Treating Customers Fairly

The role of customer feedback

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In June 2001, the UK's Financial Services Authority (FSA) published "*Treating customers fairly after the point of sale*", setting out and seeking consultation on how it intended to use its regulatory powers to encourage financial services providers to treat customers fairly. Treating Customers Fairly (TCF) is now central to the FSA's regulatory approach and places significant obligations on financial services firms across the customer life cycle. This paper, the result of discussions with Clicktools users in financial services, sets out how an effective customer feedback approach contributes to a firm's obligations under TCF.

Treating Customers Fairly

For those new to TCF, here's a summary of the main points of the FSA's consultations on TCF[1]:

- Despite improvements, there is still evidence that consumers are not being treated fairly by some financial service firms.
- The FSA has wide powers in relation to treating customers fairly.
- The FSA will not define fairness, leaving it to firms to define it in the context of their market(s) and position. They suggest however that fairness has a number of elements, viz:
    - Acting honestly, fairly and reasonably
    - Providing clear and accurate information to customers
    - Being transparent in dealings with customers
    - Providing customers with help and assistance to understand relevant products and services
    - Acting in accordance with the spirit as well as the letter of the relevant rule or clause in a code and standing by any implied meaning

[1] Treating customers fairly after the point of sale. June 2001 and Treating customers fairly – progress and next steps. July 2004. *Financial Services Authority*

  - Maintaining clear and simple procedures – especially those relating to complaints processes
- Firms will have to define and show how they are delivering against the principle of treating customers fairly across the life cycle to treat customers fairly.
- The customer life cycle comprises:
  - Product design and governance
  - Identifying target markets
  - Marketing and promoting the product
  - Sales and advice processes
  - After sales information
  - Complaint handling
- Failure of the industry to implement TCF may lead to more directive regulation.

The Role of Customer Feedback

Whereas rules lend themselves to internal, process based measurements, principles require outcome based measures. After all, the prime measure of treating customers fairly is that customers consistently and reliably report they have been treated fairly. Customer feedback that tests for fair treatment across the life cycle of activities set out by the FSA must therefore be central to a firm's response to TCF. The FSA make it clear that they believe that measurement of TCF goes beyond customer satisfaction. In their recent progress report[2], they report "*Firms in the pilot said that management information is key to how they can monitor whether customers are being treated fairly. In some cases they use information, which they already gather for other purposes, as a measure of TCF performance. However, this is not always the right material and they struggle to conceptualise what information they could*

[2] Treating customers fairly – progress and next steps. July 2004. *Financial Services Authority*

*gather that would provide them with useful intelligence on TCF, **as opposed to simple measures of customer satisfaction**."* [Author's emphasis].

This life cycle approach reflects the event based customer feedback approach that Clicktools has always advocated. By testing their perceptions of the experience at each of the steps that they engage with the customer, firms provide an ongoing stream of actionable data.

The event based approach to customer experience measurement uses short, focused questionnaires to test perceptions at each of the key stages of the customer life cycle. For example, different questionnaires can be used to gather customer feedback on:

- Promotional material
- The advice and sales process
- The product initiation process
- The provision of regular information after sales
- How complaints have been dealt with

Each survey, whilst focused on a specific event, can include questions that test for TCF themes. Responses from one or more common questions, included in all the surveys, can track aspects of TCF across the life cycle. For example, a firm might include the question "Do you think you were treated fairly?" in all customer surveys. Indeed surveys can be constructed using techniques that identify issues and real intent without the use of direct questions. Careful construction of samples ensures that firms collect representative data across the segments that they serve for each of their products, whilst avoiding over surveying of specific customers.

Feedback management systems allow the integration of customer, drawing results from surveys across the life cycle and combining them into one measure or index for TCF. There is scope for the industry to work together to define a common core for this which could then act as a benchmark.

Event based feedback, which is used more widely in other sectors, is rare in financial services. Several financial service companies use recent transaction activity to trigger a common customer perception survey, but we know of none that have adopted systematic, event based feedback. Commenting on measurement relating to TCF across the life cycle, the FSA's Clive Briault said "... *firms need to do more to develop systems to measure their performance in these areas*[3]."

Embedding TCF

The FSA makes it clear that TCF should be embedded as a normal way of doing business and places the responsibility for it squarely with senior mangers. Measurement is one way that TCF can be woven into the fabric of an organisation's culture. Consider the following, all of which have been implemented by companies in a different context:

- An Executive TCF Dashboard lets a firm's senior managers regularly review the results of TCF feedback from customers. Performance against targets for different parts of the business is visible through a graphical interface.
- Branch and headquarters staff access on-line customer feedback, enabling them to identify and act on TCF (and other) customer issues relevant to their part of the organisation.
- TCF feedback from customers is used as part of a firm's reward and recognition strategy.
- Automatic alerts notify a firm's managers when customers submit feedback suggesting they have not been treated fairly, enabling them to address the concerns of individual customers and rapidly identify root causes.

Such capabilities, used by a number of companies outside the financial services arena, move significantly to embedding TCF as business as usual – a key factor in the FSA's assessment of an organisation's approach to TCF.

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[3] The FSA's Retail Agenda. Speech to British Banking Association's Retail Banking Conference, 23rd November 2004. *Financial Services Authority*

Achievable; but challenges exist

TCF related customer feedback is eminently achievable but to provide results that will meet all of the FSA's requirements presents some real challenges.

What is fair for one customer might not be fair for another. A less sophisticated customer may be less well equipped to assess if they have been treated fairly. Relating understanding and risk propensity of customers will have to be taken into account when considering the results of TCF feedback.

Results will need to be tracked at the level of individual customers over time. TCF implies a responsibility for keeping customers informed about the performance of products and their continuing suitability. Continuing feedback that the customer believes they have the right information and continue to have confidence in the product and supplier will contribute to the view that TCF is being delivered. This may conflict with the Market Research Association's Code of Conduct which requires that individuals are not identified as a result of research. Some companies are already seeing a conflict between the code and their needs for actionable feedback at the level of the individual customer. This can be addressed by gaining permission from the customer.

Whilst customer feedback forms an important part of an organisation's approach to TCF, limitations must be recognised: it is not a total answer. Feedback has limited use in areas where the customer is unable to make a reasonable assessment of fairness. For example, the long term implications of purchasing some financial products are not visible at the time of purchase, so an assessment of fairness will have to be gauged against how the firm helps customers understand and respond to changing economic circumstances. Nor will feedback address the aspects of TCF relating to segmentation and product design, although the use of surveys to customer panels being used by some companies might help.

Proportional Regulation

The FSA operates regulation around a number of principles, one of which is the concept of proportionality: the extent of regulatory oversight is proportional to the risk involved. We would argue that a firm that can show that it has consistent and reliable feedback from customers showing it treats customers fairly should be subject to a reduced regulatory regime. This approach is used elsewhere in government led supervision of industry. School's inspector OFSTED has different regimes for successful schools (as measured by outcomes) than for failing schools. Successful firms submit regular TCF outcome measures (with a structure approved by the FSA) with periodic audits of the measurement process. If performance falls below agreed thresholds, the regulatory regime increases to the point where warning notices are issued by the FSA for the firms that continually fail to reach the minimum standards levels of performance.

In Closing

The landscape of financial regulation changes considerably with TCF. Caveat emptor still applies but it now has its limits. Firms that fail to put their customers' interests high on the agenda risk falling foul of the regulatory agenda. Gathering feedback from customers is an important mechanism for maintaining TCF. Whilst the regulatory requirements are one thing, the real benefit of customer feedback is its power to strengthen customer relationships, encourage advocacy and guide productivity improvements: satisfied customers buy more, recommend you more and provide ideas for improving products and processes. Treating customers fairly, properly applied, is a profitable strategy[4] – regulatory compliance is a spin off benefit.

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[4] For more information on the business benefits, ask for our paper "The Business Benefits of Service Excellence".