

UNIVERSITY OF KWAZULU-NATAL

Treating Customers Fairly: The South African Banks' state of adherence from the  
customer's perspective.

By

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## DECLARATION

I, Ntuthuko A. Luthuli, hereby declare that the work presented in this dissertation is based on my own research, except where otherwise acknowledged. I have not submitted this dissertation to any other institution of higher education to obtain an academic qualification.

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## ABSTRACT

The Financial Services Board (FSB) has introduced the Treating Customers Fairly (TCF) regulation in the South African financial services industry. Prior to this, the FSB conducted a baseline study that included South Africa's four major banks in which it assessed the state of readiness in terms of implementation of principles that embrace fair treatment of customers by financial services organisations. This study aimed to identify whether or not a gap existed between the expectations of the FSB, the application of the TCF outcomes by the financial services organisations in comparison to the customers' end-to-end experiences of the delivery of the TCF outcomes. For this study, a total of 430 questionnaires were distributed to customers that use the products and services of the four major banks within KwaZulu-Natal. This sample was based on the literature review conducted. Of the 430 questionnaires distributed, 356 were returned giving a rate of response of 83%. This research found that there is misalignment in the view and evidence provided by the banks to the perceptions of the customers that they serve in terms of the delivery of TCF outcomes and has identified the scope of opportunity that exists for the four major banks to realign their delivery of the fairness outcomes in order to adequately satisfy the FSB's requirements and expectations of their customers. It is recommended that, as part of the self-assessment criteria, an assessment tool drawing insights that measure customer satisfaction of the delivery of TCF outcomes be formulated. This tool would have to be constructed such that the ratable outputs are inter-related to the tool that measures the application of TCF by the financial services organisations particularly the four major banks under study.

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## LIST OF ABBREVIATIONS

TCF:	Treating Customers Fairly
FSB:	Financial Services Board
FSA:	Financial Service Authority
FNB:	First National Bank
UK:	United Kingdom
USA:	United States of America
FAIS:	Financial Advisory and Intermediary Services
MI:	Management Information
ASISA:	Association for Saving and Investments of South Africa
KMO:	Kaiser-Meyer-Oklin Measure
NCA:	National Credit Act
CPA:	Consumer protection Act
ACCC:	Australian Competition and Consumer Commission
ASIC:	Australian Securities and Investment Commission
CPMA:	Consumer Protection and Markets Authority



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## **CHAPTER ONE**

### **OVERVIEW OF THE STUDY**

#### **1.1 INTRODUCTION**

The protection of customers' financial interests and increased product disclosures has recently become strong focus points for financial services regulators, both in South Africa and around the world. This emphasis comes as no surprise, as the financial services industry has, to some extent, developed an unflattering and destructive reputation of not always prioritising customers' interests. Research done by (Lamikanra, 2013) shows that 11 out of 14 African countries surveyed strongly feel that more work needs to be done by regulators in order to restore customer confidence in the industry.

The Financial Services Board (FSB) of South Africa introduced 'Treating Customers Fairly' (TCF) as a regulation in 2014 to ensure that detailed clear outcomes, that demonstrate fairness for customers in the financial services industry are implemented through regulated organisations including the banking industry. In addition, it was intended that the delivery of these detailed fairness outcomes will heighten transparency and discipline in financial organisations ensuring the provision of suitable financial products and services to customers and result in enhanced customer confidence. The ultimate outcome that this regulation seeks to achieve is that the financial needs of customers are properly met while building sustainability in the industry. Financially, customers interact mostly with banks and therefore place their financial trust and future in the products and services that are provided by banks. With the regulators acting on behalf of the customers to secure their financial interest, this study seeks to uncover how beneficial the implementation and delivery of TCF outcomes is to, and as measured by, the customers that use the products and services of the four major banks in South Africa that have, for many years, been in the forefront in the country. These are ABSA, First National Bank (FNB), Nedbank

and Standard Bank. For the purposes of this study, these banks will be referred to as the “traditional banks”.

This chapter discusses the background of the TCF regulation, the problem statement, including the issues and gaps identified that the researcher aims to highlight. It then moves on to present the research questions and study objectives, justification of this study and the targeted audience that the study is meant to benefit and ways in which this study will benefit the audience. The chapter ends with the limitations of the study, thesis outline and chapter summary.

## 1.2 BACKGROUND AND MOTIVATION OF THE STUDY

The manipulation of regulatory frameworks and prudential oversight contributed to the global crisis where many financial organisations took advantage of the customers and overextended their own capability to maximise on profits. It was for this reason that the National Treasury, the Department of Trade and Industry and the FSB decided to create a structure which simplifies transactional and more standard customer protection regulation in order to prevent financial services organisation from unjustly benefiting through system loopholes and customer exploitation (Gordhan, 2011). The financial services board has therefore introduced an outcome-based regulation called ‘Treating Customers Fairly (TCF)’ which places particular focus on the incorporation of the fair treatment of customers by organisations throughout all the product lifecycle stages. According to (Hawkins, 2010) market failures, customer behaviour and organisational profits all give rise to matters that involve the fair treatment of customers and one of the key reasons for market failure is that market participants do not have the access to proper information.

Already operational in the United Kingdom (UK), TCF became a regulation in South Africa in 2014 and applies to all players in the financial services industry. TCF seeks to improve the credibility of the manner in which organisations conduct business, by presenting modifications that are aimed at benefiting customers while increasing the

general confidence in the industry of financial services. Traditional banks under study in this research form a major part of the South African financial services industry. These traditional banks are, through the implementation of TCF outcomes, expected to display to the FSB, conduct that is aligned to the behaviour outlined in the TCF fairness outcomes. The focus of the regulator however leans towards ensuring and measuring delivery from the organisations' point of assessment. It should be pointed out, however, that if this regulation is intended to protect the customers from 'unfair' practices of the traditional banks, the fairest measure of successful implementation should be seen in the extent of the benefits that this regulation delivers to the customers of the four major banks. This is supported by (Pindar et al., 2011) who argued that one of the major drawbacks of the TCF approach in the UK was that the FSA attempted to build customer trust by letting companies work out what to implement and measure it by themselves, which in turn failed to deliver a consistent and coherent framework.

This research aims to uncover practices that will help improve the customers' experiences within the financial services industry in line with the TCF principles. It intends to uncover practices that will foster long-lasting partnerships with customers in order to assist organisations to better deliver on customer value propositions that encompass an inclusive view of the delivery of the fairness outcomes.

### 1.3 PROBLEM STATEMENT

The global recession placed enormous pressure on global economies that saw financial services regulators introduce tighter measures to safeguard the industry and its customers. Building up to the recession, credit access to customers escalated substantially, but those expansions were outweighed by diminished customer protection, where many customers were left with huge commitments that were unsustainable. The manipulation of regulatory frameworks and prudential oversight contributed to the global crisis where many financial organisations took advantage of the customers and overextended their own capability to maximise on profits. In the South African banking fraternity, the Banking Enquiry panel that was

set up by the Competition Commission of South Africa in 2008, found numerous irregularities with regards to fees, charges, and non-disclosure practices (Gordhan, 2011). Research by (Pindar et al., 2011) adds that, loopholes and flaws in the regulation of organisations in financial services complicated the government's capacity to identify, observe, avert, or combat risks that were building up in the financial services environment. A real need for effective guidelines to enhance fairness, transparency, and the suitability of customer and stakeholder products and services existed within the prevailing circumstances. It was within this context that the National Treasury, the Department of Trade and Industry and the FSB, decided to create guidelines that simplify transactional and more standard customer protection regulations with the intention to prevent organisations from unjustly benefiting through system loopholes and customer exploitation by introducing the TCF (Gordhan, 2011). The regulators approach, in the implementation, enforcement and monitoring of the TCF, is a top-down approach. The regulators key concern is in the evidence based application of the TCF principles by banks. Should banks, through the presentation of evidence that meets the regulators self-assessment standards for TCF delivery, be deemed to be satisfactorily meeting the compliance criteria; the objective of the regulator would be met and an assumption of the fair treatment of customers satisfied. A major missing link to this equation is that there is no measurement tool in place that seeks to establish whether customers feel that the application of TCF principles by their banks results in improved confidence that the banking industry is sustainable, transparent, disciplined enough to meet their financial needs, and provide them with appropriate products and services. More worrying is that research by (FSB, 2013), found that the results of the self-assessment pilot study conducted by the regulator where all the four major banks were represented as participants showed that the banks rated themselves an overall 71.3% with regards to TCF readiness compared to the 66.7% average of all the organisation types represented in the survey. This raises concerns that the banking industry realises that there are opportunities in their own delivery they could exploit. This study therefore, seeks to establish, using the view of the customers, the presence or absence of benefit to the customers as tested through delivery of TCF outcomes by the banks they transact with.



## 1.4 RESEARCH QUESTION

Evaluating the current bank practices, product and service offerings from the customers' view will enable bank management to understand where the businesses need to improve, capitalise on areas of excellence and begin work on areas requiring improvements in order to improve business performance and customer satisfaction through the application of fairness principles. Hence this study seeks to answer the following primary question:

- What is the view of the customers on the state of delivery of South African traditional banks, with regards to the proper implementation of the TCF outcome-based principles?

Other research questions include:

- To what extent are banking customers confident that the culture of their banks is centred on meeting their needs?
  - To what extent do customers agree that they are associated with banks that regard their fair treatment to be at the centre of their culture?
  - To what extent do customers agree that the products they are provided with perform as well as they have been projected to perform, and the associated service that they receive is both of a suitable level and matches what they have been promised to expect?
- To what extent do the banking customers agree that the products and services sold to them by their banks are suitable and understandable?
  - To what extent do customers agree that their banks design, market and sell products and services that are suitable for their needs as the identified customer groups?
  - To what extent do customers agree that they obtain suitable advice that is aligned with their circumstances?
- To what extent do banking customers agree that the products and services of their banks foster enhanced transparency?

- To what extent do customers agree that they are provided with information that is clear and keeps them informed properly from point-of-sale and afterwards?
- To what extent do customers get challenged with unreasonable after-sale obstacles enforced by the banks when altering products, changing banks, submitting a claim or a complaint?

## 1.5 OBJECTIVES OF THE STUDY

This study seeks to establish whether the application of TCF principles by the four major banks yields the desired fairness outcomes from the customer's perspective. Specifically objectives of this study are:

- To establish whether the application of TCF principles does enough to help improve customer confidence in the banks.
- To determine whether the current application of TCF principles give enough insight needed to drive the sale of appropriate products and services.
- To determine whether current application of TCF principles give enough insight into the factors that build enhanced transparency between banks and customers.

## 1.6 JUSTIFICATION OF THE STUDY

In the build-up to the 2014 implementation date, the regulator involved industry stakeholders through interactive consultation and feedback interventions. A whole lot of work was put in by the regulators to ensure that they involved all sectors of the impacted financial services organisations to share the vision of TCF, get buy in, provide the necessary tools and guidance, conduct preliminary self-assessment studies aimed at assessing the state of readiness prior to implementation. While the regulator is implementing the TCF regulation as a vehicle to deliver fair treatment practices to customers, there has been no evidence presented that the regulator has

engaged customers to get their view as to whether the application of this regulation would yield results beneficial to the customers.

A customer-inclusive approach proposed by this study seeks to introduce insights that will close the circle of benefit in the financial services industry. By definition, customers are the centrepiece in the structure of this regulation; the regulation is designed to benefit them. The financial services organisations (the traditional banks) in turn create stability and confidence in the financial services industry. Drawing on customer views regarding the benefits/shortfalls of the regulation would benefit the customers in that the feedback provided would, if used properly, give them a voice that could help shape the regulation to provide maximum benefits to them. A sense of active involvement would potentially give customers a feeling of financial security knowing that they deal with banks and regulators that care about their opinions regarding the construction, delivery and servicing of the products and services that they buy from the banks.

Regulated to source a structured view of the customer, the banks would be in a better position to assess the true value of their delivery of the TCF outcomes. This would move from being a tick-box compliance exercise to being a source of profitable intelligence. Banks would be able to use this information to better inform and align their cultural strategies, product design and promotional strategies, processes and structures, risk mitigating controls, and the end-to-end customer value propositions. Through sourcing the views of the customers on the state of their delivery, the banks would be in a better position to mitigate risks that are associated with penalties and fines apportioned to non-compliance. The potential benefits to the customers and banks mentioned above would have reciprocal benefits to the regulators, as the regulators would be in a position to gauge the level of confidence that the customers have in their banks and what this means for the stability of the industry. This would help the regulators to either strengthen the current regulation or assessment criterion, or draw lessons that would influence future regulations.

## 1.7 LIMITATIONS OF THE STUDY

This study focuses on one of the financial services industry namely the banking sector. While the banking industry is a sizeable fraction of the South African financial services industry, future studies can be expanded to cover the entire financial services industry. Furthermore, this study is limited to the four traditional banks in South Africa. However, as noted by (Makovah, 2013), there are other smaller niche banks with targeted propositions; these include Capitec, Investec, African Bank, U Bank and The Land Bank, which bring into the market diverse value offerings that present challenges to the traditional banks who offer wider propositions to a broader market segment. A study of comparison that scrutinises the view of the customer in the traditional and niche banking spaces with regard to the ability to convincingly and beneficially deliver the TCF outcomes could be an area for further research.

Finally, the questionnaire was written in only one of the nine official languages which is English and this could have caused limitations and interpretational issues where respondents are more fluent in other languages. To ensure that the results are not distorted by this limitation, the researcher tested the level of the respondents' comprehension of the questions on the research instrument and simplified the questions to the best of his ability. Administering a questionnaire in the native languages of the respondents would ideally have improved the interpretation of the questionnaire, but was not administratively feasible.

## 1.8 THESIS OUTLINE

This dissertation is divided into six chapters: Chapter one presents the study overview. The reader, in this chapter, is introduced into the subject matter and the structural construct and approach to the study is outlined. Chapter two concentrates on the literature review and also discusses the framework that governs the main ideas explored in the dissertation. The literature review discusses different schools of thought regarding TCF and the link to the assessment of the effectiveness of this regulation that influence fair treatment of customers in a bid to build a sustainable financial services industry. The researcher also draws insights from previous

literature to formulate an opinion on what has historically been considered to be the main drivers when it comes to the implementation for TCF, and the assessment of the benefits thereof.

Chapter three outlines the research methodology which entails the sample size, sampling frame, sampling unit, sampling techniques, statistical tests and the administration of the survey. Chapter four presents the results from the questionnaires distributed and the discussion of the findings obtained for this study. Chapter five presents an interpretation of the research findings obtained from the field work. Chapter six presents implications and limitations of the study from which recommendations are drawn, and the conclusion of this study.

## 1.9 SUMMARY

This chapter introduced this study, the background of the TCF regulation; the problem statement, including the issues and gaps that have been identified that the researcher aims to resolve. It then discussed research questions and study objectives, justification and the targeted audience that the study is meant to benefit and ways in which it will benefit the audience. The next chapter mainly presents the review of literature that supports the study.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 INTRODUCTION**

This chapter presents legislated, theoretical, and scholarly, subject-matter expert and peer reviewed literature. This follows a chronological format with the intention of giving a background on the subject matter and issues that give rise to the need for this study. This chapter also looks at how the international community has approached the application of TCF and then highlights reasons that prompted the South African regulators to adopt similar practices and what these practices aim to achieve for customers.

#### **2.2 BACKGROUND**

The South African financial services industry has become a highly contested one due to stiff competition for market share. As one of the most powerful economic sectors in the world, the financial sector asserts its power over customers and often even governments. Financial customers generally do not have the bargaining power to ensure that agreements they conclude with the providers of those products and services are of fair value and deliver on expectations (Treasury, 2014). While the average customer is still not adequately financially literate and rely on experts for financial advice and guidance (Roberts et al., 2012), regulatory agencies continue to enforce initiatives that foster transparency and ethical values in the financial services industry. Customers are spoilt for choice when it comes to financial organisation and they easily make emotional decisions based on the experience, and the fundamentals of trust and reliability. According to (Hawkins, 2010) customers switch away from an organisation when they detect that it performs poorly in terms of fairness to customers. It is therefore critical that initiatives such as 'Treating Customers Fairly' should be embedded in the organisations culture and overall

business dealings and that it should not take the financial services regulator to enforce such market conduct.

Research done by (Mans, 2010) has revealed that there is evidence that suggests that, with all the regulations in place, customers are still at risk of being manipulated, as financial organisations have displayed that they do not always treat their customers fairly. Below are a few examples of how financial organisations are not treating customers fairly in South Africa.

- Excessive fee and admin costs on investment products that significantly reduce the possibility of future returns.
- Use of ambiguous and unclear terminology and language on risk policies that transfers that risk to the insured.
- Draw-card marketing material with misleading promises, and
- Poorly structured commission structures that encourage the churning of business at the expense of the customers.

The treatment of customers comes into the spotlight when pressures experienced in the financial markets have an influence in the behaviour of organisations and customers as a result of market failures. One of the major factors that exacerbate market failures is that customers do not have adequate information. There is therefore an imbalance where the suppliers of financial services have access to information that customers do not have and this often results in customers being treated unfairly and possibly suffering financial losses in the process.

According to the TCF Roadmap, the FSB intends to build laborious regulatory methods with positive and negative incentives to promote commitment by financial services organisations to TCF. A 'risk-based' method was to be charted in order to ensure that organisations susceptible to risk are closely monitored than those less susceptible. Compared to previous supervisions, this approach is regarded as more intrusive and intensive" (Rathbone, 2011).

### 2.3 THE FINANCIAL SERVICES AUTHORITY (United Kingdom)

The Financial Service Authority (FSA) was formed in 1985 designated with a role to regulate the Financial Services industry in the United Kingdom (UK). It was an independent body with regulatory powers, functioning outside of the realm of government confines. Initially, the FSA functioned under the name 'The Securities and Investment Board Ltd' under the wing of the UK Chancellor of the Exchequer. In its mandate, the FSA had a primary task of implementing efficiencies in the retail markets, creating an environment where financial services and product dealings were conducted in a fair manner for the retail customers. The FSA would, over the years, aim to restore the financial services confidence among customers through regulatory implementation strategies, and of which TCF was one of the biggest.

### 2.4 THE FINANCIAL SERVICES BOARD (South Africa)

The Financial Services Board (FSB) is the financial regulatory agency body of the South African (SA) government, operating within the non-banking financial services sector. Much like the FSA did in the UK, and in serving the public interest, the FSB operates independently in the supervision and regulation of the financial services sector and its regulatory authority extends to the Johannesburg Stock Exchange, which is the biggest in Africa. Established in 1991, the FSB has, over the years, expanded its arm to the sphere of market behavior into the banking segment by introducing the Financial Advisory and Intermediary Act. The extent of the mandate of the FSB was to include, in its responsibilities, the Anti-Money Laundering initiative as outlined in the Financial Intelligence Centre Act of 2001. According to (Hawkins, 2010) in 2010, the FSB, in its published report, expressed interest in adopting into the South African environment, a Treating Customers Fairly plan that would draw from the programme by FSA already functional in the UK. This study outlines the roadmap and comprehensive approach that the FSB would apply in its adaptation of this regulation. The FSB therefore has a task to contribute towards the protection of an industry that comprises of assets worth over R6 trillion, contributes 10.5 % of



South Africa's annual gross domestic product, contributes 3.9 % of the employed population, and 15 % towards income tax (Gordhan, 2011).

## 2.5 PREVIOUS CUSTOMER CENTRIC REGULATIONS IN SOUTH AFRICA

Prior to the introduction of TCF, customers relied primarily on the two most recognised and legally extensive pieces of legislation in South Africa namely, the National Credit Act (Act 34 of 2005) and the Consumer Protection Act (Act 68 of 2008). These two acts are part of the 'market conduct regulation' arm of the financial services regulatory framework of South Africa. Table 2.1 below shows the structural breakdown of the current financial regulatory framework in South Africa.

Table 2.1: Current financial regulatory framework

The Financial regulatory framework				
Prudential regulation		Market conduct regulation		
South African Reserve Bank	Financial Services Board	Financial Services Board	National Credit Regulator	National Consumer Commission
Registrar of Banks	Registration of Pension Funds, Friendly Societies, Long-term Insurance, Short-term Insurance, Securities, Collective Investment Schemes	Prudential Registrars to various degrees. Registrar of Financial Services Providers	National Credit Regulator	National Consumer Commission
Banks	Some non-banks (e.g. insurance companies) Securities markets (relying on JSE and Strate)	Banks. Non-banks. Securities markets (relying on JSE and Strate)	Credit providers including banks and non-banks	Banks. Non-financial service firms

Source : (Bird, 2013)

As part of this regulatory framework, the FSB has identified, that while South Africa has a number of customer protection measures, there is a need for a rounded set of principles to govern the customer protection framework in financial services in order to eliminate the inconsistencies that exist within the current structures where focus is placed only on specific practices and specific high risk areas. This would entail placing focus on the customer outcomes that require attention with the introduction of overarching sets of fair treatment principles that could both be set as an industry standard to be measured against, and for industry to measure itself against. But most importantly, make it possible for regulators to test framework and regulatory approach to ensure that financial services firms are delivering a consistent set of outcomes for customers.

#### 2.5.1 The perception of fairness

In general, 'fairness' is conduct that is acceptable and appropriate in a particular situation. Fairness as a word is open to subjectivity where individualised, so in an attempt to standardise desired conduct and outcomes we group generally and legally acceptable behavioural traits into situations and environments and pre-define what is resultantly accepted as fair. Depending upon an individual's values, customer fairness may have many meanings, based on experiences and anticipations. According to (Narayan et al., 2009), Treating Customers Fairly (TCF) as a concept endeavours to align the financial organisations' objectives with the interests of its customers through applying a number of cultural and practical initiatives. Staffurth et al. (2007) cited by (Hawkins, 2010) listed the characteristics of fairness as:

- Openness, righteousness, and transparency;
- Disclosure of factual information, on an on-going basis;
- Honouring representations, guarantees and warranties that form reasonable expectations;
- Treating like and unlike circumstances accordingly;
- Acting neutrally and rationally, having respect only to pertinent matters;
- Acting with honesty and in sincerity;

- Acting with rational proficiency and meticulousness;
- Desisting from abusing customers or behaving unpredictably;
- Being sensible about remedial action where organisations are responsible; and
- Being available to customers.

(Thompson et al., 2002) added that this is not an exclusive checklist of fairness and further deduces that fairness about outcomes is processes-driven and that in most cases where a customer regards themselves as having been treated unfairly is where they get an unwelcome surprise in their dealings.

Many regulations and legal pillars that are in place have an element of fairness entrenched as a core requirement where organisations interact with their customers. (Cartwright, 2010) confirmed that in the UK, the financial regulators oblige organisations, through a number of provisions, to be fair or not to be unfair when dealing with their customers. Other provisions will at times use such words as appropriate/acceptable/ethical/reasonable/transparent to highlight the concept of fairness. According to (Hawkins, 2010) customers switch away from an organisation when they detect that an organisation performs poorly in terms of fairness to customers.

Some of the field experts have contested that ethical behaviour cannot be legalised, and that therefore treating customers fairly, even if legislated, cannot be easily forced onto organisational culture.

*“Consider the following two statements: (1) You must treat your customer fairly; (2) You must not treat your customer unfairly. Arguably, even if legislation to promote fair behaviour (the first statement) is unlikely to have any effect, legislation can effectively be introduced to deter unfair behaviour.” (FSB, 2011b)*

This is yet another of the challenges that has been highlighted related to defining and regulating ‘fairness’ in financial services. The fairness outcomes as defined by the FSA were then viewed by the FSB as clearly articulated, measurable and that they categorically demonstrated the concept of fairness without actually having to define the word ‘fairness’ in the process. With the TCF guidelines clearly outlined,

the FSB considers the fairness outcomes to be a way of creating commonalities in organisation's definitions of 'fairness' and a way of creating organisational cultures that have common traits when it comes to the elements of fairness. With the TCF, the primary concern is that organisations are able to demonstrate the ability to implement, assess, track and maintain the delivery of the preferred outcomes. For purposes of the TCF framework, the simplified definition of fairness is in the demonstrable delivery of the six fairness outcomes (FSB, 2011b). (Pindar et al., 2011) argued that because regulators decided not to provide a definition of fairness there is a great possibility for varying interpretations per organisations, and it seems likely that there would be considerable variance in companies' own definitions of fairness probably defined without customer involvement.

## 2.6 GLOBAL INSIGHTS

In its roadmap, the FSA set out an implementation deadline of March 2007 for financial services organisations. The findings of (Huntswood, 2007) challenged the message in the progress report that was published by the FSA in May of 2007, and produced evidence that suggested that many organisations missed the March implementation deadline which meant moving the deadline a year further . The FSA, however, expected many organisations not to fail to meet the TCF expectations as it had set out enforcement actions and fines as consequences for the delay. In March of 2008, the FSA conducted industry-wide audits on TCF implementation with large to medium-sized organisations, and in June of the same year the FSA published a report wherein 87% of these organisations has failed the audit (Gilad, 2012). The FSA scheduled another intensive audit for December 2008 but this was called off when the FSA had to focus its energies in responding to the global financial crisis. The FSA continued to monitor organisations on the application of the regulation and on possible contraventions. In 2013, four years after the implementation, monitoring evidence showed that outcome 2 and 4 is where most of the breaches came from (42 out of 72). These outcomes deal with product design, the targeting of customer groups accordingly and the rendering of appropriate advice. Providing evidence

showing appropriate advice became one of the most common challenges organisations struggled to prove. The most common fines that were imposed included:

- High risk products that were considered unsuitable for particular segments of customers.
- Gaps in the sales procedures which failed to establish adequacy of advice given to customers.
- Gaps in the monitoring of the sales forces to ensure fair treatment of customers

Eventually all of the four major banks in the UK were found to be in breach of outcome 2, 3 and 4 (Huntswood, 2007), with the highest numbers of fines coming from the miss-selling of payment protection insurance and bond products. Contrary to senior management assumption that most challenges would only be experienced in the initial phases of the implementation, fines imposed would spread from just months after go-live to late 2012. Table 2.2 below shows the top 10 biggest fines in the UK.

Table 2.2: Top 10 TCF fines issued by the FSA – 2008 to 2012

Rank	Fine	Company Type	TCF Breach	TCF Outcome
1	R100m	A&L [Bank]	Failure in Tele-sales of PPI	1,2,3,4
2	R50m	Bank of Scotland	Mis-handling complaints	5,6
3	R40m	CICA [Insurer]	Risk of unsuitable advice to customers	2,4
4	R40m	GMAC [Bank]	Failure to treat mortgage customers fairly	1,5,6
5	R40m	Scottish Equitable [Insurer]	Poor administrative procedures	5,6
6	R40m	Royal Bank of Scotland	Mis-handling complaints	5,6
7	R35m	Standard Life [Insurer]	Mis-leading marketing material	2,3
8	R31m	UK Insurance Limited [Insurer]	Tampering with customer complaints files	1,5,6
9	R21m	Santander [Bank]	Failure to issue clear	3
10	R20m	Norwich and Peterborough Building Society [Bank]	Failure to give suitable advice	4

Source: Adopted from (Mal Chirume, 2013)

Interestingly, in this list, 60% of the fines were imposed on banks and the balance of the fines went to insurers. Most banks have insurance subsidiaries operating as separate entities under the banks' corporate banners, which increases the level of risk exposure. In a separate report it was reported that less than 30% of Insurance executive management teams confirmed that they had identified TCF related risks or could provide evidence of improved customer outcomes (FSB, 2014). The fact that banks incurred such hefty fines and made it to the top ten list of heavily fined transgressors suggests that a simple application of the TCF principles following the regulatory guide may not be sufficient. Regulators issue fines based on practices that fall short of fair treatment of customers; it would therefore be useful to test fairness with the customers themselves, this is supported in (Huertas, 2015) where it is suggested that banks should take steps such as scoring products for conduct risks and designing and delivering products from the customers perspective.

According to (Gordhan, 2011) in March 2010, the FSA declared that it was convinced that the Treating Customers Fairly initiative had contributed to improved behaviour in the financial market but conceded that it had not produced extensively tangible benefits for the intended recipients, the customers. In June of 2010, the Chancellor of the Exchequer in the UK announced plans of disbanding the FSA, which would see responsibilities previously under the ambit of the FSA segregated to numerous agencies including the Bank of England, the Financial Conduct Authority, and a new Prudential Regulation Authority.

According to (Pearse, 2014), the international community functions under a far-reaching decree where many financial supervisory bodies that are accountable for market conduct support outcome based regulations. With representation in the G20, this has a global reach in countries such as South Africa, The Netherlands, Singapore, Australia, Canada and the United States of America. Approaches applied in these countries have a common thread of setting behavioural standards for regulatory directives to ensure customers are treated fairly with a view to strengthening public trust and customer confidence in financial services. The Indian Reserve Bank has also placed the fair treatment of customers as a priority in its banking industry by constituting a committee that would review banking service rendered to retail and small customers (Chakrabarty, 2011). In October of 2013, the

Hong Kong Monetary Authority presented a TCF charter which was signed by representatives from 22 retail banks in Hong Kong in agreement with the implementation of the regulation (Chan, 2013).

## 2.7 LOCAL INSIGHTS

In April of 2010, the FSB put together a 'Treating Customers Fairly' discussion document to the South African financial services stakeholders. This document set out the scene, outlining the need for TCF in South Africa, the origins of the regulation, whom it impacted, its intentions, and the implementation process to be followed. The FSB, in its response to the feedback provided with regards to the TCF discussion document, followed up by publishing a Roadmap document in March of 2011. In this document, the FSB outlined the foundations and justification of this regulation, setting out the landscape and high level application plans for the TCF framework. Extensive headways with detailed milestones, as set out in this document, followed suit.

In the timelines set out on the roadmap, the first of January 2014 was mapped as the official deadline for the TCF programme to be enforced by financial services organisations. With most of the preparatory work done upfront, an incremental approach was to be adopted by the FSB in the implementation of TCF, which meant that there was no single 'go-live date for the implementation. The FSB intended to apply a phased-in approach in introducing TCF into both its supervisory and regulatory frameworks (FSB, 2011a). A considerable amount of stakeholder awareness and education was done from 2010 building up to the implementation period.

### 2.7.1 Roadmap Milestones

Chaired by the FSB, the TCF steering committee had representation from the National Treasury, the South African Reserve Bank, a wide variety of associations

from the financial services faculty, including subject matter experts, and representation from the financial services Ombudsman outfits. Formed in 2011, the key objectives of this committee and its work-streams was to analyse the current legislation that provided customer protection and to identify any gaps and overlaps that existed, so that the committee can report back to the regulator with recommendations for possible inclusion in the TCF framework (FSB, 2011a). The FSB embarked on a mission to have a TCF footprint and alignment marked as sub-provisions of the current regulations. This was done with the intention of embedding TCF in the existing regulatory frameworks. The FSB also set out to reaffirm its risk-based supervision approach ensuring that it has a strong focus to market conduct as opposed to prudential and financial risk focused strategies applied in previous methodologies. A focus on market conduct risk would influence increased attention to customer risks caused by the regulated organisations, measuring the effectiveness of the delivery of fair outcomes by the financial organisations.

The FSB went to an extent of creating a self-assessment tool which was published in August of 2012 for organisations to use to test how they measured up against the TCF outcomes and culture framework requirements. Before the publication of this tool, its potential effectiveness was tested using a pilot study. This tool was then used in the baseline study conducted in December of 2012 and August of 2013 where a bigger group of stakeholders were involved to test how the treatment of customers by financial organisations measured up against the outlined TCF outcomes. This tool would then be used by financial organisations as guide in building evidence and subsequent TCF reporting for FSB on-site visits. The baseline study that was conducted to test the self-assessment tool made use of a questionnaire published by the FSB in 2012 which was designed to test organisational readiness around each of the six TCF outcomes. A total number of 85 organisations took part including four major banks (FSB, 2013). The concluding observations by the FSB with regards to the industry readiness noted not only an overall increase in TCF awareness, but also a display of confidence where financial organisations showed that TCF was already part of their corporate culture and embedded in their customer experience DNA. The organisations would then use the gaps or minor shortfalls picked up in this study and apply the learnings into



tightening up their internal controls, risk mitigating procedural and processes risks to ensure optimal compliance.

(Gordhan, 2011) pointed out that the financial services industry is the core pillar of the real economy. While it plays a pivotal role in supporting the economy, it can also bring the economy to its knees as experienced during the global financial crisis. Resultantly, the international community has done a lot of work to improve the regulation of the financial sector, and continuous monitoring is required going forward and South Africa is no different.

## 2.8 CONCEPTUAL FRAMEWORK

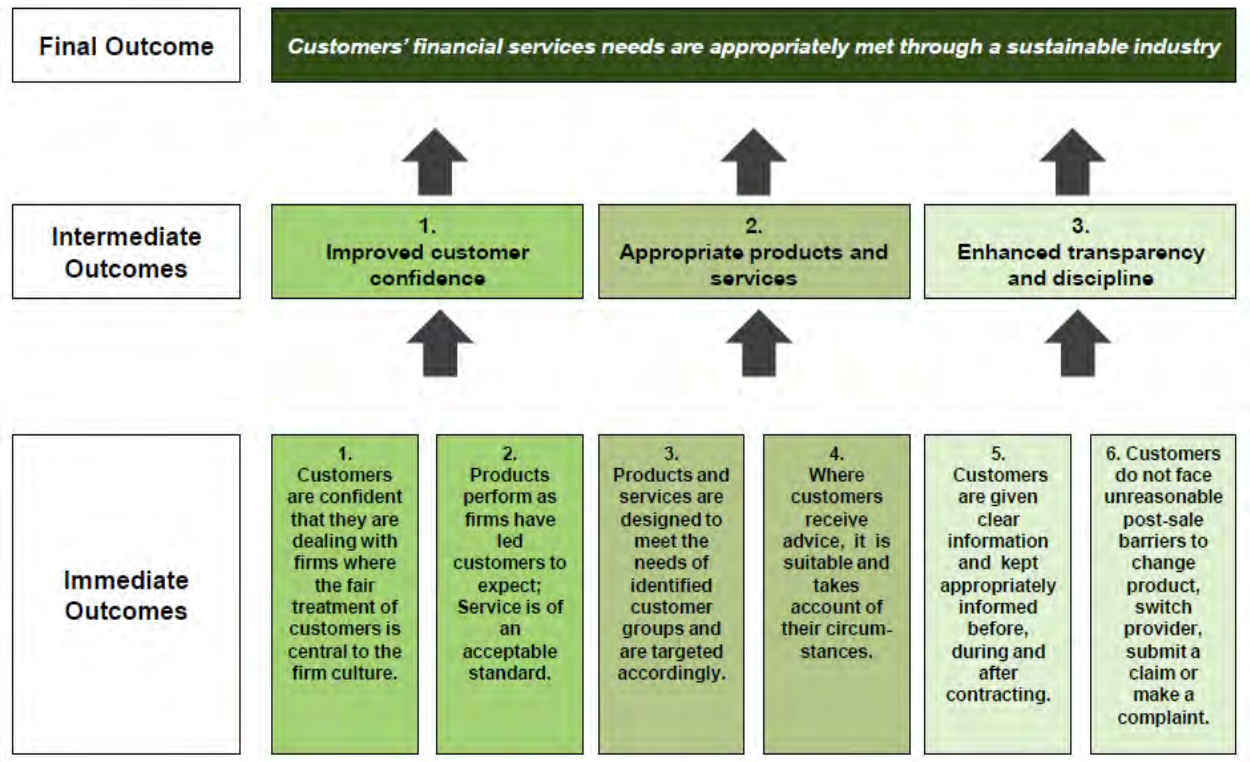
According to the National Treasury (Gordhan, 2011) one of the policy components that shielded South Africa from the severities of the financial global crisis was that;

“A comprehensive structure for financial regulation organisations that are well-governed prepared the country for redress measures against anticipated risks. South African regulatory bodies have always applied stricter regulatory approaches. The National Credit Act, strong regulatory approach and strong risk administration structures at banks made sustainable credit granting possible.”

Some of the countries, particularly in the Eurozone, still suffer from the wake of the global economic recession. It is therefore a plausible idea that the financial regulator in South Africa continues to find ways of ensuring that the financial industry is stable. This section looks at the conceptual framework model that has been presented by the FSB as presented on the figure below. The review of this framework seeks to outline the 6 fairness outcomes, and what the financial organisations need to achieve in order to, not only deliver on the 6 TCF outcomes, but to ultimately contribute towards the final outcome of creating a financial services industry where sustainability is achieved through adequately meeting the financial needs of customers. Bringing about acceptable outcomes for customers will require a fundamental change in the behaviour of financial institutions. Through this change

the fair treatment of customers must visibly be at the heart of how the company conducts business (Mans, 2010).

Table 2.3: The TCF Conceptual framework



Source: (FSB, 2011b)

According to the TCF roadmap (FSB, 2011b), regulated organisations will be required to display conduct synonymous with fairness towards their customers at all of the customer touch points of the product and servicing life stages, from product design, targeting and marketing, rendering of advice and pre and post-sale stages. Organisations will need to exhibit, through management conduct, reporting and monitoring that TCF is at the heart of their corporate culture. This is aimed at combating situations like where a Banking Enquiry Panel that was formed by the Competition Commission reported material irregularities in disclosures, and abuses in fees and charges to the detriment of the retail banking customers, and instances where weaknesses were also found in both the long and short term insurance industries and this was evident by the number of complaints to the statutory ombudsman bodies (Gordhan, 2011).

### 2.8.1 TCF Outcome 1: Culture

Financial organisations are required to create assurance to their customers that at the centre of their culture is the fair treatment of customers. (Pindar et al., 2011) argued that this description seems to be structured to avoid measuring customer confidence directly, though it should be noted that guidance from the regulators does indicate in a non-mandatory way that direct customer measurement is desirable. It is mentioned in (Sheridan, 2015) that Consumer confidence, like culture, can be difficult to physically see or measure when everything is functioning properly, but lack of consumer confidence can be very apparent when things go wrong. This statement of outcome 1 also seems to point organisations towards internal processes and measures to demonstrate “because we do this you can trust us”. Such an approach does not recognise the fundamental characteristic of trust. It is not a given (because an organisation says so then customers can trust them) but it is earned by doing things that exhibit in substantial ways that the organisation is trustworthy. In line with good corporate governance, this outcome is considered to be the mother of all of the other TCF outcomes. Without a firmly structured TCF cultural framework, the possibilities of the proper application of outcomes 2-6 are minimal.

According to a document by the FSA, treating customers fairly should be culturally natural, where senior management get the opportunity to turn the intentions of the organisation into fair outcomes for their customers (FSA, 2007). The quality of decision making by leaders at all levels of the organisation should be consistent and exemplary in order to drive staff behaviour that results in the fair treatment of customers. Strategic initiatives and priorities should set the trend and single-mindedness for management. In order to ensure fair outcomes for customers there needs to be effective controls and processes in place, proper tools and processes for staff to be able to deliver and management information (MI) to use for continuous improvement of the delivery. Performance management structures, remuneration and reward schemes assist organisations in assessing the quality of the performance of their staff.

According to (FSB, 2011a):12) customer surveys have helped to identify the following as risks linked to outcome 1 which would result to unfair treatment of customers:

- *The absence of realisation by the board and management at senior level for the contributions that TCF has with regards to strategic implication on overheads, compensation and success.*
- *The absence of TCF guidance within organisations*
- *The absence of properly recorded evidence relating to how the organisation meets TCF requirements.*
- *The lack of adequate management and identification of the conflict of interest between organisational goals and TCF commitments.*
- *Lack of improvement in line with TCF requirements.*

Good leadership attributes include demonstration of TCF commitment, visibly strong TCF leadership, and maintenance of high TCF standards, ability to listen to and act on feedback provided by staff. On the other hand, poor leadership attributes include the failure to identify what TCF means, inappropriate delegation of TCF, poor methods of delivering the TCF message, setting out of outcomes that are inconsistent with the TCF strategy, failure to identify risks and to put action plans in place (FSA, 2007).

Good strategic attributes involve the understanding of customer needs, valuing customer feedback, choosing third party vendors with aligned TCF values and the application of a clear and consistent strategy. Poor strategic attributes on the other hand include failure to identify the impact that strategy might have on TCF, delivery of outcomes that are not consistent with the TCF strategy, lack of senior management foresight, and the delegation of TCF responsibilities without monitoring the outcomes (FSA, 2007).

Good decision making attributes involve the making of difficult decisions in order to demonstrate TCF practices, making the right decision on behalf of customers, and the integration of business practices within business processes. Poor decision

making practices include failing to challenge processes that are not in line with TCF, limited decision making mandates, failure to record the basis of material decisions, failure to identify risk, potentially misleading approaches to customers, and inappropriate decision making in complaints handling (FSA, 2007).

Attributes of having good controls in place include the continuous checking of the staff's understanding of TCF and the implementation thereof and the continuous monitoring of the delivery of the fairness and associated behaviour. On the other hand, signs of poor controls would include organisations that confuse their customers, management information that has limited qualitative data, not enough focus demonstrated by senior management and the unavailability of sufficient management information (MI) (FSA, 2007).

Good traits of employment, teaching and proficiency include achieving employment needs, application of consistent objectives and learnings from experience, and employing suitable candidates for the right jobs. The opposite of this would include absence of clear TCF objectives, inability to manage bad behaviour, identify training needs, and the inability to measure performance (FSA, 2007).

Good attributes of 'reward' include TCF incentives, the recovery of inappropriate commission, rewarding quality, and the overall recognition for good TCF behaviour. Poor attributes of 'reward' include rewarding of inappropriate behaviour, ineffective and inappropriate TCF incentives schemes, inappropriate recognition, and failure to take timely action.

In the self-assessment feedback report (FSB, 2013), it was found that the four major banks indicated a 61% readiness rating when it comes to the delivery on this outcome. This was the lowest level of confidence scoring which indicate that there is a lot of ground that the organisations need to cover to ensure that the TCF culture is entrenched within the corporate governance strategies, policies and controls. This result will be tested against the findings of this study.

## 2.8.2 TCF Outcome 2: Product and Service Design

This outcome prescribes that banks design, market and sell products and services that are suitable for the customers' needs as the identified customer groups. In order for an organisation to be satisfied that they are delivering in terms of this outcome, it must be satisfied that they are confident that their customers demonstrate a high level of understanding of the products offered and the risks associated with them. The organisations need to be mindful that this is a measure of fairness and not satisfaction (Rathbone, 2011). Organisations need to be cognisant of the fact that the 'one size fits all' approach is not applicable to all customers and proper segmentation needs to be done at development stages (Narayan et al., 2009).

In a customer satisfaction survey done by (FSB, 2012):18), the following risks related to the delivery of outcome 2 were identified:

- *There is a risk that products and services could be sold to unsuited and unintended customers*
- *There is a risk that inappropriate sales networks and tactics are used for product design or customer targeting.*
- *There is risk of over-incentivising where the product bundling and/or customer services may result in unsuitable and/or superfluous sales*
- *There is a risk that the product risk profiling might not match the customer groups identified.*
- *There is a risk that organisations might not have a good understanding of the monitoring mechanisms of the risks of the products.*
- *There is a risk of inappropriate after-sales support and servicing structures being put in place after product launch.*

Patterns of desired practice related to outcome 2 include a good alignment between the product matrix and the segmentation of customers which is based on the customers' needs analysis, a good alignment and integration of take-up and retention measures, a product approval process that outlines how the targeted market groups are identified and the descriptions of these targeted groups, and conducting test cases where products are piloted in the market to solicit customer

and business partner feedback in order to accommodate any changes that might be required (FSB, 2011a).

In an analysis done by (Hawkins, 2010), the attributes of poor practice for outcome 2 were summarised to include the construction of poor wording on contractual documents which often proves detrimental to the customers, the construction of investment products with limiting withdrawal clauses and policy loan arrangements with exorbitant interests against customers' investments policies, where customers are not always aware of the negative effects of the interest rates on the policy values.

Most organisations make use of traditional research and development processes that include customer focus groups, internal research based on trends analysis, external research vendors, and public survey. Research shows that most organisations still rely on the voices of the intermediaries and distribution fractions and apply this feedback on their product design in order to appease the hand that sells as opposed to appeasing the hand that buys. This, therefore, results in a scenario where organisations cater for internal and stakeholder needs before those of customers (FSB, 2011a).

In the self-assessment feedback report (FSB, 2013); the FSB found that the four major banks indicated a 77% readiness rating when it comes to the delivery on this outcome. This was the highest level of confidence scoring which indicates that product and service design are the focal points in financial organisations and that these are designed with the best interest of the customer in mind. This result will be tested against the findings of this study.

### 2.8.3 TCF Outcome 3: Promotion and Marketing

This outcome talks to the provision of clear product and related information to customers and the ability of the financial services organisations to properly provide customers with this information from point-of-sale and afterwards. In a guideline

published for its members, the Association for Savings and Investments of South Africa (ASISA) suggests that communication must be clear and accurate, and should be presented in a manner that is likely to be easily comprehensible to the average person in the targeted market. The product benefits discussed must outline any risks related to the product; fine print information must be clearly articulated and not be disguised in the detail of the communication presented. There must be a clear distinction between information presented before, during and after the sale has taken place. Where a third party or middleman is involved, a clear distinction must be made in the information that is meant for the customer and that meant for the third party (ASISA, 2011).

After surveying customers, the following risks related to the delivery of outcome 3 have been identified (FSB, 2012):24)

- *Risks will exist where product promotion are either not clear or misleading.*
- *Risks will exist where the information presented is not easily understood by the targeted customers.*
- *Risks will exist where customers are not provided with critical information that is needed to make educated decisions.*
- *Risks will exist where after-sales processes, requirements and customer engagement points are not clearly outlined for all customer touch points.*

Desired conduct associated with this outcome is documented in the FSB's self-assessment feedback report. Summarised, the desired conduct includes the use of plain and simple language, that organisations need to move away from using industry terminology and jargon and review their current marketing material and communication documents and ensure that they revert to using plain language that a customer would use in everyday dialogue and conduct more regular reviews of the product information to ensure that the information remains accurate, appropriate and time relevant. Organisations are encouraged to run customer feedback research sessions after the completion of marketing campaigns to establish the clear delivery and receipt of the marketing message. It is recommended that organisations conduct welcome calls to customers as part of the sale quality assurance. These calls should be scripted in a manner that seeks to draw information on the level at which the



product sold to the client are suitable to them and whether the customers fully understand the product based on the information provided. Organisations are encouraged to make use of various communication channels to ensure that they keep their customers aware of any material changes to their products and services. Annual review updates to customers regarding the progressive or static statuses of their products with the financial organisations are also important in the delivery of this outcome (FSB, 2011a).

Poor conduct in relation to outcome 3 would include failure to take into account the circumstance of the customer target market and designing promotional material that does not talk to the market, designing promotional material that is misleading in nature whether intentional or not, and placing reliance on structures that are not adequately trained/equipped to market financial products (Hawkins, 2010).

In most cases larger financial services organisations have proper structures in place where the function of testing the appropriateness and clarity of information is delegated. These departments generally work with legal, compliance and marketing departments. With this in place there is still an opportunity to ensure that the information vetting departments do not only place focus on the technical and legal soundness of the information but also and more importantly, that the information is comprehensible to the general public.

In the self-assessment feedback report (FSB, 2013), the FSB found that the four major banks indicated a 76% readiness rating when it comes to the delivery on this outcome. This was the second highest level of confidence scoring, and this result will be tested against the findings of this study.

#### 2.8.4 TCF Outcome 4: Advice

The primary intention of the outcome is to ensure that when the customers are given advice, they obtain suitable advice that is aligned with their circumstances and empowers them to make sound financial decisions about the products and services they are being offered (Huntswood, 2007). Organisations have an obligation to

ensure that they have in their employ, advisers that are fully capable of balancing the objectives of chasing sales targets with providing advice that suits their customers' needs (FSB, 2011b). Where product providers make use of intermediaries to distribute their products, they need to make sure that the intermediaries complete all the compliance due diligence as prescribed in the FAIS Act. Research done by the World Bank found that there is an increasing trend found in many developed and middle-income countries where banks make use of agents to sell their products and that these sales take place outside of the premises of the banks and that there is therefore a responsibility for banks to make sure that their vetting process is watertight to avoid liability (WorldBank, 2012). ASISA members are required by this association to ensure that there are robust processes in place that ensure that fit and proper advisers are recruited, and that they possess the necessary qualifications for the fields in which they operate, and that there are processes in place to bridge gaps where opportunities are identified in terms of skills and knowledge (ASISA, 2011). A survey conducted on financial literacy interestingly found that 65% of South Africans did not experience any problems with finding quality financial advice, 8% experienced difficulty and 24% said they had not and would not seek advice (Roberts et al., 2012).

The following risks related to the delivery of outcome 4 have been identified in a customer survey by (FSB, 2012):28)

- *There is a risk that some intermediaries do not have full knowledge of the products that they sell.*
- *There is a risk that intermediaries may not have the necessary skills and expertise required for them to be able to adequately support the products that they sell.*
- *There is a risk that products may not be adequately explained to customers.*
- *There is a risk that the sales objectives are skewed towards sales incentives at the expense of quality advice.*
- *There is a risk of the mis-selling of product because of improper needs analysis.*

Desired conduct in line with meeting the expectations of outcome 4 include regular review of the customer financial needs analysis records, the development of intermediary tracking platforms to track the quality of business brought in, continuous quality monitoring interventions, mystery shopping in the call centre distribution channels and sound due diligence controls over and above FAIS vetting procedures (FSB, 2012). It is added in (Compliance, 2015) that during the sales process companies should act as though the FSB was present, and that amongst other things, advisers must take reasonable steps to seek from the client appropriate and available information regarding the client's financial situation, financial product experience and objectives to enable the advisor to provide the client with appropriate advice

Poor conduct that goes against the provisions of outcome 4 can be summarised to include the following points outline in (Hawkins, 2010):

- The failure to balance commercial interests with customer needs.
  - Financial advisors pushing product for commission purposes and possibly selling products that are not suitable to the customers.
  - Upfront commission structure that drive financial reward ahead of proper advice
  - Churning of business that exposes clients to more administrative costs when advisors are getting more commission.
- The failure to reveal all expenses and benefits of converting products.
  - Here the advisors are usually tempted to only highlight the benefits of converting and not mention the cost implication to the customer.

In the self-assessment feedback report (FSB, 2013), it was found that four major banks indicated a 76% readiness rating when it came to the delivery on this outcome. This was the joint second highest level of confidence scoring, and this result will be tested against the findings of this study.

## 2.8.5 TCF Outcome 5: Product Performance

This TCF outcome sets out to ensure that there is fairness to the customers in the performance of the products that they buy from financial organisations which should be in line with what they were led to believe and expect at point of sale, the service offering should also be in line with what the customers are led to believe and expect at point of sale (Loch et al., 2012). According to (Huntswood, 2007), the mass-affluent customers are more commercially savvy, they relate fairness on the foundation facet of product performance and economic yield rather than the emotive aspect of customer service, they expect high customer service as a natural foundation for their patronage. The FSB emphasises that non-performance, as a concept, also bears relevance towards financial returns and is also applicable in instances for which there are higher than expected premium increases as an example, or claim payments lower than reasonably expected (FSB, 2011a). In this report, it was also established that where it becomes clear that products are likely not to perform in ways that customers were led to believe, most organisations do not have defined risk mitigating measures or means to forewarn their customers, most organisations deal with these issues reactively as and when they receive complaints. The following risks related to the delivery of outcome 5 have been identified in a customer survey by (FSB, 2012):31)

- *Risks may exist where there is lack of monitoring or risk mitigating processes in place for organisations to keep abreast of the effect of environmental changes surrounding their products and customer services.*
- *Risks may exist where customers are not notified of the complications associated with them taking or not taking certain action resulting in the distortion in their expectations.*
- *Risks may exist where there is no communication to customers of options available to them for them to make informed decisions when making changes to their products or services.*
- *Risks may exist where the confidentiality of customer information is compromised.*

Desired outcomes with regards to meeting outcome 5 include the following; displays of good practice, regular communication of potential economic impacts to the customers, regular updates to customers on how to avoid financial crime related to their products, publishing of cost and quality comparison information to the organisations customer base, customer surveys that measure customer satisfaction with products, service level and binder agreement reviews that incorporate and enable TCF delivery, and regular reviews of current products to measure relevance to the market (FSB, 2011a). Poor conduct that goes against the provisions of outcome 5 include the following points outlined in (Hawkins, 2010):

- Premium collection
  - Where premiums are not collected or stopped on time, customers are exposed to financial loss.
  - Instances where not communicated initially, arrear premiums are collected as a double debit, waiting periods are re-set, cover is lost during the arrear month and this not explained to the customer.
- Inability to provide after-sales service
  - With up-front commission structures there are no motivating factors for intermediaries to provide on-going service to customers.

In the self-assessment feedback report (FSB, 2013), it was found that the four major banks indicated a 73% readiness rating when it came to delivery on this outcome, which is the third highest level of confidence rating out of the six TCF outcomes. This result will be tested against the findings of this study.

#### 2.8.6 TCF Outcome 6: Complaints and Claims handling.

According to (Stauss and Schoeler, 2004), claims and complaints handling should be of importance to organisations in a competitive industry. Most customers that are dissatisfied do not complain and service failures result in major loss of income and reputational risks. Furthermore customers, who have a positive complaints or claims experience are more likely to stay with the organisation for longer term periods and are likely to recommend the organisation to other customers. According to (Pindar et al., 2011) evidence from Consumer Focus' cash ISAs super-complaint and research

on switching in current accounts suggests that complexity and difficulty play a substantial role in low switching between financial products. On complaint handling, evidence shows that the majority of banks are failing to ensure complaints are handled fairly. In its report (FSA, 2010), a few years after the implementation of TCF in the UK, the FSA found that most banks still displayed poor complaints handling practices and concluded that banks needed to improve their complaints and claims handling procedures to ensure that they treat their customers fairly. The (FSB, 2011b) outlined that organisations need to implement processes that foster consistency in the handling of claims and effective processes when handling complaints with proper remedial procedures in place. The report by (FSA, 2010) found that the following were amongst the key areas of failure when it comes to this TCF outcome:

- Inefficient case quality investigations,
- Poor decisions made in the finalisation of complaints or claims,
- Inadequate compensation payments,
- Poor quality of communication to customers and
- Inefficiencies in record keeping.

Customer survey findings by (FSB, 2011a): 35) highlighted the following risks related to TCF outcome 6:

- *The inability of organisations to meet reasonable expectations of their customers*
- *Unjustly inflexible products and services,*
- *Organisations that purposely seek claim settlements and do not respond to complaints,*
- *Inaccessible complaints processes and*
- *Unreasonable barriers to transfer/withdraw/switch funds or change organisation.*

(George et al., 2007) outlined the following as the best-practice principles when it comes to complaints and claims handling in financial services organisations:

- Visibility: organisation should make public, the information regarding how and where to complain and this should be readily available to staff, stakeholders and customers,
- Accessibility: Complaints and claims handling systems should be readily accessible to complainants and claimants,
- Responsiveness: confirmation of receipt of the complaint or claim, and on-going feedback should be part of the process,
- Objectivity: there should be no biasness in the handling of claims and complaints,
- Charges: the complaints and claims process should bear no charge to the customer,
- Confidentiality: organisations should take responsibility to protect their customers information at all stages of the process,
- Accountability: people, processes, systems where gaps are identified should be addressed, and continual improvement processes should be put in place.

In the self-assessment feedback report by (FSB, 2013), it was found that the four major banks indicated a 65% readiness rating when it came to delivery on this outcome. This was the second lowest level of confidence rating out of the six TCF outcomes, indicating that the banks that participated acknowledged that there is still major room for improvement in this regard. These results will be tested against the findings of this study.

## 2.9 SUMMARY

This chapter outlined the chronological history of TCF and its implementation in the UK and some parts of the world. The information contained in this chapter used mostly secondary data based on international studies and customer experiences. The learnings from the literature drawn from the subject matter experts and presented in this chapter will be used to test the relevance and applicability of the TCF outcomes within the South African financial services industry paying particular interest to the four major banks, and the extent to which the benefits of fair treatment are enjoyed by the customers.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 INTRODUCTION**

This chapter outlines the research methodology, including the sample size, sampling frame, sampling unit, sampling techniques, statistical tests and the administrated survey. It begins with a highlight on the choice of participants and their location. Data collection strategies are then discussed followed by the research design and methods that seek to validate the suitability and relevance of the methods used for this study. The study then looks at the analysis of the data, describing the test methods used and why these tests were chosen to answer the research questions that the researcher seeks to address through this study.

#### **3.2 PARTICIPANTS AND LOCATION**

To arrive at the exact concentration of the sample the researcher needed to identify a target population of financially active customers who use the services and products of any of the four major banks in South Africa, which are, ABSA bank, First National Bank (FNB), Nedbank and Standard Bank. According to (Clark, 2013), in total, the number of customers that use products and services of these banks is over 34 million. As pointed out by (Sekaran and Bougie, 2010b), the whole point of sampling is such that the researcher does not spend time analysing thousands of elements from a population. The process of sampling is best described by (Cavana et al., 2001) as the selection of an adequate number of elements from a population so that through evaluating the sample and analysing features of the sample elements, it would be possible to make generalisations regarding the features of the population elements (Cavana et al., 2001): 253).

A study can be conducted in two types of research environments. Research can be conducted in either an artificial or natural environment. In this study the researcher



administered questionnaires in a natural setting in which daily activities unfold normally, with minimal interference. The sample size therefore was limited to any customers of the four major banks in KwaZulu-Natal province. The respondents were interviewed in the public domain where a combination of electronic and printed questionnaires were distributed.

### 3.3 DATA COLLECTION STRATEGIES

(Sekaran and Bougie, 2010b) best describes the concept of sampling as the process of choosing suitable individuals, entities or events as representatives of the complete population chosen for the study. Two types of sampling techniques are highlighted in (Denscombe, 2010), and these are 'probability sampling' and 'non-probability sampling.' In probability sampling, the sample is chosen with the notion that it is representative across the whole population to be studied. Non-probability sampling on the other hand is done without awareness of the representativeness of the population under study. The choices that the researcher makes of the sample they wish to collect data from is likely to determine the level of accuracy in the responses they obtain (Sekaran and Bougie, 2010b). The generalisation of the study results is considered extremely important, since it is only when the said results are generalised from the sample to the population, that the findings of a study can have meaning beyond the limited settings they were obtained from. Thus, for a study that is conducted through surveys, sampling is an attractive proposition. The sample for this study would then be identified from a section of the population of customers that have banking products and services with the four major banks in South Africa.

#### 3.3.1 Population

(Sekaran and Bougie, 2010a):262) define the population as the entire collection of individuals, items, cases, things or events of importance under evaluation when conducting a study. According to (Saunders et al., 2009) the population can be regarded as a full set of cases from which a sample is derived, and this should not

be confused with the term population used in a 'census' study as the full set of cases need not necessarily be all people. Instead of the population referring to an entire country, research population mentions the cases in the group of things or people that are being researched, (Denscombe, 2010). For the purposes of this study, the population was active banking customers of the four major banks in South Africa. The population sample was then narrowed down to the province of KwaZulu-Natal.

### 3.3.2 Sample

The research questions were tested in an environment that includes a generic sample of banking customers; the survey was limited to a selection of working individuals who, in the majority of cases, are customers of the four major banks. The questionnaires for this study were distributed to a representative sample which showed the same characteristics or variables as the whole population. The researcher decided to include the purposive sampling method for this study; the reasoning for this choice is discussed later in this chapter.

### 3.3.3 Sampling Frame and Unit

As described in (KOTHARI, 2004) a sampling frame comprises of a list of things from which a sample is to be drawn. The units are then described by (Sekaran and Bougie, 2010b) as a set of elements that are available for selection during the sampling process. Mpofu (2011) citing Hair, et al. (2003: 373) noted that the sampling frame is carefully linked to the population which includes the whole collection of particular population elements significant to the research. The sampling frame of this study is inclusive of customers who consume the products and services of the four major South African banks.

### 3.3.4 Sampling size

Making a decision regarding the sample size is not a simple exercise; there are a number of considerations that need to be made and there is no single definitive answer (Bryman and Bell, 2007). Kothari (2004) stated that the size of the sample should neither be too large nor too small. But it should rather be optimal, and then be efficient, representative, reliable and flexible. According to (Saunders et al., 2009) the basis of choosing a sample size is governed by:

- The confidence level required in the data
- The margin of error that the researcher can accept
- The type of analyses to be undertaken
- The sample frame

(Sekaran and Bougie, 2010a): 268) noted that the following factors affect sample size:

- The objective of the research
- The tolerable risk in forecasting the accuracy levels
- The population variability
- The budget and limitations of time

The researcher considered all these factors in determining the sample size for this study.

Literature shows that researchers are unanimous in suggesting that suitable samples are larger than 30 but below 500 in sizes for most studies. Irrespective of how great the researched population is, (Greener, 2008) cautioned that the accuracy in the data increases up to a sample of 1000 and then starts to diminish, making it less valuable to interview samples larger than 1000. Therefore, the research objectives in the sampling design will only be effective if the sample size is suitable for the required level of accuracy and confidence.

According to (StatsSA, 2011) report, KwaZulu-Natal has 10.2 million people, of this number it is reported that 59.4% are employed, which means that there are over 6 million people that are employed in this province who potentially use products and

services of the traditional banks under this study. In order to survey a sample representative of this population the researcher referred to (Saunders et al., 2009) who argued that for a population size over 100 000, a sample size of 384 respondents is recommended. With this sample size the researcher can expect a 5% margin of error, 95% level of confidence and a 50% response rate. In total 430 questionnaires were given to customers who use products and services of the four major banks in KwaZulu-Natal following recommendations made in (Saunders et al., 2009).

### 3.3.5 Sample Techniques

Over and above the probability and the non-probability sampling techniques, (Greener, 2008) mentions quota sampling, convenience sampling and snowballing sampling as options available to a researcher but adds that these, however, are the least statistical in nature. It is for this reason that only non-probability and probability sampling were considered for this research.

Cavana et al (2001) highlighted that probability sampling designs are recommended when emphasis is placed on the representativeness of the sample in the interest of greater generalizability. Where time and factors other than generalizability become important, non-probability sampling is recommended. In this study, the researcher wanted to choose a sample that was representative in nature and it is for this reason that probability sampling was selected as the preferred technique. The choice of this technique is consistent with the findings in (Denscombe, 2010) that probability sampling works best with great population figures, especially large-scale studies using quantitative data.

Further to this technique, purposive sampling was used by the researcher; where the sample was hand-chosen for use in this study. (Denscombe, 2010) stated that in instances where the researcher has some information regarding specific people or events and intentionally chooses them since they are perceived as cases most likely to produce credible data, purposive sampling should be applied. In effect, they are selected with a specific purpose in mind, and that purpose reflects the particular

qualities of the people or events chosen and their relevance to the topic of the investigation; hence this researcher chose working individuals as a sample because they mostly use bank accounts to receive their salaries and wages.

### 3.4 RESEARCH AND DESIGN METHODS

#### 3.4.1 Description and Purpose

The overall value of the research is significantly influenced by the relevance of the data collection methods applied. According to (Sekaran and Bougie, 2010a) data can either be collected from primary (first-hand information from the respondents) or secondary sources (research collected from sources that already exist). There are four main methods of collecting data and they include conducting interviews, use of questionnaires, observations and unobtrusive methods, and there are advantages and disadvantages of using any one these methods.

This study seeks to explore the uncharted territory; and a primary source of data collection had to be used. As a data collection method of interest, the researcher elected to use a research questionnaire because of the administrative advantages this had. The method fitted in well within the constraints faced by the researcher such as time and costs affiliated with the distribution, use of resources and facilities, and the proficiency of the researcher. According to (Denscombe, 2010), where the researcher seeks to find more information about the attitudes of the population, questionnaires work on the principle that the researcher asks the targeted population what it is they need to know and they will get first-hand information from them.

##### 3.4.1.1 Construction of the instrument

The questionnaire is the most widely used means for quantitative data collection. (Cavana et al., 2001) noted that the use of a questionnaire allows the researcher to progress from gathering insights from a few respondents at a qualitative stage to

confirming whether these suggestions and ideas of a few are widely held throughout the whole population targeted. A questionnaire consists of a group of questions that are pre-selected, respondents then record their answers against these questions, choosing between alternatives that are closely defined (Cavana et al., 2001). Questionnaires are regarded as an effective instrument of collecting data in descriptive or exploratory studies in that they are less time consuming and inexpensive than other methods such as interviews and observation, though they introduce a much larger chance of nonresponse, (KOTHARI, 2004). A five-point Likert interval scale was used where answers to questions were sought from respondents where 1, for example, was strongly disagree and 5 was strongly agree. In its construct, this research instrument was broken down into two sections as per the following:

- Section A comprised of demographical questions which had a double-fold purpose. The first purpose was to establish the make-up of each respondent and the second was for this section to introduce the respondents to the questionnaire.
- Section B to G comprised of the research questions of the study. To strengthen the conclusiveness of the feedback received from the research instrument, two additional sub-questions were included to enhance insights sourced from each research question.

Questions asked in section B about the culture of the organisations and section F regarding the performance of the products sought to provide insights to the first objective as to whether the customers believe that the application of TCF by organisations results in improved customer confidence. Questions asked in section C regarding products that meet the needs of the customers and section E regarding the appropriateness of the advice given to customers sought to provide insights to the second objective as to whether the customers believe that the application of TCF by organisations results in the provision of appropriate products and services. Questions asked in section D regarding customers being properly informed at all stages of the product lifecycle and section G regarding the appropriateness of the complaints and claims process sought to provide insights to the third objective as to

whether the customers believe that the application of TCF by organisation a financial environment that fosters enhanced transparency and discipline.

Rating questions are usually used to collect data that is formed out of opinions of the respondents (Saunders et al., 2009). It was therefore critical for the researcher to take careful consideration in the selection of the measurement scale to be used in this study (nominal, ordinal, interval, or ratio). As pointed out in a study by (Sekaran and Bougie, 2010a), a scale is an instrument through which a distinction in individuals' variables of interest is tested in how they vary from one another. This study uses a Five-Point Likert Scale as well as a Dichotomous Scale, both of which fall under the broader category of interval scales.

#### 3.4.1.2 Recruitment of the study participants

Recruitment is the discussion between the researcher and a prospective respondent before the actual consent process begins. According to (Denscombe, 2010), people should never be forced or coerced to participate in a research. The recruitment process begins with finding, targeting and enlisting participants for the research. The purpose of the research should then be presented to the participants with the intention to solicit interest from the potential participants. The two main objectives of the recruitment process are:

- Obtaining a representative sample for the population identified.
- Obtaining a sufficient number of participants to meet the requirements of a sample size that will adequately allow the researcher to form a generalised view of the wider population.

The participants in this study were identified as the customers of the four major banks in KwaZulu-Natal. The recruitment of the participants was done using a purposive sampling technique where mostly employed individuals were approached for participation in the study. In distributing the questionnaires, the researcher used his personal contact list, built from a wide range of relationships in the working industry.

### 3.4.2 Pretesting and validation

#### 3.4.2.1 Validity of Research Instrument

Four types of validity testing are explained in (Saunders et al., 2009) as follows:

- Internal validity which is the ability for the questionnaire to accurately measure what the researcher set out to measure.
- Content validity which is the measurability of the questions in the questionnaire to adequately provide analysis of the fact-finding interrogations.
- The ability of the interrogations to accurately measure the predictions of the study, which is Criterion-related validity.
- The ability of the research instrument to rate the existence of the constructs that the questions are meant to measure, which is Construct validity.

(Salkind, 2012) described the concept of validity as follows:

1. The outcomes of an assessment, not the actual assessment itself.
2. The outcomes of an assessment are not finite to validity or invalidity as validity is not the be-all and end-all. Validity moves in degrees from low to high.
3. The validity of the outcomes of an assessment should be read within the framework in which the assessment happens.

The researcher ensured that the validation criteria mentioned above was taken into consideration for this study. The research instrument for this study was pretested and validated with twenty participants randomly selected from the target population. This helped change some questions that were found to be vague and not clear to the participants. For this study questions had to be rearticulated, reviewed, and others scrapped.

#### 3.4.2.2 Reliability of Research Instrument

(Saunders et al., 2009) outlined three approaches to testing reliability of the research instrument over and above the comparison of the data collected from other research sources. These approaches are:



- The instrument needs to be tested and retested.
- Internal consistency needs to be verified.
- An alternative form of the same question or group of questions should be tested.

As with validity, the reliability of this research instrument was tested with a small group of participants. (KOTHARI, 2004) mentioned that reliability testing is not as valuable as validity testing, but it is easier to gauge reliability in contrast to validity. If the quality of reliability is present in an instrument, then while using it we can be confident that the transient and situational factors are not interfering.

Reliability and validity are the most significant facets of precision. Reliability is calculated by capturing numerous measurements on the same subjects. An acceptable reliability coefficient is considered to be 0.70 or higher. The Cronbach's alpha scores of the items that constituted the questionnaire are reflected in table 3.1.

Table 3.1 Cronbach's alpha scores

<b>Outcome Number</b>	<b>Number of Items</b>	<b>Cronbach's Alpha</b>
1	3 of 3	.833
2	3 of 3	.866
3	3 of 3	.873
4	3 of 3	.902
5	3 of 3	.827
6	3 of 3	.816
<b>Overall</b>	<b>18 of 18</b>	<b>.959</b>

Reliability shows an overall reliability score of 0.959 which is well above the recommended value of 0.70. This is an indication of a high degree of acceptable and consistent scoring results for this study. All sections measured in this study met the minimum condition for alpha values.

### 3.4.3 Administration of the Questionnaires

(Cavana et al., 2001) recommends personal administration of questionnaires and suggest that this is a great way of collecting data particularly if the study is confined to a local area. Consistent to this recommendation, the questionnaires for this research were personally administered to as many economically active individuals in KwaZulu-Natal as was possible. The main advantages to this method of administration are, according to (Cavana et al., 2001) that the researcher is able to collect all the responses within a short space of time, and that any doubts or questions that the participants may have, can be addressed immediately and that the researcher gets an opportunity to introduce the research topic and motivate the participants to give genuine feedback. The research questionnaires were distributed using email to individuals that have access to computers and the internet, and these participants were chosen from the researcher's library of contacts and affiliates from relationships built over the last fourteen years. For participants that do not have access to the internet, printed questionnaires were hand-distributed. Using the University of KwaZulu-Natal's subscription account, the researcher used QuestionPro as the preferred software to electronically create and distribute/print the questionnaire. Once each questionnaire was successfully completed it was automatically collated on QuestionPro for data analysis and interpretation.

### 3.5 DATA ANALYSIS

According to (Cavana et al., 2001), when analysed properly, the data gathered assists the researcher to see if the research questions have been supported accordingly and highlights that the analysis of both the questionnaire and qualitative data can be conducted to determine whether the research objectives identified by the researcher have been substantiated. It is significant that findings must correlate to the initial research objectives set out by the study. Inability to satisfactorily analyse and interpret the data, using the suitable statistical tools, creates risk for the validity and reliability of the research.

The principle component analysis was used as the extraction method, and the rotation method used was Varimax with Kaiser Normalization. This is an orthogonal rotation method that minimises the number of variables that have high loadings on each factor. It simplifies the interpretation of the factors. Factor analysis/loading shows inter-correlations between variables. Items of questions that loaded similarly imply measurement along a similar factor. An examination of the content of items loading at or above 0.5 (and using the higher or highest loading in instances where items cross-loaded at greater than this value) effectively measured along the various components.

### 3.5.1 Software Used

The analysis and interpretation of the data collected for this study was conducted using the Statistical Package for Social Science (SPSS) version 22.0. Likewise the capturing, cleaning of data was done through SPSS to run the descriptive statistics, conduct the reliability tests and to work out the items into constructs.

### 3.6 SUMMARY

This chapter explained the selection of the target population, sample frame and sampling unit, and the research instrument used, which was mainly inspired by previous studies which sought similar findings. A Five-Point Likert scale was used as it met the necessary statistical requirements of the research. The researcher believes that the applicable sampling methods used for this study were chosen based on the appropriateness and relevance to the study and that these methods were reliable and valid for the collection of appropriate data and that the sampling technique used would successfully meet the requirements of the research. Results and findings of the research are discussed in next chapters.

## CHAPTER FOUR

### PRESENTATION OF RESULTS

#### 4.1 INTRODUCTION

This chapter presents the findings obtained from the questionnaires distributed for this study. The primary data collection tool, the questionnaire, was distributed to customers that make use of the traditional banks in the KwaZulu-Natal province. The SPSS version 22.0 software tool was used to analyse data collected from the responses received. Descriptive statistics are presented from the results in the form of graphs, cross tabulations and other figures for the qualitative data that was gathered. Correlations and chi square test values; which are interpreted using the p-values are used as inferential techniques.

#### 4.2 RESPONSE RATE

The preliminary sample size and the actual sample size display significant differences from which the researcher draws insights. Successfully completed questionnaires determine the study response rate. According to (Denscombe, 2010) it is important to note that the number in the original sample which can be used in the research may vary from the number of responses ultimately obtained from the respondents.

In total 430 questionnaires were distributed to customers that use products and services of the four major banks in KwaZulu-Natal. Of the 430 questionnaires distributed, 356 were returned giving a rate of response of 83%. In this case, the research still maintained precision and confidence as the actual response rate met the requirements of a valid research study, as indicated by (Sekaran and Bougie, 2010a). The researcher attributes the high response rate to the use of the purposive sampling technique, the appropriateness and relevance of the subject matter to the respondents, the appropriateness of the structure of the questionnaire, the length of

the questionnaire and the effectiveness of the distribution of the questionnaire and this is supported by literature found in (Denscombe, 2010):18)

#### 4.3 BIOGRAPHICAL DATA OF PARTICIPANTS

##### 4.3.1 Age and gender distribution

The biographical characteristics of the respondents are summarised in this section. Demographic data assists researchers by classifying respondents into identifiable sub-groups, such as age and gender. This enables researchers to organise data into groups of interpretable information. The composition of the participants in terms of gender and age is shown in the table 4.1

The ratio of males to females is approximately 3:7 (31.7%: 68.3%). At 37.6% of the total sample distribution, the single highest contributing age category for both gender groups was between the ages of 25 and 44 with closest gender split of 31.9% males and 41.3% females. This age group represents the most potentially bankable age group in terms of quantity and it is the most balanced in terms of gender. The constitution of the sample indicates a concentration of the maturing combination of respondents

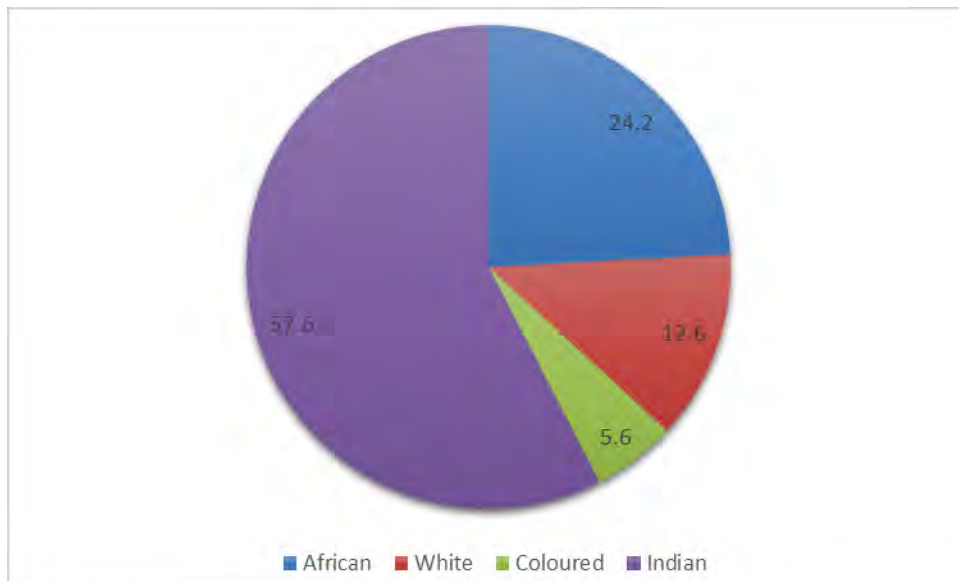
##### 4.3.2 Race distribution

The racial distribution of the participants is presented in figure 4.1. The majority of respondents (57.6%) were of Indian ethnicity, with Coloureds forming the smallest grouping (5.6%). This racial composition is relative to the KwaZulu-Natal racial and labour distribution statistics. According to the (StatsSA, 2011) report, KwaZulu-Natal has the highest population distribution of the Indian race, and the Indian population is the second highest population in the labour force participation in the country.

Table 4.1 the distribution of gender by age.

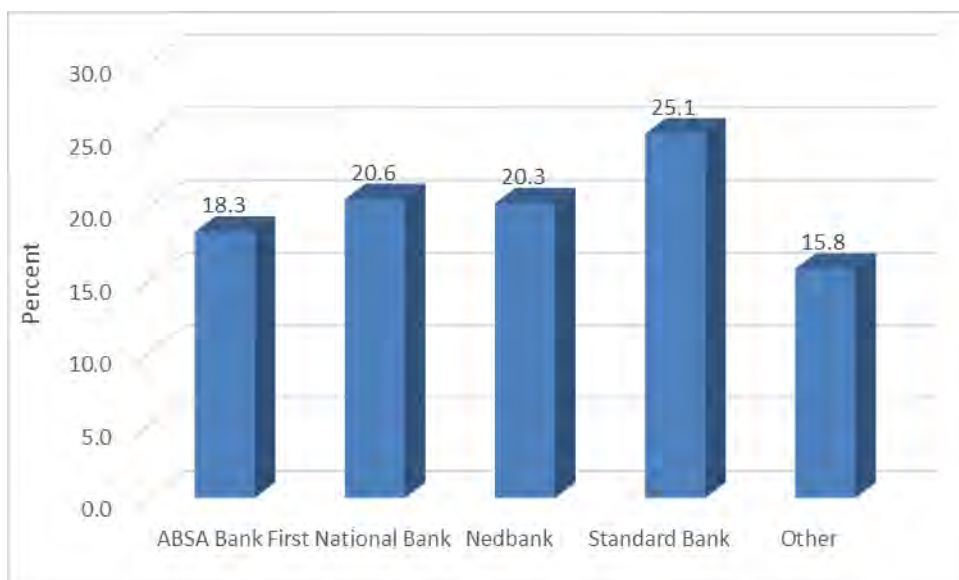
		What is your gender?		Total	
		Male	Female		
What is your age group? (years)	18 to 24	Count	42	69	111
		% within What is your age group?	37.8%	62.2%	100.0%
		% within What is your gender?	37.2%	28.4%	31.2%
		% of Total	11.8%	19.4%	31.2%
	25 to 34	Count	36	98	134
		% within What is your age group?	26.9%	73.1%	100.0%
		% within What is your gender?	31.9%	40.3%	37.6%
		% of Total	10.1%	27.5%	37.6%
	35 to 44	Count	18	45	63
		% within What is your age group?	28.6%	71.4%	100.0%
		% within What is your gender?	15.9%	18.5%	17.7%
		% of Total	5.1%	12.6%	17.7%
	45 to 54	Count	9	25	34
		% within What is your age group?	26.5%	73.5%	100.0%
		% within What is your gender?	8.0%	10.3%	9.6%
		% of Total	2.5%	7.0%	9.6%
55 to 64	Count	7	6	13	
	% within What is your age group?	53.8%	46.2%	100.0%	
	% within What is your gender?	6.2%	2.5%	3.7%	
	% of Total	2.0%	1.7%	3.7%	
65 or older	Count	1	0	1	
	% within What is your age group?	100.0%	0.0%	100.0%	
	% within What is your gender?	0.9%	0.0%	0.3%	
	% of Total	0.3%	0.0%	0.3%	
Total	Count	113	243	356	
	% within What is your age group?	31.7%	68.3%	100.0%	
	% within What is your gender?	100.0%	100.0%	100.0%	
	% of Total	31.7%	68.3%	100.0%	

Figure 4.1 The racial composition of the sample.



The distribution of participants in terms of the banks that are most commonly used is shown in figure 4.2 below.

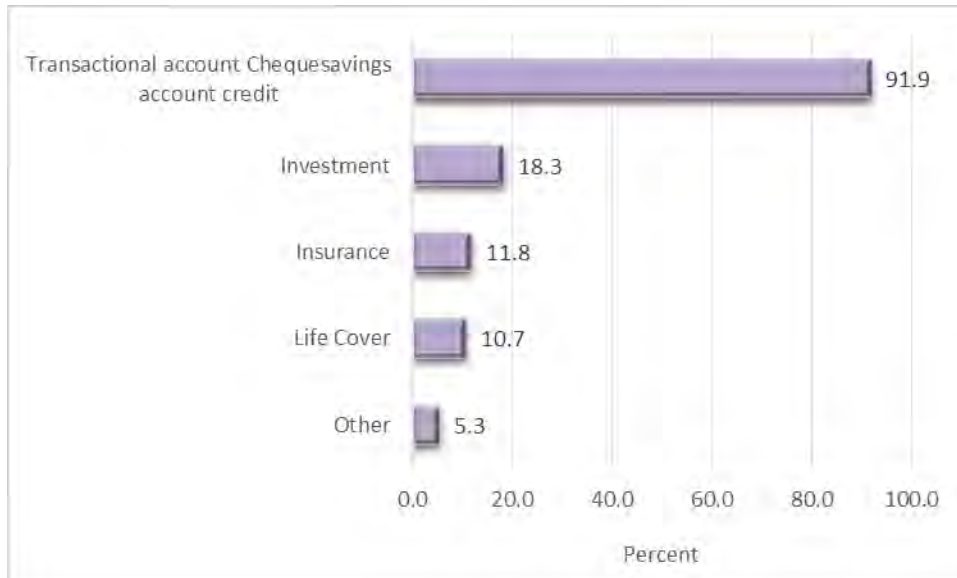
Figure 4.2 Bank Distribution



While Standard bank had the highest number of users, the results show that there are similar numbers of respondents who are clients at each of the different banks. What is also interesting to note is that 15.8% of the respondents make use of other banks, and this indicates that the four major banks have serious competition from

other banks. The most common products that respondents have with their banks are shown in figure 4.3 below.

Figure 4.3 Product distribution



Predominantly, most respondents (91.9%) had a transactional account which is an expected result as this is traditionally the primary product that the banks offered to their customers, followed by investment products, credit insurance and other products.

Table 4.2 below indicates the channel of contact that respondents prefer to use to contact their banks.

Table 4.2 Mode of contact

	Percent
Call Centre	11.0
Branches	53.5
Personal Banker	9.9
Online Self service facilities	22.7
Branches and online/self service facilities	2.0
Call centre and branches	.3
Call centre and online/self service facilities	.3
Call centre and personal banker	.3



More than half of the clients preferred direct contact via their branches (53.5%) whilst 22.7% used online services and at 11% the call centre is the third significant mode of contact.

## 4.4 FACTOR ANALYSIS

### 4.4.1 Why factor analysis is important

The main goal of factor analysis as a statistical technique is data reduction. Factor analysis is typically used in survey research in instances where a researcher wants to represent a number of questions with a small number of hypothetical factors. For a researcher to determine whether combinations of measures in a research instrument do, in fact, measure the same thing factor analysis is recommended. If found to measure the same thing a new variable can then be created, a factor score variable that contains a score for each respondent on the factor. Factor techniques are applicable under different circumstances. The research by (AGARWAL and SINGH, 2014) suggests that exploratory factor analysis and confirmatory factor analysis have been proposed for conceptual models indicating dimensions of satisfaction in relationships such as that of the banking institutions and their customers. It is required that the Bartlett's Test of Sphericity be less than 0.05 while the Kaiser-Meyer-Olkin Measure of Sampling Adequacy should be greater than 0.50. The results show that in all cases the conditions are met which allows for the factor analysis procedure. The KMO and Bartlett's Test are preceded by a matrix table that reflects the results. This rotated component matrix is explained in the tables that follow.

Section B:

Table 4.3 Rotated Component matrix

<b>KMO and Bartlett's Test</b>		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.695
Bartlett's Test of Sphericity	Approx. Chi-Square	277.369
	Df	3
	Sig.	.000

<b>Component Matrix<sup>a</sup></b>		Component
		1
Fair treatment of customers is central to your banks' corporate culture		.806
Your bank conducts its business with integrity and transparency		.831
Your bank conducts its business with due skill, care and diligence		.849

Extraction Method: Principal Component Analysis.

a. 1 component extracted.

Section C:

Table 4.4 Rotated Component matrix

<b>KMO and Bartlett's Test</b>		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.703
Bartlett's Test of Sphericity	Approx. Chi-Square	381.513
	Df	3
	Sig.	.000

<b>Component Matrix<sup>a</sup></b>		Component
		1
Your bank offers products and services that address your specific needs		.853
Your bank understood your requirements from a product design and servicing perspective		.889
You feel the product you bought is value for money		.830

Extraction Method: Principal Component Analysis.

a. 1 component extracted.

Section D:

Table 4.5 Rotated Component matrix

<b>KMO and Bartlett's Test</b>		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.693
Bartlett's Test of Sphericity	Approx. Chi-Square	398.987
	Df	3
	Sig.	.000

<b>Component Matrix<sup>a</sup></b>		Component
		1
You were/are kept informed during, before and after the point of sale		.844
The product costs and pricing were clearly explained to you		.900
The documentation you receive in terms of your product is accurate, clear, fair and not misleading		.836

Extraction Method: Principal Component Analysis.

a. 1 component extracted.

Section E:

Table 4.6 Rotated Component matrix

<b>KMO and Bartlett's Test</b>		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.726
Bartlett's Test of Sphericity	Approx. Chi-Square	441.372
	Df	3
	Sig.	.000

<b>Component Matrix<sup>a</sup></b>		Component
		1
Your bank provides you with advice that is suitable for your specific circumstances		.860
Your bank is able to instil a sense of trust in you when you receive financial advice from them		.889
Your bank makes you feel comfortable in their ability to cater for your financial requirements		.875

Extraction Method: Principal Component Analysis.

a. 1 component extracted.

Section F:

Table 4.7 Rotated Component matrix

<b>KMO and Bartlett's Test</b>		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.663
Bartlett's Test of Sphericity	Approx. Chi-Square	305.326
	Df	3
	Sig.	.000

<b>Component Matrix<sup>a</sup></b>	
	Component
	1
Your bank delivers on the promises they make with their products and services	.804
Your bank has processes in place to mitigate risks where products are not or are unlikely to perform as you have been led to expect	.885
You are confident that your bank has processes in place to protect the confidentiality of all their customer information	.805

Extraction Method: Principal Component Analysis.

a. 1 component extracted.

Section G:

Table 4.8 Rotated Component matrix

<b>KMO and Bartlett's Test</b>		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.700
Bartlett's Test of Sphericity	Approx. Chi-Square	284.597
	Df	3
	Sig.	.000

<b>Component Matrix<sup>a</sup></b>	
	Component
	1
Your bank makes it easy for you to change your products or consider another bank	.816
Your bank makes it easy for you to claim	.844
Your bank makes it easy for you to complain	.835

Extraction Method: Principal Component Analysis.

a. 1 component extracted.

As presented in the tables above:

- The rotation method was Varimax with Kaiser Normalization and as the extraction method, principle component analysis was used. As an orthogonal rotation method this reduces the number of variables that have great loadings on each factor. As a result the interpretation of factors can be simplified.
- Inter-correlations between variables are evident in factor analysis/loading.
- Measurement along a similar factor is implied in items of questions that loaded similarly. An examination of the content of items loading at or above 0.5 (and using the higher or highest loading in instances where items cross-loaded at greater than this value) effectively measured along the various components.

It is important to note that the variables that constituted each of the sections loaded perfectly along one factor. This means that the statements (variables) that constituted the components perfectly measured them. That is, the component measured what was intended to be measured.

#### 4.5 SUMMARY

This chapter presented confirmation that the participants that were sampled represented a fairly even distribution of the customer base of the four major banks which offer the researcher the ability to analyse responses based on an even representation of the research subjects. In addition, almost 66.7% of respondents are 25 years and above which also provides a level of maturity. This is important as it meant that targeted participants understood and comprehended the questionnaire to provide genuine feedback. The next chapter discusses the research findings, interpretation and explanations. The findings are interpreted and explained in conjunction with applicable literature.

## CHAPTER FIVE

### RESEARCH FINDINGS AND INTERPRETATION

#### 5.1 INTRODUCTION

This section makes reference to the research objectives and the sub-questions that underpin the objectives of the study in relation to the research findings. It also analyses the scoring patterns of the respondents per variable per section. Each sub-question is discussed individually so as to accurately match the fitting statistical results with the appropriate research objective. A single category of “Disagree” was reached through collapsing the negative statements/levels of disagreement. Similarly, the positive statements were collapsed to arrive at the levels of agreement/positive statements. The high levels of reliability allow for this to be done.

#### 5.2 INTERPRETATION OF THE RESULTS

The research sub-questions were incorporated into the research instrument and the outcomes are then analysed according to the significance of the statements. The outcomes summarising the percentages that constitute each section are also presented.

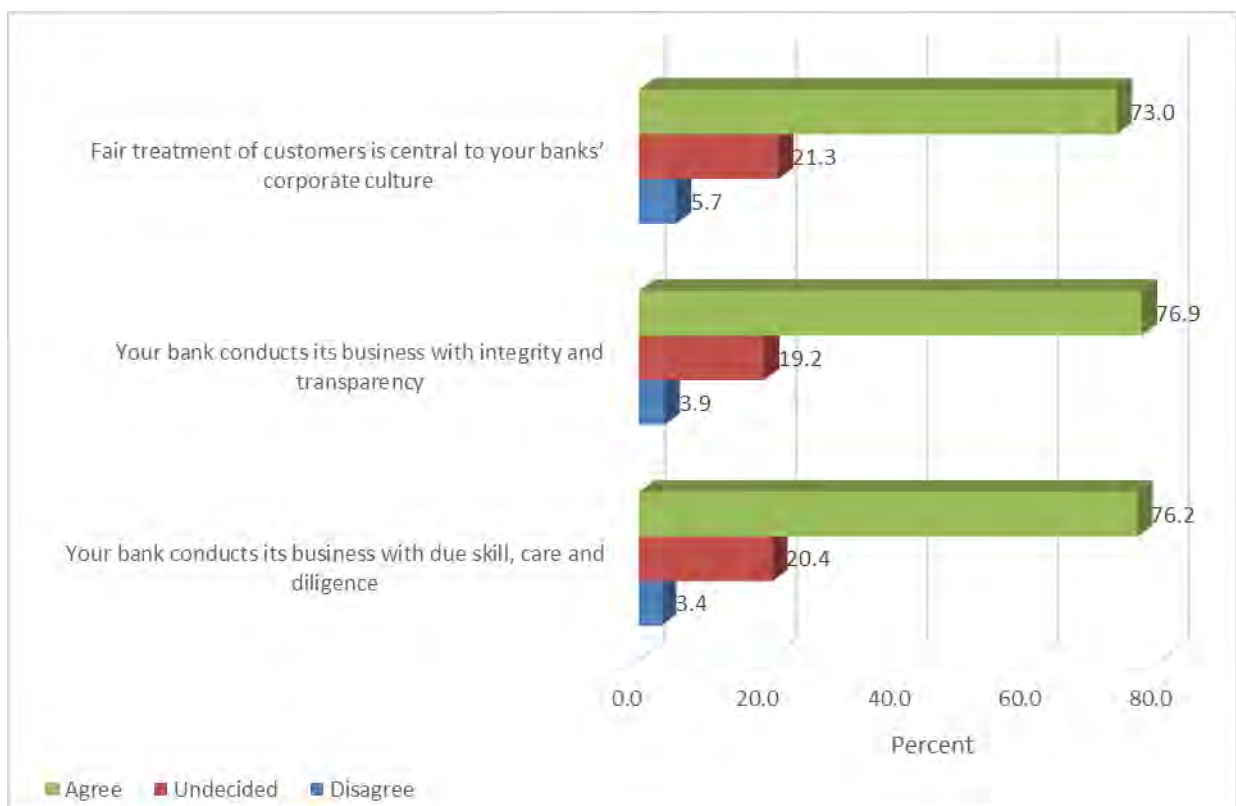
5.2.1 Sub-question 1: To what extent do customers agree that they are associated with banks that regard the fair treatment of customers to be at the centre of their culture?

This section deals with investigating the level to which customers are confident that their organisation of choice has, in the centre of its corporate culture, embedded the fair treatment of the customers. This sub-question had three statements under it which were put across to the participants for feedback. Table 5.1 and figure 5.1 summarise the scoring patterns from the three statements.

Table 5.1 Scoring pattern for Culture

	Disagree	Undecided	Agree
	Percentage (%)		
Fair treatment of customers is central to your banks' corporate culture	5.7	21.3	73.0
Your bank conducts its business with integrity and transparency	3.9	19.2	76.9
Your bank conducts its business with due skill, care and diligence	3.4	20.4	76.2

Figure 5.1 Scoring pattern for Culture



Chi-square tests were conducted per variable to determine whether the differences in the scoring patterns per statement were significant. As per the null hypothesis test no differences in the scoring options per statement were picked up. Table 5.2 shows the results.

Table 5.2 Chi-square test for Culture

<b>Test Statistics</b>			
	Fair treatment of customers is central to your banks' corporate culture	Your bank conducts its business with integrity and transparency	Your bank conducts its business with due skill, care and diligence
Chi-Square	262.267 <sup>a</sup>	315.555 <sup>b</sup>	307.246 <sup>c</sup>
Df	2	2	2
Asymp. Sig.	.000	.000	.000

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 117.3.

b. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 118.3.

c. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 117.7.

It can be concluded that the distributions were not even since all of the sig. values (p-values) are less than 0.05 (the level of significance). This means that the differences between disagreement and agreement were significant. The category of "Undecided" also contributed to the p-value and this is noted as such.

The average agreement level of for this section is 75.4 %. The patterns are similar across all three statements. The high level of agreement indicates an overall level of satisfaction of the respondents with their banks in terms of treatment, integrity and the manner in which banks handle customers. The literature cited in the earlier chapters has affirmed 'culture' as the core TCF deliverable for organisations. According to (FSB, 2011b) the main obligation for organisations in implementing TCF will be the demonstration of the achievement of the first fairness outcome that the culture of the organisation embraces fairness to customers. The opposite is true that if the organisation cannot demonstrate that its culture embraces the fairness outcomes then it will be difficult for organisations to consistently meet the rest of the TCF outcomes. Resultantly, if there is no true commitment to embedding a TCF culture, firms will struggle to meet the remaining fairness outcomes consistently. With this in mind, one can argue that if organisations score high on this outcome, they would score even higher on the balance of the five TCF outcomes. On the contrary, the results of the survey conducted for this study show that, while the four



major banks scored high on this outcome, this outcome was the highest scoring outcome by a notable margin. There is a 7.1 % difference between this outcome and the second rated outcome, and a whopping 16.8 % between outcome 1 and the lowest rated TCF outcome as rated by the customers of the four major banks. One might even go to an extent of suggesting that this is because 'culture' as a measurable is less tangible to the customers than the other five outcomes. (Narayan et al., 2009) argue that it is the outcome that the customers can experience that should be translated from the culture of the organisations; this could be an area of further research for other writers.

According to (Makovah, 2013), after the financial meltdown, there was evidence of a vote of no-confidence in the banking system expressed by customers in the UK and USA which was a significant issue for these developed nations. The effect on customer's perceptions and loyalty to banks continues to be visible as a result of this breakdown in confidence and trust. Highly-publicised consumer publications such as Occupy Wall Street continue to exhibit this disapproval and distrust across USA. Aggravating this distrust in the UK was the Libor rigging outrage which formed questions over the integrity and culture of the financial sector and the impact on market confidence. The extensive exposure of news regarding unwarranted bank management bonuses and sneaky dealings have definitely made customers across the world more conscious of, and vocal in their plea, the need for transparent and principled corporate control, even though the banks in developing economies have escaped such poor public relations.

What aided South Africa was the existence of diligent financial regulations which saved the banks from getting entangled in the complex offshoots that resulted from the financial crises at the time. The South African banks were also well capitalised, and had robust liquidity positions. In line with the above statement, the results of this study show that the customers of the four traditional banks in South Africa have a level of agreement of over 76 % for the following statements:

- Your bank conducts its business with integrity and transparency.
- Your bank conducts its business with due skill, care and diligence.

The high level of agreement draws relevance to the research done by authors cited in the earlier chapters in that the South African banking industry customers remain confident in the banks' ability to protect their interests following the minimal exposure of South African banking customers to the global financial crisis due to the application of prudent regulatory frameworks.

The regulator, in ensuring that it covers all aspects of measuring organisational culture that fosters behaviour synonymous with the fair treatment of customers, has in its self-assessment tool, 30 rateable fields which are grouped into categories that include decision making, governance and control, strategy, performance management reward, leadership and the measurement of management information. According to (FSB, 2013), the banks scored a 61% level of agreement for this outcome in the self-assessment study conducted in 2013, which was the lowest score out of the six outcomes. There is a significant difference between self-assessment score of the banks to that of the customers surveyed on this study. The 14% difference suggests disparities between what the banks believe and the perceptions of customers.

The financial services regulators have put in place stringent measures and guidelines that propel prudent corporate governance; this can be seen in annual/sustainability reports that banks, amongst other financial organisations, have to publish. The fact that banks scored themselves lowest on this outcome suggests the high level of scrutiny that is applied to this outcome by the regulator. There are clear measurable items that have to be achieved under each category on this outcome and banks are aware that there is huge ground work that still needs to be covered to achieve these. The juxtaposition to the perception of the customers reveals lower level of awareness from a customer's point of view and that overall corporate governance needs to do more in order to breed culture that fully incorporates the fair treatment of customers.

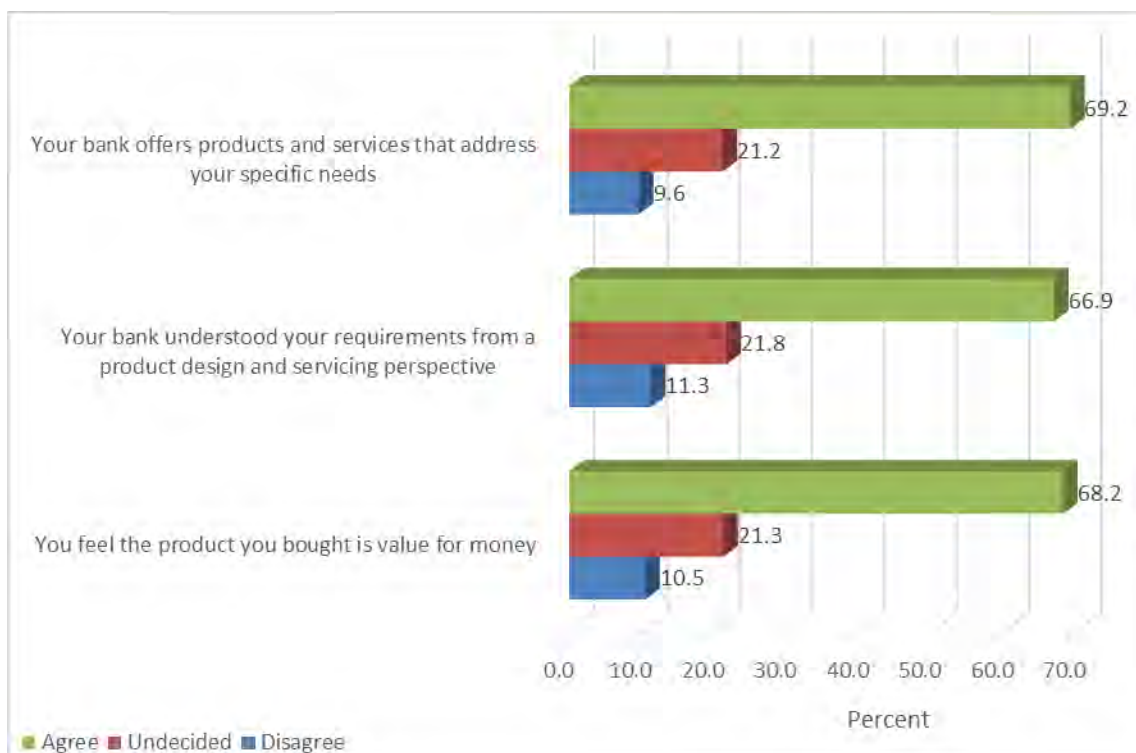
5.2.2 Sub-question 2: To what extent do customers agree that their banks design, market and sell products and services that are suitable for the customers' needs as the identified customer groups?

This investigates the level to which all product aspects are understandable to customers, with the intention to greatly reduce the gap between what they desire and what is sold to them. Table 5.3 and figure 5.2 below show the summarised scoring patterns from the three statements.

Table 5.3 Scoring pattern for Products and Service Design

	Disagree	Undecided	Agree
	Percentage (%)		
Your bank offers products and services that address your specific needs	9.6	21.2	69.2
Your bank understood your requirements from a product design and servicing perspective	11.3	21.8	66.9
You feel the product you bought is value for money	10.5	21.3	68.2

Figure 5.2 Scoring pattern for Products and Service Design



Chi-square tests were conducted per variable to determine whether the differences in the scoring patterns per statement were significant. As per the null hypothesis test no differences in the scoring options per statement were picked up. Table 5.4 shows the results.

Table 5.4 Chi-square test for Products and Service Design

**Test Statistics**

	Your bank offers products and services that address your specific needs	Your bank understood your requirements from a product design and servicing perspective	You feel the product you bought is value for money
Chi-Square	212.153 <sup>a</sup>	185.814 <sup>a</sup>	198.517 <sup>b</sup>
Df	2	2	2
Asymp. Sig.	.000	.000	.000

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 118.0.

b. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 117.3.

The tested p-values prove significant. This means that the scoring patterns per option per variable was different. The average level of agreement for this section is 68.1%. The overall value is less than in the previous section with higher levels of uncertainty and disagreement indicating a lower level of confidence on the banks' ability to meet the expectations of the customers for this outcome. It should be noted however that this outcome achieved the second highest level of agreement rating from the survey done on this study. With multi-product and multi-channel offerings in today's banking environment retail banks are faced with substantial challenges. The ad-hoc approach in supplying products and services to customers proves to be the key challenge. As a result, banks fall into a trap of trying to be everything to everyone (Makovah, 2013). While banks, in their competitive spirit, continue to develop innovative and often complex products, it is through financial education that the customer's financial well-being can be improved.

For this outcome, an average of 21.4 % of the respondents to this survey are uncertain as to whether they are comfortable that the products and services that they have with their banks are suitable to meet their needs, while an average of 10.4 % disagree with the statement that their banks have designed and marketed to them, products that are suitable for their needs and this is inconsistent with the principles of the fair treatment of customers. Potentially 30 % of the banks' customers are not

satisfied that the banks apply fair treatment when designing products and services and targeting parameters. In South Africa, the financial services regulator introduced consumer protection frameworks such as the NCA and the CPA, and these have been further supported by the introduction of TCF principles. The same trend of customer protection can be seen internationally where it has been noted in (Gordhan, 2011) that in Australia, the Australian Competition and Consumer Commission (ACCC) and the Australian Securities and Investments Commission (ASIC) are the two regulatory bodies that enforce consumer protection laws for consumers of products and services be it individuals or organisations. In the UK, the Consumer Protection and Markets Authority (CPMA) was announced by the government as a body that would foster diligent governance to a new arm of the Bank of England creating a new customer authority. In 2000, a regulatory body was established in Canada and assigned to, amongst other things, protect financial services customers. This body is called the Financial Consumer Agency of Canada, and also assists customers with tools to help them understand financial products and services and the options available to them. However with all of these regulations in place, some of these countries have also adopted TCF in their structures in order to ensure that customers are treated fairly at all times.

In the self-assessment baseline study by the FSB, the banks recorded a 77 % level of confidence that they take into account the customers' needs in the product design process and that they appropriately apply profiling and segmentation parameters in targeting their customers for the products and services marketed. The results of this study show an 8.9 % disparity in the results where customers are less confident that the banks meet this deliverable. (Narayan et al., 2009) noted that India witnessed a drop in the persistency levels that had never been seen before, where organisations saw a drop in the customer persistency ratios from 95% to 75% which prompted a need for a review of strategic growth initiatives One certain way to achieve this is for organisations to proactively adopt TCF through growing customer based education as well as transparency and providing world-class customer service, promoting need-based sales, supporting the product range in alignment with customer's needs.

It is through research contribution such as this study that the banks can realise the opportunity cost/benefit of applying such redress mechanisms by understanding the level of satisfaction of the intended recipients of the products and services such that these are perceived as value for money by the customers.

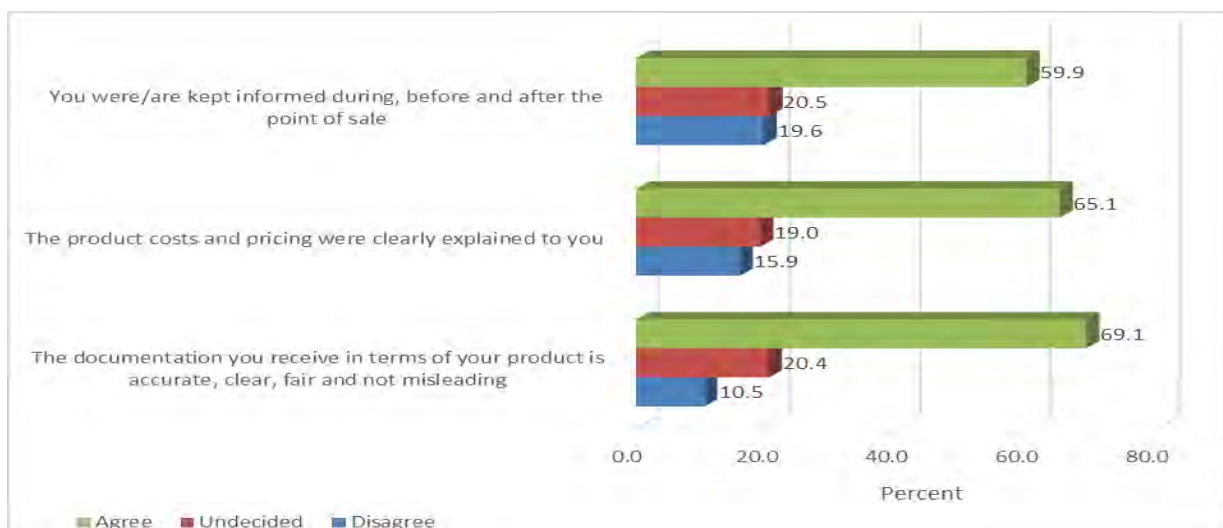
5.2.3 Sub-question 3: To what extent do customers agree that they are provided information that is clear and keeps them informed properly from point-of-sale and afterwards?

In line with TCF outcome 3, this section investigates the provision of clear product and related information to customers and the ability of the financial services organisations to keep the customers informed properly from point-of-sale and afterwards. Table 5.5 and figure 5.3 below show the summarised scoring patterns from the three statements.

Table 5.5 Scoring pattern for Promotion and Marketing

	Disagree	Undecided	Agree
	Percentage (%)		
You were/are kept informed during, before and after the point of sale	19.6	20.5	59.9
The product costs and pricing were clearly explained to you	15.9	19.0	65.1
The documentation you receive in terms of your product is accurate, clear, fair and not misleading	10.5	20.4	69.1

Figure 5.3 Scoring pattern for Promotion and Marketing



Chi-square tests were conducted by variable to determine whether the differences in the scoring patterns per statement were significant. As per the null hypothesis test no differences in the scoring options per statement were picked up. Table 5.6 shows the results.

Table 5.6 Chi-square test for Promotion and Marketing

<b>Test Statistics</b>			
	You were/are kept informed during, before and after the point of sale	The product costs and pricing were clearly explained to you	The documentation you receive in terms of your product is accurate, clear, fair and not misleading
Chi-Square	112.199 <sup>a</sup>	159.926 <sup>a</sup>	208.663 <sup>b</sup>
Df	2	2	2
Asymp. Sig.	.000	.000	.000

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 117.3.

b. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 117.7.

The tested p-values prove significant. This means that the scoring patterns are significantly different. In this section the positive statement are at 64.7%. The agreement levels are higher than disagreements for all variables. It should also be noted that there is a level of disparity in the responses to the individual statements within this sub-question from a 59.9% to 69.1% level of agreement raising the need to discuss each statement's results. Instead of being viewed as a threat, a well-informed customer should rather be seen as potential future value (Narayan et al., 2009). In other words, one of the threats to potential business growth is having a customer who is not well informed. The statement below was used to test the expression of level of confidence at which the customers are kept informed by their banks:

- You were/are kept informed during, before and after the point of sale

For this statement there was a 59.9 % level of agreement, which is the lowest in the category and with the highest level of disagreement at 19.6%, the level of indecisiveness was also the highest for this statement at 20.6%. Respondents highlighted that they are not satisfied with the level at which they are informed properly from point-of-sale and afterwards. This therefore indicates that, potentially 40.1 % of the customers are not receiving clear promotional information, or the information that they receive before entering into a transaction is not satisfactorily clear to them.

- The documentation you receive in terms of your product is accurate, clear, fair and not misleading

This result shows that 34.9 % of the customers agree that the information provided to them is at times misleading and therefore not understood by the average person. This group would also be unlikely to affirm that the banks keep them informed during the product life cycle. This is consistent with the findings of a baseline study that was done in the UK, where according to (FSA, 2006), a survey conducted on disclosures and communication at point of sale produced disappointing results. In these findings, customers were presented with poor quality policy and promotional documents. Findings in studies conducted in India also suggested that there is a need for more stringent regulation when it comes to product fee structures and charges. (Narayan et al., 2009) attest to the fact that customers say they are not well informed about the fees and charges, projected product returns and the assumptions that these were based on. This would also be relevant in the South African context where, according to the results of this study there was a high level of disagreement and indecisiveness in the responses to the following statement:

- The product costs and pricing were clearly explained to you.

(Gordhan, 2011) argued that powerful organisations with market influence may hike product fees, sell unsuitable products and services to customers and use their strength and influence in ways that may prejudice their customers. Contrary to this argument, the self-assessment baseline study shows that traditional banks have a 76 % level of confidence in their delivery towards this outcome, a result that contradicts local and international research that exposed undesirable practice which



gave rise to financial regulations such as TCF. There is an 11.3% difference in the assumption of the banks in terms of their delivery towards this outcome versus the customer feedback received from this study. The results presented in this study therefore suggest a disconnect between the delivery on this outcome and what the intended recipients actually experience in their interactions with their banks, the finding make this an area of concern for the four major banks. A survey conducted by (Lamikanra, 2013) in over 14 African countries showed that 20% of over 25 000 banking customers interviewed were not happy with the charges associated with the maintenance of their accounts when it comes to value for money, while 15 % said this did not affect them. These customers also complained about banks not being forthright regarding tariff and interest rate hikes and changes in terms and conditions. The common theme in the 12 of the 14 countries was the dissatisfaction regarding the rates of return offered by banks for investments and deposits.

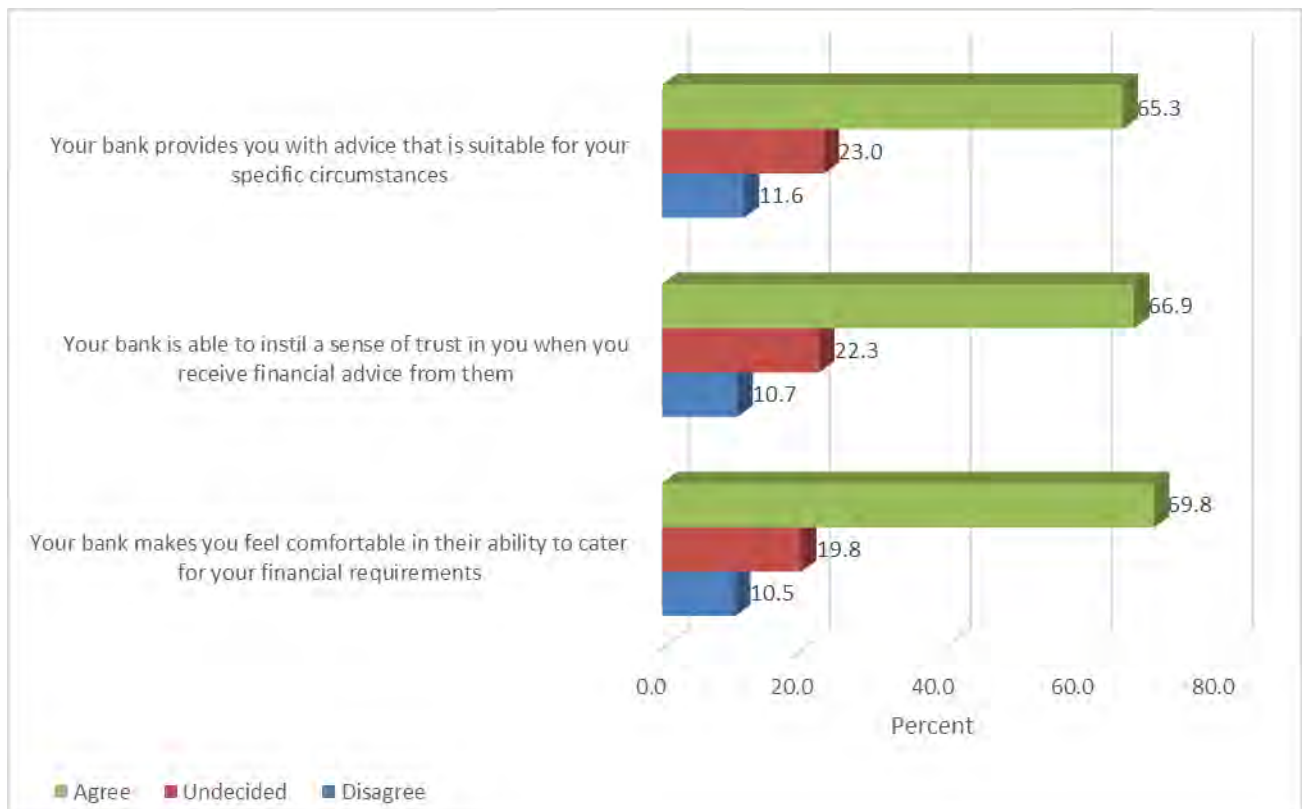
#### 5.2.4 Sub-question 4: To what extent do customers agree that they obtain suitable advice that is aligned with their circumstances?

This section investigates the extent to which banks take measurable steps in ensuring that the advice they give is appropriately suited to meet the needs of any customer that places trust in the banks' judgment before a financial transaction is concluded. Table 5.7 and figure 5.4 summarise scoring patterns from the three statements tested.

Table 5.7 Scoring pattern for Advice

	Disagree	Undecided	Agree
	Percentage (%)		
Your bank provides you with advice that is suitable for your specific circumstances	11.6	23.0	65.3
Your bank is able to instil a sense of trust in you when you receive financial advice from them	10.7	22.3	66.9
Your bank makes you feel comfortable in their ability to cater for your financial requirements	10.5	19.8	69.8

Figure 5.4 Scoring pattern for Advice



Chi-square tests were conducted per variable to determine whether the differences in the scoring patterns per statement were significant. As per the null hypothesis test, no differences in the scoring options per statement were picked up. Table 5.8 shows the results.

Table 5.8 Chi-square test for Advice

<b>Test Statistics</b>			
	Your bank provides you with advice that is suitable for your specific circumstances	Your bank is able to instil a sense of trust in you when you receive financial advice from them	Your bank makes you feel comfortable in their ability to cater for your financial requirements
Chi-Square	169.097 <sup>a</sup>	187.136 <sup>b</sup>	216.153 <sup>b</sup>
Df	2	2	2
Asymp. Sig.	.000	.000	.000

- a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 117.3.
- b. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 118.0.

The tested p-values prove significant. This means that the scoring patterns per option and per variable were different. The average level of agreement for this section is 67.4%. Consistent with the preceding sub-questions, the level of customers that are not decided averages 21% for all three ranked statements. The level of disagreement for this category is 10.9% on average. The results received from the respondents to the three statements posed under this category have relatively similar response ratings. The quality advice is the critical point of new business acquisition, as it is through such advice that customers develop trust to the company or its representative before making a decision about entering into a financial transaction with the organisation. According to a study conducted in the UK by (FSA, 2006) it was found that customers generally rely on sales experts, financial planners and brokerages before entering into banking transactions. Over half of the customers surveyed said that the advice that they received was, in most case, clear and influenced them to enter into financial transactions.

Applied in the South African context using the assumption of the results of the survey conducted for this study, over 32% of these customers are unhappy with the advice or unsure of whether or not it meets their circumstances. (Makovah, 2013) points out that recent findings suggest that the exponential growth in social media has seen customers shift to seeking advice from their peers which has significantly reduced the role of banks as financial experts, which would suggest that the banks might be losing the trust element with their customers when it comes to seeking advice. This exponential growth of social media has tipped the power scales towards the customer and become the platform to address poor experiences by customers of the banks and a real threat to reputational risk. The results of this study show that 22.7% of the respondents prefer online services when interacting with their banks, which in most cases eliminates the human advice element in the transacting. (Roberts et al., 2012) found that when South Africans were asked from whom they normally sought financial advice, an overwhelming 52% said that they get it from family and friends,

while 12% said they would rather not seek advice, and 8% would seek advice from financial planners. This study established that 36% of customers are not confident in their financial knowledge and the ability to make financial decisions without advice. (Adamu and Adeola, 2012) stresses that unless financial organisations build cultures strategically centred around treating customers fairly, customers confidence in the financial market will fall victim to generic advice given to customers.

The primary and secondary research findings presented in this study highlight the opportunities that exist where customers are in need of financial advice yet more reliant on sources other than their banks for this advice. While banks reflected a 76% level of confidence, the extent to which they are able to provide customers with advice that is suitable for their circumstances is questionable as findings from this study and other authors suggest that there is a clear misalignment in the delivery of this outcome to the expectation and presiding needs of the customers.

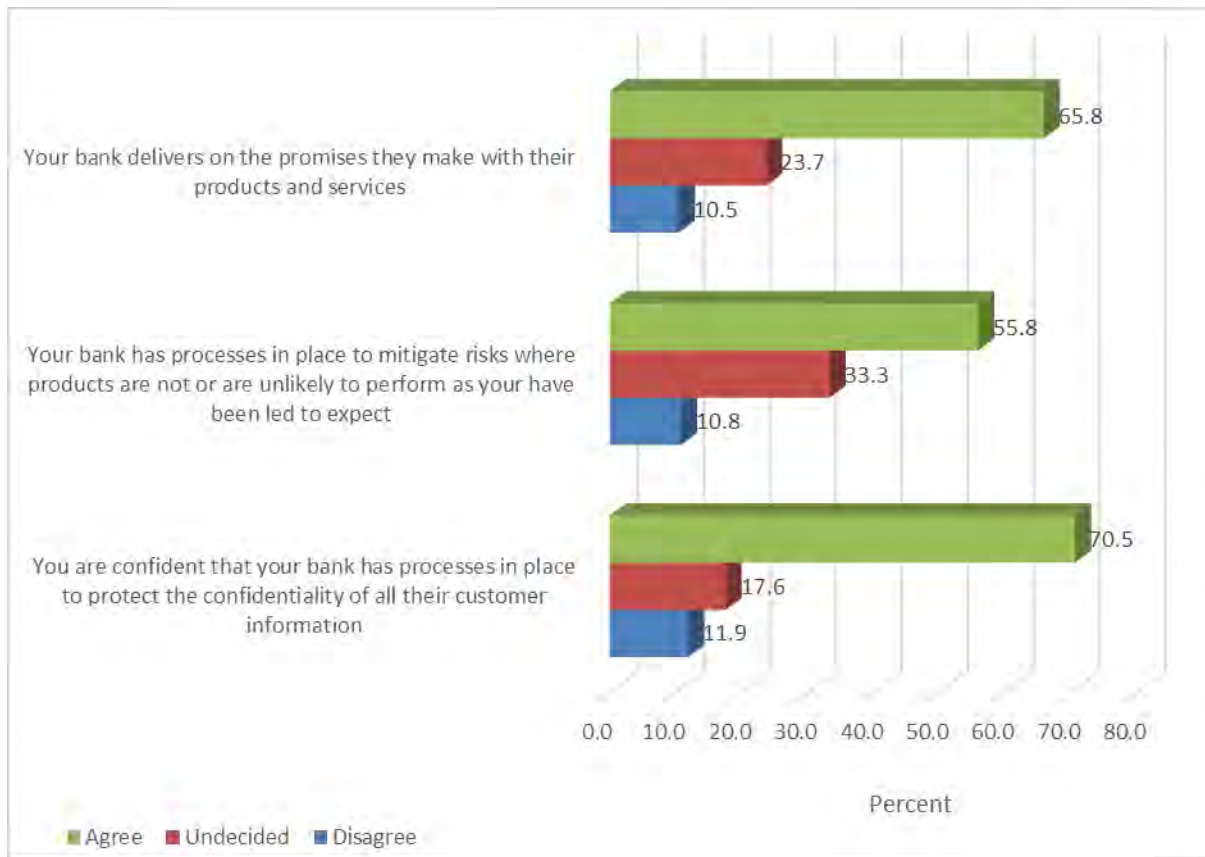
5.2.5 Sub-question 5: To what extent do customers agree that the products they are provided with perform as they have been projected to and the associated service that they receive is both of a suitable level and as well as what they have been promised to expect?

This section investigates the extent to which banks provide customers with products that perform as they have been projected to. Table 5.9 and figure 5.5 show the summarised scoring patterns from the three statements tested.

Table 5.9 Scoring pattern for Product Performance

	Disagree	Undecided	Agree
	Percentage (%)		
Your bank delivers on the promises they make with their products and services	10.5	23.7	65.8
Your bank has processes in place to mitigate risks where products are not or are unlikely to perform as you have been led to expect	10.8	33.3	55.8
You are confident that your bank has processes in place to protect the confidentiality of all their customer information	11.9	17.6	70.5

Figure 5.5 Scoring pattern for Product Performance



Chi-square tests were conducted per variable to determine whether the differences in the scoring patterns per statement were significant. As per the null hypothesis test no differences in the scoring options per statement were picked up. Table 5.10 shows the results.

Table 5.10 Chi-square test for Product Performance

Test Statistics			
	Your bank delivers on the promises they make with their products and services	Your bank has processes in place to mitigate risks where products are not or are unlikely to perform as you have been led to expect	You are confident that your bank has processes in place to protect the confidentiality of all their customer information
Chi-Square	177.475 <sup>a</sup>	106.684 <sup>b</sup>	221.581 <sup>c</sup>
Df	2	2	2
Asymp. Sig.	.000	.000	.000

- a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 118.0.
- b. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 117.0.
- c. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 117.7.

The tested p-values prove significant. This means that the scoring patterns per statement are significantly different. This category had the second lowest ratings, with the average level of agreement for this section at 64.1%. The statement below was used to test the level of product performance in comparison to the promises made by the banks:

- Your bank delivers on the promises they make with their products and services.

This statement produced a 65.8% level of agreement, a 10.5% level of disagreement and 23.7% level of uncertainty. A research done by (Barnes S R, 2010) in Australia found that customers placed fairness on the same level of importance to as the fundamental constructs of a product when measuring value for money and product functionality. The results from this study, as presented in the tables above show that 34.2% of the respondents would not say that they are happy that the products they have match the promise made by the banks. Barnes (2010) further noted that customers measure and analyse the performance of the product bought against the expectations initially presented regarding the products' projected performance and that, should the actual performance be lower than what they were meant to expect, the whole relationship with the bank becomes compromised. The results of the above statement then set the scene for the statement below and the findings thereof:

- Your bank has processes in place to mitigate risks where products are not or are unlikely to perform as you have been led to expect.

The respondents' feedback was the least positive in this category, with a level of agreement of 55.8%, a level of disagreement of 10.8% and a level of uncertainty of 33.3%. The high level of uncertainty in combination with the level of disagreement

show that, while 34.2% of respondents are not entirely comfortable with the fact that banks keep their promises on product performance delivery as per the first statement in this category, 44.2% therefore are not happy with the banks' risk-mitigating measures where products are likely to deviate from the expectations presented to the customers. (Cartwright, 2010) argued that because products may not perform as well as it was hoped, this provides no grounds for financial organisations to be held liable. It was found that in the UK markets, although this is not exclusive to the UK, characteristically, performance risk is inherent from other financial products performances and that efficient market for retail financial services is not immune to poor financial outcomes even if the products are sold in a fair manner which then does not, on its own, always warrant regulatory intervention. It is the unfair treatment of the customers that arise in the process that is a cause for regulatory intervention. This notion is supported by the (FSA, 2006) where it is conceded that customers can be treated fairly even if the products they purchase perform poorly.

The following statement had a 70.5% level of customer agreement:

- Your bank makes you feel comfortable in their ability to cater for your financial requirements.

The result for this statement is consistent with the result presented in the 'advice' category where there was a 67.4% level of agreement that the banks are able to align advice given to the needs of their customers. For this category/outcome, banks reported a self-assessment confidence level of 73% in meeting the requirements of this outcome, a result which is 8.9% higher than the findings of this study. This shows a level of disconnect in the delivery of this outcome by the banks against the level of customers' expectation.

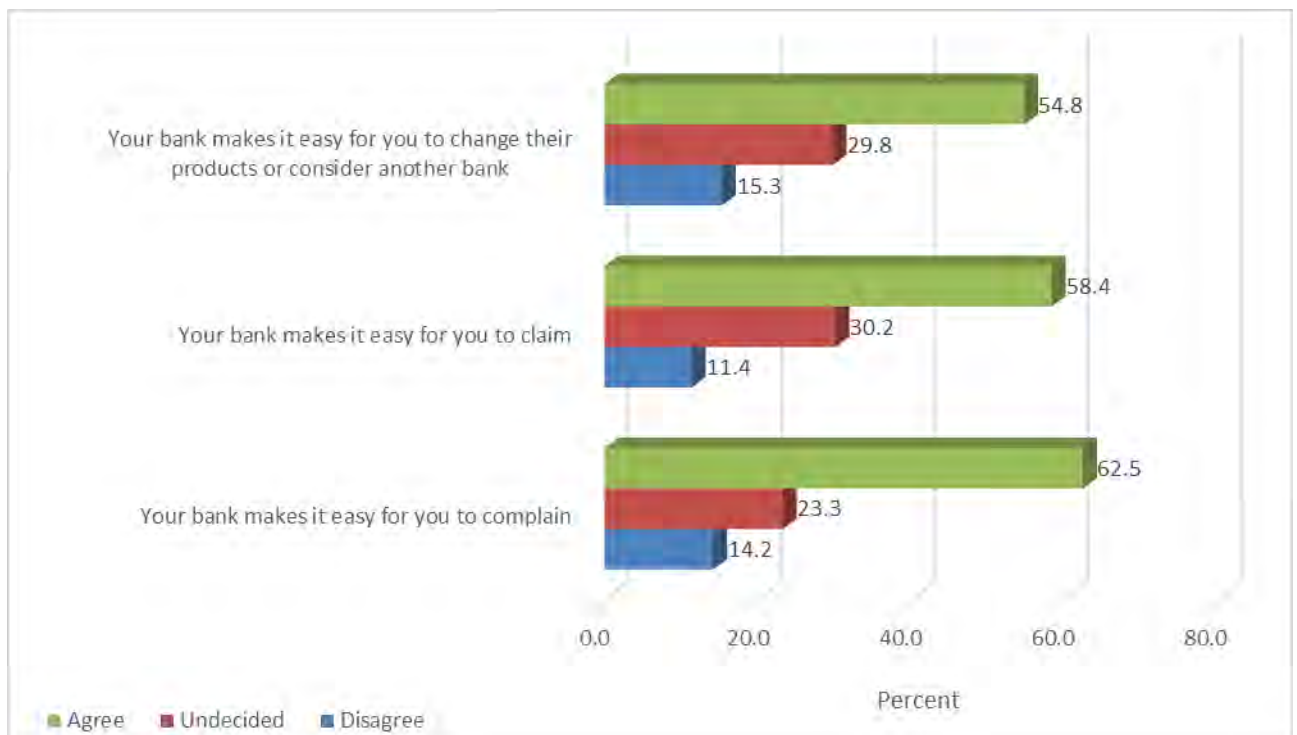
5.2.6 Sub-question 6: To what extent do customers get challenged with unreasonable after-sale obstacles enforced by the banks when altering products, changing banks, submitting a claim or a complaint?

This section investigates the extent to which banks make available to customers fair and clear processes and access points post point-of-sale, such that there are no barriers when customers want to complain, claim or switch products providers or products. Table 5.11 and figure 5.6 below show the summarised scoring patterns from the three statements tested.

Table 5.11 Scoring pattern for Complains and Claims handling

	Disagree	Undecided	Agree
	Percentage (%)		
Your bank makes it easy for you to change their products or consider another bank	15.3	29.8	54.8
Your bank makes it easy for you to claim	11.4	30.2	58.4
Your bank makes it easy for you to complain	14.2	23.3	62.5

Figure 5.6 Scoring pattern for Complaints and Claims handling.



Chi-square tests were conducted per variable to determine whether the differences in the scoring patterns per statement were significant. As per the null hypothesis test



no differences in the scoring options per statement were picked up. Table 5.12 shows the results.

Table 5.12 Chi-square test for Complains and Claims handling

<b>Test Statistics</b>			
	Your bank makes it easy for you to change their products or consider another bank	Your bank makes it easy for you to claim	Your bank makes it easy for you to complain
Chi-Square	84.278 <sup>a</sup>	117.897 <sup>b</sup>	139.114 <sup>a</sup>
Df	2	2	2
Asymp. Sig.	.000	.000	.000

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 117.3.

b. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 117.0.

The tested p-values prove significant. The average level of agreement for this section is the lowest of all other sections at 58.6%, at an average of 27.8% this section has the highest level of uncertainty and although not the highest, the level of disagreement is still high for this section at 13.6%. The statement with the lowest level of agreement in this category was:

- Your bank makes it easy for you to change their products or consider another bank

Just over half the respondents agreed that their banks make it easy for them to change products or consider another bank, 29.8% of the respondents were uncertain that their banks were accommodative and 15.3% of the respondents disagreed that their banks made this possible for them. This finding is not unique to this study. Research done by (International, 2012) found that in the banking market, France had the lowest bank-account switch rate at 7.5%; the study show that customers either find the process too complex or are loyal to their banks of choice. (International, 2012) also found that in many countries customers are dissatisfied with how banks make it difficult for them to change providers or products, the research conducted presented the following statistics:

- A customer survey done in China showed that more than 40% customers were not happy with demanding processes for changing providers.
- In the second half of 2010, more than 1.7 million customer switching complaints were filed with the Financial Services Authority in the UK.
- In 2009-2010, 79,266 banking services complaints were filed with the Indian Office of the Banking Ombudsman.
- In Brazil, the number of complaints received from customers catapulted the financial industry to being the second ranked for complaints received by the department of customer protection in 2009. Financial services customer complaints are also lodged with the Central Bank of Brazil.
- In France, it was found that 5% of customers will actually change their bank while 15% will stay even though they want to change.

Further research has shown that when considering switching banks or products within the same bank, customers are often discouraged by perceived risks related to the time required and the complexity of changing, the direct cost of closing or transferring accounts, risk of payment losses and penalties, tie-ins due to bundling of products, and lack of clear information regarding choices that are available to the customers. Regulatory frameworks such as TCF are then implemented in the UK, China, and India and now in South Africa to introduce fairness in the manner in which customers are treated in such instances.

This category also had low responses for the statement:

- Your bank makes it easy for you to claim.

Research by (Michaels, 2013) maintains that, a good claims experience is a common expectation by customers today, this is therefore no longer a competitive edge but rather common practice. Conversely a bad claims experience will drive customers to seek alternatives. Because the claims process is in most cases towards the maturity side of the product life cycle, it is understandable that a high number of respondents in this study, at 30%, would be uncertain of the claims experience with their banks. What is key for this group of uncertain customers is that the banks make clear what the claimable events are, the qualifying criteria and that

the banks have simple and accessible processes that are clearly communicated to the customers.

For this category, the respondents had a slightly higher level of agreement for the statement;

- Your bank makes it easy for you to complain.

Although 62.5% of the respondents agreed with this statement, 37.5% were either uncertain or in disagreement with this statement. The recent common trend is that banks shifted their focus energies towards customer relationship and complaints management, retention strategies and less on new business development. The survey done by (Lamikanra, 2013) found that, in the 14 African countries that were surveyed only 44% of customers appreciated the level of urgency assigned to the resolution of their complaints. This survey also noted that objective and independently run financial ombudsman bodies have been formed in countries like Australia and the UK in order to address issues between customers and the providers of financial services. While this is prevalent in the developed economies, South African financial services regulators have paved the way for African countries in adopting the approach of appointing a financial ombudsman. A report by (George et al., 2007) presented that a survey by the Association of British Insurers (2007) established that customers that complained were able to make distinctions between the complaints process, the resolutions and their level of satisfaction. Of the customers surveyed 50 % were not happy with the manner in which their complaints were handled while 51 % said that they were happy with the ultimate resolution. The findings were not conclusive in deriving whether the 49% that were not happy with the outcome were part of the group that was not happy with the handling of their complaints.

In the self-assessment baseline study banks expressed a 66% level of confidence in their ability to deliver on this category, which is 7.4% higher than the rating given by the respondents to this study as presented on figure 5.11 above. Research by (George et al., 2007) states that studies agree that customers that complain about their dissatisfaction are as low as 9% and that this is due to the observation that not all dissatisfied customers will complain. Goodman and Grimm (2005) have worked

out that for every one complaint received there are about 25 to 50 complaints that are not received. This then suggests that the MI that organisations have around customers that complain is not a fair reflection of how many customers are actually not satisfied that they are treated fairly by the organisations. This, in its own, is an indication that customer feedback is highly critical when it comes to this outcome.

### 5.3 HYPOTHESIS TESTING

A statement of statistical significance is required when reporting a result using the traditional approach. Test statistics are used to generate p-values, with a " $p < 0.05$ " denoting a significant result. A \* is used to highlight these values. To establish the existence of statistically significant relationship between variables, the Chi square test was done. The null hypothesis indicates that there is no relationship between the two. The alternate hypothesis states that a relationship exists. For example: A 0.001 p-value between "Race" and "Fair treatment of customers is central to your banks' corporate culture" and is below the significance value of 0.05. This shows that the association between these variables is significant. The observation is therefore that the perception of the treatment that the respondents receive is related to their racial groupings. All values without an \* (or p-values more than 0.05) statistically have no significant relationship.

### 5.4 CORRELATIONS

Patterns were picked up from the results of the bivariate correlation that was conducted on the (ordinal) data. A directly proportional association between the variables is denoted by positive values while an inverse association is denoted by negative values.

For example, the correlation value between "Your bank conducts its business with due skill, care and diligence" and "Your bank understood your requirements from a product design and servicing perspective" is 0.616. The proportionality directly

related. The responses suggest that as banks apply more care into how they do business, the better they understand the products and services that their clients need, and vice versa.

## 5.5 SUMMARY

The summary of the results have allowed the researcher to reach certain conclusions in relation to the research sub-questions. Through these results, it was discovered that customer fairness will differ in meanings per individual in relation to their expectations, values and experiences. Through different procedural and cultural interventions, the TCF as a concept aims to bring alignment and protection to the interest of both the customers and organisations. While the TCF is compelling for more reasons than one, the core premise of this concept is to put the customers first by protecting their interests and wealth thereby restoring confidence in the financial services industry. The findings of this study, supported by past literature, showed that the South African banking customer is 66% satisfied with the four major bank's delivery on the TCF outcomes. This level of satisfaction of customers was consistent with research done internationally by authors presented in this study. Significantly the findings revealed that, by contrast, the four major banks under study here overestimated their level of effectiveness in delivering the TCF outcomes by 7%. The following chapter discusses recommendations based on the research findings and provide a conclusion to the study. In addition, the chapter highlights areas for further research.

## **CHAPTER SIX**

### **RECOMMENDATIONS AND CONCLUSIONS**

#### **6.1 INTRODUCTION**

This chapter summarise the study, presents the conclusions of this study, the implications and recommendations, and highlights limitations and areas of further studies. The main purpose of this study was to identify the view of the customer in relation to the financial services organisations' delivery of the TCF outcomes and the level to which this delivery meets their customers' expectations. In so doing, the research proposed three main objectives of the study which covered measuring the extent to which there is alignment between the FSB's TCF delivery expectations of financial services organisations, in this case the four major banks, to the customers' experience of this delivery. This also helps to determine the scope of opportunity that exists where the financial services industry, particularly the four major banks need to realign their delivery of the fairness outcomes in order to adequately satisfy the FSB's requirements. The conclusions from the study are discussed below.

#### **6.2 SUMMARY OF THE STUDY**

The research carried out in this study set out to evaluate the current bank practices, product and service offerings from the customers' point of view in order to enable bank management to understand where the businesses need to improve, capitalise on areas of excellence and begin work on areas requiring improvements in order to improve business performance and customer satisfaction through the application of the TCF principles. The study intended to uncover practices that will foster long-lasting partnerships with customers in order to assist organisations to better deliver on customer value propositions that encompass an inclusive view of the delivery of the fairness outcomes. The literature cited drew insights from both international and local financial services industries highlighting financial risk exposure levels for both

customers and their banks that led to the introduction and application of the TCF regulation.

The literature presented showed that little has been done both locally and internationally to include the views of the customer in the measurement of fairness principles and that current practices only measure and audit the application of TCF by financial services organisations including the banks that were under study; this revelation necessitated the need for, and potential contribution, of this study in presenting the view of the customer. The appropriateness of the research methods used to gather respondents' feedback was supported by the scholarly research. The selection of the target population, sample frame, sampling unit, and the research instrument used were inspired by previous studies which sought similar findings.

The Five-Point Likert scale was used as a measuring scale as it met the necessary statistical requirements of the research. The researcher believes that the applicable sampling methods used for this study were chosen based on the appropriateness and relevance to the study and that these methods were reliable and valid for the collection of appropriate data and that the sampling technique used successfully met the requirements of the study. The participants that were sampled represented a fairly even distribution of the customer base of the four major banks which offered the researcher the ability to formalise remarks based on an even representation of the study subjects.

Of the 430 questionnaires distributed, 356 were returned giving a rate of response of 83% and meeting the standards required for result precision and confidence. The findings of this study, supported by past literature, showed that the South African banking customer is 66% satisfied with the four major banks' delivery on the TCF outcomes. This level of satisfaction of customers was thematic and consistent with research done internationally. Significantly, the findings revealed that by contrast, the four major banks under study overestimated by 7% their level of effectiveness in delivering the TCF outcomes which highlights the need for bank management to keep traction of the customers view in order to bridge the gaps that exist.

## 6.3 CONCLUSION

Feedback received from the respondents to the study suggests that there is a gap in the customers' perceptions of the banks' delivery of the TCF outcomes in comparison to the self-assessment results that the banks completed as a directive from the FSB. The first objective sought to establish whether the current application of TCF principles does enough to help improve customer confidence in the banks. The TCF principles of culture and customer needs were tested and the customers view differed from that of the banks. Feedback from customers showed that they are fairly satisfied that their banks have TCF principles embedded in their culture, which contrasted with the lack of confidence that the banks have in themselves when it comes to delivering on this outcome. This objective also looked at the issues in product performance. From the feedback received, the study revealed that 34% of the customers were not convinced that their banks are transparent when it comes to the performance of their products in comparison to what they are led to buy into. These findings highlight gaps that challenge the levels of customer confidence in their banks. Customer insights may prove useful to bank managers in addressing the opportunities identified in customer confidence as presented in this study.

The second objective sought to determine whether the current application of the TCF principles gives enough insight needed to drive the sale of appropriate products and services. The study results revealed that potentially 30% of the banks customers are not satisfied that the banks apply fair treatment when designing products and services and targeting parameters. In assessing the extent to which customers agree that they are given suitable advice that appropriately takes into consideration their circumstances, the study showed that potentially 33% of banks customers do not agree that their banks meet this measure. Furthermore the customers expressed lower levels of confidence when it comes to banks providing them with products and services that are aligned to their needs. With such a significant percentage of customers indicating a vote of no confidence for this criterion, it can be concluded that the current application of TCF can gain significant input from customer views in order to drive the sale of appropriate products and services.



The third objective sought to determine whether the current application of TCF principles give enough insight into the factors that build enhanced transparency between banks and customers. The negative feedback received from respondents gave insights into the extent to which customers are provided with information that is clear and keeps them informed properly from point-of-sale and afterwards. Furthermore, only 58% were happy that the banks were transparent regarding complaints and claims handling. For both these sub-measures the feedback shows that over 38% of banking customers have views that bank management could take into consideration when designing processes and procedures that would help improve transparency for their customers. The statistical results and supporting literature presented in the preceding chapter highlighted that the South African customer does not have new problems when compared to the banking customers globally.

The absence of literature that suggests that financial regulators locally and internationally have formally put in place frameworks that seek insights from customers regarding their satisfaction of the extent to which they are being fairly treated gives validity to the motivation of this study and the potential contribution to the financial services industry. (Pindar et al., 2011) argue in support of this statement and further states that, while the involvement of customers can sometimes feel like a threat to regulators, it is through customer involvement that the quality of decision making by the regulators will improve, as the real ability to test the outcomes lies with those who utilise the products and services, that is, with the customer. This study therefore provides academics, managers of banks and regulators of the financial services industry with valuable insights into the extent to which the customers are satisfied that they appropriately benefit from implementation of the TCF principles.

## 6.4 IMPLICATIONS AND RECOMMENDATIONS

### 6.4.1 The Implications of the Study

This study explored the South African banks' state of adherence to the TCF from the customer's perspective. The overall feedback of the questions tested to support the study objectives shows that 66.4% of banking customers agree their banks treat them fairly, 11% of the banks' customers disagree that their banks treat them fairly and 22.7% are undecided. From this result it is evident that banks need to put measures in place that will assist them in capturing the 33.7% of their customers who currently are not convinced that the banks treat them fairly. The review of literature presented in this study indicates that there is a great customer need for this regulation to be applied by financial services providers particularly the banks under study. What is also apparent is that the view of the customer highlights TCF delivery gaps among the top four banks. The implication here is that the banks under study are currently missing out on critical customer insights that could prove valuable to their delivery and ultimately the retention of their customers.

This study also shows that the TCF as a regulation presents comprehensive guidelines and measurement procedures that are aimed at driving fair behaviour in the financial services sector through the application of fairness principles by financial services organisations under study. However, this study argues that this approach seeks to measure the application of the TCF principles only and that it makes assumptions that, through application, the customers are therefore enjoying the full extent of fair practices by financial organisation. The misalignment in the results of this study in comparison to the baseline study bears testimony to this and exposes a gap that exists between the views of the banks and those of their customers. The implication of this study is therefore that there is a need for the banks and the regulator to extend the assessment of the delivery of fair treatment to include customer feedback and integrate this into the current measure of application by banks in order to realise the extended measure of the effectiveness of the regulation. While the banks may reach a stage where the regulators are happy with the TCF application standards, the customer is the ultimate judge because this regulation is

designed to deliver fairness to the customers. It is therefore critical that the banks start evaluating their TCF delivery through the view of their customers.

#### 6.4.2 Recommendations

As with any financial services organisation, the primary objective of the banks under study is to make profits and conquer a sizeable share of the market in highly competitive environments. Financial services organisation such as the banks end up resorting to unorthodox means of profit generation where customers, unintentionally or intentionally, fall victim to exploits. With more banking options available to customers, it is very important for banks to ensure that they keep up with their customers' ever changing needs. While the regulators do their part in making sure that regulations such as TCF exist in order to protect the interests of the customer, it is also up to the banks to proactively assess the satisfaction of their customers when it comes to fairness practices. It is the researchers' recommendation that, as part of the TCF self-assessment criteria for banks, an assessment tool that draws insights that measures customer satisfaction on the delivery of TCF outcomes be formulated. This customer satisfaction assessment tool should be carefully constructed by the regulator such that the rateable outputs draw parallel insights to the tool that measures the application of TCF by the organisations, so that relationships can be drawn to enhance the management information that comes out of these assessments. There are three fractions that stand to benefit from the introduction of such a tool.

This tool would provide insights that could assist banks get a clearer comprehension of their customer retention drivers and customer loss mitigating procedures. As a comprehensive customer analytical solution, this tool can assist banks to unearth the true muscle of merging customer insights with business analytics and to produce predictive intelligence, resulting in a potential decrease in customer erosion, improved profitable growth, increased prospects for cross-selling and heightened value propositioning for customers which would be built into the banks operational culture. This tool would present banks with insight that enhances their foresight into the customer's needs.

The insight from the tool would assist the banks to measure the suitability of the products and services that they sell to their customers. The insights would allow the banks to bridge advice gaps and refine their potential to deliver to the expectations of their customers. The insights gained from the tool, and if applied effectively, would assist the banks in enhancing transparency by continuously improving their operational processes and procedures based on the views and expectations of their customers.

For the customers, this would give them a credible and formally recognisable voice that will present insights that seek to establish where the banks fall short in meeting expected levels of fairness through the eyes of their customers. Information gathered using this tool, if used efficiently, will benefit the customers in that their needs would be considered when banks create products and services. Customers will be able to share if they are happy with the advice, the post service that they get and product performance from what they have been sold. Customers would ultimately be the biggest winners through the application of this assessment tool. The effective application of the insights gained from using the tool would contribute towards creating an environment that enhances transparency through customer-friendly complaints processes where banks are actively responsive to customer complaints. An environment where there are minimal gaps between the banks and their customers when it comes to the claims processes and the definitions of claimable events will be created. This tool would enable customers to air their perceptions giving an opportunity to regulators and banks to gauge whether customers, according to their own expectations, believe that they receive fair treatment at all customer touch points in the product and services lifecycle.

For the financial services regulator, the introduction of this tool would allow the regulator to adequately enhance their power with extended enforcements that would bring about comprehensive regulatory compliance. The introduction of this tool would allow the regulator extended reach and an enhanced use of its regulatory tool-kit by involving all of the industry stakeholders, more importantly the customers. The researcher further recommends that the regulator sets up public forums that include customers, customer groups and other stakeholders necessary to discuss issues of

fairness. The direct evidence of customers' concerns around fairness that should be incorporated within the regulatory framework requires all stakeholders, particularly customers, regulatory bodies and certainly organisations to positively engage in debate. "The proof is in the pudding not the description of the recipe" (Pindar et al., 2011):28).

The researcher does not foresee major cost implications related to this suggestion. This is because currently, there is a clear TCF framework in place, and therefore no need for the regulator to reinvent the wheel. All the regulator needs to do is to formulate the customer assessment tool. Once developed and approved the regulator would have to publish the tool on their website for banks to access as an official document to follow and complete.

Most organisations in the financial services industry already have some form of customer experience measurement solutions in place and this includes the banks under study. However, these have no form of uniformity as each organisation seeks to get insights that are relevant to their needs. The customer assessment tool recommended by the researcher would introduce uniformity in the industry and bring direct correlation to the TCF outcomes and solidify the intentions of the regulator. As this would not be a culture shift for most financial services organisations that are already conducting surveys, costs associated with the introduction of this tool would also be minimal.

## 6.5 LIMITATIONS AND AREAS OF FURTHER STUDIES

This study has uncovered some interesting areas for further research. The TCF as a regulation is applicable to the entire financial services industry. However, the long-term objective of the FSB is that this regulation will be extended to other industries that are not necessarily classified as providers of financial services but are involved in advisory and intermediary services that result in financial transactions between customers and organisation such as the healthcare industry and the clothing retail industries. There is an opportunity then for further studies, not only to be inclusive of

a broader section of the financial services industry, but also to consider the assessment of fair treatment of customers in other industries.

This research further reduced the scope of focus, limiting it to the four major banks in South Africa as an area of interest to the researcher. These are the traditional banks that are most recognisable in the country, but there is, however, an opportunity for further research to conduct a more comprehensive banking industry survey that would include other market players such as Capitec Bank, Investec, Ithala and others.

Resource constraints limited the researcher to a concentrated area in terms the sample that was selected. It should be pointed out that the researcher excluded geographical location as an influencing factor in the generalisation of the research findings. In as much as there was no statistical correlation in demographic data and the measurement instrument, it is the researchers' observation that geographical analysis would not have introduced such correlation. Further research could be conducted to test whether geographical and socio-economic factors would introduce meaningful biases to the results of such a study.

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## APPENDICIES

### Appendix 1

Research questionnaire



### **UNIVERSITY OF KWAZULU-NATAL GRADUATE SCHOOL OF BUSINESS AND LEADERSHIP**

#### **MBA Research Project**

**Researcher:** Ntuthuko A. Luthuli 0844076012

**Supervisor:** Mr. Christopher Chikandiwa 031-2608882

**Research Office:** Ms. P Ximba 031-2603587

Dear Respondent,

I, Ntuthuko A. Luthuli, am an MBA student at the Graduate School of Business and Leadership, of the University of KwaZulu-Natal. You are invited to participate in a research project entitled *“Treating Customers Fairly: The South African Banks’ state of adherence from the customer’s perspective.”*

The vision, or ultimate outcome, of the TCF (Treating Customers Fairly) program for the FSB (Financial Services Board) is that customers’ financial services needs are appropriately met through a sustainable industry. This embraces the following outcomes of TCF: Improved customer confidence, appropriate products and services, and enhanced transparency and discipline. The purpose of this survey is to draw a view that informs the financial institutions’ compliance to TCF outcomes as rated by the customer.

Through your participation I hope to identify whether or not there is a gap that exists between the expectations of the FSB, the application of the TCF outcomes by the financial institutions in comparison to the customer’s end-to-end experiences.

Your participation in this project is voluntary. You may refuse to participate or withdraw from the project at any time with no negative consequence. There will be no monetary gain from participating in this survey. Confidentiality and anonymity of records identifying you as a participant will be maintained by the Graduate School of Business and Leadership, UKZN.

If you have any questions or concerns about completing the questionnaire or about

participating in this study, you may contact me or my supervisor at the numbers listed above.

The survey should take you approximately 10 minutes to complete. I hope you will take the time to complete this survey.

**PARTICIPATION CONSENT:**

- I hereby certify that my response to the information on this document is correct to the best of my knowledge
- I understand the purpose of this research and my involvement in it.
- My participation in this survey is voluntary and I understand that I can withdraw from the research at any stage.

**Based on the above I hereby agree to participate in this survey.**

- Yes
- No

**Section A: Demographics**

**1. What is your gender?**

- Male
- Female

**2. What is your age group?**

- 18 to 24
- 25 to 34
- 35 to 44
- 45 to 54
- 55 to 64
- 65 or older

**3. What category below describes your ethnicity**

- African
- White
- Coloured
- Indian
- Other

**4. Which one of the banks below do you use mostly**

- ABSA Bank
- First National Bank
- Nedbank
- Standard Bank
- Other

**5. Please indicate which products you have with your bank**

- Insurance

- Investment
- Life Cover
- Transactional account (Cheque/savings account, credit card etc.)
- Other

**6. Please indicate the channel you use the most to contact your bank**

- Call Centre
- Branches
- Personal Banker
- Online/Self service facilities

Section B: Measurement Items

**TCF Outcome 1**

7. Please rate the extent to which you are confident that the fair treatment of customers is central to your banks' corporate culture.

<b>Strongly Disagree</b>				<b>Strongly Agree</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

8. Please rate the extent to which your bank conducts its business with integrity and transparency.

<b>Strongly Disagree</b>				<b>Strongly Agree</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

9. Please rate the extent to which your bank conducts its business with due skill, care and diligence.

<b>Strongly Disagree</b>				<b>Strongly Agree</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

## TCF Outcome 2

10. Please rate the extent to which your bank offers products and services that address your specific needs.

<b>Strongly Disagree</b>				<b>Strongly Agree</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

11. Please rate the extent to which your bank understood your requirements from a product design and servicing perspective.

<b>Strongly Disagree</b>				<b>Strongly Agree</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

12. Please rate the extent to which you feel the product you bought is value for money

<b>Strongly Disagree</b>				<b>Strongly Agree</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

## TCF Outcome 3

13. Please rate the extent to which you were/are kept informed during, before and after the point of sale.

<b>Strongly Disagree</b>				<b>Strongly Agree</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

14. Please rate the extent to which the product costs and pricing were clearly explained to you.

<b>Strongly Disagree</b>				<b>Strongly Agree</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

15. Please rate the extent to which the documentation you receive in terms of your product is accurate, clear, fair and not misleading.

<b>Strongly Disagree</b>				<b>Strongly Agree</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

#### TCF Outcome 4

16. Please rate the extent to which your bank provides you with advice that is suitable for your specific circumstances.

<b>Strongly Disagree</b>				<b>Strongly Agree</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

17. Please rate the extent to which your bank is able to instil a sense of trust in you when you receive financial advice from them.

<b>Strongly Disagree</b>				<b>Strongly Agree</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

18. Please rate the extent to which your bank makes you feel comfortable in their ability to cater for your financial requirements.

<b>Strongly Disagree</b>				<b>Strongly Agree</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

#### TCF Outcome 5

19. Please rate the extent to which your bank delivers on the promises they make with their products and services.

<b>Strongly Disagree</b>				<b>Strongly Agree</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

20. Please rate the extent to which you are confident that your bank has processes in place to mitigate risks where products are not or are unlikely to perform as you have been led to expect.

<b>Strongly Disagree</b>				<b>Strongly Agree</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

21. Please rate the extent to which you are confident that your bank has processes in place to protect the confidentiality of all their customer information.

<b>Strongly Disagree</b>				<b>Strongly Agree</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

### TCF Outcome 6

22. Please rate the extent to which your bank makes it easy for you to change their products or consider another bank.

<b>Strongly Disagree</b>				<b>Strongly Agree</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

23. Please rate the extent to which your bank makes it easy for you to claim.

<b>Strongly Disagree</b>				<b>Strongly Agree</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

24. Please rate the extent to which your bank makes it easy for you to complain.

<b>Strongly Disagree</b>				<b>Strongly Agree</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

## Appendix 2

### Ethical Clearance Letter



20 November 2014

Mr Ntuthuko A Luthuli 981204632  
Graduate School of Business & Leadership  
Westville Campus

Dear Mr Luthuli

Protocol reference number: HSS/1532/014M

Project title: Treating Customers Fairly: The South African Banks' state of adherence from the customer's perspective

#### Full Approval – Expedited Application

In response to your application received on 18 November 2014, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol have been granted **FULL APPROVAL**.

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment/modification prior to its implementation. In case you have further queries, please quote the above reference number.

**PLEASE NOTE:** Research data should be securely stored in the discipline/department for a period of 5 years.

The ethical clearance certificate is only valid for a period of 3 years from the date of issue. Thereafter Recertification must be applied for on an annual basis.

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully

Dr Shenuka Singh (Chair)

/ms

Cc Supervisor: Mr Christopher Chikandiwa  
Cc Academic Leader Research: Dr E Munapo  
Cc School Administrator: Ms Zarina Bullyraj

Humanities & Social Sciences Research Ethics Committee

Dr Shenuka Singh (Chair)

Westville Campus, Govan Mbeki Building

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## Appendix 3

### Editors Certificate



**College of Graduate Studies**

**AMRI-UNISA**

**Rm 208 Vista/Robert Sobukwe Building**

**263 Nana Sita Street**

**Pretoria---0001**

20 August 2015.

Dear Sir/Madam,

This is just to confirm that I edited Mr Ntuthuko A. Luthuli's Master of Business Administration dissertation entitled "Treating Customers Fairly: The South African Banks' state of adherence from the customer's perspective" to be submitted to Graduate School of Business & Leadership College of Law and Management Studies, University of KwaZulu Natal.

Yours sincerely,

**Dr Busani Mpofu**

A handwritten signature in black ink, appearing to read "Mpofu", written over a horizontal line.

**Snr Researcher**

**College of Graduate Studies**

**AMRI-UNISA**

**Rm 208 Vista/Robert Sobukwe Building**

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**Pretoria---0001**

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# Appendix 4

## Turnitin Report

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Dissertation 2015 Chapter 3 - DUE 31-Dec-2015

Originality GradeMark PeerMark

### Treating Customers Fairly: The South African Banks' state of adherence from the

BY INTUTHLING LUTHULI

turnitin 7% SIMILAR (OUT OF 0)

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CHAPTER ONE

OVERVIEW OF THE STUDY

1.1 INTRODUCTION

The protection of customer's financial interests and increased product disclosures has recently become strong focus points for financial services regulators, both in South Africa and around the world. This emphasis come as no surprise, as the financial services industry has, to an extent, developed an unflattering and destructive reputation as one that does not always put customers' interests first. Research done by (Lamikanra, 2013) shows that 11 out of 14 African countries surveyed strongly feel that more work needs to be done by regulators in order to restore customer confidence in the industry.

The Financial Services Board (FSB) South Africa introduced 'Treating Customers Fairly' as a regulation with an approach that strives to make sure that detailed, plainly outcomes that demonstrate fairness for customers in the financial services industry are carried out through regulated organisations including the banking industry. In addition, it is intended that the delivery of these detailed fairness outcomes will as a result heightened transparency and discipline in financial organisations ensuring the provision of suitable financial products and services to customers and result in enhanced customer confidence. The ultimate outcome that this regulation seeks to foster is that the financial needs of customers are properly met while building sustainability in the industry. When it comes to financial activity

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