback 'Buddying' arrangements</li> <li>Formal Service Level Agreement feedback</li> <li>Personal Development Plan</li> <li>Has CPD been appropriate/proportionate</li> <li>Annual Appraisals</li> <li>Type of CPD conducted i.e. seminars, lender visits</li> </ul>	<p><b>Outcome 4</b> Clear Information</p>
<b>Products and Services</b>	<ul style="list-style-type: none"> <li>Client specific communications</li> <li>Marketing and advertising</li> <li>Financial Promotions</li> <li>Service propositions</li> <li>Pre and post advice processes</li> <li>Service definition and delivery</li> </ul>	<ul style="list-style-type: none"> <li>File checks and reviews</li> <li>Complaints and breach registers</li> <li>New business analysis</li> </ul>	<ul style="list-style-type: none"> <li>Brochure or service leaflets</li> <li>Client service agreements</li> <li>Risk-reward explanation</li> <li>Annual review procedure</li> <li>1:1 records and appraisals</li> <li>Risk explained to clients in a way they can understand</li> <li>Clients are actively encouraged to ask questions of advice or support staff</li> </ul>	<p><b>Outcome 5</b> Products and services perform to expectations</p>
<b>Consumer Experience</b>	<ul style="list-style-type: none"> <li>Complaints feedback</li> <li>After sales support</li> <li>Advice process administration</li> <li>Customer care processes</li> </ul>	<ul style="list-style-type: none"> <li>Number of complaints</li> <li>% complaints</li> <li>% resolved</li> <li>% won at FOS</li> <li>Repeat consumers</li> <li>File checks</li> </ul>	<ul style="list-style-type: none"> <li>Positive 'thank you' messages</li> <li>Consumer Survey feedback</li> <li>Root cause</li> <li>Feedback comments</li> <li>Performance reviews</li> <li>T&amp;C observed meeting reports</li> </ul>	<p><b>Outcome 6</b> No unreasonable barriers</p>

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