

Shaping a fairer landscape

During the height of the financial crisis, cases of mis-selling were reported in various parts of Asia as well as in Singapore by anguished investors. The Singapore government had then introduced a guideline on fair dealing to address this and other related issues. **Mr Joel Carpenter**, Marketing Manager – SE Asia, Friends Provident International Ltd looks at this new Guideline, and shares what initiatives financial organisations need to put in place so as to deliver fair dealings to customers.

On 3 April 2009, the Monetary Authority of Singapore (MAS) issued the Guidelines on Fair Dealing – Board and Senior Management Responsibilities for Delivering Fair Dealing Outcomes to promote fair dealings by financial institutions when they conduct business with their customers.

The Guidelines emphasise the responsibilities of the board and senior management of financial institutions to deliver fair dealing outcomes when providing financial advisory services to customers. There is a deliberate focus on outcomes in the Guidelines as customers are concerned about their experiences when dealing with financial institutions, and whether the investment products and services they buy provide real value.

The Guidelines set out five fair dealing outcomes:

1. Customers have confidence that they deal with financial institutions where fair dealing is central to the corporate culture.
2. Financial institutions offer products and services that are suitable for their target customer segments.
3. Financial institutions have competent representatives who provide customers with quality advice and appropriate recommendations.
4. Customers receive clear, relevant and timely information to make informed financial decisions.
5. Financial institutions handle customer complaints in an independent, effective, and prompt manner.

The five outcomes were designed to provide a clear benchmark for assessing the success of financial institutions in promoting good market conduct practices. The Guidelines apply to both providers and distributors of financial products and place an emphasis on the quality and appropriateness of the advice received by the customer.

What is the aim of the Guidelines?

The aim of the policy is to build confidence of consumers by requiring companies to consider what is fair and whether they are being fair. The guidelines call for financial institutions to review the way in which they deal fairly with and provide real long-term value for their customers.

On building consumer confidence in savings and investments, Mr Andre Le Roux, CEO, The Henley Group provides his experience:

“For The Henley Group, who have built up a client base over 20 years based largely on referrals, customer confidence is an integral part of our business. Unfortunately, poor market practice from some advisory firms in the past has tarnished the industry making the effective communication of Fair Dealing adherence even more critical to provide consumers with the confidence they need to invest and achieve their financial goals. The Henley Group have been practising high standards of client ethics since inception in 1990 but the official Fair Dealing initiative has provided an excellent framework to help communicate the ethics and integrity of our business clearly. Meeting with a financial adviser should be an enlightening and positive experience from which clients feel assured and comfortable with their financial future. A lack of confidence will not create this outcome, hence our determination to ensure that clients understand the experience, time, and energy that goes into providing the right advisers, the right information, and ultimately the right advice to make educated investment decisions they feel comfortable with and have confidence in.”

What lessons can we learn from other jurisdictions?

Given regulatory developments in other jurisdictions, it seems reasonable to assume that the MAS draw a significant influence from the practices of other established governing authorities such as those in Australia, UK, and US. It is a commendable approach to adopt tried and tested methods from established and successful financial jurisdictions and adapt them to best suit the Singaporean financial landscape.

Given this influence, it is also reasonable to conclude that several lessons can be learnt from the application of similar guidelines in these other regions. For example, in the UK, the Financial Services Authority (FSA) has successfully embedded its *Treating Customers Fairly* initiative. From embedding this within Friends Provident's working culture, there are several key learning points from which we are able to draw initiative.



1. Corporate culture

It can be argued that within all successful businesses, treating customers fairly will already be ingrained, as it is these long-term relationships that provide the foundation of a sustainable business model. However, it is not enough to simply make this assumption and such initiatives must be evidenced within a clear evaluation process. Badging and reporting actions as “*Treating Customers Fairly*” or “*Fair Dealing*” initiatives delivers evidence that an organisation is taking action to align its corporate values.

Like the FSA’s *Treating Customers Fairly* initiative, the Fair Dealing Guidelines places responsibility at board and senior management level. Such initiatives must therefore be “championed” accordingly with key messages cascaded down through an organisation’s management structure.

One action that can deliver a powerful message both internally and to the governing institution is the inclusion of fair dealing assessment in the performance agreements and relative reward structures of all the employees of a financial institution. By aligning an individual employees financial rewards, such as an end of year bonus, with the achievement of key performance indicators that require the individual to evidence that they have taken steps to treat customers fair, this both communicates the commitment of an organisation at a corporate level and directly provides a motivator for staff to embrace such initiatives.

2. Achieve “competence”

With the *Fair Dealing Outcomes*, the MAS has deliberately included a requirement for a financial institution to ensure its customer facing representatives are “competent”. For this to be achieved an organisation must first determine and document its competency benchmark and how this is assessed, from both an initial and ongoing perspective. Such actions could include evidence of a structured training process and testing before a representative is allowed to provide advice to customers. This educational process may also be staggered with further training and testing specifically designed to assess the competence which is required before being able to deliver advice on more complex investment vehicles. Further training is also important to ensure representatives are able to understand and apply regulatory developments.

It is also important that an organisation and individual advisers can demonstrate a structured and consistent advisory process and rationale for any advice delivered. Potential actions can include the production of consistent structured reports and a mechanism to evidence that a potential customer has read and understood the recommendations delivered. Such reports must also disclose any fees and charges taken by both providers and distributors and an explanation of the risks of the financial products being advised on.

Within this advisory process, there may also be an onus on the adviser to ensure that the customer has the capacity to understand the advice that is being given. This is a more challenging subject to address, but could include a short customer knowledge test, however, this presents a challenge for ongoing advice. Other initiatives may include the use of structured vehicles to deliver asset allocation advice once an adviser has provided (and evidenced) advice to a product specific level. Such vehicles may include online tools that allow a standardised model to be used for portfolio construction, the storage of customer histories, and have the ability to rebalance assets to account for a customer’s evolving needs.

3. Evaluation and review

An organisation must show evidence that it is not just introducing steps to create a corporate culture of fair dealing, it must also demonstrate that it has appropriate mechanisms in place to evaluate and review their success ensuring fair dealing is not simply a one-time-only initiative and becomes ingrained as an organisation evolves.

The collection of relevant management information can deliver a valuable insight into the success of initiatives and can provide guidance as to where to prioritise resource. Such information could include a clear customer feedback mechanism such as a dedicated email address and contact number for customer feedback clearly communicated on customer facing communications including websites. There must then be a formalised procedure to review feedback and implement actions to tackle common complaints. Trends in customer complaints can be evidenced to demonstrate that an organisation is taking measures to prioritise and address common sources of complaint.

Key points for success

Delivering fair dealing to customers is a subject that can encompass many different initiatives; however, there are some key actions that can ensure customers are centric to the model of a financial organisation.

- Ensuring recruitment and reward structures are aligned with a firm’s corporate values, which reflect fair dealing.
- Determining a benchmark of “competence” on which training and assessment of employees is based on an ongoing basis.
- Monitoring the performance of a financial institution against performance indicators that reflect fair dealing. This may include monitoring complaint trends, documenting actions, and measuring achievement.
- Provide customers with structured advice and ensure that they understand the advice they have received including the risks of any financial solutions recommended.
- Champion fair dealing at board and senior management level and evidence actions to cascade message down through an organisations management structure.▲