Mud sticks; but does Treating Customers Fairly?

Abstract

Once again the FSA has raised the bar in respect of Treating Customers Fairly. Alongside, consumer expectations continue to increase and yet financial services firms struggle to satisfy their customers and deliver the degree of change demanded by their regulator. Why should they change, how can they bring about the necessary change and how can they make sure the change sticks? In a very practical article, Michael Atack and Richard Wyatt-Haines identify the challenges and provide the solutions.

Over recent weeks and months the British press has enjoyed one of its favourite activities; 'Bank-baiting'. As usual it involved derogatory headlines, the views of a number of self-serving lobbyists, the sob stories of the number of customers who should never have been lent any money in the first place and some very heated editorial commentary.

The rights and wrongs of these circumstances are almost immaterial. The reality is that there is increasing public opinion that banks are usurious, scurrilous and treat their customers unfairly. Alongside, the perception of the service offered by the banks has been damaged and the relationship between the banks and their customers is breaking down. Mud sticks.

Within the financial services sector, they too are trying to get an idea to stick, but unfortunately all they are seeing at the moment is mud sliding down the walls and lying idly on the floor.

The issue that the financial services community is struggling with is the all-important concept of Treating Customers Fairly. TCF is important for a number of reasons but the most compelling reason for pursuing the concept is that it is based on the core principle underpinning strategy and marketing; namely the need to understand customers, what they want and what they expect.

And whether we like it or not, the latest round (and earlier ones) of the Bank-baiting should provide all of us in the sector with clear evidence that we are not close enough to meeting our customers' expectations and we aren't satisfying their needs. Why this should be the case is all the more bewildering when TCF is placed into context.

The Business Opportunity

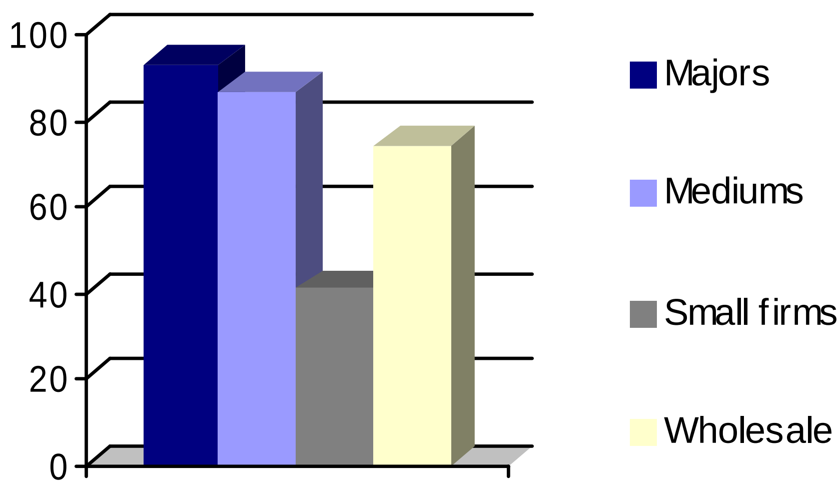
At its simplest, TCF requires and indeed the FSA demands that a bank's basic philosophy should start with the customer (not the product) in mind. Unlike previous regulatory reform, TCF offers organisations significant opportunities to differentiate themselves in an increasingly commoditised and converging retail financial services marketplace. Given its breadth of impact, TCF provides the opportunity for those firms who embrace it to secure benefits which are compelling and much coveted in any retail financial services organisation:

- Improved customer loyalty
- Increased customer satisfaction
- Improved customer trust and confidence
- Improved reputation.

The bi-product of what is obvious commercial sense will be seen and translated, in 'Bank-speak', in terms of improved customer retention, increased cross-sales, improved profitability, increased shareholder return and reduced risk of regulatory failure. The opportunity is significant.

Current Progress

In many ways, the 'blindness' and the problems that financial services firms are having in getting the TCF 'mud to stick' in their organisations are linked. Last summer, the FSA surveyed a large number of firms in the sector to ascertain their progress on the road to Implementing and Embedding Treating Customers Fairly. As a result of the survey, they set a goal for all firms being at the Implementation stage by the end of March 2007. Most firms said that they could get there on time and indeed, the recent results published by the FSA show that many firms have been successful in reaching this interim FSA target:



Percentage of firms achieving the FSA's TCF Implementation target by the end of March 2007 (FSA: Treating Customers Fairly initiative: progress report (May 2007))

As a result recent focus in many firms has been on reaching the Implementation stage as described by the FSA. But throughout their TCF work over the last three years, the FSA have been very clear about their intention to "embed a change in behaviour" in the sector and it is this next (and much deeper and harder) degree of change that the FSA is now focused. And it is here where many firms will truly struggle to deliver.

This is because this final stage is about changing the mindsets and behaviours of individuals and organisations so that the sector as a whole changes the way it acts and behaves, and the way in which it is perceived by the public at large. It is also, the FSA has said, about delivering outcomes which benefit the customer, namely:

Culture	Customer Needs	Information	Advice	Product Performance	Flexibility
Fair treatment is part of the culture	Products are designed to meet customers needs and targeted accordingly	Clear information before, during and after	Provided with advice suitable to their circumstances	Products and services perform as expected	Responsive to customer needs to change arrangements, claims and complaints

Thus, the future challenge of TCF will be about delivering deeper cultural change across the sector.

So if we are going to make TCF stick what do we need to be doing?

The outcomes articulated by the FSA (above) provide some clues but don't really help us understand the levers that we need to pull to enjoy success.

To support assessment of how a company is doing on the road to TCF implementation, we use a simple radial graph to score performance across key dimensions. The three headings described below are used since these provide us with a simple and accessible summary of the key areas of focus for most TCF programmes:

Governance and senior management

- If senior management aren't 'walking the talk' and ensuring that TCF is a key part of their focus and activities, decision-making, and interactions across the business, then there is no chance of TCF being embedded and your project will progress no further.

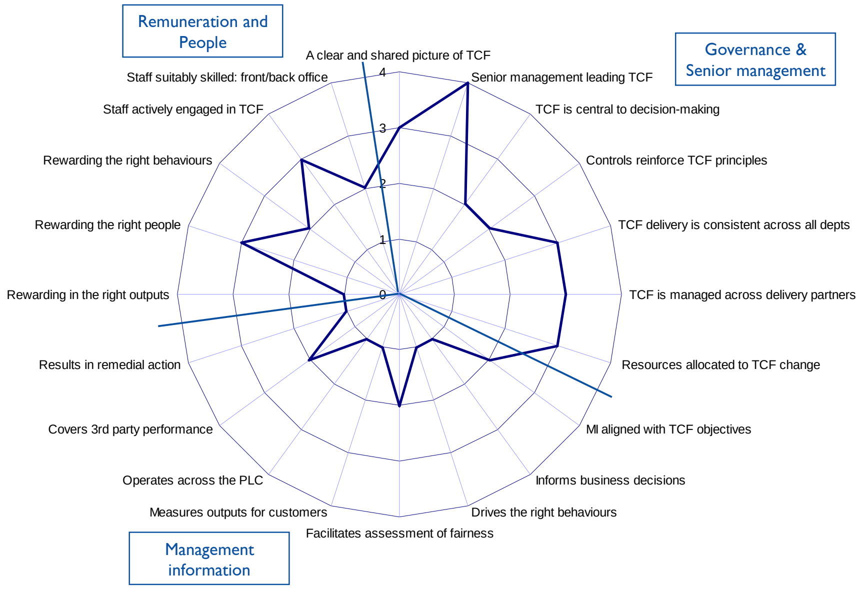
Management information

- Put simply "what gets measured gets managed" and if you're not measuring the right things you won't embed TCF and the required behaviours.

Remuneration and people

- To reinforce desired patterns of behaviour will demand the use of appropriate reward mechanisms. In this regard we are not just talking about money, but the whole range of methods which motivate people.

The following is an example of a completed graph where a company is scored using a scale of 1 to 4, where 1 represents awareness of the issue and 4 records that the principles and approaches underpinning the approach have been deeply embedded within the business. It can be seen that in this company it has made good progress in terms of senior management, but is not yet effectively using management information and has only got to grips with the issues of remuneration and people in a sporadic way.



It is acknowledged that other dimensions could be used to assess TCF progress but in respect of organisational awareness, attitude and behaviour, it provides us with a good starting point. In terms of the axes adopted, these are a combination of aspects which the FSA have said they want to see in organisations, and those which we know are critical to successful change in organisations who have decided to adopt a customer focused strategy. How is your company doing?

Whilst this assessment provides you with an indication of your current performance and identifies the areas that you need to address, it doesn't help to identify how you can get there. It does though highlight the issues that you need to address in the areas of:

- Organisational and individual behaviour
- The key role of senior management
- The need to engage your staff in the importance of delivering fairness
- The necessity of reinforcing your TCF focus through the use of management information
- The challenge of achieving a consistent approach across all parts of the business and all your distribution channels (whether owned and controlled by you or by third parties).

In essence therefore, this change is about engaging people, helping them to learn and practice new behaviours and then delivering the results. How can that be done?

The FSA is unambiguous in the expectation it places upon senior management for TCF delivery. The recent FSA progress report[1] highlights failings by some senior management to grasp the full implications of TCF; viewing TCF as merely satisfying FSA compliance following the obligatory gap-analysis. For these organisations it is very likely that a compliance driven and largely procedural approach will fail to deliver the wider business benefits and more significantly, fall way short of regulatory expectation.

Cultural & Behavioural Shift

Against its March 2007 deadline, the FSA found that a "sizeable number" of firms had failed to reach the implementing phase in one substantial part of their business. Not only will these firms feel the repercussions in terms of increased supervisory activity but the FSA will be increasingly focused and unwavering in its expectations of all firms in their ability to demonstrate they are embedding TCF across the organisation.

[1] FSA: Treating Customers Fairly initiative: progress report (May 2007)

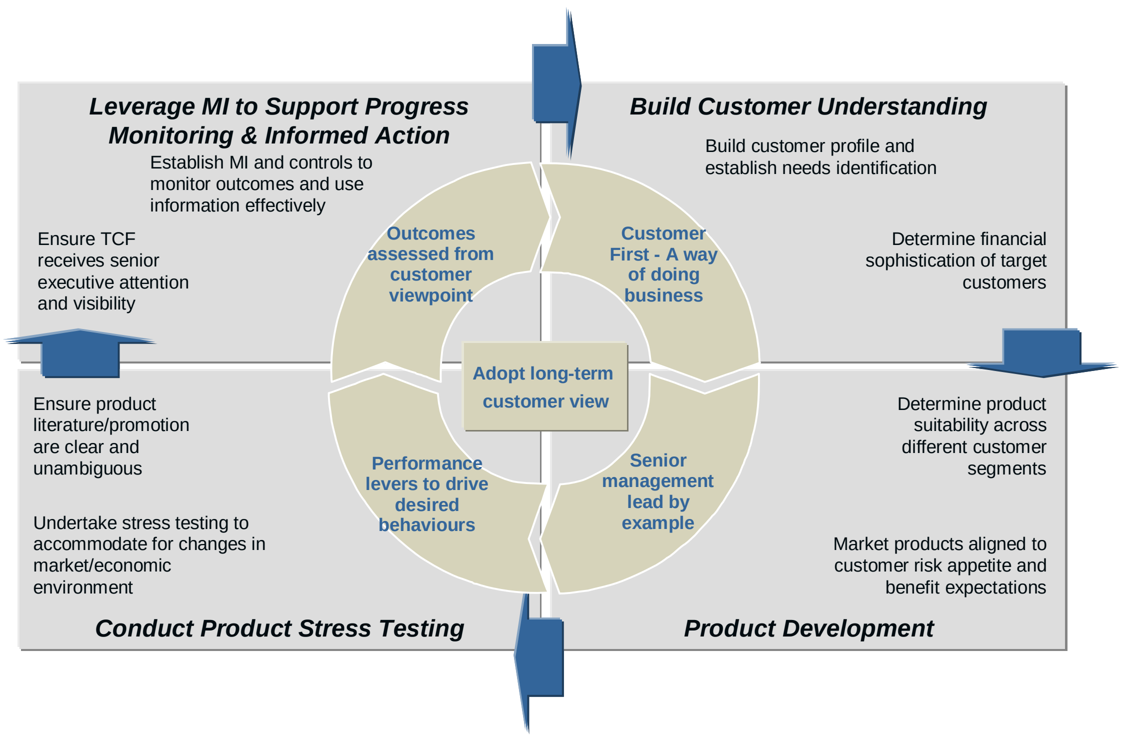
TCF does not represent a 'one-time' exercise as far as implement in 2006, embed in 2007 and hang up in 2008. Rather, the requirements and understanding of TCF will and should change over time and its continual delivery seen as part of the 'organisational DNA'.

As stated previously, establishing the appropriate TCF response is more tied up in business culture and behavioural shift as it is with business strategy, process and systems. Without doubt this is the biggest challenge facing the majority of organisations. This will become increasingly important as the FSA seeks to appraise and test this cultural and behavioural change as part of its future programme of review.

Embedding Organisational Change

To achieve the necessary degree of behavioural change required across an organisation, the spirit of TCF needs to be understood and woven into 'the day job' of not just senior management but across different functional areas: change management, product management, marketing, branch staff, sales advisors, customer service staff, complaints officers etc.

Only once the basic premise of TCF is baked into an organisation, can that organisation be confident of a consistent response that delivers fair treatment to all its customers i.e. has become a way of business. In reality TCF will require a continuous cycle of review to ensure new products are designed, marketed, sold and serviced in a manner sympathetic to TCF (compliant manner).



Practical Considerations

The impact of TCF is far reaching given its implications across the entire customer and product lifecycle. It is perhaps useful to demonstrate, through specific examples, some of the practical actions required to drive and embed change.

Strategically Embed TCF	▪ Ensure major change projects include TCF as an integral element within project and business case approval processes and as a condition of post-implementation reviews
Senior Management	▪ Ensure the customer view permeates the Boardroom to ensure senior management understand the reality and experience of the 'reasonable customer'
Governance Structure	▪ Leverage TCF and its associated principles to instil and renew internal practices and values in regard to dealing with customers
Product Design	▪ Drive more effective use from end customer research and focus groups across the entire development cycle – concept to testing – to increase overall suitability
Reward & Remuneration	▪ Establish a more balanced scorecard of performance measures to assess sales staff (e.g. redemptions, persistency, cancellation and compliance)
Complaints Handling	▪ Ensure back-office staff are appraised against quality of service and customer engagement – rather than time or productivity measures
Manufacturing / Distributor	▪ Incorporate applicable SLA's as part of commercial agreements to ensure customer treatment is assessed as part of formal contractual review processes
Management Information	▪ Deliver management information which reflects the customer view of service received at key junctures across the product lifecycle (i.e. sales, application, service, complaints)

Whilst these represent only a few practical considerations, cumulatively they build the underlying business environment needed to deliver the right behavioural response.

Future Deadlines

As a response to the considerable number of firms failing to meet the March 2007 deadline and as a strategy to ensure firms maintain their focus and momentum, the FSA has set further deadlines. By the end of 2008, the FSA will expect all firms to demonstrate the consistent fair treatment of customers across their business.

As the FSA focuses upon the effective delivery of the six customer outcomes, it will place a large emphasis upon management information which demonstrates these are being achieved. Consequently, an interim deadline of March 2008 has been set by which time firms are expected to demonstrate that the corresponding reporting measures are in place to confirm fair treatment and that this information is used effectively.

For those firms unable to demonstrate or provide adequate management information, the FSA will initiate more detailed testing at the customer interface to assess why the desired outcomes cannot be evidenced. As part of this increased scrutiny, the FSA has stated its intent to pilot the use of a framework which will seek to identify gaps in a firm's culture that may be influencing or resulting in the wrong behaviours and therefore, unfair outcomes. This should act as a wake-up call for any firm whose efforts to date have neglected or failed to appreciate the cultural dynamic that TCF imposes.

Management Information

Whilst management information is clearly only one component within a firm's response, it perhaps merits special attention given the degree to which firms are grappling with this specific requirement.

Admittedly, it is easy to understand why this has posed such a dilemma. On the one hand, the FSA has been steadfast in suggesting this requirement can be addressed in the main via existing data sources. However, it is unlikely that existing metrics had in their specific design the objective to capture, monitor and exhibit "fair treatment".

In reality, a balanced approach will be required combining both existing data sources and new elements to bridge any resultant gaps. The challenge will be less one of capture but more in determining the key measures that demonstrate fair treatment at different points of customer interaction with the bank. Consequently, this data will need to evidence fair treatment at critical junctures of the customer lifecycle to prevent a fragmented, siloed and ultimately incomplete picture being presented.

Not only will this demand an 'end-to-end view', it will require existing data sources to be interpreted through a customer lens as opposed to a bank one. Rather than new sales volumes, applications processed or complaints handled, key questions to be addressed will revolve around the customer experience and resultant behaviours.

The ability to produce, present, demonstrate and act upon a meaningful set of performance indicators represents the key challenge in satisfying both internal stakeholders and the regulator that TCF is being delivered.

Expectation Building

The FSA is increasingly showing its teeth in terms of its decision and capacity to increase the amount of supervisory work across those firms found to be lagging against the March 2007 deadline. For those firms able to demonstrate that the desired outcomes are being achieved – to themselves and the FSA - they will reap the benefit in reduced supervisory control and financial burden. For those failing to evidence the same, the opposite will be true.

When the FSA comes knocking again later this year, will the unprompted actions and behaviours of your front-line and back-office staff – not your TCF committee – demonstrate that fair treatment of customers is just a way of life? If not, the mud will not only stick, it will stain.

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- Where they are going
- How they can get there quicker
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