

Risk & Investment Conference 2011 – Workshop A1  
Brandon Horwitz, HSBC Bank plc, Customer Propositions



## Designing Products... ...with TCF in mind.

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## Agenda

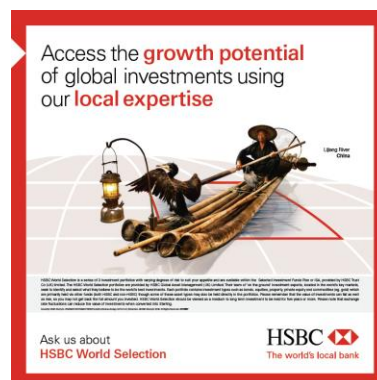
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1	Introduction
2	Relevant Regulation (including TCF)
3	Designing Products
4	Example: World Selection
5	Monitoring TCF

## Introduction - Starting with the end product



Truffles TV ad



Fishing TV ad

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2

## Regulation in the UK

- FSA philosophy of regulation:
  - Was: 'Rules-based'; then: 'Principles-based'
  - Now: 'Outcomes focused';
  - Future: 'Product Intervention'
- Traditionally differentiated between 'Prudential' and 'Conduct' regulation
  - Prudential = firm solvency
  - Conduct = how go about doing business (treating customers)
- Soon to be formally split along these lines (BoE and FCA)
- Europe plays increasingly greater role in UK financial regulation (e.g. MiFID)

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3

## Product Regulation in the UK

- FSA regulates firms and their Conduct
  - Not an explicit Product Regulator
- However, significant attention on Products through:
  - Principles - especially Treating Customers Fairly (TCF)
  - Rules related to distribution / selling: COBS / APER
  - Product specific rules for Collective Investment Schemes
  - Supervision (including Thematic work – e.g. Structured Products)
- Retail Distribution Review focused on sale of retail investment products
- Some European regulators have a more prescriptive approach (e.g. France) and EU regulation may affect UK going forward (e.g. PRIIPs)

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4

## Treating Customers Fairly (TCF)

- Through TCF FSA aims to deliver improved outcomes for retail consumers as outlined in their July 2006 publication [Treating customers fairly – towards fair outcomes for consumers](#).
- **Outcome 1:** Consumers can be confident that they are dealing with firms where the fair treatment of customers is central to the corporate culture.
- **Outcome 2:** Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly.
- **Outcome 3:** Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale.
- **Outcome 4:** Where consumers receive advice, the advice is suitable and takes account of their circumstances.
- **Outcome 5:** Consumers are provided with products that perform as firms have led them to expect, and the associated service is of an acceptable standard and as they have been led to expect.
- **Outcome 6:** Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint.

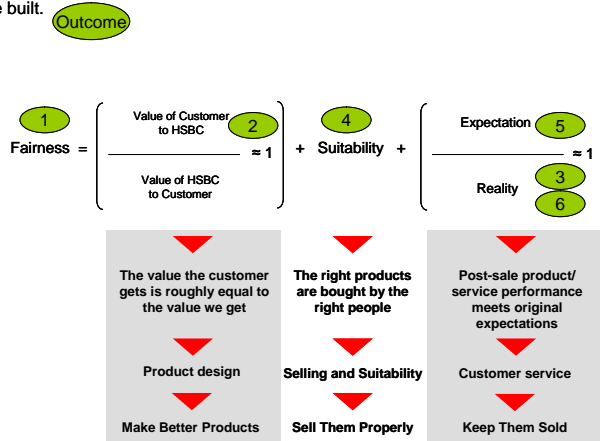
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5

## Example: HSBC's embedding of TCF

HSBC decided to translate the 6 outcomes into something tangible and with the ability to understand how this effected every part of our business.

A translation of the 6 outcomes into a simple formula for which a framework could be built.



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6

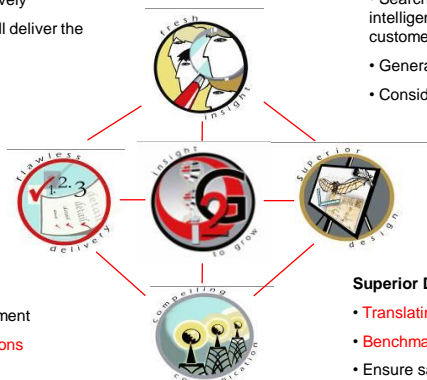
## Turning Strategy into Practical Product Design

### Flawless Delivery

- **Visualise** the end-to-end proposition
- **Pilot** Deploy channels effectively
- **Engaging** the people who will deliver the proposition

### Fresh Insight

- Focus on **target** group
- Search existing **internal & external** intelligence and data – get 'close' to the customer
- Generate **key insights** from the data
- Consider the **ideal experience**



### Compelling Communication

- **Tailor** communication to segment
- Developing the **communications concept** and fit with **brand**
- Choose appropriate **communication channel**
- Test concepts

### Superior Design

- **Translating** insights into propositions
- **Benchmark** versus the competition
- Ensure sales delivery **reflects** insights
- Focus on customer **benefits**

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7

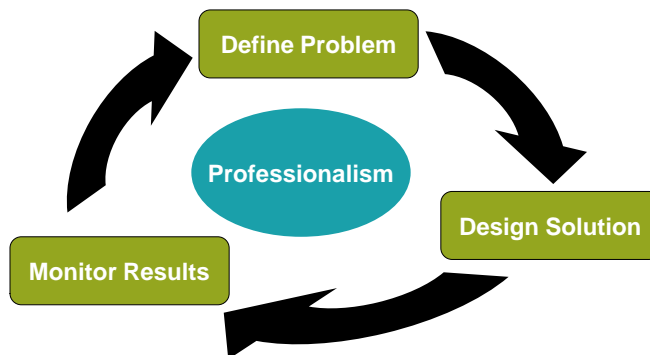
## Product Delivery Cycle



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## Look Familiar? The Actuarial Control Cycle



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9

## Example: World Selection – Customer Insight

### Customer Insight

### Product Truth

*I'm not saving for anything in particular - I just want to protect myself and my family and be prepared for any eventuality. That's why I'm more interested in preserving what I've got than risking it all.*

*Customer's appetite for downside risk is disproportionate to their appetite for greater returns.*

*I watched my investments go down from £10k to £6k in the space of a year...I just thought "why were we advised to do this?" even though in the end we got our money back. I don't like the roller coaster effect.*

*A diversified portfolio of non-correlated assets deliver more consistent gains over the long term – in contrast to huge gains one year and big losses in another.*

*I'm too old to make any more mistakes.*

*The likelihood of making any "mistakes" is minimised through diversification, while still aiming to achieve greater net returns than a savings account.*

*I don't understand investments so I trust my IFA to do it for me. After all, he's the expert. I've known him for over 10 years and he's a friend of the family.*

*An investment should be continuously monitored and managed by true investment experts who can react immediately to market events to preserve and grow your money.*

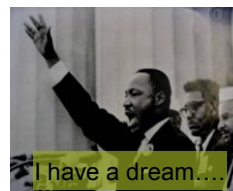
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10

## Consumers think in terms of needs *NOT* products

*"There are so many products available you can just drive yourself mad with it"*

*And the future is fuzzy, they don't think in terms of 'plans', just ideas.....*



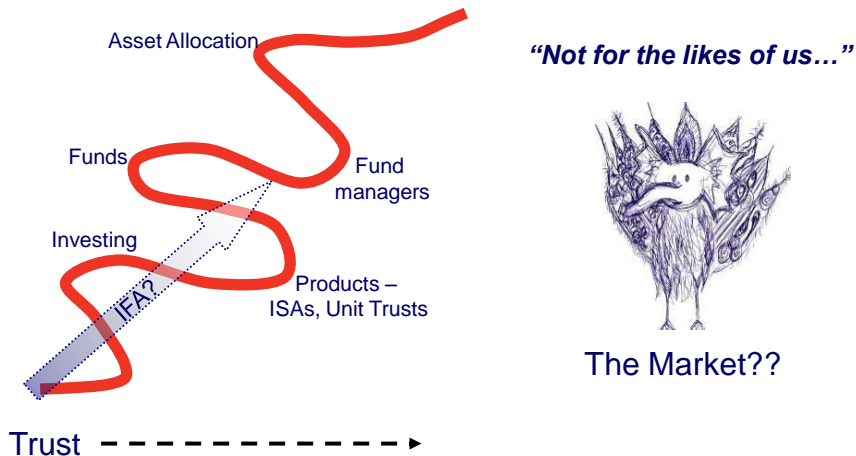
*...accumulate to keep your options open and be ready for the unknown*

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11

## The path to understanding is too long

*Consumers fear the unknown / being taken advantage of*

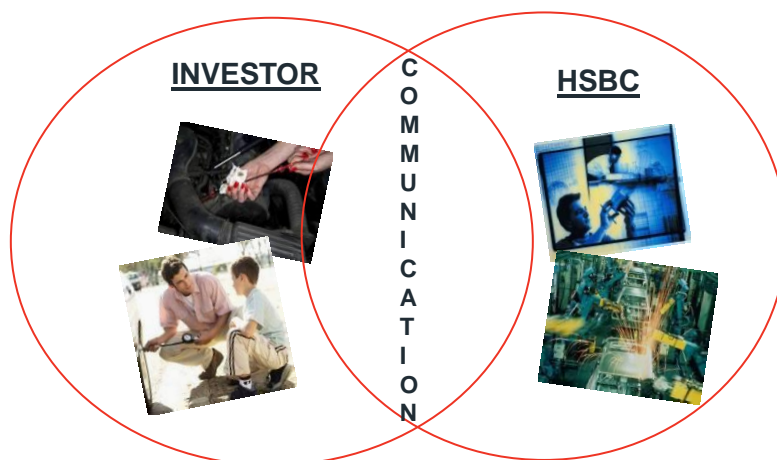


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12

## Expand the comfort zone by acting as a buffer

*Can check the oil without being a Mechanic*

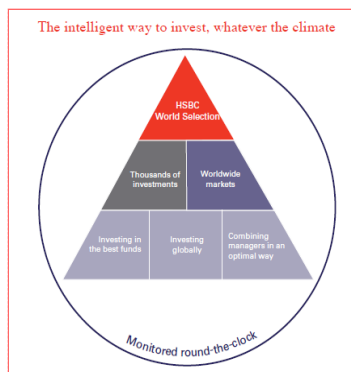


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13

## End Product: World Selection

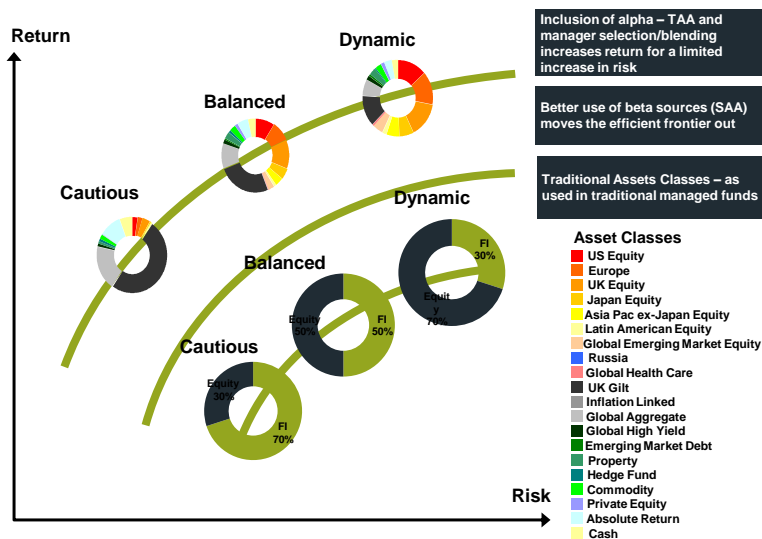
- A range of risk-managed multi-asset class funds
- Customer is advised as to which fund is best aligned with their Attitude to Investment Risk and goals
- Funds aim to maximise return balanced against the amount of risk customer is prepared to take
- Invests through a highly diversified mix of investment types and geographies
- Access investment types and styles often only available to large institutional investors at similar prices institutional share classes where possible
- Professional investment management team selecting best available funds the world has to offer – whether or not they are from HSBC, actively or passively managed
- Round-the-clock monitoring of world markets and the funds - to identify opportunities and manage risk



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14

## Summary of World Selection Proposition

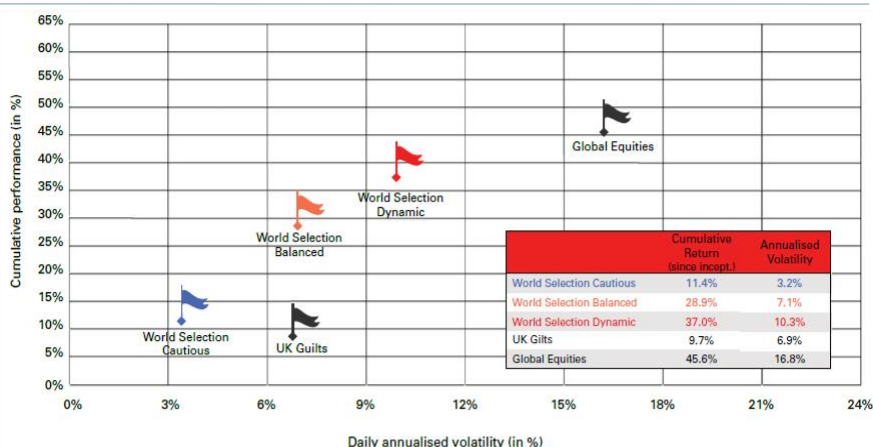


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15



## Experience: Fulfilling Original Product Design



**sources:** Datastream, HSBC Global Asset Management (UK) Limited. Global Equities = MSCI World, UK Gilts = FTSE A British Government All Stocks. World Selection returns are calculated from 22 January 2009 to 28 February 2011, net of Total Expenses. MSCI World and FTSE A British Government All Stocks indices are in GBP, total return, from 22 January 2009 to 28 February 2011. Volatility is based on daily total returns, in GBP, annualised and net of fees.

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16

## Monitoring TCF

- **Outcome 2:** Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly.
  - **Monitor volumes sold across customer segments**
- **Outcome 3:** Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale.
  - **Continued customer communication, newsletters etc.**
- **Outcome 4:** Where consumers receive advice, the advice is suitable and takes account of their circumstances.
  - **Robust suitability (quality of advice) monitoring**
- **Outcome 5:** Consumers are provided with products that perform as firms have led them to expect, and the associated service is of an acceptable standard and as they have been led to expect.
  - **Performance monitoring – against design and customer expectations (monitor complaints) / marketing assertions**

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17

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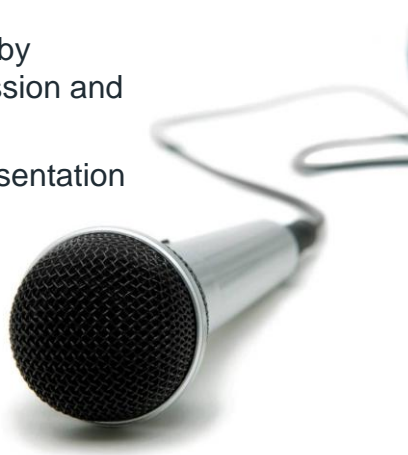
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18

## Questions or comments?

Expressions of individual views by members of the Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenter.



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19