EXAMPLES OF KEY RISKS, INDICATORS AND QUESTIONS

This document is intended to help firms understand the types of TCF issues we may investigate either within an ARROW assessment or as part of other regulatory work. The document highlights:

- key areas where firms might usefully consider TCF;
- risks we believe can arise if TCF is not fully or effectively considered within these areas;
- indicators that might point to TCF not having been addressed in a particular area; and
- questions that might help identify whether or how the firm has sought to meet its TCF obligations.

TCF should be reflected in a firm's strategy, operations and culture, and it is not intended that this document provides a full or comprehensive list of all TCF issues, risks, indicators or questions that firms should consider. Nor are all the issues outlined likely to be relevant to every firm, although they may well apply to different business models.

Firms' management must use their own judgement to identify the risks and issues that should be considered and addressed at any particular time.

TCF AREA	KEY RISKS	POTENTIAL INDICATORS	TYPICAL QUESTIONS
Senior Management Commitment, Strategy & Progress	• Lack of senior management awareness of TCF. • Lack of senior management understanding. • No assessment of how the firm meets TCF obligations. • Not making progress with TCF.	• No indication of senior management discussion. • No TCF strategy or reflection of TCF in customer strategy. • No analysis of how well the firm has met TCF. • No plan to address TCF. • No TCF KPIs or reporting TCF to senior management.	• What is the firm's interpretation of TCF? • How has the TCF principle been included in business strategy? • How have the firms TCF obligations been communicated across the business? • How is TCF performance measured and reported? • What gaps are there against the TCF principle and how are these being filled? • What are the key milestones in the TCF plan? • What changes have been made because of TCF?
Product Design & Governance	• Products are targeted and marketed to customer groups they are not suitable for. • Customers do not understand the products being targeted at them. • People marketing and selling the product do not understand it. • The firm does not fully understand or monitor the risks to customers of products. • The firm cannot support a product after it is launched.	• No definition of target market. • Actual sales volume very different to predicted sales volume. • High proportion of sales to customers outside target market. • High volume of complaints. • Poor persistency. • High proportion of claims turned down or reduced. • High volume technical queries from marketing / sales people. • Large number re-writes required of literature. • Very short product development lead time. • Lessons from complaints not fed back into product design.	• How does the firm screen new products to determine if they should be launched? • How are sales tracked to make sure products are sold to the customers they were intended for? • How is feedback from complaints fed into product design? • What do you do when a product has poor retention? • How do you make sure people marketing or selling products have sufficient understanding of it? • How do you assess the risk and complexity of a product to customers and take account of this in product design and targeting? • What checks are made to ensure service functions can properly support a new product? • What are the success criteria for a new product? • How do you assess the level of financial capability of customers? • How do you make sure customers understand the products aimed at them?

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Marketing & Promotion	• Financial promotions are not clear, not fair and are misleading. • Sales and marketing literature is not understandable by the customers it is aimed at. • Literature does not give a clear indication of which customers the product may and may not be suitable for. • People marketing and selling the product do not understand it. • The sales channel is not appropriate for the target customer group or product. • The approach to selling bundled products leads to sales to customers that the product is unnecessary or unsuitable for. • Sales and marketing literature give a misleading indication of services provided or ongoing advice. • Customers are offered excessive incentives that can encourage them to buy products that are unsuitable. • Customers do not understand the services they are being offered.	• No testing of customer understanding. • High volume of complaints. • High volume technical queries from marketing / sales people. • Large or higher than expected proportion of customers buying bundled products / linked products. • Poor persistency. • Complex products being sold through direct or non-advice channels. • No technical training for marketing or sales people. • Poor technical expertise in marketing and sales areas. • No clear indication on product literature who the product is suitable for.	• How do you assess if financial promotions are clear, fair and not misleading? • What steps are taken to ensure material is understandable by the target audience? • How are promotions targeted to make sure they are aimed at the right customers? • How do you ensure materials are technically correct before they are launched? • What is the process for approving a financial promotion? • How is success measured for financial promotions? • How is the sales and marketing channel for a promotion selected? • How are customer queries and complaints used to improve or stop financial promotions? • How is the decision made for what sales channel to use for a product? • Are any products sold or services offered that are linked to other products on an 'opt out' rather than 'opt in' basis? • How clear are customer agreements, and what steps are taken to ensure the customer understands the services being offered?

TCF AREA	KEY RISKS	POTENTIAL INDICATORS	TYPICAL QUESTIONS
Sales & Advice	• Sales people do not have expertise to support the product range adequately. • The risks of products or services are not adequately explained to clients. • Sales incentives and targets skew quality of advice.	• No technical training or literature for sales people. • Poor technical expertise in sales areas. • High volume of complaints. • High proportion sales based on small proportion of products out of a larger product range. • Large product range being supported by each advisor.	• What technical training and support is available to sales people? • How are poor sales practices and sales people identified? • What targets are set for sales advisers? • What happens to advisers who fail to meet sales targets? • What criteria are used to determine sales person performance, bonus and promotion opportunities? • How has TCF been communicated to sales people and how is it measured in sales areas? • How do sales people ensure customers understand the risk and limitations of a product as well as its benefits? • What processes and checks are in place to ensure adequate records are kept of discussion and communication with customers? • What steps are taken to assess the suitability of services and how do these relate to the personal circumstances of the customer?

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After-Sales Service & Claims	• No monitoring of the impact of changes in wider environment on products and customers. • Customers not informed of the impact of changes and options available during the product's life-cycle. • Not meeting customers' reasonable expectations for service and / or full settlement of claims. • Avoiding meeting obligations to customers or seeking to avoid valid claims or full settlement. • Barriers put in place to prevent transfer or switching of funds (or accounts). • Firm late in settling claims.	• High volume of complaints. • No regular communication with customers. • Lack of defined service standards for servicing tasks or no monitoring of achieving service standards. • High proportion of claims turned down or reduced. • Payment of maturing or redeemed policies not timely. • Claims expectations are not outlined in policy literature sent to clients.	• How are changes in the wider environment assessed for their impact on customers and likelihood of products meeting customers' reasonable expectations? • How is this communicated to customers? • How do you ensure an effective flow of information to customers is maintained and recorded (including verbal discussions)? • What proportion of claims are turned down or reduced? • What is the process and cost for customers who want to transfer or switch a product? • What is done to ensure and monitor that service issues and claims are being processed in a timely manner?

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Complaints Handling	• Complaints not viewed positively within the firm. • Not easy for dissatisfied customers to complain. • Complaints not fully and fairly investigated. • Senior management not aware of trends in complaints or not acting on data provided (incl. root cause analysis). • Not fully or fairly rectifying mistakes even when firm finds in the customer's favour. • Not acting when complaints may indicate a wider problem affecting a larger or similar group of customers.	• Complaints management information (MI) not consolidated and reported to senior management. • High proportion complaints referred to the Financial Ombudsman Service (FOS) and customer complaint upheld. • Low volume of complaints recorded. • Complaints handlers targeted on volume of complaints handled. • No process for root-cause analysis of complaints. • Poor record keeping means it is difficult to fully investigate a customer's complaint. • No, or unclear, division of responsibility between those who may have caused the complaint and those who investigate it.	• What is the firm's uphold rate for complaints? • What is the FOS upheld rate for the firm? • How does the firm identify and remedy issues that may indicate a wider or recurring problem? • How are front-line staff making it easy for customers to complain? • How has TCF been incorporated into complaints handling and the training of people handling complaints? • How do management ensure that complaints are fully investigated and there is consistency in decision making? • What targets are set for people handling complaints? • What changes have been made based on an analysis of complaints? • What MI is gathered on complaints and how is this used? • How are lessons from complaints shared between different business areas? • What is done to ensure the outcome offered to customers is full and fair?

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Culture & Reward	• Staff do not understand their obligations towards customers. • Focus of firm too much on sales and profit with insufficient consideration to protecting customer interests.	• Target setting and rewards for sales and non-sales staff do not reflect TCF principles. • Bonus and incentive schemes for senior executives and directors do not support TCF principles. • Incentives for outsourced providers do not support TCF principles. • Wider reward and people management factors that can influence behaviour do not support TCF principles (e.g. objective setting, promotion strategy, disciplinary procedures). • TCF issues not reflected in ongoing or induction training. • Implications and requirements for TCF not translated into what it means for each department or staff role.	• How has the TCF principle been incorporated into the firm's values? • How has this been communicated? • How does the firm measure that the TCF principle is understood by staff? • How do senior management indicate their support of TCF? • How is TCF good practice shared across the firm? • How is the requirement to treat customers fairly included in performance measures, objective setting and rewards?
Strategic Change	• Not considering customers at initial stages of strategic change. • Not assessing impact of change on customers. • Not having skills/resources to support and provide appropriate service to customers during or after change.	• No assessment of impact on customers or fairness in developing or approving business cases. • Not monitoring impact on customer service KPIs or SLAs during or after a change programme. • High volume of complaints related to a specific strategic change.	• How has treating customers fairly been addressed in the business case? • What steps are taken to ensure customers are not adversely affected during, or as a result of, change?

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Relationship with Product Providers, Intermediaries & Third Parties	• Not considering or attempting to mitigate risk of customer detriment in the value chain. • Not clearly understanding firm's responsibilities to ensure fair treatment to customers and relying on another party to take the responsibility. • Not working with business partners to identify and mitigate risks to customers.	• Not considering TCF issues when establishing relationships with product providers, third parties or intermediaries. • No clear agreement of responsibilities for managing customer risk. • Insufficient information, training and support given to intermediaries / third parties. • Lack of senior management oversight and monitoring of TCF activity by product providers, third parties or intermediaries. • Not checking information received from product providers is accurate, understandable or suitable for target customers?	• How does the firm agree responsibilities for ensuring customers are treated fairly with third parties, product providers and intermediaries? • How is third party, product provider or intermediaries support for TCF monitored and what decisions are made on this? • What consideration is made of TCF when selecting third parties, product providers or intermediaries? • What support is given to third parties and intermediaries to help them treat customers fairly? • What is done to ensure literature and other materials provided by a third party (including product providers) is accurate, appropriate and understandable for the customers it is aimed at?
Management Information	• Senior management not monitoring firm's TCF performance. • Not using MI to identify where performance improvement required.	• No clear KPIs identified to assess TCF effectiveness and progress. • MI not sufficient to assess TCF effectiveness and performance. • MI not shared across the business. • Appropriate MI not available to key audiences (e.g. Board, Senior Exec, Business Unit Execs). • MI not reviewed to assess effectiveness of TCF strategy nor used to guide decisions.	• How does the firm monitor its ability to meet its TCF obligations? • What MI is prepared and who is this reported to? • How is MI shared across the business?