



Treating Customers Fairly (TCF)

**An introduction to the process and the way ahead
August - October 2010**



Agenda

- ❖ What is TCF?
- ❖ The Product Life Cycle
- ❖ Desired Outcomes
- ❖ Culture Change: Six Key Drivers
- ❖ FSB's TCF initiative
- ❖ Key elements
- ❖ Next steps
- ❖ Conclusion



What is TCF?

- ❖ Outcomes focused approach to improving the fair treatment of customers
- ❖ Behavioral change in the way financial institutions conducts business
- ❖ Considering fair treatment of customers throughout the “product life cycle”
- ❖ Financial institutions must embed TCF in their business, the FSB aims to see evidence of desired outcomes for consumers
- ❖ Achieving outcomes related to the right culture change in financial institutions (key drivers: significant influence on TCF behavior)



Product life cycle

Cultural Framework



Desired Outcomes

Developing products for specific target markets, based on a clear understanding of the likely needs and financial capability of each group of customers

Desired Outcomes

Marketing products for specific target markets, based on a clear understanding of the likely needs and financial capability of each group of customers

Communicating clearly and fairly the nature of the product before the consumer is “locked in”.

Desired Outcomes

Balancing the commercial objective of increasing sales with the objectives of Treating customers fairly.

With assessment, offering suitable alternatives to consumers.

Desired Outcomes

Providing clear and appropriate information, making charges transparent.

Being clear to customers about what the firm, its products and services offer.

Desired Outcomes

Monitoring and responding appropriately to changes in the wider environment that may affect products and impact on particular classes of new or existing customers.

Desired Outcomes

Honouring representations, assurances and promises that lead to legitimate customer expectations.

Identifying common underlying causes of complaints and taking action to eliminate the root cause.



Culture Change: Six Key Drivers

- ❖ Leadership
- ❖ Strategy
- ❖ Decision making
- ❖ Controls
- ❖ Recruitment, training and competence
- ❖ Reward



FSB's TCF initiative

- ❖ FSB published a TCF discussion paper at the end of April 2010 which introduces TCF concept and contextualises it by dealing with specific examples
- ❖ Stakeholder workshops to debate TCF
- ❖ Cross-sectoral task team
- ❖ External consultant
- ❖ FSA Stakeholder Workshop
- ❖ Considering comments received



Key elements

❖ Culture Change

- Fair treatment at the heart of company's business
- NOT a compliance function
- Ownership of TCF should rest at Board and Senior Management level
- Board/Senior Management must embed culture of TCF at all levels of organisation
- Further guidance on TCF culture framework and a self-assessment tool will be published



Key elements

- ❖ **Revisiting the regulatory framework**
 - Challenges of rules based approach vs outcomes based approach to regulation
 - Combination of rules/principles in regulation so that the 'spirit' of what the regulator wants to achieve is made clear
 - Gap analysis of legislation of FSB to determine if all elements of TCF are adequately covered and to ensure alignment across sectors.
 - Guidance notes on TCF best practice will be published



Key elements

- ❖ **Revisiting the supervisory approach to market conduct**
 - Reactive approach vs proactive approach
 - Increased focus on thematic on-site visits / testing of outcomes on the ground (for instance by way of mystery shopping)

- ❖ **Creating the right incentives**
 - Relying on financial institution to do the right thing : TCF not likely to succeed
 - Visible enforcement of TCF principles, increased probability of detection, higher cost of non-compliance (steep penalties)
 - Enforcement Committee
 - Other forms of redress



Key elements

- ❖ Consumer Education and Co-ordination with Ombuds
 - Consumers also have a responsibility to understand rights/obligations
 - TCF and Consumer Education must go hand in hand –
 - Asymmetry of information
 - Generally complex nature of financial products
 - Consumer Education Department



Next Steps

- ❖ **Roadmap document**
 - Evaluation of comments and setting out what FSB will do next and how
 - Published by year-end
- ❖ **Self-assessment pack**
 - Briefing document
 - Self-assessment tool
 - Initial focus on product providers
 - Piloted process, published for industry to use
- ❖ **Benchmark study**
 - Survey of firms based on self-assessment tool
 - Interviews with firms
 - Publication of assessment and report
- ❖ **Supervisory Gap Sub Committee**
- ❖ **Regulatory Gap Sub Committee**



Conclusion

- ❖ TCF aims to **elevate fair treatment of consumers** on agendas of financial institutions.
- ❖ Behavioural change will be a **multiyear project**
- ❖ After consideration of comments on discussion paper-
 - Issuance of more **detailed guidance** on what the FSB expects of firms in applying TCF.
 - Obligation will be on **Board/Senior Management** to undertake a **TCF self-assessment**



Thank you