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This review is historical. See [What we publish](#) for more information and current views.



# Customer understanding

Retail banks and building societies

**Thematic Review**

TR17/1

July 2017

## If you have any comments on this paper

**Email:**

customerunderstanding@fca.org.uk

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# 1 Background

- 1.1** We previously commissioned a survey of 17 retail banks and building societies to review how they assess their customers' understanding of the products they bought. The results<sup>1</sup> of our survey were published in April 2016, stating that we will continue to monitor this area and undertake follow up work. The survey was conducted in response to one of the Parliamentary Commission on Banking Standards' (PCBS)<sup>2</sup> recommendations, which stated that:

*'Banks need to demonstrate that they are fulfilling a duty of care to their customers, embedded in their approach to designing products, providing understandable information to consumers and dealing with complaints'*

- 1.2** The PCBS report also said:

*'A bank has a responsibility to ensure that customers have had a reasonable opportunity to understand a transaction, having regard to their knowledge and personal circumstances'*

- 1.3** We have now completed our follow up work through a thematic review involving 18 retail banks and building societies, some of which were part of the previous survey.

- 1.4** Our Mission 2017<sup>3</sup> states that we will listen to consumers and firms and we pay close attention to the feedback they give us. This helps us understand the sectors we regulate and take better decisions. This review has enhanced our knowledge of the practices firms have developed to improve customer understanding of the products and services they deliver. This report shares examples to support and help other firms in their thinking when developing their approaches in this area.

- 1.5** Retail banks and building societies deliver a wide variety of financial transactions to millions of customers, from current accounts to savings, lending and investment products, as well as other products and services. Consumers rely on the information provided to them to decide whether to enter into a financial transaction.

- 1.6** It is a firm's responsibility to treat customers fairly. Consequently firms may find it beneficial to make an assessment of a customer's understanding of the products and services they purchase.

- 1.7** When customers fail to understand a financial transaction, this can lead to harm. For example, transactions may fail to meet customer needs, or fail to deliver as expected. This can result in complaints.

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1 [www.fca.org.uk/news/news-stories/customer-understanding-transactions](http://www.fca.org.uk/news/news-stories/customer-understanding-transactions)

2 [www.parliament.uk/documents/banking-commission/Banking-final-report-vol-ii.pdf](http://www.parliament.uk/documents/banking-commission/Banking-final-report-vol-ii.pdf)

3 [www.fca.org.uk/publication/corporate/our-mission-2017.pdf](http://www.fca.org.uk/publication/corporate/our-mission-2017.pdf)



## 2 Summary of findings

- 2.1** Our review has identified that firms have embedded, or are developing, systems and practices to assess customer understanding of particular products throughout the lifecycle of a product i.e. at the pre-sale, point of sale and post-sale stages. This included advised and non-advised sales.
- 2.2** Firms have described the benefits to their customers, and to the firms themselves, of ensuring that customers understand the products they purchase. Firms believe that this leads to greater customer loyalty, increased business, lower complaint volumes and an overall contribution to a positive culture.
- 2.3** Firms explained to us how the work they are doing in relation to customer understanding aligns with their broader cultural agendas. For example, work on simplifying products and key features documents is designed to make them easier for customers to understand. Most firms across our sample had made changes since the PCBS' recommendation.
- 2.4** We found that:
- firms are increasingly alert to the importance of assessing customer understanding and are developing practices to enhance this;
  - some firms have made good progress in developing practices to help ensure their customers have a reasonable opportunity to understand the products they have bought;
  - a few firms continue to confuse customer understanding with customer satisfaction;
  - the most developed systems and practices for checking customer understanding are undertaken post-sale, for example, through customer contact exercises; and
  - practices appeared least developed in the area of online sales, but a number of firms were taking steps to develop this area further
- 2.5** In this report, we have set out examples of how firms are trying to ensure that customers have a reasonable opportunity to understand a transaction in line with the PCBS recommendations. We encourage firms to take note of these examples when considering how to develop further their responses to the PCBS recommendations.
- 2.6** This review will inform our Strategic Review of Retail Banking Business Models, which is examining the models used in retail banking<sup>4</sup>, including the relative profitability of different business lines and the key drivers of that profitability. Strong incentives to sell certain products may influence the extent to which firms ensure consumers have a clear understanding of the transactions they are undertaking. This review has identified that progress has been made in assessing and enhancing customers' understanding of financial products. We will consider if we need to return to specific issues if we identify any areas of significant concern in the Strategic Review.

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4 [www.fca.org.uk/publications/multi-firm-reviews/strategic-review-retail-banking-business-models](http://www.fca.org.uk/publications/multi-firm-reviews/strategic-review-retail-banking-business-models)



## 3 Our approach

- 3.1** Our approach to this review involved requesting information from a sample of 18 retail banks and building societies and conducting visits to a sample of these firms to better understand their systems and practices.
- 3.2** Our work was limited to the information firms provided to us in their data submissions and at subsequent visits describing the systems and practices they adopted or were developing. This work did not extend to testing customer outcomes for any transactions.
- 3.3** Our information request asked firms to provide examples relating to mortgage, credit card and cash savings account transactions. Firms were also able to provide examples from any other relevant product areas. Most firms' submissions described the general approach they adopted to assessing customer understanding across the products and services they sold to consumers, with some providing additional material to support this.
- 3.4** By sharing these examples, we hope to help other firms develop their approaches in this area.



## 4 Principles, rules and guidance

- 4.1** This report shares examples of how some firms responded to the PCBS recommendations.
- 4.2** While we have no rules requiring firms to assess customer understanding of the types of transactions looked at in this work, we consider that Principle 6 (a firm must pay due regard to the interests of its customers and treat them fairly) and Principle 7 (a firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading) are relevant.
- 4.3** In addition, some of our rules concerning the provision of product information in relation to communications and financial promotions may contribute to customer understanding. For example, rules relating to particular products such as consumer credit (CONC 3.3.1R), mortgage contracts (MCOB 3A.3.1R) and the activity of accepting deposits from banking customers (BCOBS 2.3.1R) require firms to, in general (amongst other matters), ensure that communications and financial promotions:
- are accurate;
  - are balanced and, in particular, do not emphasise any potential benefits of a product or service without also giving a fair and prominent indication of any relevant risks;
  - are sufficient for, and presented in a way that is likely to be understood by, the average member of the group to which it is directed, or by which it is likely to be received; and
  - do not disguise, omit, diminish or obscure important information, statements or warnings
- 4.4** Other FCA Handbook requirements for particular transactions may also be relevant and have a bearing on customer understanding.

## 5 Customer understanding: examples of developed approaches

- 5.1** Our review identified that firms' practices relating to customer understanding of transactions were developed at different stages of the product life-cycle - i.e. at the pre-sale, point of sale and post-sale stages. Firms also explained how customer understanding was embedded within the culture of the business.
- 5.2** In this section we provide examples of practices firms have adopted, or were developing, to enhance customer understanding of transactions. We have set out the examples below.

### Culture

#### **Our review considered how firms embedded the importance of customers' understanding of transactions within the business**

- 5.3** Across our sample, we found that most firms made changes since the PCBS recommendation on customer understanding.
- 5.4** The firms we visited explained how the work they are doing in relation to customer understanding aligns with their broader cultural agendas. For example, simplifying products and information provided to customers is designed to help customer understanding.
- 5.5** Firms explained the extent to which they embedded the importance of customer understanding of transactions in to their business. This included senior management engagement and plans they had in place to develop their assessment of customer understanding.
- 5.6** We found that a number of firms had nominated individuals to be accountable for customer understanding. This indicated that customer understanding of transactions was an important consideration when distributing products or services. In some firms, those nominated individuals held one or more of the functions specified under the Senior Managers' Regime which provided clear accountability within the business for customer understanding.
- 5.7** One firm explained that they recognise that providing paperwork alone - for example, disclosure documents - does not confirm that a customer had understood a transaction, and that customer understanding is different from customer satisfaction.
- 5.8** At one firm, product sales reporting to management included issues relating to customer understanding, if relevant. This helped the firm to understand if it needed to take action to improve its customers' understanding of the products and services it distributes. However, in most firms there appeared to be limited reporting to management or the Board on the outcome of customer understanding assessments.



## Pre-sale practices

### We considered how firms adapted their pre-sale practices to improve customer understanding of transactions

#### Product development or reviews

**5.9** One firm considered the key risks of each product to customers at the design and testing phases of product development. This information was then used to develop questions for members of staff, to explore and enhance customer understanding through the sales process. In addition, identified issues relating to customer understanding through the firm's sales reviews led to continuous improvements to product delivery.

**5.10** Another firm's product and sales process development included testing customer understanding prior to the launch of the product. This was done initially with staff and then with a sample of existing customers. The firm then considered whether any changes were needed to improve customer understanding.

#### Training

**5.11** Some firms developed training to help advisers to have high quality conversations with customers when giving advice, ensuring the customer is provided with a product they understand and which meets their needs. These firms were aware that they needed to provide sufficient training, including technical and soft skills, to assist advisers to explore customer understanding.

**5.12** At one firm training given to staff when they started working in a branch, after completing formal classroom based training, included prompts for checking customer understanding of transactions. Managers then checked if staff used these prompts in real life interactions with customers.

**5.13** The Training and Competence Guide at one firm was designed to train advisers to try to achieve better customer understanding as part of the mortgage sales process. For example, the guide indicated that:

- meetings with customers should contain a good flow of mini summaries of the key aspects of the transaction, to help a customer's understanding;
- it was the adviser's responsibility to monitor the customer's understanding of the mortgage process as it progressed; and
- for an adviser to be deemed competent they are assessed on how well a customer understands the key elements of the transaction



### Online sales

- 5.14** Prior to the launch of a product involving online sales some firms employed sophisticated analytics as an indicator of customer understanding. This was done by reviewing the time spent by a sample of test customers on areas of a web page. Where it was identified that less time was spent on important product information this was then made more prominent. This is then reviewed after the product is launched.

## Point-of-sale practices

### We looked at how firms built customer understanding of transactions into the sales process

- 5.15** Some firms aimed to improve customer understanding of transactions by ensuring that sales staff hold flexible, good quality, conversations with customers. Advisers used soft skills to check customer understanding, and where customer replies did not indicate understanding (or if there are inconsistent or unexpected responses), advisers are expected to explore this further to ensure that customers understand. For example, advisers may ask customers to recap product features and use open questions to assess customer understanding.
- 5.16** Some firms adopted a monitoring approach where mortgage sales are observed. In one firm the observation aid required the observer to comment on whether the interaction checked the customer's understanding of the transaction.
- 5.17** The credit cards sales process at one firm required the sales person to record how and why the customer made their product choice. During the sale, the customer is asked to explain what they have understood about the credit card prior to the transaction being completed.
- 5.18** One firm used prompts to remind sales staff to check customer understanding of the key product features during the sales process, for example, charges (initial and ongoing), interest rate periods, term of product and penalties.
- 5.19** Where customers may not have a good understanding of the English language, one firm was developing its use of video conference facilities to connect with members of staff, based in a different location, with particular language skills to help those customers to better understand the products on offer.
- 5.20** One firm was planning to introduce an online web based chat system, where they could interrupt a customer during a sale to ask if they needed help if, for example, a customer was spending a long time on a particular online page. By doing this the firm indicated it could assist certain customers with their understanding if this was needed, before a sale was completed.



## Post-sale practices

### Most firms that had developed practices to assess customer understanding had systems in place to make an assessment after the sale had taken place

#### Post-sale calls

- 5.21** Some firms used outbound customer calls to test customer understanding of transactions. These were performed on a sample basis, with the sample usually biased towards products firms considered to be complex. These calls seek to test customer understanding through a series of open and probing questions.
- 5.22** Some firms contacted a sample of customers using a script as a guide and the callers were permitted to go 'off script' where they needed to probe deeper to ensure that the customers' understanding was adequate. Post-sale customer contact assessed a customer's understanding of the product sold, including, for example, the key features, benefits and costs. This process was generally conducted by a dedicated team.
- 5.23** Where outbound calls identified an issue with customer understanding, firms told us they would commonly:
- remediate the customer where the misunderstanding impacted the outcome;
  - feedback any training or competency issues brought to light to the salesperson; or
  - where a recurring issue was identified, feed this back into the product design/review or sales process, as appropriate

### Post-sale practice examples at product level, through post-sale calls

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#### Mortgage post-sale calls

- 5.24** For mortgage sales some of the areas firms explored through post-sale calls included:
- whether the customer was aware what type of mortgage had been agreed, for example, repayment/interest only;
  - in the case of any interest only element, whether the customer was aware that relying on their repayment vehicle meant they would not have certainty that their mortgage would be repaid at the end of the term;
  - whether the customer was aware what would happen to the interest rate at the end of the introductory period; or
  - whether the customer was aware of the overpayment restrictions within a fixed rate period
- 5.25** The timing of post-sale calls to mortgage customers varied, with one firm contacting their customers post-offer but before the contract was signed. The rationale for this was that any misunderstanding was easier to put right before contracts were signed. Other firms deferred their outbound calls until after the contract date, ranging from the day after and a month later.



**5.26** One firm used CeMAP (Certificate in Mortgage Advice and Practice) qualified advisers to conduct outbound calls to mortgage customers when assessing customer understanding.

#### **Credit card post-sale calls**

**5.27** For credit card sales some of the areas firms explored through post-sale calls included:

- whether the customer was aware of the card's credit limit;
- whether the customer was aware of the annual fee on the card;
- for cards with an introductory promotional offer rate for balance transfers, whether the customer was aware of the introductory promotional period or when that would end; or
- whether the customer was aware they would be charged if they made a late payment or missed a monthly minimum payment

#### **Cash savings accounts post-sale calls**

**5.28** For cash savings accounts some of the areas firms explored through post-sale calls included:

- asking the customer to explain some of the key features of the account that were important to them;
- checking if the customer knew how and when they could pay into the account; or
- whether the customer chose an account with a fixed rate of interest, or a variable rate of interest, and how they decided on which option to take

#### **Online post-sale calls for cash savings accounts**

**5.29** The post-sale call script to assess customer understanding for one firm's online non-advised cash savings accounts explored the following types of areas:

- how easy was it to find the information about the type of account the customer was looking for on the website, and whether this was easy to understand;
- whether the customer could describe the features that attracted them to the type of account and how they decided this would be the best account for them; or
- whether the account had a fixed or variable rate of interest, and why this was important to them

#### **Complaints**

**5.30** A number of firms considered customer understanding when analysing the root causes of complaints. Where there had been problems with customer understanding, this was communicated to the relevant part of the business, for example, the sales team or product development team, to make improvements.

