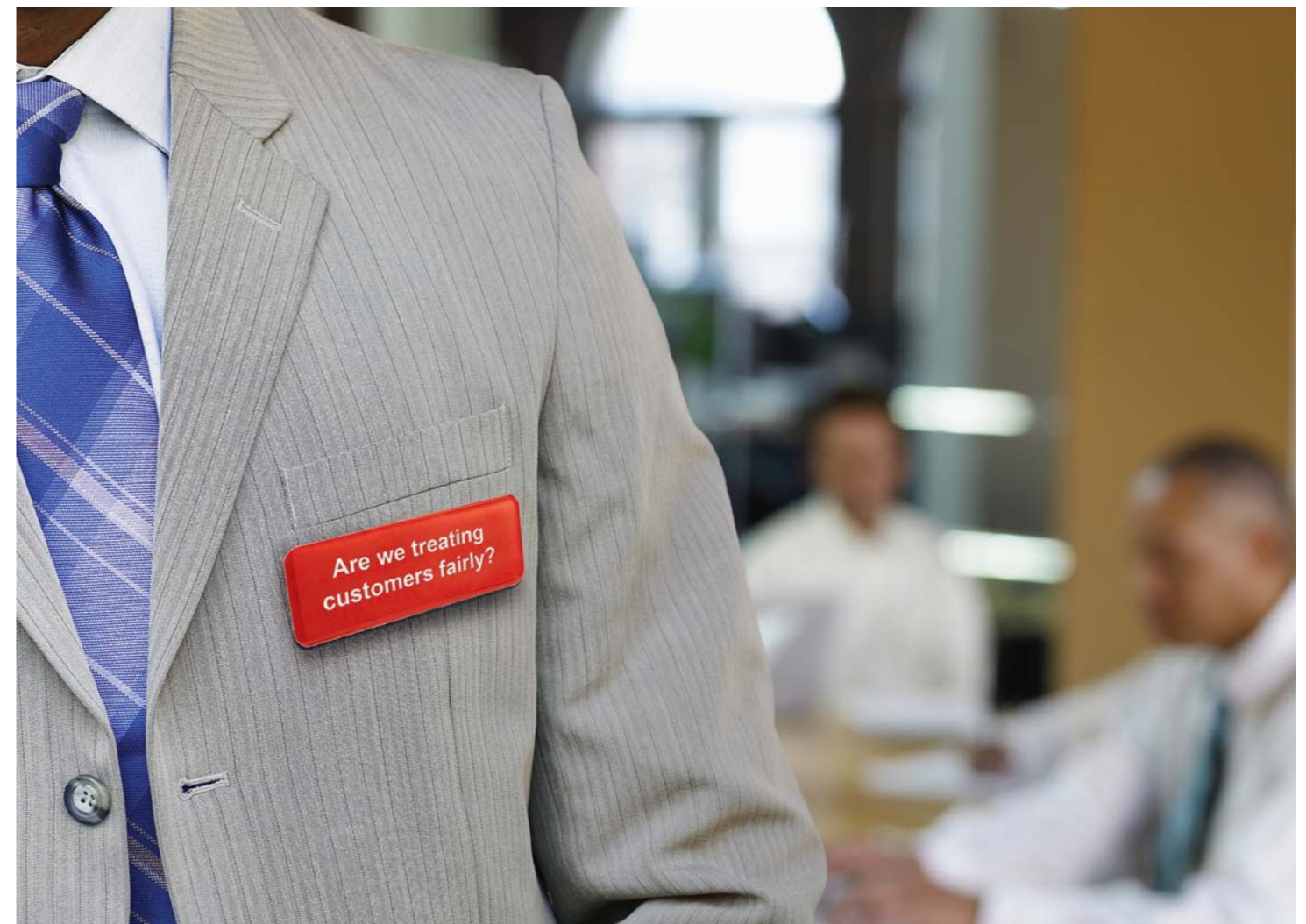


# Treating Customers Fairly

Embracing regulatory change for business benefit



**Head Office**

Abbey Gardens, Abbey Street,  
Reading, Berkshire RG1 3BA  
T. 0800 583 0794  
askhuntswood@huntswood.com  
www.huntswood.com

April 2007

**Notes relating to Huntswood**

Huntswood cannot accept any liability for the information given in this report which is offered as a general guide only. All Huntswood engagements are subject to a binding contract, fully setting out all terms and conditions. A full summary of terms and conditions is available on request.

Huntswood CTC Ltd trades as Huntswood, Abbey Gardens, Abbey Street, Reading RG1 3BA, registered company number 3969379

# An obstacle to success or an opportunity too valuable to ignore?

Treating Customers Fairly (TCF). Seen by some as another demand in the heavily regulated financial services world. But to see it that way is to miss the opportunity. This is not more regulation. It's a cultural shift. A move to a principles-based, customer-focused perspective on the way we all work. A real-world chance to do fairer, more rewarding, more sustainable business.

## About Huntswood

Since 1999, Huntswood has provided professional consulting and customer services solutions. Our mission is to work with clients where we are sure we can improve their performance and reduce their risk in highly regulated, highly complex, customer sensitive environments. We are now one of the UK's leading specialist support service providers to the retail financial services industry.

**So what can an organisation like yours do to exploit this change? How do you adopt a successful approach that encompasses all elements of TCF and maximises the opportunities it presents?**

**This report gives the clearest view in the industry to date of the real impact of TCF, how far the industry has come, why firms are struggling with TCF, and a practical approach to rapidly address TCF to make it business as usual by the end of 2008 and drive lasting cultural change for competitive advantage.**

## Read on, and discover for yourself...

- Why many firms have failed to grasp the true breadth and scale of TCF.
- Why a traditional box-ticking approach to regulation adopted by many firms will not deliver TCF.
- Why senior management involvement is an absolute MUST to support the cultural step change that is necessary to embed TCF in your company.
- How to define 'fairness' to deliver the right customer outcomes.
- How customers perceive "fairness" and why well over 50% of consumers still feel banks treat them unfairly.

This report will give you valuable insight into how to review and adapt your TCF programme to deliver improved customer service, greater customer retention and positive bottom-line impact.

# The real impact of TCF

We believe TCF is the battleground where the future of retail financial services will be played out over the coming years.

**TCF is having a seismic effect on the financial services industry. Despite its importance the scale of the effort required has been misunderstood and underestimated by many firms, advisors and commentators. The impact it will have on consumer confidence and company profitability is a rising board-level predicament. We believe TCF is the battleground where the future of retail financial services will be played out over the coming years.**



The reason for this is quite simple. Consumers now expect the sales and performance of financial products and services to match those offered by any other retailers, even though they are less tangible and may be far more complicated. Yet the performance levels in our industry fall some way short of those delivered by best-in-class retailers like Waitrose, Amazon and so forth. This fact – and the need for TCF – has been brought into sharp focus recently with FSA activity and high-profile media investigation and coverage around Payment Protection Insurance (PPI) and the OFT's investigation into Banking Charges in particular.

The FSA expected all firms to have implemented TCF in a substantial part of their business by the end of March 2007. Contrary to the progress message given in the FSA's 'Treating Customers Fairly initiative: progress report' of May 2007, our evidence<sup>1</sup> currently suggests that this deadline has been missed by many firms, increasing the risk of failing to consistently demonstrate fully embedded TCF by the end of 2008. This move to set a 2008 deadline suggests that the FSA has recognised the difficulty firms have had in driving through changes in customer outcomes.

We anticipate the incremental cost of this delay will be considerable to the industry. Just taking PPI sales, estimated to be worth £5.5bn per annum<sup>2</sup>, the potential (annual) compensation bill could be in the order of £2bn, with additional administration costs to be paid for. This compares with the impact of the Pensions Review, which cost the industry £11.5bn, and had additional administration costs of £2bn.

<sup>1</sup> Huntswood Banking Omnibus, 2007

<sup>2</sup> Mintel UK Creditor Insurance, November 2005

## Failure is not an option

It's no secret that the FSA expects a number of firms to fail to meet TCF expectations, with the inevitable consequence of enforcement action and regulatory fines. However, the real financial cost to firms will be a potentially significant reduction in profits from decreasing sales of unfair products, removal of unfair service charges, and the remediation costs to satisfy unfairly treated customers, as well as the significant management time spent resolving these issues.

The situation has been further complicated by the approach required to make TCF work – the need for measurable, delivered consumer outcomes and the principle-based nature of the regulation. This makes TCF radically different from previous regulation and presents a cultural challenge for many firms used to applying a rules-based, box-ticking approach.

A large number of firms have tried to deliver TCF through a tactical, traditional approach. They have concentrated on addressing regulator-informed concerns in a mechanistic way within their organisation. Consequently, their boards now have a misplaced confidence that they already treat their customers fairly. The first real challenge to this assertion will come when the FSA pays them a TCF-specific review visit.

In contrast, some firms have identified the need for cultural change across their businesses, spotting the opportunities that come from implementing TCF more holistically. These companies will not only meet the FSA's requirements, but will be well-placed to exploit the huge business benefits on offer – protecting existing profits, increasing customer retention and capitalising on the customer service and performance improvements TCF-led change can bring.

# What is TCF?

**A key test on the journey towards principles-based regulation. That's the FSA's view of TCF, and it will continue to be a supervisory priority throughout 2007 and into 2008. But what exactly is TCF and what will it achieve?**

The idea of TCF isn't new. From inception, a fundamental objective of the FSA has included a commitment to "...maintain efficient, orderly and clean markets and to help retail customers achieve a fair deal".<sup>3</sup>

## What is the FSA looking to deliver through TCF?

Promoting a consumer-focused agenda without a specific framework to be followed verbatim has long been a major challenge for regulators. But now TCF offers a significant opportunity to ensure that this approach takes a firm hold throughout our industry.

### Specifically TCF aims to:

- help customers fully understand the features, benefits, risks and costs of the financial products they buy;
- minimise the sale of unsuitable products by encouraging best practice before, during and after the point of sale.

**"We want firms and their senior management to drive through and demonstrate achievement of the six TCF outcomes."**

Clive Briault, FSA Managing Director Retail Markets,  
9th November 2006.

### The FSA is looking to guarantee six key outcomes:

- 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 are designed to meet the needs of the identified consumer groups.
- 3 Consumers are provided with clear information and are kept informed before, during and after the point of sale.
- 4 When consumers 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 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.

Recognising the challenge that the introduction of TCF creates, the FSA has defined four stages of activity: **Awareness; Strategy & Planning; Implementation and Embedded**. The target was for all firms to have reached the implementation stage in a significant part of their business by 31st March 2007. However, the FSA doesn't expect all firms to be able to demonstrate this achievement but will need to be provided with evidence of what has changed and how this delivers TCF outcomes. By creating the date for embedding TCF to the end of 2008 some firms may reduce their efforts and fail to use this valuable time effectively.

The signals from the FSA regarding their expectations are already very clear. In her keynote speech to the FSA Retail Firms Conference in February, Sarah Wilson, Director, Retail Firms, stated: "It is salutary to remember that all a firm meeting this deadline is able to say is that it is implementing a plan to enable it to comply with a principle that it should anyway have been complying with since authorisation by the FSA."

We've seen the industry investing heavily in trying to understand how to fix the gap. But as we'll explain, the benefits of this investment don't always match the spend. So the question is, to what extent is that deadline being met? And why is implementing TCF proving such a challenge?

<sup>3</sup> A New Regulator for the new Millennium – FSA, January 2000

# How far have we come?

**In June 2006, after a number of client requests for an independent consumer view of their progress on TCF, we launched a quarterly market review which we call the Huntswood Banking Omnibus. With surprising findings. Although the majority of companies are running a TCF programme, very few can demonstrate that they have truly reached the implementing stage. But why should that be?**

Through our multi-channel analysis of high-street branches, call centres and online services, we identified a number of practices which demonstrate that poor behaviours continued to prevail, even with regard to the selling of products, such as PPI, which has been the subject of intense recent regulatory and consumer scrutiny.

## The key findings

### • Regulation breaches

Where we tested advised and non-advised mortgage and investment sales, there were clear breaches of regulation. They related mainly to poor fact finds, product advice and misleading statements given about product features and benefits. Conversely, where full fact finds were carried out, all major UK retail banks demonstrated good mortgage sales practices, with two banks scoring high on customer advocacy.

### • Falling short

All the major UK retail banks in our study, without exception, exhibited examples of falling short of the FSA's guidance on the sale of regulated products. Which is out of line with the FSA's Consumer Outcome 4 'When consumers receive advice, the advice is suitable and takes account of their circumstances.'

### • PPI misselling

In the case of personal loans and the sale of associated PPI we found nearly 37% of providers rolled the cost of this insurance into the quote without a suitable explanation. Explanation of the PPI product in branches was universally poor, with few staff checking suitability and even fewer having a good working understanding of the product limitations and exclusions.

### • Long-term neglect

Our assessment of Packaged Current Accounts suggests that new business is such a key driver that long-term relationships are neglected, increasing the risk of complaints and claims in the future. For sales of Packaged Current Accounts, only 22% sought to establish whether customers were eligible for the benefits of the account, 16% explained the account terms and conditions and 27% provided the true costs, fees and interest rates of the account.

## TCF in action – Payment Protection Insurance

One clear example of the status of TCF adherence in firms has been the media and FSA attention on PPI over the last six months. A number of enforcement actions have been issued due to PPI being mis-sold, predominantly around credit cards and unsecured loans.

It wasn't until the 'super complaint' from the Citizens Advice Bureau relating to the potential wide scale mis-selling of PPI in September 2005 that the issue started to be addressed. As a result, the industry is currently subject to an investigation from the Office of Fair Trading and Competition Commission.

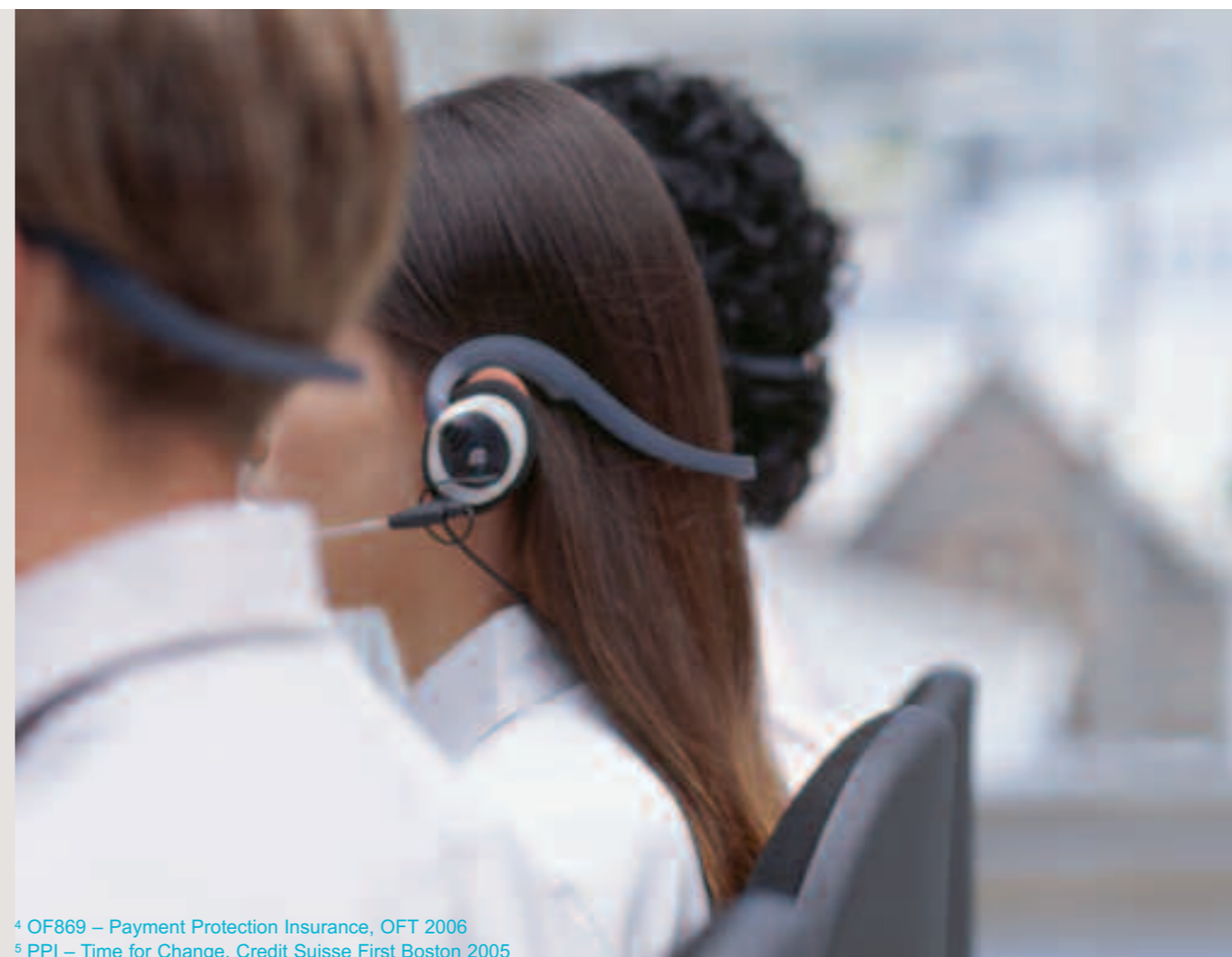
So why should this matter? Well, PPI is a huge market. There are approximately 20 million live policies in force with gross premiums estimated at £5.5bn annually and around 6.5 to 7.5 million new policies being taken out each year<sup>4</sup>. Income generated from the sales of PPI accounted for between 5% and 25% of banking profits in 2004<sup>5</sup>.

## TCF in action – Banking Charges

A further example of the status of TCF is banking charges. Over the past year the issue of consumers trying to reclaim their penalty charges has been gathering pace, spurred on by significant pressure from the media and consumer groups, including Which? and the Consumer Action Group.

In May 2006, the Office of Fair Trading (OFT) ruled that credit card default (or penalty) charges can only reflect costs incurred as a result of the default. They added that the same principle should apply to bank overdraft charges which are currently still under a more detailed review. This has resulted in many thousands of retail banking customers claiming back their bank and credit card charges and complaining to the Financial Ombudsman Service. A number of firms are still dealing with these claims of unfair charges in an unfair way.

Firms already embracing TCF principles will be conducting risk-based product reviews and identifying what might provide the platform for the next consumer challenge – either on a firm-specific, or on an industry-wide basis. We believe that growing concerns include, but are not limited to: Packaged Current Accounts; responsible lending; protection products; interest-only mortgages; GI advertising; unfair contract terms.



<sup>4</sup> OF869 – Payment Protection Insurance, OFT 2006

<sup>5</sup> PPI – Time for Change, Credit Suisse First Boston 2005

# Why isn't TCF happening everywhere?

If we're to establish a clear route to business success by embracing TCF, we must first understand why the industry is falling short. To do that, we can look at three distinct areas:

- 1 Working with principles-based regulation
- 2 Defining fairness
- 3 The approach to compliance

## 1 Principle-based regulation

For many financial services firms, the move to principles-based regulation remains a significant challenge. Although some players appear to have truly understood the full impact and potential opportunity it offers, even they have struggled to maximise the potential benefits across all aspects of their business.

Invariably the real challenge to firms embracing TCF is one of culture, especially when consumers are served by a large, complex and inconsistent network of branches, call centres and on-line. It's no surprise then, that some of the smaller firms have, due to their size and heritage, found it easier to embed TCF principles. However these companies are still missing the further benefits that principles-based regulation offers.

So what's the problem? The FSA principles for business deliberately set out the types of behaviour that is expected of firms and individuals only in general terms. Yet the senior management of firms have become used to relying on a raft of policy and rules – primarily issued by the FSA itself, but supported by local policy and practice established by in-house compliance teams.

### Breaking free from tradition

This in-house practice is invariably supported by individual guidance from the FSA, or good practice established with, or by, trade and other professional bodies. These 'safe harbours' have become an important support mechanism, but seem to be disappearing under principles-based regulation. The challenge for senior managers is to break free of these traditional rules-based regimes, embrace principles-based regulation and use it to their advantage.

Working with its clients, Huntswood has demonstrated that by understanding and using the TCF principles, firms are able to improve the quality of customer service, strip out waste and streamline processes. In doing so, these firms are improving their sales effectiveness, enhancing their customer understanding and reducing attrition rates.

Due to the importance of TCF, the FSA is placing particular focus on the commitment of senior management to demonstrate that their customers are being treated fairly, and on what basis they know this to be the case. This has led many to look to the provision of Management Information (MI) as a primary tool to support their assertions. With good cause too, as the FSA has clearly stated it will be looking to firms to share their TCF-related MI with supervision teams.

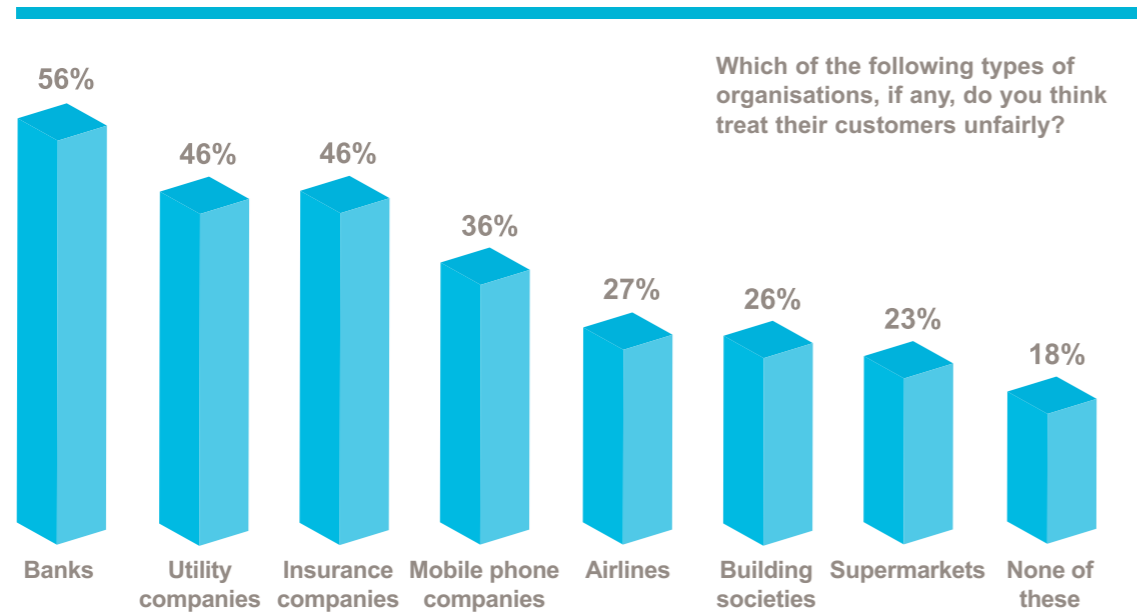
However, some firms have approached this in an introverted tactical basis, producing unwieldy quantities of turgid MI, reported on a daily, weekly and monthly basis. The investment that these firms have made in this reporting is significant both in terms of authoring and analysis resource and IT spend. In most cases, the comfort and value that the reports provide will never reflect their investment.



## 2 Defining fairness

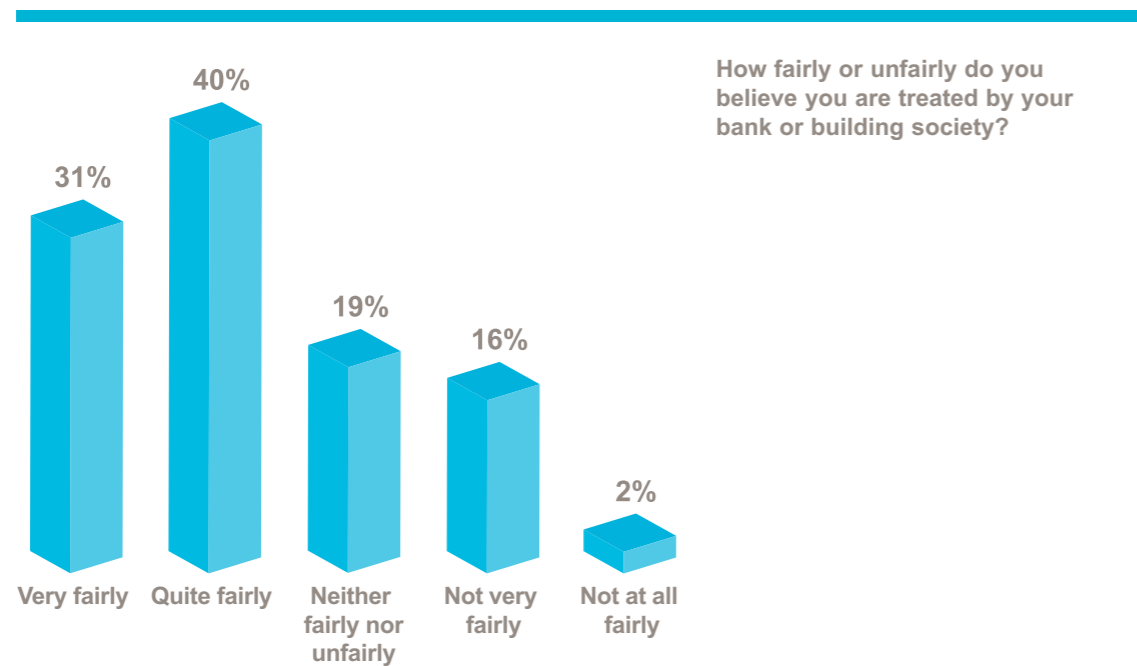
Defining fairness is a tricky question and one, it seems, that baffles most people. So while we quickly identified examples of treating customers “unfairly”, fairness is more a measure of perception than fact. Consider this – from our sample of 1,000 UK adults, 56% identified banks as one of the types of organisations they believed treated their customers unfairly (Figure 1). In the same survey, however, 89% of the same sample believed that they were treated very fairly, quite fairly or neither fairly nor unfairly by their main bank or building society (Figure 2).

Figure 1: UK consumer view of fairness by industry



Source: NOP Financial Research Survey, March 2007  
Base: 1000 adults aged 16 or over in Great Britain

Figure 2: UK consumer view of fairness of main bank



Source: NOP Financial Research Survey, March 2007  
Base: 894 adults aged 16 or over in Great Britain

“...I won't buy because it's a fair bank, but I will certainly leave an unfair one...”<sup>1</sup>

A classic example of consumer opinion on the question of 'fairness'. And it highlights one key point – consumers find it very difficult to articulate fairness in financial services, but they do have very strong views about unfairness.

This is partly because, unlike any other retail relationship, the customer has little or no tangible evidence at the point of sale that the product they are buying is suited to their lifestyle and expectations. The point of realisation – particularly with insurance or savings products – that performance reality does or doesn't match expectations is often many years after the purchase, and often without warning.

The FSA has used its six Customer Outcomes as a means to define fairness, taking into account all aspects of the product lifecycle. However, the outcomes in isolation don't give us anything that can easily be embraced by staff at all levels across a business, and certainly mean little to most consumers.

You've probably experienced this yourself, but the difficulty that firms have faced in articulating and communicating their own definition of fairness shouldn't be underestimated. They've been forced to formulate an individual definition which reflects their own, often complex, business model, and one that both staff and customers can understand, empathise with and embrace.

### Finding a better definition

A more practical approach that we have found useful is to bring the outcomes together as a single statement:

**Fairness is when two parties enter into an agreement where expectation and reality combine with suitability to allow a balanced exchange of value.**

### The Huntswood Fairness Factor

$$\text{Fairness} = \left( \frac{\text{Expectation}}{\text{Reality}} \approx 1 \right) + \text{Suitability} + \left( \frac{\text{Value of customer to product provider}}{\text{Value of product to customer}} \approx 1 \right)$$

### Fairness is an opportunity

A number of firms are now looking more closely at the perception of customer advocacy and fairness in their marketing and customer service activities. Our research suggested that a few firms are perceived as fairer than other retail consumer financial firms by their own customers.

This suggests that developing a positive perception with customers can be a factor in increasing customer retention and possible acquisition. However, perception also needs to match reality at the point of realisation (not just the point of sale) otherwise the customer will not have been fairly treated.

With UK banks under pressure from 1.38 million customers wanting to switch bank over the next six months<sup>6</sup>, delivery of fairness will become more important and a likely retention tool in the very near future.

<sup>6</sup> MoneyExpert.com, February 2007



### 3 The approach to compliance

**TCF is a thorny issue then, with potentially substantial rewards but equally significant negative implications. So what approaches are businesses actually adopting? And are they likely to prove successful?**

The approach currently being used by many firms in the implementation of TCF can be broadly characterised as a compliance-driven, tactical approach. Typically, firms have sought to prove FSA compliance through comparison to specific FSA case studies and the production of numerous metrics spanning the FSA's six Consumer Outcomes.

As we have already identified in this report, there are a number of fundamental risks in adopting this type of approach. The FSA, in its move to principles-based regulation, has deliberately not (and nor should it have) laid down any standard approach for TCF to be assessed and implemented; therefore what firms may be currently monitoring may not be what the FSA is looking for.

In addition, this tactical approach invariably means that the reporting metrics are either too specific, or they become so aggregated that they don't portray the reality of the customer experience.

#### Is the customer really the focus?

Furthermore, the complexity of making a significant, lasting change in the underlying culture and behaviours across any firm is such that it can't be achieved using a tactical approach. We believe that the disappointing symptoms highlighted by our research are a direct consequence of firms adopting this approach.

Our analysis suggests that a tactical approach has the effect of internalising the programme into narrow functional silos, with little customer-focused co-ordination across functions. Consequently it isn't possible to provide a total end-to-end review of the customer experience and, more importantly, a match to the required TCF outcomes.

It should therefore be no surprise that we believe this approach to TCF will not deliver the fundamental shift in culture that is required to embed it. It has the effect of demanding particular behaviours which will often conflict with other, equally important, behaviours or policies which can lead to confusion and inefficiency. It is also the model which is most likely to lead to a belief that TCF will reduce profits and increase business complexity.

If your business falls into this 'tactical approach' category, we suggest you carry out a rapid independent assessment of current TCF progress, considering the FSA's expected outcomes in the context of your business. You should also ensure that senior management can demonstrate where behaviours will meet expected outcomes or, where necessary, highlight initiatives to make sure this can be achieved.

#### Financial priorities

One final point to consider when planning the implementation of TCF is its impact on profitability. Annual budgets and targets may have been set based on less compliant products and services, which will be affected by the process of implementing TCF and in addressing the cost of any remediation.

# Making TCF effective for you

**You have identified the challenges ahead.  
 You have agreed your definition of fairness.  
 You have even stepped away from the FSA's outcomes to consider your own unique relationship with your customers to determine your vision and understanding of TCF values.  
 What next? You need a set of Key Fairness Indicators (KFIs), across the manufacturing, sales and service stages for each of your products.**

It is, of course, best to establish your KFIs during the strategy and planning phase of your TCF programme. But their use will inform and help deliver a successful programme whenever they are introduced. In fact, we would suggest that KFIs are the single most important tool for providing measurable and managed TCF success factors.

## Key Fairness Indicators

KFIs need to be individual to your firm, and specific to each product. Typically KFIs should be identified and communicated at the product development stage, and are likely to evolve directly from the business case which is presented to senior management for sign-off.

This in turn will inform the marketing and financial promotions brief, and the necessary product training and MI needs for sales and customer services staff. In order to assess performance against KFIs you need to develop an underlying set of requirements with appropriate measurement and monitoring around culture, training and communication. In order to achieve balance and completeness in assessing fairness, these will need to incorporate a mix of internal and external measures for each KFI.

### An example of Service KFI for a retail product might look as follows:

Expectation/Reality	Suitability	Value to Customer	Value to Firm
% of customer enquiries where SLAs are set and met % of customers expressing satisfaction about service % of customers complaining about service % of complaints reopened and upheld	% of staff passing service competence assessments % of customers purchasing who fall outside target profile	% of customer initiated attrition % of customers expressing satisfaction/complaining about service % of complaints reopened and upheld	Return on Capital Employed (ROCE) per product



However, the establishment of KFIs alone will not deliver TCF. We have identified a number of other key factors that need to be in place if you are to implement a successful TCF programme. These include:

#### Senior management buy-in

TCF needs to be driven from the board, to be represented in the company mission statement and embedded in the firm's culture. To achieve this, a firm must have buy-in and accountability from senior management. We have found this is best achieved with a board-level sponsor, and by developing a case for action that encompasses the whole range of business benefits, not just attempting to satisfy the regulator.

#### Determining the right scope and priorities

A TCF programme needs to be transformational, i.e. managed as a journey where a number of areas of the business need to change at once. To be successful, the programme must be developed from an holistic perspective, covering a number of workstreams across the whole range of business channels and products.

#### Understanding behaviours and motivational drivers

Delivering TCF at the point of sale is dependent on customer-facing staff understanding and performing in line with the firm's TCF vision. In many firms, customer-facing staff and their customers often confuse service with fairness. Delivery of behaviours which are in-line with the TCF programme is therefore dependent on ensuring that recognition and reward mechanisms match the objectives of the programme.

#### Strategic-approach TCF programmes

This approach is where a firm has identified that TCF will have an impact on the way the company works, and that the introduction of TCF could represent the prospect of a more customer-centric organisation. Leading to one ultimate benefit – competitive advantage.

# Managing change

## Meeting the challenge

If you are to take the recommended strategic approach to TCF, it's necessary to look at products for the entirety of their life-cycle. So you will need to consider six key business areas.

- Product design
- Financial promotion/marketing practices
- Sales process
- Information and customer support after the point of sale (including claims handling)
- Complaint handling
- Remuneration



With the exception of remuneration, these are all customer-facing activities. So they require a baseline view, achieved through customer insight into each of these key areas. What works, what doesn't, what do customers value, what processes within the areas enhance the principle of TCF, and what are the potential problems?

The reason for including remuneration is that all of the negative behaviours experienced by a customer, such as selling to target rather than selling to need, are generally motivated by reward and remuneration-related drivers.

Adopting such a business-driven approach makes the identification and adoption of appropriate KFI's more intuitive and insightful. This will then inform the creation of appropriately focused MI, support assumptions around reward programmes, and engender an acceptable set of staff behaviours.

In short, it embeds an appropriate and sustainable change in culture. One in which TCF is viewed from a customer perspective whilst growing a healthy profitable business.

However, we should not underestimate the commitment required to deliver such a considerable programme of change. It's worth remembering that many companies who began such a process over a year ago still have a considerable journey ahead of them.

During the course of their journey, these firms will have encountered significant practical difficulties, including the need to align communications across business units, and deal with an overload of different, sometimes conflicting, initiatives.

There is also cost to consider. Ownership and control of the programme is needed at the most senior levels of an organisation, along with the implication of committing top-performing people to running the programme, rather than doing what they have been hired to do.

These are significant challenges, and firms have taken them on. Those that have done so will have seen a fundamental change in the way their board relates and responds to the FSA, and will have realised and managed the risks of doing this. So where does your business stand?

# What is the business case for TCF?

TCF may be a regulatory requirement, driven by the FSA, but it is also far more than that. It is a business opportunity that offers real rewards, tangible benefits and outstanding potential for long-term growth.

## The benefits explained

**Improved retention** – achieved by increasing trust in existing customers. This is best explained by looking at two different consumer segments:

- **Mass-market consumers** tend to have a reasonable understanding of products and services they have experienced. However, they currently perceive the financial services industry to be profit driven. As a result, their deepest perceptions of fairness are rooted in service satisfaction and they value little beyond this.
- **Mass-affluent customers** are typically more financially aware. They view fairness based on rational aspects of product performance and logical returns rather than emotional aspects of customer service, they expect high customer service as a natural foundation for their custom.

Both groups do have one thing in common; they believe fairness is a hygiene factor. So they expect financial service companies to be fair in their dealings with them and will only consider changing provider if they believe this 'contract' has been broken beyond repair.

This leads us to an interesting conclusion – using TCF as a direct acquisition tool via marketing communications is unlikely to be successful. Consumers only consider fairness as anything other than a hygiene factor when they're ready to change bank because of perceived product or service failures.

For dissatisfied customers, fairness does come into play. But messaging is likely to be more successful when based on service and value for the mass-market and product performance for mass-affluent customers.

Fairness therefore resonates more powerfully as a potential retention tool. A clear majority of our survey population stated they would deepen a relationship with a financial service provider if they believed they were delivering on the fairness factors of customer service and product performance.

**Improved customer service** – achieved by enhancing your customer proposition through clearer customer insight from TCF outcomes across channels. The improvement of fairness should also lead to increased trust, creating an opportunity to develop better customer advocacy, share of wallet and increased staff motivation.

**Improved performance** – achieved predominately through increased sales effectiveness. However, the impact of reviewing TCF across your business will create opportunities in many other areas, such as complaints handling.

**A pilot for principle-based regulation** – achieved by taking a business-led approach to TCF. Principles-based regulation is gathering momentum and it should be welcomed by businesses as a critical tool in reducing cost, decreasing time-to-market, increasing innovation and competitiveness. Government research indicates that reducing the regulatory burden in the UK could add £16billion to GDP. Many firms are resistant to taking full advantage of the principles-based regulation dividend because of sunk costs to date and the false security provided by the current control environment. Given this position a rules-based compliance culture change will not happen overnight, but it is important to use TCF to test the size of the potential prize for a firm.

# In conclusion...

**TCF has proved much more difficult to embed than expected for many firms. If TCF is not a priority for your business you will run the risk of not only failing to fully demonstrate you are consistently treating customers fairly but miss the major rewards of improved performance, superior customer service and far greater customer retention. With this in mind, it is vital to determine whether your programme requires reviewing to maintain momentum and to maximise the competitive advantage TCF has to offer.**

TCF requires a change in culture across the product lifecycle of manufacturing, sales and service, so will take time to deliver. Resources should be focused on the actions that will drive sustainable changes in behaviour at the point of execution.

This change in culture should also be considered from the perspective of how your firm addresses regulatory requirements going forwards. Lessons may have been learnt that should drive an important debate on the approach and role of the compliance function in a principles-based world.

PPI and Bank Charges are today's issues, with customer perception now automatically assuming that firms are unfair, even when this is not the case. The use of TCF by consumer groups and the FSA will lead to the identification of other areas of perceived unfairness. A proactive risk-based approach linked to a firm's definition of fairness will prove an invaluable tool to prepare for the further challenges we anticipate over the next year.

Finally, the prize for embracing TCF is significant for shareholders, employees and customers. Increased retention, customer service and performance are on offer and should now be quantified as part of your TCF programme.

## Why Huntswood?

Huntswood's clients are those who are acknowledged as setting the standard for TCF. We are the leader in TCF advice, assessment, programme design and implementation. Our work has helped not only create successful TCF programmes for our clients, from an FSA perspective, but is helping to drive lasting cultural change to deliver competitive advantage.

**For more information or to discuss your company's approach to TCF, please contact Eurfron Jones on 0800 583 0794 or email [ejones@huntswood.com](mailto:ejones@huntswood.com)**