Treating Customers Fairly
September 2012
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What is TCF?

The FSB’s concept of Treating Customers is based on the TCF approach as implemented by the Financial Services Authority (FSA) in the UK. All regulated firms are expected to meet TCF outcomes requirements.

### Six Consumer Outcomes

| Outcome 1 | Consumers can be confident that they are 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 are 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 both of an acceptable standard and as they have been led to expect; and |
| 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. |

### Challenges

- Ensuring that the “tone from the top” reaches the front line
- Ensuring that recruitment, training and remuneration frameworks drive the right behaviour
- Establishing the right MI framework to monitor and manage delivery
- Aligning product development, marketing and sales functions
- Balancing sales and marketing needs against regulatory requirements
- Ensuring that all information is clear - from a customer perspective
- Ensuring that staff can deliver that information clearly
- Delivering information cost effectively
- Ensuring that processes are sufficiently standardised to ensure consistent outcomes
- Ensuring that staff are properly trained – and appropriately rewarded – to ensure that procedures are followed
- Ensuring that product development, marketing and “product delivery” areas are aligned
- Ensuring appropriate procedures are documented
- Ensuring that staff are properly trained, and rewarded, in relation to those procedures
What impact does TCF have on firms?

Some of the high level impacts of TCF on firms are:

- **Treating Customers Fairly is a cultural issue that needs to be driven from the top.** The regulator therefore looks to senior management of the firm to lead the process and to ensure that commitment to TCF sits with and is owned by senior management.

- Firms are now required to ensure that products and services marketed and sold in the market are designed to meet the needs of identified consumer groups and are targeted accordingly. Segmenting the customers and developing products on a product pull basis informed by the needs of specific customer groups will become increasingly important.

- All financial promotions and other information provide to the customer about the firms products must be clear, fair and not misleading. Firms are required to ensure that adverts reflect what a product really delivers and not raise inaccurate expectations with the consumer. Post sale disclosure is expected of the firms to ensure that consumers are kept informed of product performance so that they can act when circumstances change.

- The FSB expects firms to be clear about what product or service is being provided to the customer and the range of possible results and experience for the consumer. Consumers should not be misled about possible performance.

- Firms should not make it unnecessarily difficult for consumers to make claims or make a complaint, and firms need to be able to allow consumers to switch providers without incurring excessive penalties.
Firms in the UK faced challenges in the following areas in the implementation of TCF. The key learning points which have been taken from the UK industry experience are:

- Senior management and business ownership should be clearly defined and an appropriate governance structure in place to support delivery

- From the outset firms should understand and analyse their potential TCF risks across all areas of the business

- For large firms, effective co-ordination of TCF activity across business units and at group level is needed

- Many firms believed that using existing Management Information would be adequate to evidence fair outcomes

- Firms did not agree their approach to outcome testing early enough

- Firms did not recognise their responsibilities in terms of 3rd parties

- Firms incorrectly equated customer satisfaction with fairness
Ongoing guidance from the regulator and this combined with enforcement actions has helped industry understanding.

During the course of TCF being embedded, the FSA has levied heavy fines against firms. In 2011, the FSA levied fines totalling £66,144,839 of which £10,638,000 were in relation to TCF.

Combined Insurance Company of America (2008) £2.8m – Principles 3 and 6 for systemic failings which were identified as coming from CICA’s failure to embed a culture which recognised the importance of TCF.

GMAC-RFC Ltd (2009) £2.8m – Principles 3 and 6 dealing with customers in arrears or facing repossession in relation to the their GMAC mortgage.

Alliance & Leicester (2008) £7m – Principles 3, 6, 7 and 9 for PPI telephone sales.

Royal Bank of Scotland and National Westminster Bank (2011) £2.8m – Principle 3 and 6 for complaint handling breaches.

As a result of the PPI judicial review, the industry set aside provisions in the region of £8bn – £10bn for PPI miss-selling complaints. HSBC has recently increased its provision from £270m to £565m and other providers may follow.

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<th>Bank</th>
<th>Provision</th>
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<tr>
<td>LBG</td>
<td>£3,200,000,000</td>
</tr>
<tr>
<td>HSBC</td>
<td>£565,000,000</td>
</tr>
<tr>
<td>RBS</td>
<td>£850,000,000</td>
</tr>
<tr>
<td>Barclays</td>
<td>£1,100,000,000</td>
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<tr>
<td>Santander</td>
<td>£731,000,000</td>
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<tr>
<td>MBNA</td>
<td>£406,000,000</td>
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To reduce the risk of enforcement action a firm has to comply with the spirit of the regulations – FSA
Culture is the foundation for successful TCF implementation and requires changes to behaviour at various levels in the organisation.

- How does the tone from the top need to change?
- What changes will need to be made in HR as a result of your TCF programme?
- How will recruitment processes be impacted by TCF and what will need to change?
- How will performance frameworks need to be changed to have a greater customer element?
- How will reward structures be affected?
- How will middle management objectives need to change to incorporate TCF?
- What behaviours will need to change?
- How will middle managers ensure that their message to staff is understood?
- What will be different for a call centre employee?
- What will be different in your interaction with customers?
Ernst & Young experience - Culture

Culture in firms remains a key issue. Common issues that we have seen include:

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<tr>
<th>Ownership of TCF at business unit level is often unclear.</th>
<th>TCF is not fully embedded in the remuneration of staff.</th>
<th>TCF is not fully embedded in staff appraisal processes.</th>
<th>Inadequate TCF self assessments by business sub-areas.</th>
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<td>Senior management focus on reason for issue rather than addressing the true root cause.</td>
<td>MI is not consistently reviewed to ensure it is measuring the right outcomes.</td>
<td>Issues are not addressed with sufficient vigour to allow them to move from Red to Green on a RAG scale within a timely manner.</td>
<td>Staff are unable to articulate what TCF means for them in their daily activities.</td>
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<td>Inadequate communications channels resulting in staff not fully understanding the holistic nature of TCF and its importance.</td>
<td>Too many issues are ‘Amber’, indicating that potential issues are present that are not subsequently addressed.</td>
<td>Firms not considering the potential customer detriment when assessing concerns identified during business reviews.</td>
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One of the biggest challenges that all firms face is the move from TCF being a compliance led initiative to one that is ingrained into the product and customer strategy of the business.

**TCF**
- TCF sponsor
- Compliance

**Issues to consider:**
- Do you view TCF merely as regulatory requirement, or as means to improve customer sales and service?
- Are you measuring business as well as customer outcomes – to ensure that TCF generates value for the business as well as the customer?
- Are you communicating TCF initiatives internally as a regulatory or customer initiative?
- Are you generating MI which meets business as well as regulatory needs?

**Product strategy**
- Product Director(s)
- Sales/Distribution Director
- Marketing Director

**Who**
- Outcomes
- Management Information
- Oversight and monitoring
- Culture/HR framework

**Focus**
- Revenue – customer attraction and retention
- Cost
- Brand
- Proposition

Many firms have been successful at doing the ‘easy’ elements of TCF/Customer Strategy integration – such as defining a vision statement. However, the more difficult areas around challenging inappropriate practices have proved more problematic.
FSB requires firms to embed the principle of TCF in their corporate strategy and to build it into their firms’ culture and day-to-day operations. This means addressing the fair treatment of customers throughout the product life-cycle.
TCF governance structure within a three lines of defence model

**Executive Management/Boards/Sub committees**
- Perform Oversight
  - Sets ‘Tone from the Top’.
  - Establishes risk appetite and strategy.
  - Approves Group TCF overarching policy.

**Internal Audit**
- Test and Verify
  - Third line of defence
    - Provide independent testing & verification of efficacy of Group policy and BU compliance.
    - Understand business models and customer treatment risks.
    - Evaluate key TCF areas within audit universe.
    - Identify audits appropriate to key TCF risks per BU.

**Compliance/risk mgmt**
- Design, Interpret, Develop
- Monitor and Report
  - Second line of defence
    - Interpretation of regulatory requirements and dissemination to Bus.
    - Risk-based outcomes testing.
    - Independent challenge of TCF MI and reporting.
    - Monitor BU compliance with overarching Group TCF policy.
    - Regular review and challenge of TCF risks.

**First line of defence**
- Owns implementation of Group TCF policy at BU level
- Identifies customer treatment risks in own BU products, services and processes, procedures, systems and data
- Sets tolerances and measures risks with appropriate MI

**Group level TCF MI**
- More commentary based MI
- MI reviewed at appropriate forum
- Evidence of action by senior management

**BU level TCF MI**
- More metric based MI
- TCF reports drawn from data, outcome testing, previous actions
- Report review and challenge
- Sign off and consolidation

**Use second and third line of defence in challenge process of BU MI**
- Appropriate filtering of BU MI to report key TCF risks at Board level

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Africa Advisory
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Common issues and challenges that firms faced in the UK experience included:

- TCF KPIs do not reflect the real TCF risks for the business.
- MI does not measure outcomes. Focus on measures of process, with limited inclusion of qualitative commentary.
- Thresholds for KPIs have been set too low and permit inappropriate levels of operational and customer service failure.
- Firms produce too much TCF MI and senior management are unable to clearly identify key TCF risks.
- Lack of relevant TCF MI at different levels of the business.
- Limited historical data and trend analysis.
- Potential areas of concern identified in the TCF MI not being actioned.
Regulator focuses on how MI is used for monitoring key TCF risks and delivering the six FSB consumer outcomes. The challenge for firms is ensuring the continued use of TCF MI by senior management and evidencing that it is delivering outcomes.

TCF Management Information should follow these five steps to ensure that is used by the right people in the right way:

1. **Seen** - MI should be reported to the most appropriate level of management.
2. **Challenged** - MI should be challenged. This may be from the management reviewing or by an external function like internal audit.
3. **Acted on** - MI should be acted on, and any issues/risks risk rated and remediated accordingly.
4. **Analysed and monitored** - MI should be critically analysed, paying attention to the 6 consumer outcomes and the firm’s risk appetite.
5. ** Recorded** - Where an issue has been resolved, actions should be recorded and communicated to the appropriate people.
Firms struggled to update processes to ensure TCF compliance or to enable TCF to be demonstrated. Common issues include:

- Areas that impact TCF not consistently identified across business units.
- TCF policies are not always updated to reflect the changing nature of the business.
- Difficulties in aggregating information when delivering business unit MI up to senior management.
- Red and Amber issues are not fully investigated.
- Lack of outcome testing particularly in key areas such as product development, financial promotions, customer communications and complaints handling.
- No controls to test the accuracy of TCF MI.
Example of TCF implementation road map

- Establish TCF governance structure
  - Resolve how TCF applies to firm’s strategy for business and customers
  - Q2 2012

- Articulate key TCF risks across all BUs and at Group level
  - Assess current performance against TCF risks
  - Q3 2012

- Training for all staff on firm’s approach to TCF
  - Q4 2012

- Agree MI requirements and develop reporting packs and structure
  - Q1 2013

- Agree TCF monitoring and oversight framework
  - Q2 2013

- Firm able to demonstrate that TCF is integrated into management structures and business operations
  - Q3 2013

- Q4 2013

- Scoping exercise to fully define changes required in operations and culture
  - Q1 2013

- Review progress against action plan
  - Q2 2013

- Review policies and procedures and amend where required
  - Q3 2013

- Focus on demonstrating delivery of fair outcomes
  - Q4 2013

- Jan 2014

- Ensure that the principle of TCF has been embedded at every level in firm and address any shortfalls

- Agree how TCF will be embedded in strategy, culture, operations
  - Agree ownership at BU level
  - Jan 2014

- Whilst not exhaustive, the timeline is typical of the key activities a firm would consider in a TCF implementation.

- The timing of some of the activities will be dependent on the maturity of the existing risk framework and availability of Management Information, particularly in relation to 3rd parties.