

TREATING CUSTOMERS FAIRLY

After reading this document you will be able to describe how the FSA regulates the Financial Services industry, explain the consumer objectives that relate to treating customers fairly and apply the principles of treating customers fairly to your own work. Travel insurance is classified by the FSA as a financial product and the TCF initiative encourages firms that sell financial products to ensure they sell a policy that meets the requirements of their customer.

A reason why

Imagine that you are a customer who has taken out a new travel insurance policy, six months later you have to make a claim. When you contact the insurers you find that your loss is not covered, there is an important exclusion in the policy that wasn't explained to you at the time you signed up. Your policy is useless – in fact, you should never have bought it! The insurance company points out that all the exclusions are described in the small print of the contract, however, this does not make you any happier, you have wasted money on an inappropriate policy and you now face another financial loss because you are not able to make the claim.

Situations like this are bad for customers. They are also bad for the companies involved because unhappy customers are unlikely to return and may warn all their friends about their experience too. In addition, they are bad for the industry as a whole because they give insurance a poor reputation.

Treating Customers Fairly (TCF) is a Financial Services Authority (FSA) initiative that is designed to stop situations of this type happening. It benefits customers because it helps them to buy products that really meet their needs. It benefits companies that sell insurance because their customers are happier. It also has a beneficial effect on the whole industry because it increases confidence and reduces the number of complaints.

When you've finished reading this you should have a clear idea of how it affects the work that you do. If you do not or feel that further explanation will benefit you then please speak to your manager.

The Financial Services Authority

Insurance sales are regulated by the Financial Services Authority (FSA). The FSA was set up by the Government to regulate the financial services industry in the UK. It is an independent body although it is accountable to Parliament through the Treasury. It is entirely funded by the firms that it regulates. The FSA has four statutory objectives:

- Market confidence - Maintaining confidence in the financial system
- Public awareness - Promoting public understanding of the financial system
- Consumer protection - Securing the appropriate degree of protection for consumers
- The reduction of financial crime - Reducing the extent to which it is possible for a business to be used for a purpose connected with financial crime

The FSA has the power to investigate companies in the financial services industry. If it decides that they are not conducting their business properly, it can do several things:

1. Give a company or an individual a private warning.
2. Publicly name a company or individual.
3. Impose a fine that publicly names a company or individual.
4. In very serious cases suspend or withdraw a company's authorisation to do business.

It can also apply these sanctions to individuals registered with the FSA as a company's **Approved Person**. As an **Approved Person** cannot insure against being fined, then you find they have to pay or come **out of their own pocket**. It can be very serious for a company if the FSA decide it is not acting in the right way. An offence can lead to bad publicity, a large fine or even mean that the firm has to stop trading altogether.

Rules and Principles

The FSA has long and complicated sets of rules for all the companies that it regulates, however, it does not want to simply catch and punish firms that are breaking the rules. Instead it wants companies to understand the set of principles about good practice and to follow them in the way they conduct their business and affect them into their business culture.

The FSA has a set of eleven principles on which its rules are based.

Principle six states a firm must pay due regard to the interests of its customers and treat them fairly. The TCF initiative is a development of this sixth principle. It is part of the FSA's move to Principle Based Regulation, which means focusing on the customer's experience rather than ticking boxes on a check-list.

This approach gives companies more flexibility in how they service their customers and more responsibility to ensure they make sound decisions that put the customer first. It should mean that standards will rise throughout the financial services insurance industry.

Who has the responsibility for TCF?

- Senior Managers
- Product Developers
- Sales Staff

Answer: ALL OF THE ABOVE!

To give an example let's illustrate how using the FSA's TCF in a travel agents/tour operator's environment, what would the customer expect from you?

- Well-trained staff
- A policy you understand
- Be able to answer questions about the policy
- Explain the key benefits and exclusions of the policy

You can see that if a travel agent/tour operator meets all these criteria there wouldn't be much cause for complaint and that the customers who are treated fairly are much more likely to feel more positive about the companies they deal with.

TCF isn't about

- following a whole new set of rules.
- expecting every company to treat customers in exactly the same way.
- customers getting exactly the same service whoever they are dealing with.
- the FSA deciding which types of products could be offered to consumers.

TCF is about

- different travel agents/tour operators all having their own resources and their own methods of doing things.
- Being fair to customers, which is not quite the same as ensuring that customers are satisfied.

Summary

It is possible for a satisfied customer to have been treated unfairly and not be aware of it. It is also possible for a customer to have been treated completely fairly but still feel unhappy about the service they've received.

Finally, TCF does not mean that customers no longer have to take any responsibility for their own decisions when they are buying financial products.

TCF Consumer Objectives

The FSA has set up objectives for consumers' needs, some of which are as follows:

Objective 1

Consumers can be confident that they are dealing with firms where the fair treatment of customers is central to the corporate culture.

The culture of a company is affected by:

- the attitudes and values of senior management and how these are passed on to staff.
- the time and resources that management allows for different activities.
- how management deals with mistakes.
- Managers ensuring all staff understand the importance of TCF.
- Staff receiving training in TCF.
- Customers being told about TCF and what it means.
- Senior management checking the processes by which travel insurance policies are sold to make sure that the customer receives fair treatment.

All other consumer objectives are dependent on getting the culture right.

Objective 2

Providing products that meet customers' needs

Many complaints from customers arise because they have been sold inappropriate insurance policies. Sometimes this happens because an individual sales person has not considered whether a policy is right for a particular customer. Factors that could affect the suitability of an insurance product include:

- Exclusions
- Excesses
- Level of cover
- Consequences of early cancellation

Objective 3

Keeping customers informed

Make sure customers are provided with clear information and kept appropriately informed before, during and after the point of sale. For a customer to make a decision about an insurance product they need to be given clear information about it. Much of this information will come in written form, often in a policy wording that is given to the customer at the point of sale. Customers should be provided with clear information about benefits, costs and any key features such as exclusions that could influence their decision to take it up.

Objective 4

Giving appropriate advice

Sales staff who are selling insurance products in other situations such as in association with the sale of other products or services are not usually in a position to give advice. Managers should make it clear to staff that this is not their role but provide them with a script to follow during the sales process. However, sales staff should be ready to explain the features of a policy, point out important parts of the sales literature and answer customers' questions. If they suspect that the customer is about to buy a product that is not suitable for them, they should suggest that they get advice or read the terms and conditions of the policy carefully.

Objective 5

Treating customers fairly after the sale

Travel agents/tour operators that are really concerned about treating their customers fairly do not lose interest in them as soon as a product has been sold.

Complaints

These should be logged and dealt with promptly. Senior managers should monitor complaints and make changes to the product or systems if appropriate.

TCF Check-List

Use these questions to think about TCF in the context of your own job.

- Are the sales and marketing materials you use clearly written?
- Are you able to answer customers' questions about the products they buy?
- Do you know which types of customer the products you sell are appropriate to?
- Do you know what to do if a product is not appropriate to a particular customer?
- Are you satisfied that your customers understand the benefits, risks and costs of the products you sell?
- Do you or your employer continue to support customers after a sale has been made?
- If you deal with complaints do you handle them properly?
- Does your employer log complaints and monitor them regularly?
- Does your employer encourage you to treat customers fairly?

Conclusion

TCF is not just about treating the customer fairly at the point of sale. It's about changing the culture inside companies so that they raise the standard of service that they offer to the point where the customer can feel confident about the products they buy.

As you have seen we all have a part to play in this change. It's about adopting this process into every part of our business - and that affects you!

Please ensure that you play your part in this process.