TCC®

How to confuse customers and alienate people

Understanding Smarter Customer Communicaitons

We are on a mission to help our clients communicate better with their customers and in turn reap the business benefits.

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Introduction

Communicating well with customers should be a prerequisite for all organisations, regardless of their industry. Yet, within the financial services industry, communication has often taken a back seat due to perceived regulatory barriers and inertia driven by poor market dynamics.

This needs to change! By providing better, more engaging information, consumers will become more aware of their rights and feel more confident in their abilities to make more informed choices about their finances.

This white paper focusses on the FCA's expectations and the key considerations for firms in creating and reviewing their customer communications.

As the title of this white paper suggests, we are on a mission to help firms communicate better with their customers and in turn reap the business benefits.

“We recognise that information itself does not necessarily empower the consumer. Our work on behavioural economics has clearly shown it can overwhelm, confuse, distract or even deter people from making effective choices if presented in a way people struggle to engage with."

- The FCA

Why are smarter customer communications needed?

It’s better for customers

One of the core issues that prohibits the financial market from working well is consumers making poor or uninformed choices about their finances. In the context of financial services, poor decision-making can considerably impact future finances and consequently, their future quality of life. Amplified over a significant proportion of the population, the Government is justifiably concerned about the social and economic impacts of poor market dynamics and customer decision-making.

Financial services and products are inherently complicated. This is exacerbated by the overuse of jargon and confusion over terminology. A key example is the at-retirement market where the inconsistent use of terminology is recognised as hindering consumers’ abilities to compare and contrast products – in turn, leading to poor decisions.

Increasing engagement with financial services and products by making communications simpler, more accessible and more engaging will help consumers to make more informed choices that are appropriate for their needs.

The FCA uses its powers to change market dynamics, foster greater competition and facilitate better outcomes and increased consumer choice. It is hoped that as a result, consumers will become more empowered and exercise their rights to switch and choose.

It's a regulatory obligation

Principle 7

Principle 7 of the FCA's principles for business deals with communications with clients: ***"A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading."*** [1]

With a mix of detailed and high level rules covering financial promotions, compliance becomes a significant overhead for firms. When considering the high level principle requiring clarity and fairness across all communications, the size of the task broadens even further.

Behavioural economics

The FCA uses behavioural economics to help it understand consumers' behaviour when interacting with, and purchasing, financial services products. It also takes into consideration the impact of firms' activities, such as information provision, on these behaviours. The regulator uses its findings to inform policy, identify competition issues and identify ways to support consumer decision making.

You therefore need to have an understanding of how your customers are influenced by subconscious behaviours such as biases and know how your communication methods can exacerbate or alleviate the impact on consumer decision-making.

It is important that firms read the available literature to help them understand how behavioural economics applies to their business model.

It makes good business sense

Firms spend billions trying to acquire consumers by marketing the merits of their products and services, devising innovative ways to make their messages stand out in an increasingly crowded global marketplace. Customer service teams also spend significant sums trying to retain customers by providing a quality customer experience. Despite this, communication of key product features and contractual terms doesn't always hit the mark.

In a perfect world, firms that don't communicate well should lose customers and market share. Unfortunately, the long-term, complex nature of products, coupled with an uncomprehending, inert consumer, is a recipe for an inadequately competitive market. In these cases, the usual market forces that would naturally penalise firms for poor customer experiences are unbalanced in favour of continuing inertia. This is one of the catalysts for the scrutiny and rising expectations of the FCA.

The financial services market as a whole will be seeking to enhance engagement with customers by increasing the quality and clarity of communications. Therefore, firms that disregard the importance of this topic are likely to find themselves at a competitive disadvantage. With studies showing that it can cost up to 10 times more to acquire a new customer as it can to support an existing customer-base[2], there is clear benefit of customer retention. In addition to customer loyalty, increased levels of engagement further contribute to financial rewards through increased brand advocacy and referrals.

Finally, the more you do to facilitate understanding and decision-making, the more satisfied customers will be with the outcome, reducing the quantity and severity of complaints.

[1] https://www.fca.org.uk/about/operate/principles

[2] Tatikonda, L. - The Hidden Costs of Customer Dissatisfaction (2013) – Journal of Management Accounting. Vol. 14. No. 3.

"Firms have designed, manufactured and sold products not always with the needs and interests of their customers in mind but instead, seeing the customer as somebody to maximise profit from. This has been accentuated by a view, and it has to be said encouraged by the FSA, that disclosure at the point of sale absolves the seller from a real responsibly of ensuring that the product or service represents a good outcome for the customer. This, in turn, has led in many cases to a tick-box and overly legalistic compliance culture within firms, encouraged by what has been seen as a tick-box regulatory approach."

- The FCA

Perceived industry barriers

Firms have a risk-averse approach to communication, using it as a risk management tool to mitigate action against the firm

Firms believe costs & operational challenges of improving communications outweigh the benefits

Prescriptive nature of legislation leads to firms producing lengthy, jargon filled documents

Communications are considered to be of secondary importance to product design

The FCA's expectations

Ensure communications effectively deliver key information

Design communications to meet the needs of the target market

Provide information at a time customers need it and in an engaging format

Development of interactive communications by harnessing technology

Key communications considerations

Targeting and appropriateness

First and foremost, to create engaging and informative communications firms need to understand the information needs of their customers. This requires research into how customers prefer to consume information and the most appropriate means of communication for each piece of information. For example, it would not be appropriate to communicate the terms and conditions of a product as a video because:

a) The video is likely to be extremely long
b) T&Cs should be more easily accessible

Many factors affect the ways firms communicate with their customers, including the products or services offered, distribution channels used and the demographics of the customer base. These variables make testing and refining customer communications a valuable exercise to ensure the messaging is achieving its aims.

Firms should ensure the tone of voice and use of terminology is appropriate for the cognitive abilities and level of financial competency of the customer base, but it is important not to make stereotypical judgements. For example, it could be presumed that younger customers have limited experience of financial services and therefore may not be familiar with jargon, terminology and the way in which the financial services sector works, when in fact the same is often the case with older customers.

Engagement

Engagement is not only about encouraging your customers to read the information you provide, the ultimate aim is to facilitate understanding and recall. Good engagement should leave the customer feeling informed, confident and assured.

The FCA is keen to explore alternative, innovative methods of communication that facilitate greater engagement, citing video and online interactive communications as examples. Although we applaud this goal, firms need to ensure their chosen communication methods are backed by research and testing to clearly demonstrate how they meet the information needs of customers.

Language and format

In accordance with Principle 7, firms need to provide their customers with fair, clear and not misleading communications. This means minimising jargon and articulating information in a manner that is easy to understand.

Firms should consider how they present information to their customers and how they might use that information. Pre-sales information is likely to be used for comparing the product with others, therefore firms should be making it easier for customers to find the information they are likely to want to compare i.e. prominently displaying exclusions in general insurance cover rather than burying it in the small print.

Firms should also be mindful that customers interact with different types of documents and mediums in different ways. Firms should therefore take the time to explore different formatting options and test with a sample of their customer base to find out what works.

Accessibility

The FCA is interested in how and at what point information is provided to customers to enable them to make an informed choice. A key component of accessibility is ensuring that different types of customers, including vulnerable customers, have access to information that they can understand.

Research suggests that 3.7m disabled people have never used the internet and only half of over 65s have previous internet experience - firms need to recognise that although having online access to information may be the best option for some customers, it is inappropriate for others.

Recognising that, at some point during the business relationship, customers are likely to experience vulnerable circumstances, firms should ensure they have considered and implemented alternative communication methods so they can continue to cater for their needs.

Key questions for consideration

01	In what ways do customers purchase and access your products and services?
02	What alternative forms of communication do you provide for vulnerable customers?
03	What communication methods would complement the ways in which customers purchase and access your products and services?
04	Are your communications methods, language and format appropriate for the sophistication and knowledge level of your customers?

5 steps to customer communications success

The 5-step process below provides a basic framework on which firms can either base a review of existing communications or support the development of new ones. Additional support is available from TCC to help review, refine or create clear and engaging communications.

01	**Understand your business model** – research and articulate how your business model impacts the type and format of communications you should choose. Consider how distribution channels, product types and customer base affect what, where and how you should communicate key pieces of information.
02	**Discover the information needs of your clients** – research your client base to discover the most appropriate ways to communicate with them, keeping in mind potential vulnerabilities. Firms reviewing current communications should conduct a gap analysis at this stage to assess where the information needs of clients are not currently being met.
03	**Design with your customers in mind** – think about the content and format of the documents you provide. Simple, jargon-free language, with information laid out in a structured way will improve readability and customer understanding.
04	**Test & refine** – prior to rolling out, you must test communications with a sample of customers to obtain practical feedback and refine if necessary. This mitigates the potential for serious errors that may lead to significant remediation costs further down the line.
05	**Continuous improvement** – communications should be checked regularly to ensure they continue to meet the information needs of customers and suit the proposition and distribution channels. If any of these elements change, communications should be reassessed for relevance and suitability.

There is no getting away from the fact that improving customer communications will require time and budget - but, this is money well spent. Undertaking the process of effectiveness testing and refinement is sure to result in a marked improvement in customer outcomes and therefore demonstrate a valuable return on investment.

Remember simple changes, such as better signposting to key information, expanding access and ongoing testing can result in significant outcome changes.

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