TREATING CUSTOMERS FAIRLY

GHC POLICY

Contents

Version Control

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Introduction

The GHC Group is committed both to a positive Compliance Culture and to GHC customers. The purpose of this Policy is to outline the ways in which GHC implements, demonstrates and evidences this commitment. In addition, increased customer loyalty, confidence and trust will enhance the retention of existing business and lead to increased new business.

The Financial Services Authority (FSA) Principles for Business are high level requirements for FSA regulated businesses and are located in the PRIN sourcebook. They are the primary obligations of firms under the regulatory system. The Principles obtain their authority from the FSA's rule-making powers, which were specified in the Financial Services and Markets Act 2000 (FSMA). As at April 2013 the Financial Conduct Authority (FCA) replaced the FSA as the successor regulatory body and retained the regulatory rules and regulations. References herein to the FSA refer to the regulations laid down by the FSA and honoured by the FCA.

All FCA regulations are derived from these high level principles to comply with FSMA. The FCA places prime responsibility for ensuring adherence to the regulations and implementing a culture of good compliance on the senior management of a business (i.e. the Board). The responsibilities of senior management are set out in the Senior Management Arrangements, Systems & Controls sourcebook (SYSC).

Principle 6 states, *"A firm must pay due regard to the interests of its customers and treat them fairly"*.

Treating Customers Fairly (TCF) has been a key topic of the FSA, and latterly the FCA, since 2000/01, i.e. pre 'N2'. In June 2001, the FSA published the conclusions of a project in a discussion paper and invited comments. The responses were detailed in a Progress Report published in June 2002. Since then, a number of papers and speeches have been produced outlining the approach of the FSA, its expectations of firms and how TCF *must* form part of the culture of a firm.

In a speech given on 20th March 2006, Clive Briault (FSA Managing Director, Retail Markets) said, "*Our approach to Treating Customers Fairly has been not to define precisely what constitutes "treating customers fairly", but rather to challenge the senior management of firms to work this out for themselves, taking into account the particular types of business that they undertake. Treating Customers Fairly needs to be embedded into the culture of a firm at all levels, so that over time it becomes business as usual. This is very much a responsibility of senior management, not just a compliance issue"*.

What Is TCF?

The concept of Treating Customers Fairly is not new; as has already been explained it is an FSA Principle, Principle 6, which states, *"A firm must pay due regard to the interests of its customers and treat them fairly"*. There are other FSA Principles that also apply to a firm's dealings with its customers: -

Principle 1
"A firm must conduct its business with integrity".

Principle 7
"A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading".

Principle 8
"A firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client".

Principle 9
"A firm must take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely upon its judgment".

The FCA's principle approach offers a flexibility, which allows firms to tailor 'fairness' to their particular customer group(s). Typically, fixed rules do not afford the same capacity. This does not alter, in any way, the fact that TCF is a *Regulatory Requirement*.

TCF means consideration of: -

- Ensuring that the development and marketing of products is based on a clear understanding of the likely needs and financial capabilities of the target group of customers
- Financial Promotions must be clear, fair and not misleading
- Investment risks are clearly communicated
- Balancing commercial objectives with the objective of TCF
- Charges must be 'transparent'
- The firm must be clear to customers about itself, and the products & services it offers
- Identifying underlying causes of complaints with the objective of taking steps to remove the root cause and prevent recurrence
- Proactive and appropriate response to changes that may affect products and/or types of new or existing customers
- Considering and implementing suitable management information to gauge the firm's TCF performance
- Ensuring that staff are properly trained and qualified to perform their functions and to undertake continuing professional development
- Remuneration packages for staff

It is clear that TCF will go 'hand in glove' with good customer service standards, satisfied and 'happy customers'. However, TCF does not *mean* the same thing as 'being nice to customers' or simply having 'happy customers'.

To continue the understanding of TCF, consider what TCF does *not* mean: -

- It is not the same as being courteous or customer satisfaction. For example, a customer may be satisfied but this may only be because they do not realise that they have not been fairly treated. Similarly, a customer may feel dissatisfied even though they have been treated fairly, if their expectations were unattainable.
- TCF does not mean the inhibition of innovation in, for example, new products. Firms are expected to ensure that clients are treated fairly and not exposed to unsuitable or unidentified risks.
- It does not mean that we should not charge for our services.
- It does not mean that firms must all provide the same levels of service, but firms must ensure that they deliver the levels that they promise.
- TCF does not remove the responsibility of a (properly informed) customer for their investment decisions.
- The FCA will not, as a result of TCF, become a referee of which products consumers may want or be sold

The FSA paper, 'Treating Customers Fairly – Progress & Next Steps' (July 2004) acknowledged that a better and common understanding of the meaning of TCF in practice needed to be developed.

TCF requires fairness throughout the life cycle of a product. Reviews must be undertaken of: -

- Corporate strategy & culture
- Product design & governance
- Financial Promotions
- Sales & Advice Process
- Information provided after the point of sale
- Complaints Handling

Each Firm must decide what fairness means with regard to its particular business and its customers. The fundamental requirement is fairness must be evident whatever the type of business or customer base.

FCA Expectations and Requirements

TCF is a regulatory requirement and applies to all regulated firms in the context of their business undertaking. The FCA regard fair treatment of customers by firms as a key part of FCA regulation of the retail market. Firms must apply the principles of TCF across each stage of the product life-cycle.

TCF must be embedded into a firm's culture and the FCA will look for evidence of this when undertaking supervisory visits. Embedding TCF is a continuous, not a short term project and must be reflected in the philosophy of a firm.

TCF has featured in speeches made by leading individuals in the FSA/FCA. They have covered different aspects, but all have included references to the expectations of the FSA/FCA. The following list, which is not exhaustive, provides a high level indication of the FCA requirements: -

- All firms must comply with the existing Principles for Business
- The FCA maintain a principle-based approach and firms must, therefore, make their own assessment of what is appropriate for them bearing in mind their type of business
- Firms must actively consider whether they have embedded TCF into all aspects of their business including all the different processes and the different interactions they have with consumers
- Business Practises must be reviewed in the light of TCF
- The FCA expects that consumers will be able to rely on the same high standards irrespective of the size or type of firm with which they are dealing
- Firms must also assess the impact of their actions on firms with which they deal and the resulting consequences for TCF within these firms
- Firms must also make clear their expectations when outsourcing functions
- Senior Management must be able to explain how they consider what TCF means for their firm
- Senior Management must have the right Management Information to satisfy them and to evidence that TCF is being put into practice.
- Firms must have clear and proportionate plans to embed TCF, address problems and management must ensure the successful implementation of the plan
- Firms must demonstrate and evidence that TCF is, and will be, displayed in their processes and strategy
- Senior Management must incorporate TCF into their corporate strategy with an appropriate framework of controls and must monitor the effectiveness of the strategy

The FC has retained the formally defined six customer outcomes which explain what they require of firms to achieve fair treatment of customers.

Outcome 1:

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

Outcome 2:

Products and services marketed and sold to the retail market are designed to meet the needs of identified customer groups and are targeted accordingly.

Outcome 3:

Customers are provided with clear information and are kept appropriately informed before, during and after the point of sale.

Outcome 4:

Where consumers receive advice, the advice is suitable and takes account of their circumstances.

Outcome 5:

Consumers are provided with products that perform as firms have led them to expect and the associated service is of an acceptable standard and as they have been led to expect.

Outcome 6:

Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint.

GHC Policy

The GHC Board is committed to developing a positive culture of compliance within the firm. They have aimed to assist all staff in complying with their obligations by incorporating regulatory requirements into departmental Procedures Manuals and integrating responsibility for compliance into Line Management's normal supervisory duties. The Board is also committed to delivering the best possible service to GHC customers. For all these reasons TCF is incorporated into the key objectives for the Board of GHC.

TCF must be considered and implemented at all levels throughout the business. To make sure that TCF is fully embedded, business objectives must be in alignment with TCF objectives. The GHC Board will measure the success of TCF against business performance; for example, the Board and its subordinate committees regularly receive Management Information (MI). Where applicable, this MI must be used to gauge the effectiveness of the TCF culture within GHC.

GHC expects its managers to incorporate TCF into their everyday work so that the principle becomes 'business as usual'. TCF requirements must be included in each departmental Procedures document as appropriate and, as part of the ongoing processes, must be regularly reviewed.

Implementation of TCF

The expectations of the FCA and an explanation of TCF were set out previously. This is a list of business areas where TCF issues must be considered and TCF principles applied; it will be continually reviewed in the light of changes to the GHC business model and client base: -

- Impact of GHC on other firms and their impact on GHC regarding TCF: - consider how the services provided by GHC will impact on the underlying customers of GHC clients

- Product Design: - must be properly structured, thoroughly tested and reviewed to ensure suitability

- Marketing Practices: - this includes the promotional material

- Sales Process (including advice)

- Information, Customer Support & Administration: - TCF must be embedded throughout the administration processes

- Complaint Handling: - A complaint is not only an opportunity to understand the customer's issue and deal with it in accordance with TCF principles, but also a valuable source of management information. TCF principles are incorporated into the Complaints Procedures via Key Point Indicators (KPIs).

GHC incorporates TCF in its training programmes. TCF policy is one of the factors in Training and Competence (T&C) and forms part of a member of staff's annual appraisal. Other areas that will be considered are presentations, quality of communications with customers (letters, telephone, email), product knowledge and any specific customer complaints against named individuals.

GHC expects its managers to include the principle of TCF in all aspects of their work. It is also a requirement that Directors and Managers evidence the inclusion of TCF by reference in their Procedures, reviews, meeting minutes etc.

Application of TCF

In considering and applying TCF to their particular departments, in addition to the function and work undertaken, Directors and Managers must also consider the skills of themselves and their staff.

- Written Reports for Customers: - must be clear, fully explain all points, be easy to read and tailored to the reader's level of knowledge

- Business & Product Knowledge: - must be fully up to date, thorough and consider any areas for which a training need may be identified

- Presentations: - must be checked for suitability in the light of TCF, and must be clear and fair

- Client Communications: - Letters (and emails, facsimiles) must be well written and to a high standard, clear, and grammatically correct, where applicable they must answer the question. There must be no risk that the recipient may find them discourteous, unhelpful or overly complicated.

- Record Keeping: - the requirement for accurate record keeping is well documented. This must be enhanced to make sure that customer records can be found quickly which will help to keep fees lower

- Processing Work: - Customers must be treated fairly in the way they are charged for services, the priority of work and service levels as well as accuracy and the meeting of deadlines

- Complaints Handling: - Must be viewed as valuable customer feedback, handled swiftly and efficiently in addition to adhering to regulatory requirements

- Training and Development: - TCF to form a component of recruitment and all appropriate training including part of 'new starters' induction

- Service Level Agreements: - TCF principles must be applied at the planning and development stage. Thereafter, regular reviews of the performance of GHC and of its counterparties must be carried out on a regular basis

- Remuneration of Staff – the Remuneration Committee (RemCo) must have in mind TCF-related performance when setting out staff remuneration, the RemCo meets annually

TCF is a principles based Regulatory requirement, the requisites of which have been set out in this document. The way in which GHC will implement and embed TCF has also been explained and laid down. GHC Procedures and training will make TCF tangible to Directors, Managers & staff and continue the process of making TCF business as usual.

Embedding TCF

There are some key cultural drivers and high level indicators which can be used to measure the success of whether TCF is embedded within GHC.

INDICATORS	**KEY DRIVERS**	**CONTRA-INDICATORS**
Fair treatment of customers is central to the behaviour and values of all managers, and they apply controls and monitoring to ensure that the desired outcomes are delivered by their staff.	**Leadership**	Leaders (at any level) cannot articulate what fair treatment of customers means for them and their staff and cannot demonstrate that their staff understand what TCF means.
The firm has a clear vision which supports TCF; TCF is reflected within the formulation and implementation of strategic decisions (including change management programmes). The firm's risk appetite reflects consumer considerations.	**Strategy**	The firm's vision is unclear/blurred or contradicts TCF. The Board does not consider TCF when making key decisions about the future direction.
Decision making reflects the spirit of TCF. Firm uses staff, consumer and other external feedback where appropriate, with timely action. The interests of customers are properly balanced against those of shareholders (and other customer groups)	**Decision Making**	Minimal evidence that decisions reflect any consideration of the impact on consumers. Firm is slow or unwilling to react to consumer/staff feedback. Conflicts between the interests of shareholders and consumers are consistently resolved in favour of shareholders.
Controls, including management information, are integral to the firm's risk framework, protect the consumer, identify weakness and are used by the firm to improve its treatment of customers	**Controls**	The firm cannot evidence consumer protection through its controls, has minimal management information and does not use this information to improve its treatment of customers.
The firm has a clear communication strategy, from the top to bottom, delivered by key personnel with employees tested on their understanding and quality of implementation.	**Internal Communication**	Little evidence of regular and timely communications across the firm and little demonstration that the message is understood and implemented by staff.
Positive behaviours and attitude to TCF are a key criteria in the selection of staff. Effective training and the maintenance of staff behaviours and values is core to the business. All staff will have detailed job descriptions.	**Recruitment, training and competence**	The firm has a basic/inadequate T&C scheme, applied to staff undertaking regulated activities only, with little focus on TCF and has a lack of appreciation of how staff competence has an impact on the consumer.
The firm's reward (including incentive schemes) and performance management framework throughout the business is transparent, recognises quality and supports the achievement of the six consumer outcomes.	**Reward**	The firm's reward and performance management framework concentrates on sales and profit without consideration of quality and achievement of customers needs i.e. the framework drives poor TCF outcomes.

APPENDIX

FSA Publications

Treating Customers Fairly: Progress Report – June 2002

Treating Customers Fairly: Progress and Next Steps – July 2004

Treating Customers Fairly: The Consumers' View – June 2005

Treating Customers Fairly: Building on Progress – July 2005 *

FSA Speeches

A Strategic Approach to Treating Customers Fairly – October 2003

Treating Customers Fairly: Progress and Future Plans – October 2005

Treating Customers Fairly – March 2006

Treating Customers Fairly: latest FSA Developments – March 2006

There is a Hyperlink to FSA Publication marked *