Financial Services Authority

Treating customers fairly – guide to management information

July 2007

1 Introduction

This short guide is designed to help firms develop management information (MI) to demonstrate that they are treating their customers fairly. The guide covers:

- hints and tips on gathering and using MI, including examples of good and poor practice; and
- illustrations that we have devised to help firms understand the use of MI in the context of the Treating Customers Fairly (TCF) initiative.

The guide is not intended to be prescriptive but is designed to be a helpful tool for firms. It does not add any new regulatory responsibilities, but summarises relevant messages from other FSA publications, including:

- our cluster report on the results of a survey on TCF MI (published in July 2006)[1];
- TCF: progress report (published in May 2007)[2] which introduced deadlines for firms to be able to demonstrate delivery of fair outcomes for consumers by December 2008 and to have appropriate TCF MI in place by March 2008; and
- our paper on 'Treating customers fairly – culture' which describes our culture framework (published in July 2007).

Further work planned on TCF MI

TCF MI will be a key priority for firms and the FSA in 2007/08. We recognise that many firms are finding the development and use of MI to demonstrate TCF challenging and we will continue to engage with the industry to develop and share material ahead of the March deadline. This will include further material on the types of information firms can use to track progress with TCF and the standards which we consider acceptable in different areas. Our planned paper on measuring industry-wide progress against the TCF consumer outcomes – due to be published in October 2007 – will include material on good MI examples and practice we have seen to date.

1 See www.fsa.gov.uk/pages/Doing/Regulated/tcf/pdf/management_info.pdf.

2 See www.fsa.gov.uk/pubs/other/tcf_implementation.pdf.

Who should read this guide?

This guide is for all regulated firms operating in the retail financial services market, including smaller firms. The examples and illustrations cover a range of sizes and types of firms. For small firms, references to 'senior management' may also be taken to refer to the most senior manager or even proprietor in the case of a sole trader. Small financial adviser firms will also find on our website a range of tools designed to help develop MI around the quality of advice, including a self-assessment tool and a guide to management information[3].

The six TCF consumer outcomes

The aim of our work on TCF is to deliver six improved outcomes for retail consumers:

1. Consumers can be confident that they are dealing with firms where the fair treatment of customers is central to the corporate culture.
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.
3. Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale.
4. Where customers receive advice, the advice is suitable and takes account of their circumstances.
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.
6. Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint.

3 See www.fsa.gov.uk/pages/Doing/small_firms/advisers/tool/index.shtml.

2 Management Information to demonstrate TCF

As part of our TCF initiative we expect firms to demonstrate that:

1. **They are integrating TCF into their business culture –** this work should be well underway now. Firms should at least be in the 'implementing' stage of their TCF work, with resources and responsibilities allocated, plans and processes developed and capability created.
2. **They have the appropriate MI or measures in place to test whether they are treating their customers fairly including by delivering the six TCF consumer outcomes –** firms should be working on this now in order to meet the March 2008 deadline.
3. **The MI demonstrates to them and to us that they are consistently treating customers fairly and delivering the consumer outcomes –** firms have until the end of December 2008 to do this.
4. **There are processes in place that monitor the MI to enable the right people to take action –** this will become 'business as usual'.

In this guide, we set out some of the general principles of developing and using good TCF MI. Where appropriate, we refer to examples and illustrations which are set out in the appendix.

1. Firms are integrating TCF into their business culture

By now, firms should be at least 'implementing TCF', so will have thought about how the different parts of their business influence delivery of the six TCF consumer outcomes and how these outcomes can be achieved. Our recent work on corporate culture and management behaviours is particularly relevant[4]. We have published a series of documents and a suite of material on our website targeted directly at small firms on how to approach TCF[5].

In May 2007 we announced a **deadline for all firms to be able to demonstrate that they are consistently treating their customers fairly by the end of December 2008.**

4 Treating customers fairly: culture.(July 2007).

5 See www.fsa.gov.uk/tcf.

2. Firms have the appropriate MI or measures to test whether they are treating their customers fairly

Firms need to have information to enable them to comply with their regulatory obligations[6]. For TCF, meeting the December 2008 deadline will require firms to use MI or other measures proportionate to the size and complexity of their business. We have set an **interim deadline to encourage firms to focus on and make progress in this area. So by the end of March 2008, we expect firms to have appropriate MI or measures in place to test whether they are delivering the TCF consumer outcomes**.

A typical approach to delivery of the TCF consumer outcomes involves developing responsibilities, processes, controls and standards. However, it is not possible for a firm to demonstrate that it is actually delivering the TCF consumer outcomes without some evidence. For example, the statement that a process exists, or a control is in place, does not indicate that the process is followed all of the time or that the control is 100% effective in delivering the desired outcome (Illustration 1). If a task is added to someone's job role as part of TCF, do they complete it? Are they assessed on how well they complete it? Is this assessment linked to their appraisal and through that to their reward and remuneration? If someone is responsible for a task, to whom are they responsible? Would it affect their reward if they did not do the task to a satisfactory standard? (Illustration 2)

Principles of good MI

MI is information that is collected during a period of business activity. It may be about customers, staff, calls, visits, meetings, sales, opinions, parts of a process, predictions etc. **MI is not just numbers**. Quantitative data is valuable to any business, but commentary or opinions are also MI and can help provide a comprehensive, balanced view. All information relevant to a firm, from whatever source, can be described as MI.

Good MI should enable management to make good decisions. To do this, the MI should be:

- **Accurate** – the correct numbers with any commentary contributed by the right people.
- **Timely** – available sufficiently quickly after the relevant business activity to enable managers to act.
- **Relevant** – displaying what a manager can directly influence or something that they may need to escalate to someone who can take the necessary action.
- **Consistent** – consistent on a period-to-period basis to allow managers to spot trends and make sound decisions.

There may also be MI that is produced for, or requested by, management on a particular issue or concern on an ad-hoc or infrequent basis. This approach is more cost effective if the investigation is a one-off event. In general, though, MI should be produced and monitored regularly to avoid problems rather than commissioned in response to problems.

6 FSA Handbook, SYSC 3.1.11-12R.

The principles of good TCF MI include:

TCF MI should generally focus on how far a firm is delivering the TCF consumer outcomes rather than measuring processes. Information on process can be helpful, but is unlikely to be enough to demonstrate delivery of TCF outcomes.

TCF MI is more than just MI that indicates the status of a firm's TCF initiative. TCF relates to the business activities that firms carry out now and MI on those activities can be regarded as TCF MI.

Some TCF MI will already exist. TCF should not generally require the creation of substantial amounts of new information – the relevant information may already be available in the form of current MI the firm collects. In many cases, an expansion of existing MI to include extra analysis may enable firms to demonstrate delivery of TCF outcomes. The difference may be the viewpoint with management considering 'what is the MI telling the firm about the consumer outcomes?' rather than, for example, the performance of the firm.

MI on customer satisfaction may be indicative of fairness. However it does not demonstrate fairness – customers can be satisfied with unfair treatment and dissatisfied with fair treatment.

MI is not just about different parts of a firm telling each other things. It is about measuring performance and identifying potential risks. It can be a summary of what a firm already knows, but presented in a way that helps management see a pattern and make a decision. This is relevant to very small firms who may feel that MI only refers to large firms where there are different layers of management (Illustration 3).

A mobile phone bill is a practical example from daily life of how information can be collated and used to inform and support decision-making. The phone user has been involved in all the transactions by making and receiving calls and messages so the monthly bill is not telling them anything new. But it does help the user to notice patterns and perhaps make decisions about future usage, for example whether to reduce their mobile spending or amend parts of their contract.

TCF MI should enable assessment of the firm's performance against the TCF outcomes. Some measures offer more information than others. This table sets out good and poor examples we have seen.

Good examples	Poor examples	Explanation
Of sales last month 35% were product x, 25% were product z, 20% were product y and the remainder was made up of product w.	From the financial ledger the firm can prove it made 33 sales last month.	The good example demonstrates detail in the information enabling management to identify risks, for example how sales of each product compare to marketing plans. This will illustrate delivery against TCF Outcome 2. The poor example does not contain sufficient detail to enable management to review sales by product.
Persistency of 1, 3 and 5 year durations of products x, y and z are displayed in a table in monthly MI. Further analysis by distribution channel is also performed.	In a small firm, persistency is not recorded. The managing director (MD) believes he will know of cancelled policies because the firm is so small. He remembers two policies being cancelled last week, but could not identify the product providers.	The good example collects information together in a way that helps management to review the persistency of products. This will allow the firm to assess delivery against TCF Outcomes 4 and 5. The poor example relies upon the MD's memory of recent cancellations. While he is very close to the business, if the information is displayed in a more helpful way, it would help him to see emerging patterns.

3. Demonstrating Success - The MI demonstrates that firms are consistently treating their customers fairly

Once a firm has identified what measures to use, in order to demonstrate success, we would expect firms to have two things:

- **a standard –** the level of performance that the firm decides demonstrates that it is treating customers fairly and delivering the TCF outcomes (Illustration 5); and
- **a result –** how they performed against the standard.

Firms need to try to define what success in delivering fair outcomes for customers means to them. We are not always looking for zero failure (Illustration 4) but we do expect high standards to be consistently delivered by December 2008.

When assessing results against a standard, some firms that we have seen use red, amber and green indicators. This can be a good way to help management focus on the right areas. An amber indicator enables a firm to act early to remedy a problem.

We will not *necessarily* be concerned if a firm fails to reach the high standards it sets for itself, although we may be interested in the reason why. Targets that are aiming at first-class treatment may carry less risk of unfair outcomes if they are not met.

Conversely, some firms may be going through a process of change or improvement and so may not be reaching high target standards yet. We recognise that the culture at these firms will not benefit from consistently failing to meet targets. In these situations, we would support a committed but graduated approach to improvement with attainable targets that will help the firm to succeed by December 2008.

4. Reviewing, understanding and remedying – there are processes in place that monitor the MI to enable the right people to take action.

TCF is the responsibility of senior management. However, taking action to change the business to deliver TCF is the responsibility of everyone in the organisation.

It is important to realise that the primary audience of the MI is not the FSA: however it is important that we can see evidence that the MI is used by the right people and in the right way.

Using TCF MI should include the following five steps, so that the MI is:

- **seen** – an appropriate level of management receives, understands and reviews the MI;
- **challenged** – anomalous or unexpected results are challenged;
- **analysed and monitored** – the right messages and conclusions are drawn from the data;
- **acted on** – where appropriate, actions are taken to remedy the situation, to investigate further and to follow up on those actions; and
- **recorded** – records are made of what is done and information is subsequently gathered to enable the success of those actions to be assessed.

Seen

TCF MI must be reported to the level of management for whom it is relevant – this will not always be senior management. For example, the head of the division is not necessarily the best person to coach or monitor a failing sales adviser. However, the head of the division would expect to know if there is a general failure within the firm's team of sales advisers.

In some situations in a larger firm, it is possible that local actions may be being taken to remedy systemic failures without the organisation recognising them as such. Where a firm believes there is a risk of this happening, then some higher level TCF MI is required. For this to work local management would need to:

- observe TCF MI that led them to believe that a particular outcome was not being met;
- act to remedy the particular problem at a local level; and
- feed back to senior management details of action taken and any wider risk to delivery of fair outcomes for customers.

This table sets out good and poor examples we have seen.

Good examples	Poor examples	Explanation
• The head partner and business manager of a medium-sized firm meet every fortnight and discuss the current MI including all TCF MI. • The TCF MI pack is in the papers for the board meeting. • A newsletter to all staff illustrates how the firm is performing against customer expectations.	• All MI is emailed to sales advisers every month. • The CEO can access the MI by looking on the shared computer drive in the office. • MI reports are stored in the business information filing cabinet. • MI is produced on request. If no-one asks to see a report in a given month the firm does not run the report.	• In the good examples TCF MI is seen promptly by the right people so that they can act. A newsletter to staff can be a good way of keeping TCF 'fresh' and 'business as usual'. • In the poor examples the MI goes to the wrong people; to the right person but may not be looked at; can be overlooked; or fall into disuse. • The right MI needs to be seen by the right people at the right time. Passive presentation or ad-hoc production does not demonstrate that anyone has looked at it. Conversely, sending everyone everything every day is also unlikely to produce the right results.

Challenged

We would expect managers to challenge the content of TCF MI. This may involve the following:

- **Challenging the reasonableness** of numbers against their expectations or experience, e.g. if we had 70% more queries last week, why hasn't our time taken to deal with queries risen?
- For large organisations, asking internal audit to review the information that feeds into a report on which they rely.
- For smaller firms, managers reviewing and sense-checking information on a sample basis and satisfying themselves that the numbers are correct.

As well as challenging the current content of MI, **we would expect management to consider the substance and quality of the MI itself**. Challenges might include:

- Is the MI still relevant to what the firm is trying to do?
- Is there another report that would align better with an outcome?
- If changing the information is not viable, is it possible to perform a one-off exercise to demonstrate that it is 'as good as' another potential measure of an outcome?

Challenging should be performed with the TCF consumer outcomes in mind. We realise that MI cannot always fully prove that an outcome is being delivered. Much MI can be indicative of treating customers fairly – but how strongly indicative it is depends on the circumstances. Where the MI does not provide precise measures of assessment, we do not expect firms to spend disproportionately on systems to bridge the gap between what the MI proves and the outcome itself. But we do believe that careful design of processes can align MI with outcomes (Illustration 5).

Analysed and monitored

Managers are expected to analyse TCF MI critically – with a focus on the quality of the TCF consumer outcomes.

In general, firms should aim to avoid using the absence of poor results as a sign that the consumer outcomes are being delivered. For example, if sales are assessed against a checklist designed only to ensure certain obvious unfair errors were avoided, then MI generated from this assessment only goes part way to proving delivery of TCF outcomes, in particular Outcomes 3 and 4.

We expect firms to monitor how they are doing against the standards they have set (see Stage 3, above):

- **consistently** – so they can track their performance over time;
- **in some detail** – so they can spot any outliers and demonstrate these are not being hidden in averages; and
- **against expectations** – they may be seeking to exceed their standards or they may be part way through a remedial plan to meet them.

Even if the right conclusions are drawn from MI, **there are situations where the MI may not give management any indication of the root cause of the results they are seeing**. In these situations, we would expect management to perform more detailed analysis.

As with TCF generally, the approach should be consistent with the size of the firm and the bsuiness model. For a small firm, monitoring and trend analysis may be relatively simple.

Incorporating additional detail into TCF MI can be important in helping management to decide the appropriate action. For example, a firm that designs products receives a level of complaints in line with expectations. However the firm has sufficiently detailed MI to enable it to analyse the complaints and realise that two particular distributors are five times more likely to generate complaints than the others. This analysis of the MI highlights potential inconsistency in the delivery of TCF outcomes but also provides some of the analysis needed to solve the problem.

This process of review and root cause analysis can be complex. Different managers may have differing opinions of how the business works or the information needed to reach a decision may not be available. In these situations, TCF does not require a full and detailed analysis of every possible root cause, but **we would expect a firm to make a reasonable effort to eliminate certain root causes that are indicative of failing to meet TCF outcomes**. It is likely that most firms will in any case carry out this analysis for commercial reasons.

This table sets out good and poor examples we have seen.

Good examples	Poor examples	Explanation
A firm attributes a root cause to all complaints.	A firm takes the view that all complaints are unjustified so does not categorise the cause of complaints.	In the good example the exercise is performed in such a way that common themes can be spotted and resolved. In the poor example the firm is unable to identify any areas in its business that may not be delivering TCF.

If MI shows details about customers and products then it becomes easier for firms to identify and resolve situations where they may fail to deliver TCF outcomes. The following example illustrates how previous actions may show up in TCF MI.

A firm experienced an upsurge in complaints in 2007 when its five-year bonds which had been promoted in 2002 came to maturity. (Outcome 5 – not performing as led to expect). Although the focus of concern was performance, this additional work meant that the firm slipped below its own complaint handling success criteria on other work (Outcome 5 – associated service, Outcome 6 – barriers to complaints). The firm has reviewed future maturity data and is confident that it will be back on target in the third quarter of 2007. As part of its lessons-learnt exercise, the firm is reviewing the clarity of its policy documentation and sales process on new bonds.

Acted on

This is the most critical part of TCF MI for us. In our work with firms, we have noted that many do collect MI and have a clear review process for it, **but it is not always evident how those firms act to remedy problems with the delivery of TCF outcomes that are indicated by the MI**.

It is important to note that the action may not necessarily rest with the area from which the MI was gathered. This is especially true in large firms. For a firm to be responsive to changes, it needs efficient internal communication of potential trends. This is only possible if the firm's culture is supportive of this information sharing. The reporting lines can help in enabling efficient communication, but an element of ad-hoc cooperation between the area that sees the MI and the area that may need to act will also be required. In some cases, alternative reporting lines will need to be used eg. a whistle-blowing line, internal audit, a TCF intranet site or a direct line to senior management (Illustration 6).

Recorded

Where an issue has been identified, **we would expect firms to produce evidence that actions have been taken to resolve it**. In these situations, appropriate records should demonstrate that MI has been seen, challenged, analysed and acted on.

As we said before, **MI that evidences a process, control, responsibility or even a project has been implemented will not by itself prove that the problem has been remedied.** If the remedy involves something that can be measured, then that further MI is equally important.

Remedial actions need to be documented and may even need their own MI to prove they are successful. **MI is not just information which is collected on a routine basis, but contains the appropriate mix of routine and ad-hoc data** (Illustration 7).

Conclusion

Having the right MI will be essential for firms and their MI will increasingly be the focus of the supervisory conversations we are having with them on TCF in the run up to and after the 2008 deadlines.

We appreciate that some firms continue to find it difficult to develop and use TCF MI. The illustrations in the appendix are designed to expand upon the examples already given, to further illustrate our thinking and help firms establish a set of MI appropriate to delivering the outcomes. In the next phase of our work we will continue to engage with the industry to develop and share material on MI ahead of the March deadline.

Appendix 1

Illustrations

Illustration 1 – Firms have MI that can measure TCF

To demonstrate that they are treating their customers fairly, firms will need MI. Without the right MI implementing TCF is merely a statement of intentions.

For example, a process at a small firm may be:

The adviser completes documentation that demonstrates the decision process behind the recommendation of a packaged product and the suitability of the advice given.

This process should help a firm to meet TCF Outcome 4. When asked, management state that the following control is performed:

All such documentation is reviewed by the firm's compliance function and it is returned to the adviser if it is not of a sufficient standard.

MI on this process may reveal that:

- Only 95% of sales are documented.
- Only 80% of sales documentation was reviewed.
- Of those that were reviewed:
  - 28% of documentation is returned to the sales adviser to be completed properly because it contains insufficient evidence to show that the standards of advice set by the firm had been met; and
  - a further 3% had serious errors that could mean that the advice may not have been suitable and the wrong product may have been sold.
- 60% of the documentation returned in the last quarter has still not been completed according to the firm's own standards.

Key Points: In this situation, the existence of the process and the management's assertions about control are not by themselves sufficient to demonstrate that TCF Outcome 4 is being delivered and that the advice is suitable. The firm should use MI to demonstrate how far Outcome 4 is being delivered and to inform decision-making on what further work is needed.

Illustration 2 – Firms have MI that can measure TCF

There may be factors that could prevent a firm from treating customers fairly. Where this occurs, good controls and MI on those controls will enable a firm to treat customers fairly in the interim period while these factors are changed.

As the result of a merger, a small firm has inherited a remuneration structure that involves significant rewards for individual advisers if they pass certain targets. This can mean that a single sale could result in a disproportionate increase in reward if a sales adviser is near a particular target.

The firm is aware that this structure may encourage the wrong behaviour and intends to phase it out as soon as practical. However this is awaiting a wider review of remuneration, as the firm is seeking to reflect the TCF outcomes in its reward strategy throughout the business.

Meanwhile, the firm has implemented several processes to ensure that the sales advisors routinely treat customers fairly.

- *Advisers are subject to spot checks on files.*
- *As a target deadline approaches, sales managers speak to sales advisers who are near the threshold and emphasise the need for quality.*
- *Sales advisers who clear the threshold are file-checked at a higher sample rate to ensure that they are providing suitable advice to customers.*

MI on the processes to ensure suitable advice may be:

- percentage of cases which fail suitability checks by advisers at each level;
- percentage of failed cases in situations where the adviser finished close to the threshold; and
- any specific actions taken against individuals who had reached their targets through unsuitable sales.

Key points: This case illustrates that a firm may not be able to change elements of its business overnight but that a firm can help to mitigate risks posed to TCF outcomes (in particular Outcomes 1 and 4 in this example) by performing additional work in the interim period. It is important to note that in the medium term the firm is seeking to change the distorting remuneration structure.

Illustration 3 – Firms have MI that can measure TCF

MI can be information that is already known, but which is presented and summarised in a relevant and useful way.

A (very) small firm has one adviser and an administrative assistant. The adviser focuses on meeting new customers, responding to enquiries, understanding customer needs, recommending products and on regularly advising customers on their investments. The assistant deals with the product providers, with telephone queries from customers and correspondence.

One customer is extremely dissatisfied with the written communication and the general level of service that he is receiving from his product provider, provider A. He has received four letters in one week all indicating different things and he is frustrated at the adviser for recommending a product provider that operates ineffectively.

The adviser was due to meet the customer in the next month. He brings forward the meeting. The customer is happy at the adviser's efforts and decides to keep the policy. The adviser takes the customer through the documentation at their review meeting. The customer could be a suitable buyer of a further new product from provider B but is less warm to the idea as a result of the confusion in relation to provider A.

Based on a conversation with the adviser after this meeting, the administrative assistant puts the following information together:

From commission data kept in a spreadsheet, he shows that, with a few exceptions, the firm deals with four product providers. One of the product providers represents 50% of the sales and the other three have roughly 15% each. Provider A represents around 14% of the sales.

As part of his day-to-day work, the assistant keeps a log of all customer requests in another spreadsheet, so he can be sure all necessary actions are completed. This log includes a column for the product provider and the product – and also a date of resolution. Other tools are used to run the business, but this is how the assistant prioritises his own work.

He adds up customer contacts per product provider. From this he realises that over half of customer queries are generated by provider A's products. Most of the customer queries relate to the communications that this provider sends to customers. It seems that they tend to provoke more questions than provide answers. This reflects badly on the adviser firm, incurs unnecessary costs in dealing with customers and may lead to loss of business.

The firm writes to provider A setting out concerns about its service standards and customer communications. Its response indicates that it does not grasp the concerns or have a strategy to resolve them. The adviser decides to stop using provider A for new business and finds equivalent performing products with similar terms. After compiling a shortlist, he looks at a survey on product providers for financial advisers in a trade publication. The new product provider scores higher than the previous product provider A.

The adviser looks through the existing book with provider A and checks whether it is appropriate for other customers to stay with or move providers – considering any costs of moving and whether any change would enable a customer to better meet their financial needs.

Note: Electronic communication can aid this analysis. If a firm operates mostly by email, then a high volume of email traffic could indicate lack of clarity, while the dates of emails indicate times and delays in processes etc.

Key points: Small firms do not have the internal communication problems that a larger group might have. However this does not mean that they have everything at their fingertips – this firm did not notice the problems at the product provider until a customer called them, by which time it had cost them revenue. Recognising patterns in information is important for all firms. In this situation, the firm had the right information by virtue of another process. The firm is able to justify its choice of supplier and has taken steps towards meeting TCF Outcomes 3 and 5.

Illustration 4 – Demonstrating Success

In line with our principles-based approach, we will not set prescriptive standards that firms should meet in each area. Nonetheless we do expect high standards and consistent delivery against the TCF outcomes.

The percentage of products that are cancelled in a cooling-off period may indicate how well consumers believed a product suited them in the immediate period after sale.

A life company launches a new product. In the second month it finds that cancellations are higher than anticipated.

We expect that the firm should be asking itself the following sort of questions:

- What were we expecting cancellations to be? What was this based on?
- What were cancellations in the first month?
- What value of cancellations is a concern? And what level is unacceptable?
- What is the cancellation rate on our other products?
- Are the cancellations concentrated in any particular areas, eg. a particular region or channel, or are they evenly spread?

There are perfectly valid reasons for cancellations being higher than expected, but they are also a measure of wasted sales activity – something a firm should be concerned about for commercial reasons as well as fairness.

Key Points: In this example, the cancellation rate in itself does not demonstrate success or failure. Other things such as expectations, previous values, tolerances, comparisons and a breakdown of the cancellation rates can help to explain how the number links to the outcome. This example also illustrates that TCF can align with commercial concerns. High cancellation percentages may indicate that a firm is not delivering on Outcomes 2 (meeting customers' needs), 3 (providing clear information) and/or 5 (meeting expectations).

Illustration 5 – Demonstrating Success

Fairness can be captured with MI if firms are careful about how they design their processes.

A product developer produces product documentation that is distributed to customers through a network of intermediaries.

The product documentation is designed to be distributed to the end customer, so it must be clear, fair and not misleading and capable of being understood by those customers.

As the final part of testing, the firm tries the documentation on a group of 20 consumers of comparable age and financial capability to its target market. The consumers answer ten questions about the key aspects of the product after being given 20 minutes with the documentation.

The firm specifies that for the documentation to count as clear information in line with TCF Outcome 3, 90% of the group must get the answers to eight questions right.

The firm has been careful in its approach to customer satisfaction and customer fairness. By asking the sample group questions about the product itself, rather than about their perceptions of the documentation, they have sought to measure clarity. (If the documentation had been easy to read but uninformative, then the consumers may have been satisfied with what they had read, but they would not have been treated fairly because they had not received clear information).

If the firm believes that 90% understanding is an acceptable standard, it should delay introducing the new product until it has got the information in the documentation right and its customer research demonstrates that it meets this standard.

Key Points: By carefully devising an approach to a survey for a group such as customers or staff, firms can demonstrate fairness as well as satisfaction. This approach means that the test helps to demonstrate TCF Outcomes 2 and 3.

Illustration 6 – Acting on MI

As organisations become bigger, they develop different structures to manage information flows and to make decisions.

A major retail group offers loans, current accounts and insurance. It is keen to promote its premium current account product which comes bundled with benefits, including membership of a motoring organisation and travel insurance.

As part of a campaign, non-secured loans available only to customers with the premium current account are promoted in branch with large posters that are positioned at various prominent locations around the ATMs and the service desk.

One of these posters shows a smiling family sitting outside a café in a snow covered mountain resort with their skis and a snowboard – the marketing of the loan suggesting that customers could use the money to pay for a skiing holiday.

A customer who has a premium current account comes into the branch and points out that he checked his holiday insurance documentation and that it does not cover skiing. He also points out that the exclusion is buried in the terms and conditions amongst references to dangerous sports.

The branch staff member realises that this could represent a TCF risk. While promoting skiing as a family sport in its loan advertising, the bank is also suggesting that it is dangerous and excluding it from their travel insurance policy. She feels that customers may not have been treated fairly if they have claims rejected. This is particularly so because customers have not actively bought the product, but received it as an 'add on', so they may not have paid as much attention to the conditions or exclusions.

The bank has a TCF suggestion section on its intranet which is heavily promoted internally as a way of escalating TCF issues fast and to the right people. The head of each division is personally responsible for reviewing this.

The staff member fills in the online form and within two days the head of retail division is aware of the issues. He has several options:

- remove the loan promotion posters;
- write to all premium customers reminding them to study the terms and conditions attached to the travel insurance;
- amend the policy documents to ensure that the exclusions are clear; and/or
- remind premium banking staff to draw attention to the existence of exclusions on the policy.

As part of a lessons learned process, the head of retail flagged the risk that potential inconsistencies had not been picked up at the promotion stage and put in place new controls to ensure that in future the team responsible for financial promotions take account of any potential linkages.

Key Points: This demonstrates how qualitative information is just as important for MI as numbers and also that major retail groups have challenges that their usual reporting lines cannot always cope with.

In large firms where information is aggregated and consolidated as it flows upwards to senior management, there is a risk that relevant issues are lost. Where this could happen, flagging issues and reporting them through different reporting lines is a better way of ensuring that they are seen by senior staff than consolidating statistics. Most firms of this size will have 'hotlines' of various sorts that work to highlight issues eg. fraud, ethics, operational risk. These are as important for TCF as for other areas.

In this case, an unintended action has had TCF effects. By having a culture and a reporting line for information that empowers staff, the firm is able to act promptly to treat its customers fairly and to protect its brand.

Illustration 7 – Firms need to document their remedial action

Remedial actions need to be documented and may even need their own MI to prove they are successful. MI is not just information which is collected on a routine basis, but contains the appropriate mix of routine and ad-hoc data.

Following a periodic review a firm notices that critical illness cover has been sold to customers who would not be able to claim in the event due to previous medical history. Issues were identified in 16% of cases, when the firm had set a tolerance level of 1% of customers not being able to claim.

On analysis it emerges that advisers are not asking the right questions about critical illness. This is a sensitive area and from discussions with several advisers, the manager realises that they feel uncomfortable talking about medical issues with clients, especially because they do not feel confident about medical terms.

The firm asks the product provider to provide some clearer documentation on the exclusions and also asks for some advice on how its advisers could approach the problem in meetings with customers. Advisers are given additional training to ensure that they understand eligibility criteria and advice on techniques for discussing medical history.

The firm does not have many critical illness policies on its books but reviews those that it does have, writing to all customers and urging them to review the documentation and check that they are still eligible. This letter is followed up by a telephone call a few days later.

80% of advisers receive the extra training during the first three months after the review and their records are updated accordingly. The rest are scheduled to be trained in the next month. A test sample was carried out on new policies sold since the review and, of 30 policies tested, only one did not meet the requirements. The firm has noticed that advisers are documenting more conditions that may count as medical exclusions and more policies have been referred to the product provider's underwriting department for specialist underwriting consideration.

Of the customers the firm wrote to, 20% responded. The firm reviews their cases and refunds premiums in around 75% of cases. Follow-up telephone calls to the remaining 80% show that the customers had read the letter and only responded if it was relevant. From this, and the fact that the result (75% of 20%) matched up broadly with the firm's original 16% estimate, it is happy that it has taken all reasonable actions to treat its customers fairly.

The firm undertakes a lessons-learnt exercise and posts it on the company's website as an example of a successful review. A couple of advisers who were very helpful in this investigation agree to act as informal contact representatives for advisers who feel uncomfortable, or ill-equipped, when talking about similar issues with customers.

Key Points: MI is required to show both that all the advisers have or will have received the extra training and also that 100% of customers at risk have been contacted. The firm has taken the necessary steps to help support delivery of TCF Outcome 3, clear information, and Outcome 4, suitable advice.

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