

Is the UK insurance industry treating its customers fairly?

September 2008



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Introduction

The FSA's Treating Customers Fairly regime is a fixed topic on the agendas of authorised insurance firms. Having met March's target of generating management information, the next regulatory hurdle for firms is to be able to demonstrate that customers are consistently treated fairly; a target that needs to be met by December 2008.

The insurance market is working hard to ensure the December deadline is met. Moore Stephens believes insurance firms will benefit from benchmarking their TCF implementation.

We, therefore, contacted key players in the insurance market in a three-week period spanning July and August 2008, asking them to complete a short web-based questionnaire so that they could share their views with us. We are extremely grateful to all those who responded.

We received 84 responses. 31% of respondents represented insurers and 69% represented intermediaries.

Our commentary on the survey relates to statistics derived from the responses received. We believe the respondents represent a cross-section of the industry and, therefore, that our analysis is a good representative of the insurance industry as a whole, but it is not possible to guarantee that this is the case.

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Insurance Industry Group
August 2008

Summary



The purpose of the survey was to assess the level of preparedness on the part of UK insurers and intermediaries for the new FSA regulations on Treating Customers Fairly.

Less than half of respondents say that all their staff are aware of TCF and what the FSA is trying to achieve. Moreover, the survey shows that 40% of insurers have not yet incorporated TCF into their business strategy, and only 50% of respondents overall are “extremely confident” of meeting the FSA’s year-end 2008 deadline for compliance.

The survey suggests that, while some progress has clearly been made in the effort to meet the FSA’s TCF deadline, there remain serious doubts about whether, at the current rate of progress, the UK insurance industry will be able to demonstrate to the satisfaction of the regulators that it has properly embraced the spirit of TCF and put in place the necessary procedures and systems to embed it into their business operations.

Overall, 95% of all respondents claimed that TCF information was discussed at board level and this may seem to satisfy the FSA requirement that TCF procedures must be reviewed, challenged and acted upon at a senior level. But only 8% of insurers, and 24% of intermediaries, said that TCF was reviewed on a monthly basis at board level, with 31% of insurers admitting that it was only the subject of ad hoc reviews. Just over 50% reported that senior management’s participation in implementing TCF programmes was “active” or “hands-on”. The role of senior management and the information they see – or do not see – can be critical. Indeed, the FSA has said, “Where senior managers play an active, directive role in setting out what the firm needs to do to embed fair treatment in the firm’s operations, the firm develops a more realistic and effective measurement of it.”

While 83% of intermediaries said they had management information and key performance indicators to clearly identify how customers were being treated fairly, only 69% of insurers claimed the same. The FSA insists that systems and procedures must be embedded in order to be able to assess performance.

A total of 54% of intermediaries, and only 16% of insurers, said that all their staff were fully aware of TCF and the FSA objectives, while 36% of insurers admitted that less than half their staff possessed such awareness. This has to be viewed in the knowledge that more than two-thirds of the respondents to the survey were intermediaries, but it does not sit well with the high level of importance which the FSA attaches to staff training.

Only 26% of insurers, and 37% of intermediaries, were able to report that all their employees had been trained in TCF. Just 2% of intermediaries and 9% of insurers reported that “all management” had been trained in TCF, while only 5% of senior

intermediary management (compared to 26% for insurers) admitted to having been so trained.

Staff training, sales procedures, and documentation were the three types of management information reviewed most frequently at board level by both insurers and intermediaries. This corresponded generally with the areas of business reviewed as part of the TCF programme, although claims support also featured strongly in this category. Overall, only 25% of respondents had reviewed IT as part of their TCF strategy which is surprisingly low.

40% of insurers admitted that they had not yet incorporated TCF into their business strategy, as opposed to only 14% of intermediaries. Even allowing for the fact that intermediaries may in many cases be closer to their customers, the figure for insurers in this category is a potential cause for concern.

Overall, 38% of respondents – split fairly evenly between insurers and intermediaries - said that TCF was written into staff objectives and/or job descriptions, while only 19% of both insurers and intermediaries said that priority was given to TCF when reviewing staff performance and agreeing bonus rewards. Again, this is not in line with FSA guidance, and emphasises that it is important for TCF to be written into job descriptions and staff reward and remuneration schemes, in order that performance can be effectively monitored.

The survey revealed that only 4% of insurers could claim that all their TCF-related work had been documented, compared to 20% for intermediaries. 65% of intermediaries and 56% of insurers claimed to have documented up to 50% of their work in this respect, but 8% of insurers admitted they had yet to do anything in this respect. Again, this represents a divergence from the FSA template, which expects firms to have in place records which can demonstrate the TCF measures, reviews and challenges which have been undertaken.

Not surprisingly, complaint letters and responses were the main type of documentation maintained by both insurers and intermediaries (85% and 84% respectively) to evidence how customers were being fairly treated. Sales procedures, staff handbooks, and file reviews also figured high on the list.

The survey highlights the progress that has been made with regard to TCF in a relatively short space of time, but it also produces the sobering conclusion that only half the respondents were “extremely confident” that they would be able to meet, by year-end 2008, the FSA requirement to ‘demonstrate to themselves and to the FSA that they are consistently treating their customers fairly’.

It is instructive that 38% of insurers and 50% of intermediaries admitted that the most challenging part of the TCF programme for them was ‘understanding the outcomes we need to achieve’.

This is surprising, since the FSA has clearly defined its six customer outcomes for consumers. Insurers and intermediaries would be well-advised to weigh these outcomes against their current TCF performance. If they are less than confident of their ability to demonstrate to the FSA that they are providing what is required of them in terms of treating customers fairly, they should seek professional advice immediately. The next Arrow visit will be too late."



Results

This section of our report sets out the survey's results.

We asked respondents to answer a series of questions grouped under the following headings:

- Role of the Board;
- Documentation;
- Operations;
- Staff awareness;
- Remuneration;
- Complaints;
- Overall confidence.

Role of the Board

The purpose of our first series of questions was to determine the role of Boards and senior management in implementing, managing and monitoring the TCF process.

1. What level of seniority does the individual(s) responsible for TCF hold?

Ownership for TCF within insurers was designated solely to director/senior management level, with 100% taking responsibility. 93% of insurance intermediary firms have designated TCF responsibility to senior management.

The FSA require the accountability for TCF to be clear and it must be at an appropriate senior management level (*Treating Customers Fairly: Progress Update June 2008*).

If senior management take ownership for TCF through leadership, it will be easier for firms to embed and demonstrate a culture whereby the fair treatment of customers is key consideration.

2. Is TCF information discussed at Board level?

TCF information should be reviewed, challenged and acted upon at an appropriate level of senior management within a firm. If TCF becomes a regular Board agenda item, it may be easier for firms to track progress against the outcomes for consumers, and to make decisions regarding TCF performance.

92% of insurers and 97% of intermediaries discuss TCF at Board level.

3. How frequently is the TCF programme reviewed at Board level?

31% of insurers stated that they review TCF information at Board level on a quarterly basis and 31% on an ad hoc basis; 24% of intermediaries stated that they review TCF information at Board level on a monthly basis and 29% on an ad hoc basis.

With the December deadline approaching, we would expect firms to be increasing their frequency of TCF reviews.

4. Have you incorporated TCF into your business strategy?

This is perhaps the hardest outcome for firms to demonstrate, but it is vital for firms to demonstrate how TCF plays a role in the decision-making process. In order to build TCF into commercial strategy, firms need the ability to articulate how the FSA's "Outcomes" map to strategy. Firms may find it difficult to demonstrate how they know they are treating their customers fairly.

60% of insurers and 86% of intermediaries have incorporated TCF into their business strategy.

5. How would you describe senior management's participation in implementing the TCF programme?

In 42% of insurers and 54% of intermediaries, senior management have taken an active, hands-on role in implementing their TCF programme.

The FSA stated in their publication *Treating Customers Fairly: Progress Update 2008*, that it is important to have active endorsement and support at the most senior levels in order to provide momentum and to drive through necessary actions. Also, as part of the FSA's assessment programme, they have found that where senior management play an active, directive role in setting out what the firm needs to do to embed fair treatment in the firm's operations, the firm develops a more realistic and effective measurement of it.

It is important for senior managers to have an understanding of what TCF means to their business since the FSA will hold senior-level discussions on firms' TCF approach in order to understand their use and understanding of management information (*Treating Customers Fairly: Measuring Outcomes, November 2007*).

Documentation

We then asked a series of questions to determine the nature and extent of documentation to achieve and support the TCF process.

1. Do you have management information and key performance indicators to clearly identify how customers are being treated fairly?

Firms must be able to measure their performance against the FSA's "Outcomes for consumers", and with clear targets in place, it is easier to benchmark performance.

In order to have met the March 2008 deadline, all firms should by now have appropriate management information in place to test whether customers are being treated fairly.

69% of insurers and 83% of intermediaries stated that they have management information and key performance indicators in place.

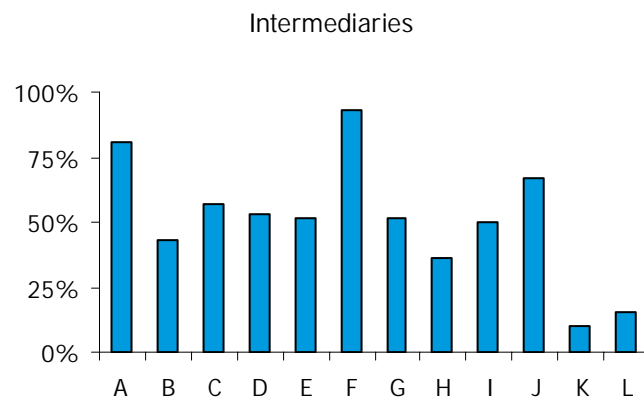
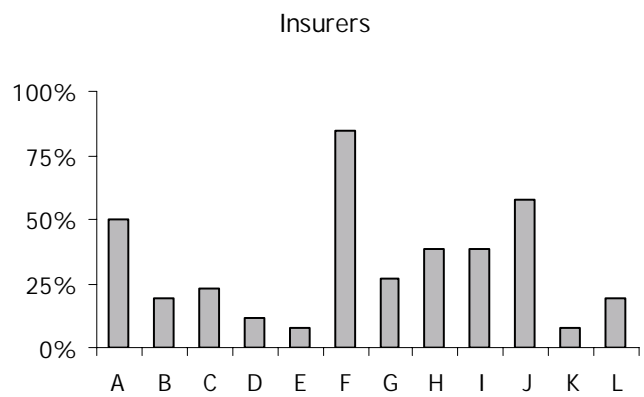
The FSA stated in their publication *Treating Customers Fairly: Measuring Outcomes, November 2007* that until senior management can judge their firms performance against

appropriate management information, it will not be possible for them to assess whether they are delivering fair outcomes.

2. What management information do you review at Board level?

Both insurers and intermediaries highlighted complaints, FSA updates and staff training as management information most frequently reviewed at Board level. Other management information reviewed at Board level included customer service level targets and achievements, conflicts of interest, internal audit results and third party servicing contracts.

The graphs below provide further information.



Key

- A Staff training and competence levels
- B Sales procedures
- C Documentation
- D Third party security ratings
- E Commission levels
- F Complaints
- G Marketing
- H Service levels of third parties
- I Market intelligence
- J FSA updates
- K TCF is not reviewed at Board level
- L Other, please list

3. What percentage of your work concerning TCF has been documented?

The FSA will form an evidence-based judgement on the quality of information that a firm is using to measure its outcomes for consumers, and on what that information says about what the firm is actually managing to achieve.

56% of insurers and 65% of intermediaries have documented between 51 – 99% of their TCF work.

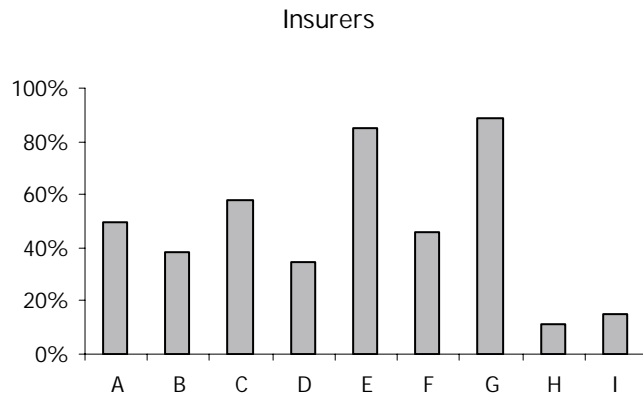
As well as collecting evidence, the FSA will expect all firms to use it effectively and increasingly be able to show through it, how they are treating their customers fairly.

The FSA's approach to assessing relationship-managed firms has begun by reviewing the highest level reports available in the firm on the fair treatment of customers for all the business conducted.

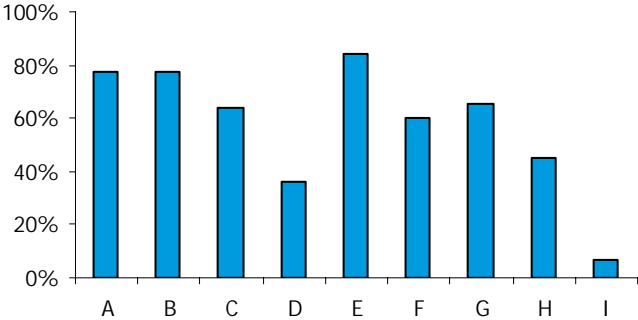
The FSA stated in their publication *Treating Customers Fairly: Guide to Management Information, July 2007* that where an issue has been identified, firms should keep appropriate records to demonstrate management information has been seen, challenged, analysed and acted on.

4. What type of documentation are you maintaining in order to evidence how you treat your customers fairly?

Both insurers and intermediaries primarily focus on complaints data. "Other" documentation included product development material, terms of business agreements, compliance breaches and contract certainty, as shown in the charts below.



Intermediaries



Key

- A Sales procedures, staff manuals and handbooks
- B File reviews
- C In-house training programmes
- D Staff tests
- E Complaint letters and responses
- F Marketing documentation reviews
- G Complaint analysis reports
- H Security analysis reports
- I Other, please specify

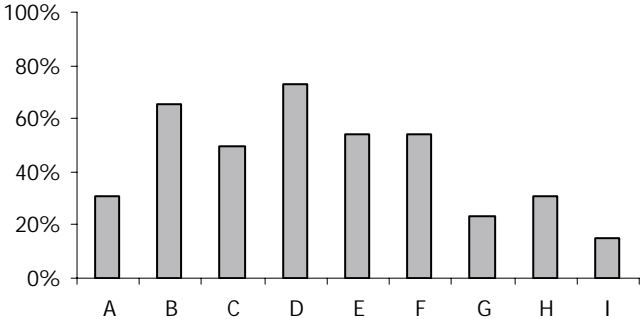
Operations

We also asked about operational issues.

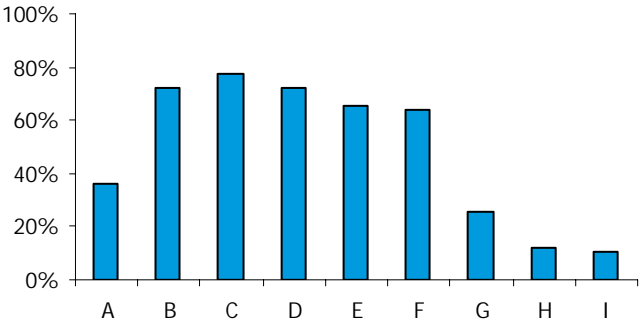
1. What areas of the business have you reviewed as part of your TCF programme?

Both insurers and intermediaries have primarily focused their attention on sales processes, claims support, training, post sales customer service and marketing, as shown in the charts below.

Insurers



Intermediaries



Key

- A Recruitment
- B Training
- C Sales processes
- D Claims support
- E Post-sale customer service
- F Marketing
- G IT
- H Other
- I We have not reviewed specific areas of the business

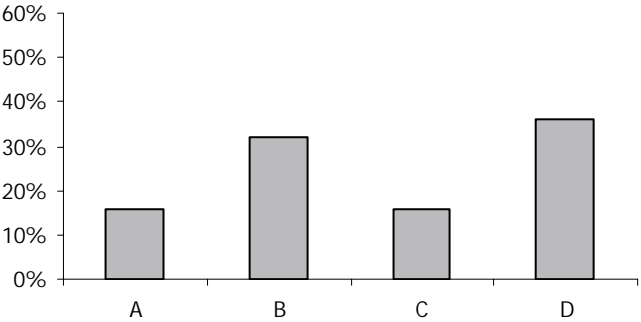
Staff awareness and reward

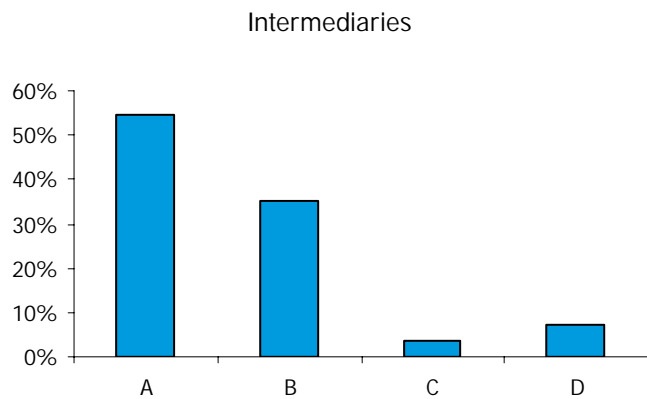
Staff are integral to the successful implementation of TCF. We, therefore, asked a series of questions to assess their awareness and involvement.

1. What percentage of your staff are aware of TCF and what the FSA are trying to achieve by implementing this programme of work?

16% of insurers and 54% of intermediaries had ensured 100% of its employees were aware of TCF. 75 – 100% of employees had been made aware of TCF in 32% of insurers and 35% of intermediary firms, as shown in the charts below.

Insurers





Key

A	100%
B	75% - 100%
C	50%
D	Less than 50%

It is important to note that when assessing progress of small firms, the FSA looked at the relationship the firm's management had with its staff, and how it communicated TCF to its entire staff (not just advisers). (*Treating Customers Fairly: Progress Update, June 2008*).

2. Which groups of your staff have been trained on TCF?

13% of insurers and 23% of intermediaries have trained all their employees, including appointed representative firms. 26% of insurers and 37% of intermediaries have trained all their internal employees.

It is important for all parties to be aware of TCF and how it affects each role within a firm.

During his speech on 3rd December 2007 (*"Firms must do more to ensure their appointed representatives treat customers fairly"*), Stephen Bland, Director of Small Firms Division stated, "Principal firms need to...ensure that they have appropriate controls in place and management information that enables them to be confident, ahead of the deadline, that their appointed representatives are treating their customers fairly".

3. Is TCF written into staff objectives and/or job descriptions?

35% of insurers and 39% of intermediaries had written TCF into staff objectives and/or job descriptions.

The FSA focused on TCF goals in staff objectives/ job descriptions when discussing how any statements made by a firm must be supported by necessary controls (*Treating Customers Fairly: Guide to Management Information, July 2007*). The FSA stated that if TCF tasks are added to someone's job role, firms should be questioning: Are assessments undertaken? Is the assessment linked to appraisals? And are rewards and remuneration affected?

4. What level of importance is given to TCF when reviewing staff performance and agreeing bonus rewards?

19% of insurers and intermediaries gave key consideration to TCF when reviewing staff performance and bonuses.

35% of insurers considered TCF and 46% declared TCF not a determining factor. 53% of intermediaries considered TCF and 28% declared TCF not a determining factor.

The FSA stated in its publication *Treating Customers Fairly: Progress Update, June 2008* that relationship-managed firms who clearly articulated how delivering fairness influenced bonus payments performed best against the March 2008 deadline.

The FSA have also recognised rewarding TCF as being an example of "good behaviour" within firms.

Complaints

1. What proportion of your complaints are TCF-related?

61% of insurers and 85% of intermediaries stated that less than 10% of their complaints were TCF-related.

The percentage of TCF-related complaints was surprisingly low, especially considering the Financial Ombudsman Service (FOS) has reported that the number of insurance disputes have recently doubled. For the period 1 April 2007 to 31 March 2008, 11% of complainants to the FOS were concerning general insurers and 3% were concerning general insurance intermediaries. 39% of complaints about insurance products concerned payment protection insurance policies and 22% concerned motor insurance. (*FOS Annual Review 1 April 2007 to 31 March 2008*).

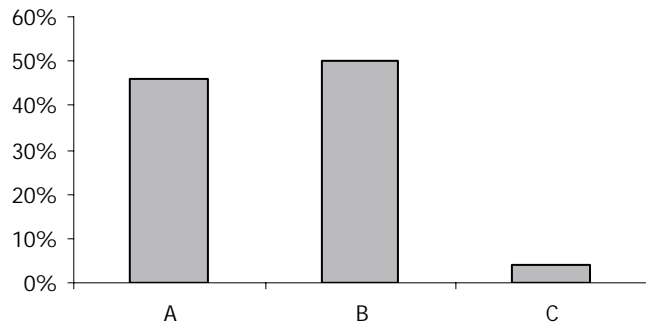
Confidence

Our final questions were designed to assess respondents' confidence in the ability of their firms to meet fully the FSA's year end 2008 deadline.

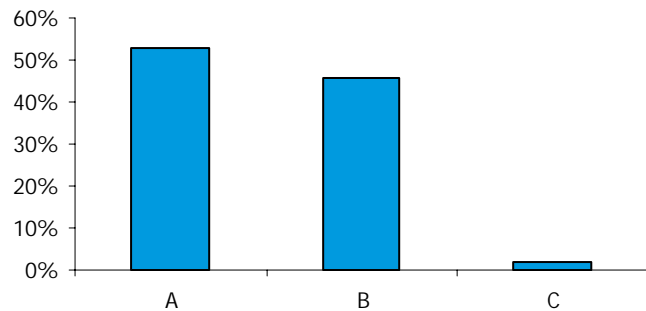
1. How confident are you that by December 2008 you will be able to demonstrate that you treat your customers fairly?

46% of insurers and 53% of intermediaries are extremely confident that they will meet the December 2008 deadline of demonstrating that they treat their customers fairly, as shown in the charts on the following page.

Insurers



Intermediaries



Key

A	Extremely confident
B	Moderately confident
C	Not confident at all

By December 2008 firms will have to:

- demonstrate that senior management have instilled a culture within the firm whereby they understand what the fair treatment of customers means; where they expect staff to achieve this at all times; and where (a relatively small number of) errors are promptly found by firms, put right and learned from;
- be appropriately and accurately measuring performance against all customer fairness issues materially relevant to their business, and be acting on the results;
- be demonstrating through those measures that they are delivering fair outcomes; and
- have no serious failings – whether seen through management information or known to the FSA directly.

(Treating Customers Fairly: Progress Update, June 2008)

2. What area(s) of the TCF programme are you finding the most challenging for you firm?

38% of insurers and 50% of intermediaries named understanding the outcomes needed to be achieved, the most challenging aspect of the TCF regime.

The FSA's six outcome for consumers are:

1. Consumers can be confident that they are dealing with firms where TCF is central to the corporate culture.
2. Products and services are designed to meet the needs of identified consumer groups and targeted accordingly.
3. Consumers are provided with clear information and kept appropriately informed before, during and after the point of sale.
4. Where consumers receive advice, it is suitable and takes account of their circumstances.
5. Consumers are provided with products that perform as firms have led them to expect, and the associated service is both of an acceptable standard and as they have been led to expect.
6. There are no unreasonable post-sale barriers imposed by firms when consumers want to change product, switch provider, submit a claim or make a complaint.

Other challenges for firms include gaining clarity regarding TCF whereby business models focus on wholesale insurance situations and/or whereby a firm deals with commercial customers.

TCF primarily challenges firms operating in retail financial markets and the FSA's supervisory effort is primarily on firms who design, market or are involved in the operation of retail products or services; those that distribute retail products; and those that have a contractual or other relationship with retail customers, such that they provide an on-going service of some kind.

Firms that are never involved directly with retail customers are outside the FSA's usual scope of TCF. However, they must have the necessary controls in place to meet their regulatory obligations outlined in Principle 2 "due skill and diligence", Principle 3 "management and controls" and, if relevant, Principle 6 "treating customers fairly".
(Speech by Sarah Wilson, Treating customers fairly in wholesale markets, 15 April 2008: Protiviti Breakfast Meeting).

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