

REGULATION - FINANCIAL INSTITUTIONS

Fair's fair, or is it?

Financial institutions treat their customers fairly, or that's what they would like us to believe. In reality not all play fair, which has prompted the Financial Services Board (FSB) to crack down on errant firms through its Treat Customers Fairly (TCF) regulatory regime.

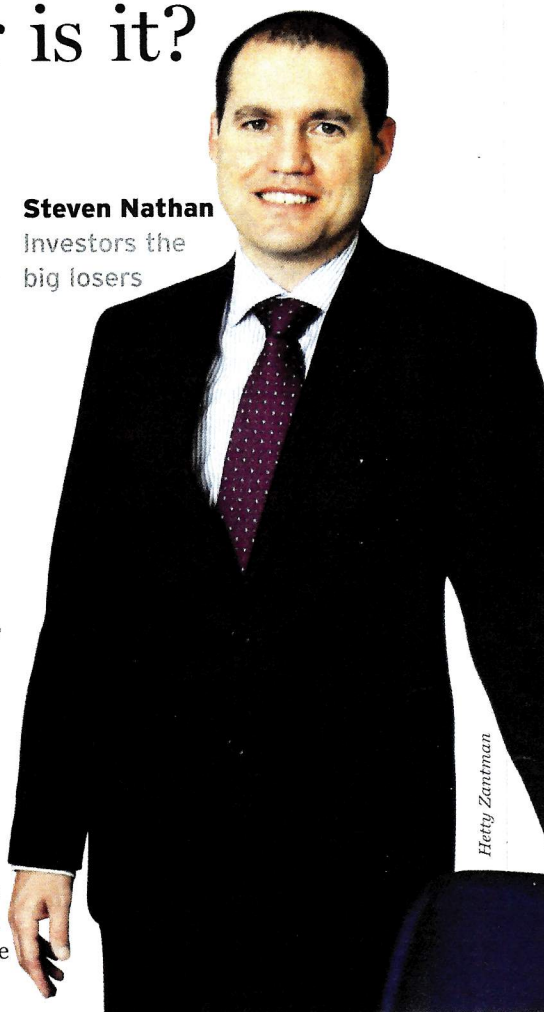
First mooted in 2010, TCF is to be implemented in 2014, says Leanne Jackson, head of the initiative, which lays down six outcomes firms will have to adhere to (see box on next page). The outcomes, she adds, have been copied "virtually verbatim" from the UK Financial Services Authorities' (FSA) TCF regime, which came into force in 2009.

The FSB's TCF will have enforcement powers providing "a credible deterrent to misconduct", says Jackson. This will include naming and shaming errant firms and, potentially, fines and suspension or withdrawal of licences.

While applauding the initiative, 10X Investments CEO Steven Nathan expresses what is probably the view of many consumers: "It's an indictment on the financial services industry that it has to be compelled to treat customers fairly. It beggars belief that an industry must be forced by threat of sanctions and penalties to do so."

Steven Nathan

Investors the big losers



You don't have to look far to find signs that many consumers are being taken for a ride.

One can of worms is credit life insurance, a lucrative area for many firms offering credit. Though interest rates are limited under the National Credit Act, other fees and costs are not, providing a handy way of leveraging up returns. For example, in a typical furniture credit deal interest amounts to about 24% and credit life and administration fees take the total to around 60%.

The FSB, National Credit Regulator and national treasury are jointly investigating credit life practices, says Jackson. In the UK, misselling of credit life has come back to haunt the banking industry, which is coughing up £7.4bn in compensation to customers.

One of Nathan's big gripes is with fees charged by asset management firms. While there are big variations, adviser fees, platform fees and asset managers' fees take average total costs to an excessive 3%/year, he says. In an environment where returns are likely to remain low, the asset management industry wins and the investor loses, he says.

"TCF does address the fee aspect of

asset management," says Jackson. She points to an outcome emphasising that products and services must meet the

FSB'S TARGETED FAIRNESS OUTCOME

- 1 Customers are confident they're dealing with firms where fair treatment of customers is central to the firm's culture
- 2 Retail products and services are designed to meet identified customer groups' needs and targeted accordingly
- 3 Customers are given clear information and kept appropriately informed before, during and after the time of contracting
- 4 Where customers receive advice, it must be suitable and take account of their circumstances
- 5 Customers are provided with products that perform as firms have led them to expect, and the associated service is both of an acceptable standard and what they have been led to expect
- 6 Customers don't face unreasonable post-sale barriers to change product, switch provider, submit a claim or make a complaint

SOURCE: FINANCIAL SERVICES BOARD

needs of identified customer groups.

Nathan is not impressed. "TCF's outcomes are vague and unquantifiable," he says. The UK's National Consumer Federation has levelled similar criticism at the FSA's TCF regime. The body concluded in a recent analysis that TCF has "achieved little and has had little or no impact on management [of financial services firms] to modify their behaviour with resultant benefits to consumers."

It is not that the FSA lacks clout. In enforcing TCF, the authority has imposed huge fines on many firms for misselling. In the largest yet, the FSA has just dished out a £10.5m fine to banking group HSBC for misselling products. And Barclays was fined £7.7m in early 2011.

Commenting on the failings of the UK's TCF, National Consumer Federation CEO Mike O'Connor has said: "The flaw is not the basic concept, or the principles underpinning it, but the fact that it was not fully implemented and properly enforced."

"We have engaged with the FSA and researched its TCF," says Jackson. "They could have done better with the rollout. We hope to be able to avoid some of their errors."

Stafford Thomas