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TREATING CUSTOMERS FAIRLY, OR NOT?

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In today's times, customers are very much aware of their rights. Whether or not a frustrated customer is standing in a long bank or retail outlet queue -- be this in South Africa or even in the bustle of Paris -- one is bound to hear someone shouting "*customer service please!*"

More than ever before, successful businesses insist that their front line employees attend various customer training courses in order to improve their customer interaction. Indeed, their drive to improve customer services and their relations with customers is extended to the products and services intended for their customers. Increasingly, customer-centric organisations allocate enormous annual budgets to protect their markets, and these organisations deploy costly activities to measure their customer satisfaction indexes and retention strategies. The question behind these actions, supported by teams of internal and external marketing and product specialists, is not difficult to answer. Without a customer, there's simply no reason for the organisation to exist.

Compounding matters, the manner in which the internet has changed customer behaviour and their spending patterns has led to most businesses fighting to retain (or grow) their customer and market share. And as can be expected, this is where various governance and ethical practices have become highly questionable. There's no doubt that a number of boards of directors who have their backs against the wall have issued instructions to their subordinates along the lines; "*do whatever it takes to retain and grow the customer base*". With these instructions in mind, and knowing that many jobs may be on the line if the board's wishes are not met, it's little wonder that the board -- who originally issued these instructions -- don't actually want to know *what or how* their employees responded to meet their demands. Needless to say, many employees will be forced to act *ultra vires*, breaking legislation and various forms of internal and external regulations in order to retain and or grow their customer base.

"Treating Customers Fairly (TCF) is the new mantra in financial services, and will be at the heart of future supervision and regulation in South Africa. Those in the industry are actively readying themselves for TCF and embarking on implementation plans across their multiple business models and product lines."

Author: Judy Gilmour

16 January 2014

Interestingly, the financial services sector in the United Kingdom ('UK') was the first industry sector in the world to adopt a more rational approach to understanding the legal rights and needs of customers. In a highly regulated industry -- and being driven to demonstrate its practices of substance over form -- the financial services sector across most parts of the world are now following a policy known as Treating Customers Fairly ('TCF') which started in the UK. TCF was first introduced by the UK's Financial Services Association (FSA), now known as the Financial Conduct Authority (FCA). In the wake of the 2008 global market financial crash, the FCA was tasked to regulate the financial services industry in order to protect and improve the UK's economy.

The actions taken by the UK to insure -- amongst other matters -- that the rights of customers as well as the integrity of the market is protected, has been replicated in many countries, including South Africa. Because many customers were exploited by unscrupulous operators in the financial, insurance and credit markets, the gist of TCF focusses upon ensuring that customers are treated fairly. This includes insuring that all customer interactions are done on a transparent basis, and that the all too familiar complex sales and marketing pitches are completely abolished.

Of course many lessons can be extracted from these invigorating activities now found in the financial services sector, who are intent on treating customers fairly. Expectedly, the same customer in the financial services sector may also be found in the retail, manufacturing and tourism sectors, to name just a few. One would hope that the captains of these sectors will adopt the same TCF ethos as their counterparts in the financial sector. But having said this, it does not require much stretching of the imagination to suggest that 'stakeholders' are broadly speaking 'customers' of any and all types of organisations. So when the organisation produces its annual integrated report, one may challenge many of these organisations to ask if they have truly treated their customers fairly when the information they have presented in these reports is not as accurate as it should have been. One must not forget that many potential investors, in other words customers, rely heavily on the information they are presented with in these reports prior to making their investment choices.

As with the FCA in the United Kingdom, our own financial services regulator in South Africa, namely the Financial Services Board ('FSB'), expects organisations to abide with the TCF policy and its associated legislation. The FSB furthermore requires organisations to diligently monitor and audit their compliance in this respect. Treating customers fairly should be the priority of all organisations and, as such, value may be extracted by applying the TCF principles as a matter of good governance, not least also for sustainable business practices.

Organisations will increasingly be expected to foster a culture of doing business in a way that will ensure customers get treated fairly, and that all the organisation's actions, products and services are grounded upon ethical values. In order to embed a TCF culture within an organisation, it will need a 'top down' and 'bottom up' approach which must be entrenched throughout the organisation. Expectedly, the board must unequivocally support TCF which will flow through the organisation's leadership structures, its strategy and decision making, its governance and controls, as well as its performance management programmes.

As customers become more informed of their rights, allied with their increased powers and activism, boards of directors should be a lot more cautious when they instruct their employees upon matters which may have bearing upon their customers. So often is the case where employees are instructed to undertake certain

"In a terrifying glimpse this week into the dark heart of unsecured lending in South Africa, a former top executive of African Bank, Tami Sokutu, scorned the poor who were sucked into debt by easy loans from his now failed company.

Sokutu, who made more than R50-million in share options and earned another R35-million in salary and bonuses from his time as Abil's chief risk officer, was asked about those who had obtained loans but were now unable to repay them. The lives of thousands of borrowers have been ruined because they have been listed as bad credit risks."

Source: South Africa: 'F* the poor!' is the message from a top executive at African Bank**

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tasks which amount to nothing less than greed and “making the numbers irrespective of the cost.” To retain and grow the organisation’s customers, organisations will need to become more customer-friendly, particularly as customers have become more demanding of qualitative treatment. Organisations that ‘claim to be customer-centric’ will need to refocus the manner in which they place their customers first, and this will have huge implications upon the organisation’s strategy which has traditionally been geared toward maximising shareholder value as a first priority, and the customer somewhere behind. Undoubtedly, TCF will force organisations to change their strategy by placing customers first; in other words, moving away from a product-centric approach to a customer-centric one. This will require a complete mind shift from the board, and even possibly replacing board members who have out-dated or greedy thinking.

As more legislation and standards are written in favour of protecting the rights of customers, the last thing an organisation wants to do is ignore TCF. Customers are the heart and reason for business; ignoring TCF is a sure recipe for all kinds of disaster.

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