



**Financial
Services
Board**

Treating Customers Fairly (TCF)

**Presentation for the FSB CIS Department's Industry
Briefing
October 2014**



Agenda

- TCF and the regulatory framework
- Background to TCF and the six TCF outcomes
- TCF journey so far – A consultative approach
- General TCF considerations for the investments industry
- What role do CIS managers play in delivering each of the TCF Outcomes?
- TCF baseline study findings



TCF and the financial regulatory framework

- National Treasury published its policy position for financial sector regulation in *“A Safer Financial Sector to Serve South Africa Better”* (Feb 2011)
- Policy objectives: (1) Financial stability **(2) Consumer protection and market conduct** (3) Expanding access through financial inclusion (4) Combating financial crime
- Shift to “twin peaks” regulation – prudential regulation under SARB and market conduct regulation (including banking conduct) under FSB
- Twin Peaks implementation proposals published (Feb 2013) – confirmed TCF as main framework for mandate to “promote fair treatment of financial services customers”

Implementing TCF will be a key component of the FSB’s enhanced market conduct mandate



What is TCF?

TCF is an outcomes based regulatory approach that seeks to ensure that specific, clearly articulated fairness outcomes for financial services consumers are delivered by financial institutions. It will form a key component of the new Market Conduct Regulator's mandate in the Twin Peaks model.

Why TCF?

- Information asymmetry between retail financial consumers (end customers) and financial firms
- Unique consumer risks of financial products and services
- Holistic, co-ordinated and consistent financial consumer protection regulatory framework needed – with a mix of principles-based and rules-based regulation



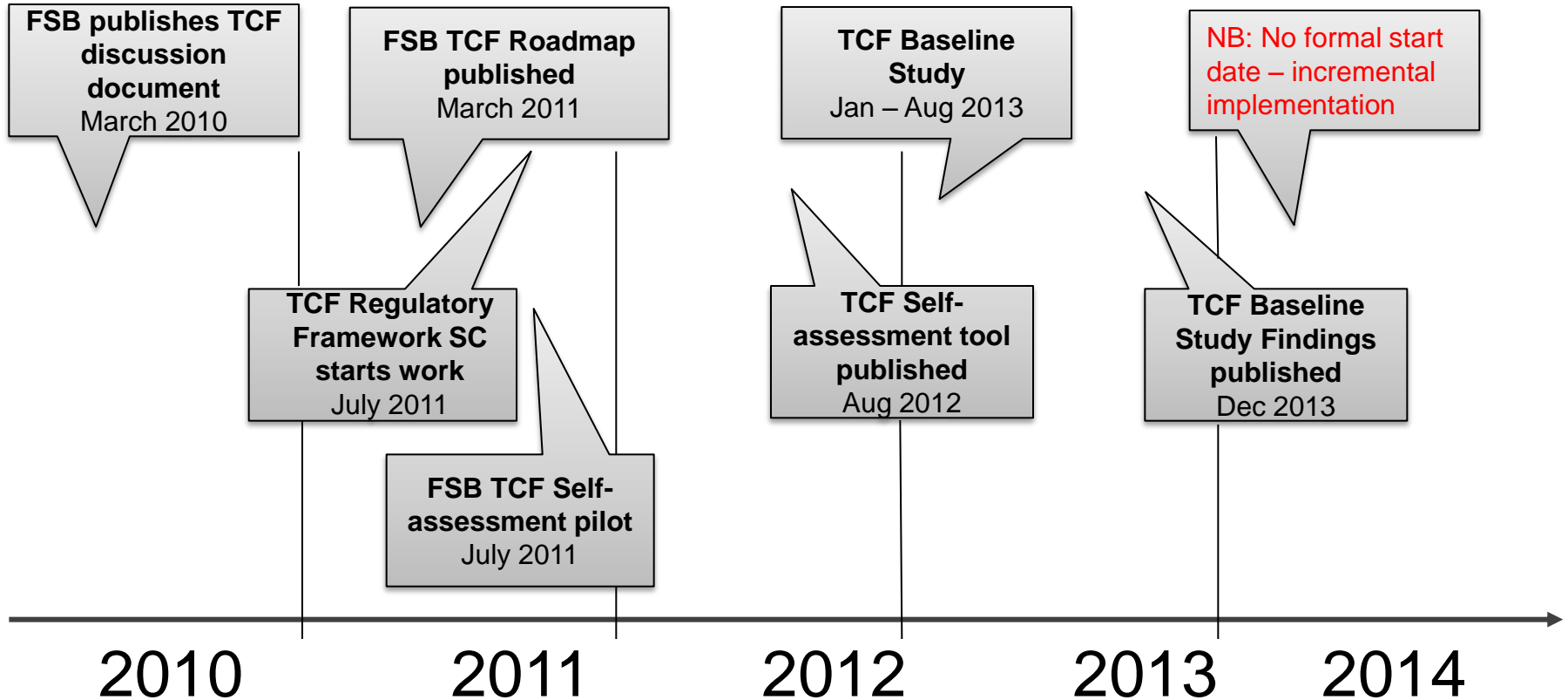
The 6 TCF outcomes

1. Customers can be confident they are dealing with firms where TCF is central to the corporate culture
2. Products & services marketed and sold in the retail market are designed to meet the needs of identified customer groups and are targeted accordingly
3. Customers are provided with clear information and kept appropriately informed before, during and after point of sale
4. Where advice is given, it is suitable and takes account of customer circumstances
5. Products perform as firms have led customers to expect, and service is of an acceptable standard and as they have been led to expect
6. Customers do not face unreasonable post-sale barriers imposed by firms to change product, switch providers, submit a claim or make a complaint

These outcomes are to be demonstrably delivered throughout the product life cycle, from product design and promotion, through advice and servicing, to complaints and claims handling – and throughout the product value chain.



TCF journey so far: A consultative approach



The principles of TCF have been consistently communicated for four years. The FSB therefore expects regulated firms to already be applying these principles in the way they conduct business



General TCF considerations for the investments industry

- How does TCF apply in “wholesale” vs. “retail” business models?
- Who is the “customer” and what is the “product”?
- Considerations for investment product providers and managers forming part of financial services groups vs. those who do not
- What contribution does the CIS manager make to TCF Outcomes for the end customer (retail or non-retail)?



TCF considerations for CIS managers: Outcome 1 (Culture & Governance)

- Have your board and executive management thought about the strategic implications of TCF?
- How, if at all, has TCF responsibility been allocated to management and staff? How is it built into reward structures?
- What is the level of staff awareness of TCF?
- What TCF governance structures, controls and management information do you need to develop?
- Does your risk management framework take TCF related risks into account?



TCF considerations for CIS managers: Outcome 2 (Product design)

- To what extent do you consider the profile of the end customer when designing products (i.e. structuring portfolios and their charges)?
- Would you know whether your products were being sold into the wrong target markets?
- If so, what would you do about it?
- Would TCF standards influence your choice of who you allow to “wrap” or distribute your products or whose platform you put them on?



TCF considerations for the CIS management industry: Outcome 3 (Disclosure)

- Do you consider the end customer when developing marketing and product disclosure material? Do you ever test it with end customers?
- Do you review the quality and accuracy of material used by others who market or distribute your products?
- What would you do if you discovered misrepresentation of your products?
- Are you accessible to end customers who may need information on your products?
- What controls do you have in place to ensure your product information remains current?



TCF considerations for CIS managers: Outcome 4 (Suitable advice)

- What insight do you have into the quality of advice being provided on your products?
- Do you consider whether the advisers who provide advice on your products have adequate knowledge of your products?
- What would you do if you discovered mis-selling of your products?
- Do advisers have reasonable access to any information they may need to advise on your products?
- Do you monitor adviser and / or customer behaviour to alert you to possible inappropriate advice?



TCF considerations for CIS managers: Outcome 5 (Performance expectations & service)

- Do you have a clear understanding with all others in the value chain around who is responsible for this Outcome? For e.g.
 - Who is responsible for managing investment performance expectations?
 - Who is responsible for keeping customers informed of environmental changes that could result in products not meeting their expectations?
- Do you have adequate service liaison structures in place to ensure the end customer receives reasonable service?
- Do you consider the customer service standards of those who market or distribute your products?



TCF considerations for CIS managers: Outcome 6 (Claims, complaints, switches)

- What insight do you have into the types of end customer complaints relating to your products - directly or indirectly?
- How easy is it for an end customer to complain to you?
- Do you consider the end customer's position when dealing with complaints from others in the value chain?
- Do you have a policy in place for customer redress? Does it deal with affected customers that have not complained?



TCF Baseline Study findings

- Total organisations (mostly groups): 85
- Total questionnaires: 215

Questionnaires relevant to investments industry -

- CIS managers: 18
- Cat II and IIA FSP's: 31
- Cat III FSP's (LISP's): 13

NB! The baseline study relied on self-assessment – the FSB did not adjust any self-rated scores.



TCF Baseline Study findings

CIS managers vs. other sectors

- CIS managers rated themselves similarly overall to most other sectors (65% - 69% range)
- Cat I FSP's not part of a product supplier had highest self-rating (75% - 79%), followed by Cat IV FSP's (70% - 74%)
- Cat III FSP's had lowest self-rating (55% - 59%) followed by retirement fund administrators (60% - 64%)
- CIS manager ratings largely in line with Cat II & IIA (investment manager) ratings, although slightly lower on a number of elements
- CIS managers rated themselves higher than Cat III FSP's (LISP's) on almost all elements



TCF Baseline Study findings

Highest to lowest scoring Outcomes for CIS managers:

| | |
|--|-----|
| Outcome 3 (Disclosure) | 78% |
| Outcome 6 (Claims, complaints, switches) | 74% |
| Outcome 5 (Performance against expectations and service) | 69% |
| Outcome 4 (Advice) | 66% |
| Outcome 2 (Suitable products) | 65% |
| Outcome 1 (Culture & Governance) | 58% |

These averages must be considered in the context of the spread of responses between participants and the sub-Outcome scores.



TCF Baseline Study findings

Observations – Outcome 1

- As for all sectors, Outcome 1 scored lowest – but see spread of responses
- Over 80% of CIS manco's were not comfortable (1 to 2 rating) that their reward structures were TCF aligned and half felt the same about performance management
- About a third each rated leadership responsibility for TCF as low (1 to 2), moderate (2 to 3) and good (3 to 4)
- Around half each rated their TCF related MI quality as low (1 to 2) and moderate (2 to 3)



TCF Baseline Study findings

Observations – Outcomes 2, 3 and 4

- 61% of CIS manco's were reasonably comfortable (rating of 2 to 3) that their products and services are suitably designed – with similar sized minorities (22% and 17%) rating themselves lower and higher respectively on this aspect
- For disclosure quality, the high 78% average was split between 44% who rated themselves moderately (1 to 2) and 56% who rated themselves well (3 to 4)
- 44% rated themselves moderately (2 to 3) on the advice Outcome, with an equal split of 28% rating themselves low and well



TCF Baseline Study findings

Observations – Outcomes 5 and 6

- The 69% average score for Outcome 5 was split between 72% for product performance against expectations with a lower 62% for third party service controls
- Half of all CIS manco's rated themselves moderately (2 to 3) for product performance and just less than half rated themselves well (3 to 4)
- On third party service controls, just under half rated themselves low, with the remainder fairly evenly split between moderate and good scores
- The average score for Outcome 6 – claims, complaints and changes - was high (74%) with over half (56%) the manco's rating themselves well (3 to 4) and the rest moderately (2 to 3)



Additional Baseline Study findings

- For all Outcomes, less than 30% of CIS manco's said they had identified TCF risks or could provide evidence of improved customer outcomes
- Around 7% of the baseline questions were rated as "not applicable" – mainly in relation to Outcome 6 questions around claims and switches and some Outcome 5 questions relating to managing customer expectations
- General assumption that certain aspects are not relevant as CIS manco's do not provide and so these aspects are the financial adviser's responsibility



Current TCF related CIS projects

- Outcome 1 : Revision of the application forms to include TCF related aspects
- Outcome 2 : Review of performance fees
- Outcome 3 : Marketing and Advertising Standards
: Over-arching = KID's
- Outcome 4 : Enhance on-site visit programme to address this outcome
- Outcome 5 : Enhance on-site visit programme to address this outcome
- Outcome 6 : Complaints register required in future
: Over-arching = Complaints management and reporting



Thank you