

# Using Barrie & Hibbert's Product Risk Services as evidence to support Treating Customers Fairly

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## Why is Treating Customers Fairly (TCF) Important?

The FSA has stated that their TCF initiative is central to their work on consumer protection, and it is at the forefront of their move to a principles-based approach to regulation:

"Treating Customers Fairly continues to be a business priority for us, as outlined in our 2007/08 Business Plan. We believe TCF is one of our major initiatives in the retail market."

Ahead of the December 2008 deadline, the FSA has also stated that they will continue to take action against those firms who fail to deliver fair treatment for customers. Where appropriate they publish details of the action taken.

## Which firms should be concerned with TCF, and who has responsibility?

Any firm involved in the manufacture and distribution of retail financial products, excluding basic bank deposit products, will need to be able to evidence TCF. As such, TCF should be regarded as a critical issue for **banks, asset managers, insurance companies, distributors, platforms and a wide range of financial advisory firms**.

The FSA have identified particular stages throughout the product lifecycle where firms must be able to evidence TCF: product design and governance, identifying target markets, product marketing, sales and advice and after-sales information.

The FSA have stated: "It is the responsibility of a firm's **senior management** to make sure that their firm treats its customers fairly." This is not just an issue for the Compliance department.

## What actions can be taken in order to evidence TCF?

The FSA have defined TCF in terms of six 'Outcomes for Consumers'. They will expect to see appropriate MI, process documentation and customer outcomes which evidence that a firm has management and operational processes in place to deliver these outcomes.

An important common element of all six TCF outcomes is that financial products should be designed, communicated and monitored in accordance with defined client objectives and expectations. When considering how they will evidence the TCF Outcomes, firms will need to consider how they;

- Identify and define appropriate target markets for particular products.
- Effectively stress test products.
- Put systems and controls in place to monitor and manage risks imposed.
- Clearly communicate expectations of risk and return to customers.
- Provide evidence that customer expectations are being met.
- Understand impact of economic environment on customer expectations.
- Ensure appropriate ongoing monitoring and communication.

## How can Barrie & Hibbert's Product Risk Services help firms evidence TCF?

Our Product Risk Services provide an objective and independent framework that address these challenges, helping you evidence compliance with TCF obligations throughout the product lifecycle.

How does Barrie & Hibbert's Product Risk Services support TCF?	
Identifying Target Markets	<p>We can work with you to define the risk profiles of different target customer groups in terms of quantitative risk measures.</p> <p>By measuring specific products within this same quantitative framework, we help you ensure that products are targeted at the appropriate customer groups.</p>
Product Design & Stress Testing	<p>Risk and return outputs generated by our asset and product models can be used to ensure product design choices reflect defined customer objectives and risk profiles.</p> <p>This can help you to demonstrate effective stress testing across an entire product range.</p>
Product Governance	<p>Reporting quarterly, our Product Risk Service monitors how the risk and return characteristics of specific products are impacted by changes in the economic environment.</p> <p>This allows you to demonstrate that products continue to;</p> <ul style="list-style-type: none"> <li>• fit the customer profile for which they were designed,</li> <li>• meet customer expectations, and</li> <li>• represent 'fair' value, given the defined objectives and risk profile.</li> </ul>
Product Communication	<p>The same quantitative framework and outputs can be applied to aid the development of product communications, helping ensure that risk characteristics of products are communicated clearly to target customers on a consistent basis.</p> <p>This consistent communication framework will ensure product risk and returns are aligned with customer expectations.</p>
Sales and Advice	<p>The outputs from our Product Risk Service can be incorporated into your own sales and advice systems and processes, online financial planning platforms and 'reasons why' reports.</p> <p>This benefits advisors and customers by providing them with access to the same product risk information at the point of sale which was used to support design and target the product.</p>
After Sales Information	<p>The quarterly updates generated via our Product Risk Service can be used to review your communication material. This helps ensure that any changes in the risk characteristics or benefits of products can be clearly communicated to customers.</p>

Barrie & Hibbert's Product Risk Services are delivered in the form of formal reports, or asset model data which is used as part of a software solution. In all cases, these outputs will create a clear audit trail to support our client's TCF governance activities.

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