

# A fair process for TCF

Many IFAs seem unsure of the relevance of TCF. **Neil Britten**, director of Corven Consulting, argues that addressing the issue of TCF can provide a commercial advantage

**A**t a conference towards the end of last year, the Financial Services Authority (FSA) made it clear that the Treating Customers Fairly Initiative (TCF) must be seen as relevant to all financial services organisations regardless of size. Yet rumblings of discontent about the regulator's tendency to apply big rules on small firms continue to be heard. According to research carried out by the Association of Independent Financial Advisers (AIFA), 49% of IFAs have taken no action as a result of the regulator's initiative.

The financial services industry has seen major changes over the last few years in the shape of depolarisation and TCF, and is set to face more with Markets in Financial Instruments Directives (MiFID) and A-Day on the horizon. The result of these waves of change may well be a more precarious environment for IFAs – although it is too early to accurately assess the full repercussions.

The advent of the multi-tie, the opportunities and threats posed by the internet for providers and intermediaries are all shaping a new financial services landscape.

In this new landscape, profit streams have become a hotly debated issue, with multi-tied firms under the spotlight over their remuneration policies. Independence is difficult to define, with some firms nominally charging upfront fees, as required by the regulator for the label 'independent', but then operating predominantly on a commission basis with preferred providers.

## Cracking down

The FSA has pledged to crack down on this practice in 2006 but it is clear that consumers could be misled as to what service they are getting from an adviser. The picture has been blurred, probably to the detriment of consumer faith, and IFAs may well be looking back at life

under the 1986 Financial Services Act as a period of simplicity and clarity!

It is perhaps ironic that the proliferation of advice now made available to consumers may have made treating customers fairly more difficult to achieve. It certainly puts added strain on consumers' financial capability. But irony aside, the FSA has made it clear that, in this changing environment, senior managers need to treat their initiative seriously and ensure that TCF is embedded in a firm's culture.

It should be apparent that customers will feel unfairly treated if struck by a negative outcome for which the risk of occurring had not been made abundantly clear to them. One area for concern in the current climate for IFAs is the possibility of claims management firms hijacking TCF in order to encourage customers who have sustained losses or bad performance to lodge complaints with the Financial Ombudsman Service (FOS). However, by creating an internal culture of fairness, firms can not only help mitigate unnecessary complaints, but use the principles underpinning TCF to build their reputation and brand into an effective competitive weapon.

It is interesting to note that in a recent survey the FOS found that around 80% of complainants were satisfied by how it had treated them, even though the FOS upheld only around 30% of complaints. Considering that a complaint only reaches the Ombudsman after a customer has complained about the service from an intermediary (or insurance company) and then complained again about the way that their grievance was addressed, these figures seem surprising. What they demonstrate, however, is that outcome is not the overriding factor determining consumer perception of fairness.

The Ombudsman attributes the statistics to the way that it handles

complaints, continually informing complainants about the status of their case. So it seems that process can be at least as important as outcome in delivering what customers are likely to view as fair.

This tallies with the findings of social scientists John W Thibaut and Laurens Walker who, in the mid-1970s, produced the first academic research to show that, in the context of the legal system, people care as much about the fairness of the process as the outcome that it produces.

There is ample evidence across financial services (and almost every other economic sector) to suggest that, when the process is perceived to be fair, most people will accept outcomes that are not wholly in their favour.

## Fair process

So in other words, when IFAs recommend products that do not assure a positive outcome, it is necessary to ensure that customers feel that they have received a fair process – informed of the risks and updated regularly with news of how the product is faring.

For example, if an adviser offers a high net worth individual a product on the assumption that he is more risk averse, this must be made clear. Obviously, this is inscribed in the conduct of business but a TCF approach would ensure that this is carefully and properly communicated, rather than employing a box-ticking method. Any factors that affect the performance of the product must be communicated regularly.

But we are still in an environment where the majority of IFAs consider TCF a periphery to their business and celebrate the ethical nature of their independence. After all, they often work on a localised basis; the most effective marketing is often word-of-mouth, personal referral and reputation is of paramount importance



### *Handling with care*

to retaining and extending the client base. If treating customers fairly is essential for survival, it may seem unfair that the regulator wants more.

Nonetheless, in the FSA's July 2005 progress report on TCF, the annex dedicated to smaller firms insisted that, regardless of size, TCF was relevant to all firms.

Part of the problem may have been that the examples given of what a financial adviser should aim to do may have been viewed as basic good practice by seasoned and respected professionals. They included recommending products that are suitable, ensuring that clients were fully aware of, and understood, the service that the adviser was offering, and that the adviser handles complaints fairly.

These rather basic examples have probably only antagonised the industry. Add to this mix the feeling that TCF would require new systems in order to comply and that such IT investment is beyond the resources of small and medium-sized financial advisers and perhaps unnecessary altogether.

This combination of speculation and perception of extra bureaucracy has obscured the potential value in TCF. Small firms are unlikely to have the strict procedures in place that are typical for,

say, a large retail bank, and the FSA has expressed concern about this more relaxed atmosphere in smaller organisations.

It would be unreasonable to expect this kind of IFA, where communication is often less formal, to massively evidence its internal conversations about a client's finances, creating more administrative bureaucracy – but reviewing procedures could still prove a valuable exercise.

After all, the FSA has continually stressed that TCF is not about expensive compliance and this was particularly stressed in the July progress report when the regulator stated that “TCF is not about setting costly systems and extensive governance processes.”

#### **Internal culture**

Instead, it is looking for evidence that an internal culture exists within each firm. Therefore, ensuring all employees not only understand fair treatment but also are fully engaged with what it means in their daily life is essential.

One successful technique for shaping the culture of the firm is WorkOut™ a concept developed by Jack Welch at GE. Essentially WorkOut™ employs structured meetings with a cross-section of the organisation to identify ways

to simplify work and be able to better understand and respond to customer perceptions. The meetings should involve not just management and advisers, but also clerical staff, often the first point of contact for customers.

Front line staff often have the best perspective as to how customers can be treated more fairly. There is a dual benefit, however, as the process of engagement ensures that all employees feel more valued and buy into solutions. These ‘village meetings’ are both a forum for identifying TCF issues and also a tool for implementing the necessary culture.

TCF is still a grey area for IFAs, partly because its relevance has been poorly communicated to them and partly due to the significant changes sweeping the financial services landscape. But in this environment, it is arguably even more important for firms to re-examine their proposition and establish a model that helps them adapt easily and with due thought to their clients.

And, of course, the commercial benefit could be improved retention rates and attracting new investors in need of advice. It is simply a case of biting the bullet; now really is the time for management to take ownership of the TCF issue. **M**