Making the case for Case Checking – the next move for T&C

By **Carl Redfern** from Redland Business Solutions

It seems that across the wider Financial Services industry there is a significant surge in interest in the T&C function. Mortgage Firms, Consumer Credit firms, Specialist Lenders, High Street Banks, Commercial Banks, Wealth Managers, Investment Managers, Brokers, Networks, Nationals, Advice firms of all sizes, are turning to their T&C people and asking . . .

❏ Can we do more of what you do?

❏ Can we apply it to more roles?

On reflection, some of this 'board level' of interest is not too surprising . . . the FCA have begun to make their presence felt across the board (pun intended).

They have made some of their key objectives very clear, including a material focus on the right Culture, achieving good Customer Outcomes and managing Conduct Risk. In the 2014 FCA Risk Outlook they identify 'culture' as a driver of risk stating that;

"Culture drives behaviour – it reflects the underlying values and 'mind-set' of the organisation and as such has a great influence on the behaviour of individuals within the firm."

This is interesting because it seems to me, from one perspective at least, to be back-to-front. It is the behaviour of individuals within a firm that defines the culture.

I'm not necessarily disagreeing with the authors of the Risk Outlook, this is an example of circular logic, or to give it an engineering term, it's a feedback loop. Both statements are true:

❏ a firm's people define it's culture

❏ a firm's culture influences it's people

Due to the nature of this feedback loop it can be complex and difficult to effect change, to improve the culture and positively influence individuals' behaviour. This is where T&C teams and Business Quality Checking can step in.

Traditionally T&C teams within organisations have focused their efforts on the key regulated roles in in the business, such as Financial Advisers or Mortgage Advisers and the recent regulation changes of RDR and MMR have only increased this emphasis.

However more and more firms are beginning to consider using the controls and structures of T&C schemes to drive professionalism and improved standards across wider customer facing roles and even 'back office' staff. Business Quality Checking allows Firms to review what is actually going on in each interaction and feed the results back into the processes.

There are two different types of 'feedback loop', Positive Feedback and Negative Feedback and we need to carefully consider both. The 'labels' are counter-intuitive though and the natural assumption that 'Positive' is good and 'Negative' is bad is not correct.

In every feedback loop, as the name suggests, the results of an action are sent back to the start in the form of input data. If the new data accelerate the next action in the same direction as before, they are positive feedback – their effects are cumulative. If the new data produce a result in the opposite direction to previous results, it is negative feedback - their effects stabilize the system. In the first case there is exponential growth or decline; in the second there is maintenance of the equilibrium.
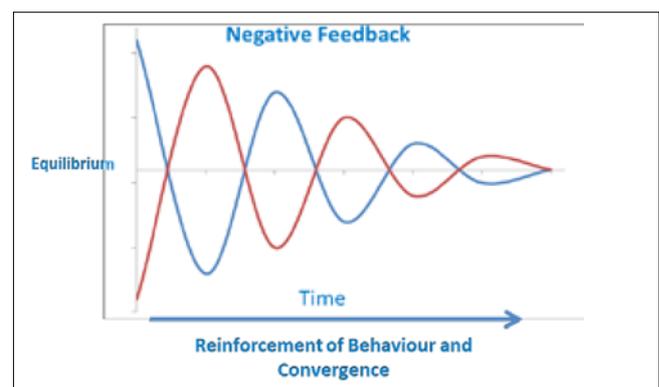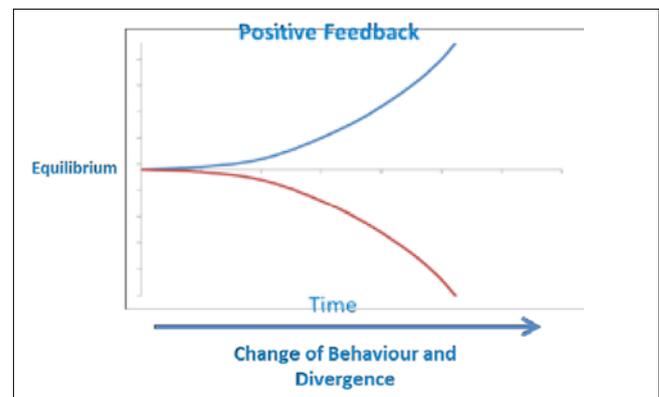
Negative Feedback

❏ Stimulus causes actions that negate the original stimulus

❏ Whether variable was too high or too low, negative feedback brings it back to a set point

❏ Promotes stability, constancy

Positive Feedback

❏ Stimulus causes actions that further enhance stimulus

❏ Promotes instability, change

We need both of these scenarios within our firms, identifying bad behaviours and eliminating them, but also recognising good behaviours and reinforcing them. Using the features of both styles of 'feedback loops' we can evolve an equilibrium of behaviours that represent higher standards of professionalism across all of the roles in the firm – this will then become embedded as the firms new culture.

Firms need to constantly and positively reinforce the right attitudes and focus on the right customer outcomes. To do this, firms need to clearly and holistically understand what is going on at each interaction or transaction in the business. We need to create 'effective' feedback loops and efficiently record the results and the changes. We must achieve the desired progress but also keep the necessary records that evidence this progress – this is Training and Competence in action.

It makes total sense to apply these tools to all areas of the business, not just the traditional regulated roles. Apply these controls to help all staff to be the best that they can be and the cultural change will come along for the ride.

Business Quality Checking (BQC) or Case Checking is an increasingly significant element of this feedback loop. With sufficiently efficient processes in place for BQC, checking does not need to be limited to 'sales cases'. Many other processes can benefit from having 'checks' applied, in Call Centres for example, 'call monitoring' is applied to most calls, whether they are 'sales cases' or not. Similarly, outside of Call Centres, 'checking' regimes often exist in admin functions and customer service roles. All of these 'actions' can be managed and monitored by Case Checking systems, providing automated rules to help to select the right cases to check.

In recent years there has been a move by many firms to conduct these checks on a 'Risk Basis' – that is check a higher proportion of cases that represent more risk to the business.

Risk based checking is not a new concept. However it can still be quite hard to actually deliver, for example, often by the time someone has evaluated the 'risk' of a given case, they have probably almost done the work needed to 'check it'. Consider for example, selecting telephone calls to monitor from a call recording system – you may have to listen to the call to risk assess it, by which time, you might as well 'monitor' it.

This is where Case Checking systems come in. If the system can assess the risk of the case (sales process, telephone call, service interaction) efficiently from data available, say from a POS system or other source, it can apply a series of rules and selectively direct cases to the appropriate checking resources.

In reality though, this is harder to achieve than to describe and initially defining the rules can be very time consuming. It also pays to remember that the rules will need to evolve and change as the business does and to reflect changes to rules, regulations, products, processes etc.

If you are considering Business Quality checking in this wider context, it is sensible to specifically define why you are 'Quality Checking' at all?

You should be able to clearly link Quality Checking policies and intended outcomes to managing Conduct Risk, developing Culture and achieving the correct Customer Outcomes.

It is significantly easier to achieve this, if you can tightly integrate Business Quality Checking into T&C policy and controls – this more than having BQC results feed into T&C as Key Performance Indicators.

Observations and comments from Checking teams should be available for staff and their managers to read and review (where appropriate – there will be exceptions). Checking results should feed into Action Plans and 1-1s, they should identify Training needs and link to corrective actions undertaken, including follow up observations and subsequent outcomes over time.

Similarly, T&C information influences Quality Checking. The current situation of all staff should be considered when 'checking' their activity (whether that is sales, advice, admin or service). Their level of experience, recent case history, observation records, competence assessment results as well as their KPIs ought to influence which cases are selected for checking and during the check, this information should be available to the Checking teams because it may inform the result.

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It is also vital to remember the 'effective' feedback loop when reviewing BQC processes. I have seen and reviewed a few dozen examples across many firms and functions (sales / admin / service etc.) and nearly all of the traditional 'sales checking' processes in Financial Services don't include 'positive' feedback.

We should take a leaf out of some of the service and call centre 'effective monitoring' guidebooks and ensure that examples of good practise are spotted, documented, fed-back and circulated!

This is common practise in Service and Call Centres, but often neglected in traditional T&C and Checking policies. Promoting good behaviour is essential to developing culture and managing Conduct Risk – which I think, at least, makes a good part of the case for Case Checking.

Modern Case Checking systems can facilitate this integration with T&C and create significant efficiencies within the Case Checking teams. An example of the key components of a Case Checking system is shown below:
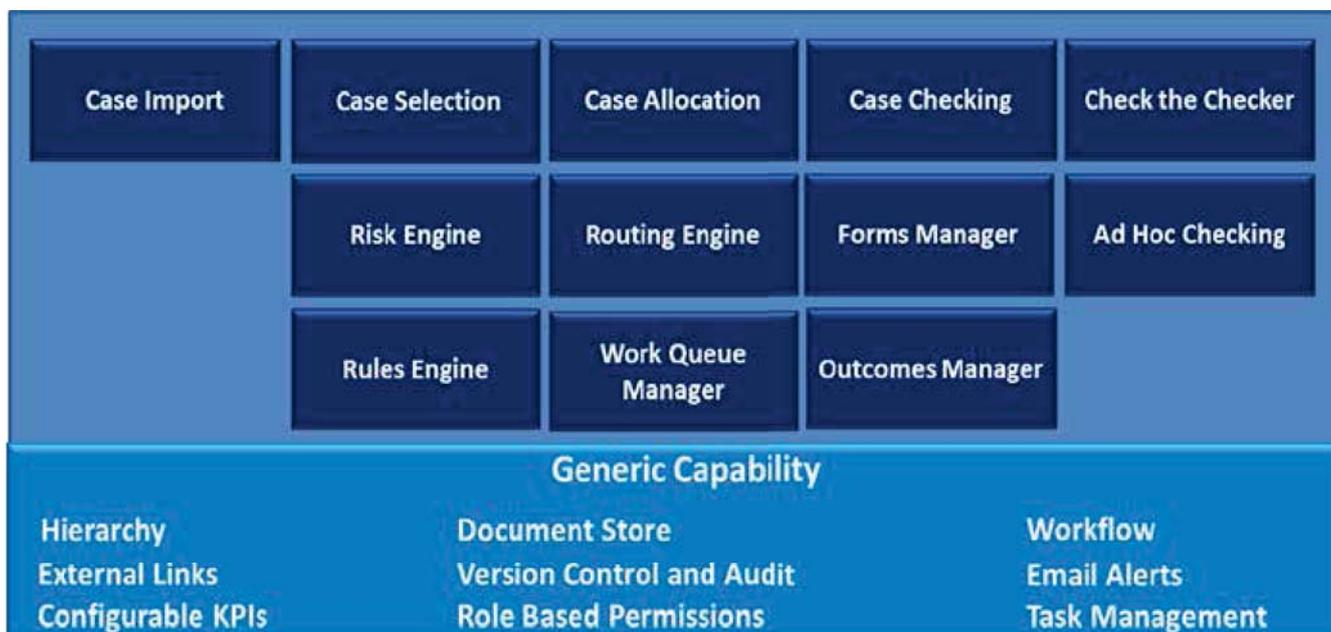
> **"It makes total sense to apply these tools to all areas of the business, not just the traditional regulated roles**

Using systems to support these BQC processes can bring many advantages and achieve material efficiencies, potentially reducing time spent on Checking and any remedial action for both the checking teams and the staff being checked.

A word of warning though, the cost of ownership needs to be carefully assessed. The rules, the integration points (case data being passed into the Checking system), the checking forms, the checking outputs (results) will all change with some frequency. Consider MMR as an example, new products, new checks, new data, new forms and new outcomes will have resulted in material change to any Case Checking system. If you are reviewing your Case Checking processes and systems, interrogate the provider about configuration capabilities and how much you can maintain yourselves.

If Business Quality is tightly integrated into T&C in these ways, the Firm has a process which is capable of delivering the 'Effective Feedback Loop' I described earlier – the benefits of both positive and negative feedback can be applied to create the desired change and control across all of the business processes and across all of the staff involved.

Critically, if this integrated approach is achieved, it creates the evidence that the Board and senior management teams are looking for to quantify Cultural change and improvement, quantify the management of Conduct Risk and to show the Firms commitment to achieving the right Customer Outcomes.

The Case (Checking) rests.

Do your Risk Management controls support all of the FCA Requirements and Guidelines?

If the answer to this question is '**NO',** then you need to speak to us and see how Redland's **Insight** solution can allow you to confidently say **'YES'** to all of these questions and more!

Do your **supervisory processes and procedures** meet and deliver the required standards **?**

Are you able to access all key information within the business for effective **Risk Management ?**

Do your controls ensure that **remedial or developmental** actions are captured and acted upon **?**

Can your firm evidence a **supervision framework** that is applied to all **?**

Are you able to identify "trends" to prevent **risk and performance management** issues **?**

Is your **performance management** framework effective, comprehensive and consistent **?**

Do you have adequate controls for improving data collection and **management reporting ?**

The answer is Redland's **insight** Solution

Insight provides a valuable set of tools that enable the organisation to manage the potential risks to its business reputation.

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