Treating Customers Fairly

Management Information

Results from 2006 Survey

July 2006

Contents

1   Treating Customers Fairly (TCF) considerations for management information (MI)
2   Overview of findings
3   Key challenges identified by firms
4   Our findings:
  (1) Firms' approaches to TCF MI
  (2) MI for strategy and culture
  (3) MI for product design
  (4) MI for financial promotions
  (5) MI for sales and advice
  (6) MI for information after the point of sale
  (7) MI for complaint handling
  (8) Reporting process, data gathering and MI review
  (9) Capturing fairness
5   Conclusions

July 2006

TCF Considerations for management information (MI)

- This cluster sets out the results of an analysis of survey responses from 44 firms of all sizes. It gives positive examples of the management information (MI) firms are using to measure TCF outcomes in their firms and how they are reviewing and dealing with MI.

- As we said in last year's cluster report, MI is a key tool for effective TCF implementation. This is because it gives senior management an indication of their success in implementing TCF across their business by highlighting what is or is not working. The process of collecting TCF MI is no different to how firms collect other MI.

- To be effective, MI must measure TCF outcomes (that is, whether the firm is treating its customers fairly) and it needs to be reported to and used by the right people in the firm as well as cascaded to relevant areas of the business. The right people are likely to include, at a larger firm, the Board, senior management at a group or business unit level and risk and compliance management, or, at a smaller firm, management who oversee or run the governance, risk and compliance functions.

- TCF should not generally require the creation of substantial amounts of new information – relevant information may already be available in the form of current MI the firm collects.

July 2006

TCF Considerations for management information (MI)

- The MI examples given in this cluster report are drawn from the survey responses and are not intended to be prescriptive. They are meant to give firms an idea of the MI that may help them to measure TCF on an ongoing basis. Senior management in individual firms have to decide what TCF MI is appropriate to their business, depending on the scale and operations of the firm.

- There may be other MI that we do not cover here that may be appropriate for some firms. Firms should review the MI they already collect and then decide whether they need to collect or report any additional MI to effectively measure TCF.

- Even very small firms that do not produce MI in the same way as larger firms should maintain adequate records, appropriate for the size and nature of their business, that management can regularly review to measure the effectiveness of TCF activities.

July 2006

Positive steps have been made in terms of TCF MI:

1. The industry is making progress towards implementing TCF MI measures.

2. Firms are adapting their approaches to dealing with TCF MI based on the size and nature of their business.

3. Firms have generally expanded the qualitative feedback they use in TCF MI, much of it drawn from staff input and customer feedback.

4. Overall, firms consistently involve senior management in reviewing TCF MI.

July 2006

But there are still a number of issues that firms should consider:

1. Progress was not consistent across all industry sectors and products.

2. Firms appear to be confusing undertaking TCF-related activities with measuring the effectiveness of those activities in terms of improved outcomes for consumers.

3. Product design, financial promotions and information after the point of sale are areas where firms appear to have difficulty defining meaningful TCF MI and can be doing more to measure the effectiveness of their TCF activities.

4. We still have concerns that firms may be confusing customer satisfaction with fairness.

5. While firms generally have a clear review process for MI, it is often not clear how they follow up the issues identified by the MI and how they monitor actions to a demonstrable conclusion.

July 2006

Key challenges:

- Understanding how to access relevant TCF MI when a firm is not involved in all aspects of the product life-cycle.

- Identifying appropriate alert triggers and targets.

- Understanding what MI is appropriate for the size and nature of the firm.

- Confirming that control structures are appropriately robust.

- At larger firms: collating, creating and reporting MI in a consistent and sufficiently flexible way, given the volume of data and the use of multiple systems.

July 2006

- Half of all respondents said they had a strategy or project in place to deliver TCF MI in their firms. Nearly all of the remaining firms stated they were developing a strategy to deal specifically with TCF MI.

- The larger firms appear to be making the most progress in defining a strategy for delivering TCF MI.

- Although firms have made progress in developing a strategy for TCF MI, they have not yet made significant steps towards implementing these strategies: TCF MI appears to be one of the last components of their wider TCF strategy.

- Reporting lines vary depending upon a firm's scale of operation. Some larger firms tend to use tiered reporting with successive escalation of issues. Other firms use TCF committees, Board reports and formal customer strategies to manage TCF within the business.

- In smaller firms, examples of strategy plans tend to focus on a gap analysis of MI needs, improving manager's responses to MI and assessing customer needs. Some firms plan to invest in MI where appropriate.

July 2006

- Firms tended to articulate their approach to TCF MI in this area in terms of their broader TCF activity. Many of the points raised relate directly to TCF initiatives within a firm as opposed to a measure of their effectiveness.
- The focus of meaningful TCF MI in this area primarily related to:

  a) communication with staff, gaining staff opinion of firms' TCF practices and managing performance and competence; and

  b) customer and market opinion of firms' practices.
- Positive examples included:
  - **Employee and customer opinion surveys.** These may provide useful indicators of how well a firm has communicated and implemented TCF.
  - **Quality controls.** These relate to the assessment against specific TCF criteria of, for example, sales interviews, customer service calls and other customer communications.
  - **Training and competence.** Quality, competency and behavioural training can help to ensure that staff receive a consistent message about TCF.
  - **Measurable TCF performance objectives.** MI regarding behavioural and TCF-related objectives can be used to assess the success of TCF behaviour.

July 2006

- Few firms provided meaningful examples of MI related to product design, particularly MI created before launch. Firms' responses seemed to focus on TCF procedures rather than measuring the effectiveness of these.

- Some larger firms proactively used pre-launch testing via customer research panel and focus groups.

- Overall, responses focused upon the use of post-launch data to validate decisions made in the design process. Responses indicated this type of information is more readily measurable and enables firms to balance TCF with business needs. Such MI may be appropriate where firms have a robust review process that enables them to take both proactive and retrospective action. Positive examples included:

  - **Cancellations, products not taken up (NTUs) and persistency**. These may indicate problems with product design.

  - **Complaints**. The nature and root cause of the complaint and final decision reached can provide useful MI.

  - **Sales volume and performance against assessed plans**. Poor sales against plan may indicate that the product is too complex for the target audience. Excess sales may indicate over-simplification or mis-leading information.

  - **Assessment of common queries arising from training, customer service and sales.** These may identify areas of unexpected complexity in a product.

July 2006

- A few firms used customer panels to assess promotions before publication. Most firms measured fairness by relying on post-sale data.

- Positive examples included:
  - **Customer and distributor pre-sales testing.** This allows the firm to take account of the views of its target customers when creating a financial promotion.
  - **Breaches identified from a number of sources**. These may indicate a failure of the approval process (sources include internal audit or review, customers via complaints and distributors).
  - **Complaints related to promotions.** The nature and root cause of the complaint and final decision reached can provide useful MI on whether a customer has been treated fairly.
  - **Comparing firm literature to that of competitors.** This may provide firms with a crude benchmark on how clear and transparent their literature is.
  - **Details of withdrawals.** This can provide feedback on areas (e.g. drafting literature and approval) which have led to confusion about what a product or service offers.

July 2006

- Firms appeared comfortable using sales data as a TCF measure. Key elements in this included monitoring product attrition (particularly shortly after sale) and quality controls.

- Positive examples included:
  - **Persistency, NTUs, lapses and cancellations.** These may all indicate a concern related to how the customer was treated at the point of sale.
  - **Monitoring MI from quality controls.** (e.g. suitability assessments and mystery shopping, telephone monitoring). This can provide a strong measure of whether the firm is treating its customers fairly.
  - **Sales-related complaints.** The nature and root cause of the complaint and final decision reached can provide useful MI.
  - **Customer feedback.** This should focus on, for example, the level of understanding, as opposed to whether the customer was happy with the process.
  - **Remuneration.** Monitoring product sales volumes as they relate to commission rates may enable a firm to identify whether any product bias exists which may lead to mis-selling.

July 2006

- Firms generally had difficulty in identifying meaningful TCF MI in this area. The responses of all industry sectors focused on complaints and customer service-related MI, as opposed to focusing on what types of transactions (e.g. mortgage repayments) or communications the firm has with the customer and how they ensure these are clear, fair and timely.

- This part of the process appeared to be most relevant to providers, although advisers should consider the content of post-sales documentation and any additional communications they may have with customers.

- Positive examples included:

  - **Customer service queries and trend analysis.** This is an indicator of whether the customer understood post-sale documentation or had other queries that link into earlier elements of the product life-cycle.

  - **Complaints.** Root cause analysis of issues relating to post sale activity. These are most likely to be communications (content or delays) and claims.

  - **Tracking call volumes and abandoned calls.** These are indicators of being able to meet any commitments to customers (e.g. ease of communication).

  - **Claims.** Monitoring of resolution times, queries, volumes and costs may provide indicators of overall customer treatment.

  - **Customer opinions.** These can indicate whether any commitments made to customers about after-sales service are being met.

  - **Timeliness of communications.**

July 2006

- MI in this area is relevant to all firms; however, small firms or firms where retail business is a small part of their activity may tend to have a lower volume of complaints and so be limited in what sources of MI are available.

- Positive examples included:

  - **Outputs and actions from root cause analysis of reasons for complaint.** This enables firms to determine the underlying reason behind the complaint.

  - **Financial Ombudsman Service referrals and decisions.** Provides an external measure of the firm's complaint handling process.

  - **Timeliness of complaint-handling.** This may indicate whether a firm is communicating effectively with customers.

  - **Volumes and categories of complaints.** This may enable comparisons to business volume to identify trends which could then be used for a root cause analysis.

  - **Quality controls surrounding the complaint-handling process.** This may provide an indicator of the overall fairness of the complaints handling process.

  - **Customer feedback.**

July 2006

- Senior management were involved in reviewing TCF MI and decision making.

- Most firms reported TCF MI on a monthly basis.

- Firms used various bodies to review TCF MI. These include:
  - Board
  - TCF committees or steering groups
  - Risk and compliance committees
  - TCF Champions or specific directors.

- Large firms tended to have formal MI reporting structures; small firms did not.

- The vast majority of firms expected less than 20% of their TCF MI to be derived from new or additional data.

- Most firms had a process for reviewing TCF MI, but do not clearly articulate how issues are documented, assigned, actioned and closed in an auditable fashion.

July 2006

- Firms were not clear on how they could capture measures of fairness as opposed to measuring customer satisfaction. A number of firms reported using customer surveys but were not specific about measuring fairness. A customer may be satisfied with the service/product they have received, but be unaware they have not be treated fairly e.g. sold a product inappropriate for them. A few firms did seek to address capturing fairness by:

  – Using employee opinion surveys to capture staff perception of how fairly a firm treats its customers.

  – Including fairness related questions in customer satisfaction surveys. However most firms used questions which did not go far enough to test fairness. For example to test understanding, it is unlikely to be sufficient to ask "Do you understand the product?" instead firms could ask "What does this product do?" or "Why did you buy it?".

  – Benchmarking against competitors with a focus on fair treatment of customers.

July 2006

Conclusions

1. The industry has moved on from last year in terms of collecting TCF MI, but there is more work to be done in this area.

2. Particular areas where there is more work to be done are: product design, financial promotions and information after the point of sale.

3. Firms should think about how they separate TCF MI measures out from TCF initiatives and activities within a firm generally.

4. Although customer satisfaction surveys may be a useful source of TCF MI, firms should take care that they are measuring fairness rather than just satisfaction.

5. Firms should consider how to follow up and document TCF MI issues identified, address any issues and demonstrate they have successfully concluded any identified actions.

July 2006