Financial Services Research Forum

Nottingham University Business School

Measuring Consumer Perceptions of Fairness
In Financial Services:
The Fairness Index

Professor James Devlin[123]

[1] Professor of Marketing, Nottingham University Business School: Research Director, Financial Services Research Forum

[2] Address for correspondence: Nottingham University Business School, Jubilee Campus, Wollaton Road, Nottingham, NG8 1BB; Telephone 0115 981 5994; Fax 0115 846 6667; Email james.devlin@nottingham.ac.uk

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MEASURING CONSUMER PERCEPTIONS OF FAIRNESS IN FINANCIAL SERVICES: THE FAIRNESS INDEX

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EXECUTIVE SUMMARY

- Ensuring that firms do all that they can to deliver fair outcomes for consumers is a core theme of the FSA's approach to retail markets.

- The FSA hopes that Treating Customers Fairly (TCF) will help engender a sense of confidence and greater trust on the part of consumers.

- The FSA has identified six outcomes that it considers will result if customers are treated fairly by firms. The FSA requires firms to show how these six core fairness objectives have been incorporated into conduct of business rules. However, the Forum believes that that the consumer interest would also be furthered through the provision of a straightforward benchmark, based on robust principles and sound methodology, which can be employed to analyse trends through time and differences between firms and sectors.

- Theoretical perspectives on fairness have their roots in the theory of justice**.**

- From a theoretical perspective, three dimensions of fairness have been identified: Procedural Fairness, which is fairness of a party's policies and procedures, Interactional Fairness, which is the fairness of interpersonal treatment and communication, and Distributive Fairness, which concerns resource allocation and the outcomes of exchange, or how "the pie" is shared out.

- Six key elements of a procedurally and interactionally fair exchange have been acknowledged: Impartiality, Refutability, Explanation, Familiarity, Bilateral Communication and Courtesy and Respect.

- Therefore, seven key elements of fairness were used for the current study: Four dimensions of Procedural Fairness; Impartiality, Refutability, Explanation, Familiarity: Two dimensions of Interactional Fairness; Bilateral Communication and Courtesy and a further dimension measuring Distributive Fairness. The measures were derived with input from academic literature, policy reports, academic experts, industry experts and policymaking experts.

- A sample of 700 consumers was used in data collection, 100 for each of the following seven institutional contexts: banks, building societies, general insurers, life insurers, investment companies, brokers/advisors and credit card companies

- Statistical analysis confirmed the reliability and validity of the measures used in the study

- The data collected for the study was used to calculate a Fairness Index, which provided an insight into overall perceptions of fairness, as well as ratings of fairness on each of the seven key elements outlined above.

- The initial overall Fairness Index score is **72.4.** Such a score represents a moderate sense of perceived fairness on the part of consumers. Not a ringing endorsement of the industry, but neither is it wholly unsatisfactory. It should be borne in mind that this is an average score for all dimensions for all firms which masks wide variations across the various sectors of the financial services industry, the identified components of fairness and, indeed, the performance of individual companies.

- Overall perceptions of fairness vary by institution type as follows: banks **68.1**, building societies **75.0**, general insurers **71.9**, life insurers **72.2**, investment companies **73.1**, brokers/advisors **83.6** and credit card companies **62.6**.

- Overall scores for each dimension are: Refutability **65.5**, Explanation **76.0**, Impartiality **68.5**, Familiarity **71.2**, Communication **69.6**, Courtesy **81.6** and Distributive Fairness **71.5**.

- The variations in performance across the various dimensions generally hold for each institution type covered in the survey.

- For the sector as a whole, Distributive Fairness is by far the most important influence on overall perceptions of fairness (roughly three times as important as any other dimension), the Interactional Fairness dimension of Courtesy is next most important and the other particularly significant dimension is the Procedural Fairness dimension of Explanation.

- There is some evidence that importance varies by the type of provider, a finding which has potentially significant policy implications.

- Importance/performance analysis provides insights into areas which should be the focus of improvement

- With effect from December 2009, fairness data will be collected on a quarterly basis to allow for analysis of trends in perceptions of fairness. A significantly larger sample of 2000 adults will be surveyed, allowing for more detailed analysis of the resultant data.

- Previous experience with the Trust Index suggests that there is potential for large variations in scores between individual companies and we therefore urge companies to approach the Forum and avail themselves of the opportunity to commission a bespoke Fairness Index analysis. Such a study will provide an empirically sound and independently verified analysis of this important aspect of corporate performance.

FAIRNESS AND FINANCIAL SERVICES POLICY

Fairness and the Policy Agenda

Ensuring that firms do all that they can to deliver fair outcomes for consumers is a core theme of the FSA's approach to retail markets. In this respect, fairness has been identified as one of the key aims of the FSA, which have been summarised as "to promote efficient, orderly and fair markets, help retail consumers achieve a fair deal and improve its business capability and effectiveness."[1] Along with other policy developments, such as the Retail Distribution Review (RDR), the Treating Customers Fairly initiative is, therefore, central in the FSA's efforts to meet its aims and objectives. The FSA recently stated that "TCF remains essential to our retail strategy-it has gained enormous buy-in from firms, and it is a hugely important part of our retail agenda for consumer protection."[2]

The FSA is keen to promote fairness as the chances of mis-selling are reduced, as is the potential exploitation of the lack of consumers' financial capability. Fair outcomes will also help engender a sense of confidence and trust in the marketplace, firms and their agents. Along with efforts to improve financial capability, increasing levels of trust and confidence are important in persuading customers to engage more meaningfully with financial matters and to participate in financial markets to a greater degree. Increased participation and a greater level of provision of savings, investments and pensions on the part of the public is arguably the key ultimate objective of the TCF regime, along with the other policy initiatives discussed above. There is now greater individual necessity for financial provision and a related increased reliance on the marketplace, as Government and employers transfer responsibility and risk to individuals, not least by the withdrawal of final salary pension schemes and related benefits. Whilst the exact extent of the saving gap is the subject of some debate and the savings rate has risen slightly in the recent past, it is beyond dispute that large numbers of people are failing to provide adequately for their financial future. Over time, it is hoped that ensuring that customers are treated fairly will help to drive up levels of trust and confidence and, as a result, consumers' participation in financial services markets.

Although the FSA has taken the lead in matters related to TCF, other policymaking bodies have also commented on the role of fairness in financial services markets. The Office of Fair Trading (OFT), which is the UK's main consumer and competition authority charged with making sure that markets work well for consumers, has long held an interest in financial services markets, as such markets can prove extremely problematic from a consumer perspective. In April 2009, the OFT issued a consultation document detailing its proposed strategy in relation to financial services.[3] One of two main themes for future strategy identified in the report is the promotion of fairness and responsibility in the credit industry (broadly defined). The main objective of the OFT in this respect is to ensure that vulnerable consumers and those in a situation of some distress are not exploited by providers. Overall, it is apparent that the FSA and other interested parties envisage a central role for fairness in efforts to protect consumers and to encourage them to engage successfully with financial services markets.

Fairness: The FSA Perspective

The FSA has facilitated much discussion of the meaning of fairness in a financial services context and has identified six key TCF outcomes which it believes are critical for the fair treatment of consumers:

- "Outcome 1: Consumers can be confident that they are dealing with firms where the fair treatment of customers is central to the corporate culture
- Outcome 2: Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and targeted accordingly
- Outcome 3: Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale
- Outcome 4: Where consumers receive advice, the advice is suitable and takes account of their circumstances

- Outcome 5: Consumers are provided with products that perform as firms have led them to expect and the associated service is both of an acceptable standard and as they have been led to expect

- Outcome 6: Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint" [4]

The FSA requires that firms show how these core principles have been incorporated into firms' conduct of business procedures. Firms are also charged with deriving metrics to illustrate that consumers are being treated fairly. Initially, the FSA planned to carry out a structured sampling of firms' approaches to the measurement and reporting of fairness metrics. However, sampling was abandoned on resource grounds and TCF assessments were incorporated into the FSA's core supervisory work earlier than anticipated in January 2009, rather than September 2009.[5] The FSA claimed that such an approach was a positive development as it enables TCF work to be embedded in core supervisory activities more quickly. However, the prevailing financial climate and the strains placed upon the FSA as a result of the financial crisis undoubtedly had an impact on policy in this area, as the abandonment of sampling of 100 firms allowed resources to be diverted elsewhere.

Notwithstanding the lack of sampling and a promised subsequent reporting period, the agenda has moved on and all firms must now:

- "be able to demonstrate that senior management have instilled a culture whereby they understand what the fair treatment of customers means; where they expect their staff to achieve this at all times; and where (a relatively small number of) errors are promptly found, put right and learned from;
- be appropriately and accurately measuring performance against all customer fairness issues materially relevant to their business, and be acting on the results;
- be demonstrating through those measures that they are delivering fair outcomes; and

- have no serious failings – whether seen through management information (MI) or known to us directly – including in areas of regulatory interest previously publicised by the FSA."[6]

The progress firms have made in meeting the requirements stated above is assessed as part of regular FSA evaluations of firms known as ARROW (Advanced, Risk-Responsive, Operating Framework) assessments. In making such assessments, the FSA will use its TCF Culture framework[7], incorporating:

- Leadership; which centres upon the direction, monitoring and empowerment given to middle management by senior management.
- Strategy; which emphasises the importance of senior management allocating sufficient time and resource to TCF matters.
- Decision making and challenge; which highlights the importance of challenging strategies, policies or procedures that deliver unfair consumer outcomes.
- Controls; which emphasises the importance of identifying, collecting, interpreting and employing relevant management information to monitor TCF effectively
- Performance Management; performance management plans should include clearly stated TCF-related objectives. The behavioural implications of such objectives should be apparent.
- Reward; senior managers' rewards and incentives should recognise the influence they have on the fair treatment of customers.

In its ARROW assessments of TCF, the FSA will review a firm's TCF outcomes by using the firm's management information, as well as direct testing of the customer experience, in the form of mystery shopping, call listening etc, and any other relevant and timely evidence. Evidence and information will be requested, the scope and the nature of the assessment will be agreed, operationalised and validated and the outcome of the assessment fed back to firms.

In summary, the FSA has identified what it considers to be key outcomes in TCF and has established a risk assessment framework which it hopes will ensure that firms quickly become TCF compliant to the extent that they are not already. However, such an approach, whilst sensitive to the circumstances of individual firms, does not lend itself to comparisons between providers or sectors. The approach adopted by the Forum seeks to complement the work of the FSA by providing a straightforward consistent benchmark measure. It is hoped that such an approach will be of material value in raising industry standards of fairness and furthering the consumer interest and the achievement of wider policy goals in the context of personal financial well-being.

FAIRNESS: THEORETICAL PERSPECTIVES

Theoretical perspectives on fairness have their roots in the theory of justice,[8] which is in turn adapted from equity theory and social exchange.[9] Using justice theory as their starting point, a number of authors have conceptualised fairness as being made up of two distinct elements.[10] One is the fairness associated with the process used to determine outcomes, or the process used to manage exchange relationships. This is called **Procedural Fairness**[11]. Key themes in discussions of procedural fairness are the importance of due process and the fairness of a party's policies and procedures. The other main dimension of fairness is concerned with the fairness of the economic price and outcomes actually achieved. This is termed **Distributive Fairness**. Distributive fairness involves resource allocation and the outcomes of exchange[12]. Key themes in this element of fairness include consideration as to how the pie is shared out and how the benefits and costs are divided between relevant parties.

A related approach has been to further distinguish between **Procedural Fairness** and **Interactional Fairness**.[13] Such an approach interprets Procedural Fairness as relating in particular to the perceived fairness of the means by which the outcome is achieved and includes such factors as the freedom to express one's views in a decision process and the adaptability of procedures to reflect individual circumstances. Interactional Fairness is the fairness of interpersonal treatment and refers to factors such as the provision of caring attention and well-mannered courteous behaviour on the part of the provider. [14] A similar approach defines procedural fairness as the fairness of the process employed and interactional fairness as the fairness of the manner in which the other exchange party is treated (e.g. courtesy and respect).[15]

Although Kumar did not distinguish between procedural and interactional fairness, he has arguably provided the most detailed analysis of procedural fairness by introducing and explaining six key elements of a procedurally fair exchange:[16]

- Bilateral Communication; a willingness two engage in two way communication on the part of the more powerful party

- Impartiality; the requirement to deal with all exchange partners equally

- Refutability; the need to allow smaller and more vulnerable exchange partners to appeal and question decisions and policies

- Explanation; the requirement for more powerful parties to provide exchange partners with a coherent rationale for decisions and policies

- Familiarity; meaning that the more powerful party makes efforts to familiarise itself with the conditions under which exchange partners operate

- Courtesy and Respect; interpersonal factors, the requirement to treat exchange partners with respect

In our study, we incorporate the arguments of Kumar, who has provided arguably the most detailed and nuanced deconstruction as to the important dimension of fairness. However, Kumar did not distinguish between Procedural and Interactional Fairness. In this respect, it is important to note that Bilateral Communication and Courtesy and Respect would be classified as Interactional Fairness by other authors.[17] Thus, the model we operationalise and seek to verify with our data has the following dimension: ***Distributive fairness***, which is the fairness of the outcomes of the exchange; ***Interactional Fairness***, which is the courtesy, respect and consideration show during the exchange and the degree of bilateral communication and ***Procedural Fairness***, which incorporates the elements of impartiality, refutability, explanation and familiarity.

We draw primarily on academic sources for our model of fairness as these measures have been subject to more rigorous debate and testing than sources from the policy domain. As such, they are likely to possess greater reliability and validity of measurement. However, the measures derived in the “Developing the Fairness Index” section below also have much in common with policy orientated expositions of fairness, such as the FSA’s six key outcomes.

DEVELOPING THE FAIRNESS INDEX

The Fairness Index was developed using an inductive approach which incorporated expert consultation and desk research of previous fairness studies. Based on previous studies, a number of scale items were developed by the primary researcher to measure the Procedural Fairness dimensions of Impartiality, Refutability, Explanation and Familiarity, the Interactional Fairness dimensions of Bilateral Communication and Courtesy and outcome, or Distributive Fairness. These measures were then shared with academic experts in the field, their opinions sought and minor amendments made to the questions. Previously, a consultation exercise was carried out amongst the membership of the Financial Services Research Forum (FSRF)[18] and the FSRF membership also proved useful in providing comments on a version of the Fairness Index questionnaire. The questionnaire was then subject to further initial piloting amongst a cohort of MBA students studying a Business Ethics module, as well as a convenience sample of fellow faculty. Further minor adjustments were then made to measurement scales.

A market research agency was then employed to pilot a draft version of the questionnaire amongst a sample of fifty randomly selected members of the population. The resultant data were then analysed to check the reliability and validity of the measures contained in the fairness questionnaire. The results of the pilot study showed that the vast majority of the scales were shown to be highly reliable, with Cronbach's Apha statistics generally of the order of 0.9 or above, and valid in that they were shown to possess uni-dimensionality when subjected to the statistical technique of exploratory factor analysis.[19] One scale required further attention, with one item being dropped from the Distributive Fairness scale (as it caused the scale to become multi-dimensional and introduced issues of cross-loading). Details of the final measures of fairness are provided below.

The Impartiality measure comprised three items:

Impartiality (Procedural)
My x makes sure it is not biased towards certain customers
My x makes efforts to treat all customers equally
My x makes sure that it does not favour some customers over others

The Refutability measure also comprised three items:

Refutability (Procedural)
My x takes notice when I complain about something
My x is willing to change things when I tell them I am not satisfied
My x lets me change things on fair and reasonable terms

The Explanation scale comprised six items, being a slightly broader, although still uni-dimensional, construct:

Explanation (Procedural)
My x takes time to explain its decisions to me
My x is willing to explain its products and services
My x tries to make sure I understand the information it provides
My x tries to make sure that I understand what I am buying
My x provides me with clear information at all times
My x keeps me appropriately informed when providing products and services
My x's promotional material is accurate and informative

The Familiarity measure also incorporated three questions:

Familiarity (Procedural)
My x makes the effort to understand my circumstances
My x provides advice which is suitable for me
My x provides advice which takes account of my circumstances

As did that of Bilateral Communication:

Bilateral communication (Interactional)
My x listens to my needs and reacts accordingly
My x is willing to listen to my point of view
My x takes notice of any points and suggestions that I make

And Courtesy:

Courtesy (Interactional)
My x shows courtesy in its dealings with me
My x treats me with respect
My x is considerate in its dealings with me

Distributive Fairness was measured using eight questions:

Distributive Fairness
My x makes sure that I only end up with products which take account of my circumstances and are suitable for me
My x provides products which perform as I have been led to expect
My x keeps its promises
My x delivers what it says it will
I benefit from my interactions with my x as much as they do
My x ensures that any charges I pay are fair
My x gives me a fair deal
My x ensures that any terms and conditions attached to products are fair

Finally, a global assessment of fairness was taken:

Global Assessment of fairness
Overall my x treats me fairly

DATA COLLECTION, SAMPLE AND MEASURE VALIDATION

A market research agency was employed for the main data collection phase of the research. A telephone sampling methodology was employed, with potential respondents being selected at random from the UK population. Quotas were used for context, with a 100 respondents completing the questionnaire for each of the following types of institution: bank, building society, general insurer, life insurer, investment company, broker/advisor and credit card company. Thus, a total of 700 responses were collected, as shown in table 1.

Table 1

Sample Distribution by Institution

	Frequency	Percent	Valid Percent
Banks	100	14.3	14.3
Building Society	100	14.3	14.3
General Insurance	100	14.3	14.3
Life Insurance	100	14.3	14.3
Investments	100	14.3	14.3
Broker / Advisor	100	14.3	14.3
Credit Card	100	14.3	14.3
Total	700	100.0	100.0

The gender split of the sample is shown in table 2. As can be seen from the data, the sample is slightly biased towards female participants, which should be borne in mind if subsequent analysis indicates a difference in perceptions of fairness for males and females.

Table 2

Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	268	38.3	38.3	38.3
	Female	432	61.7	61.7	100.0
	Total	700	100.0	100.0	

In terms of age, as shown in table 3, generally the respondents were well spread in terms of age, although the very young and the very old were slightly under-represented in the sample.

Table 3

Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	16 - 25	22	3.1	3.1	3.1
	26 - 35	106	15.1	15.1	18.3
	36 - 45	310	44.3	44.3	62.6
	46 - 55	161	23.0	23.0	85.6
	56 - 65	58	8.3	8.3	93.9
	Over 65	43	6.1	6.1	100.0
	Total	700	100.0	100.0	

Tables 4a-4g show data on longevity of customer relationships for the various types of institution covered by the study. Banks and building societies, perhaps as would be expected, are noted for their relative preponderance of relationships which have spanned ten years or more and life assurance and investment companies also have a majority of respondents in this category. Other types of institution exhibit less enduring relationships.

Table 4a

How long have you been a customer of this bank?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 1 year	3	.4	3.0	3.0
	2-5 years	16	2.3	16.0	19.0
	6-10 years	17	2.4	17.0	36.0
	10 years or more	64	9.1	64.0	100.0
	Total	100	14.3	100.0	

Table 4b

How long have you been a customer of this Building Society?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 1 year	2	.3	2.0	2.0
	2-5 years	14	2.0	14.0	16.0
	6-10 years	16	2.3	16.0	32.0
	10 years or more	68	9.7	68.0	100.0
	Total	100	14.3	100.0	

Table 4c

How long have you been a customer of this insurer?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 1 year	17	2.4	17.0	17.0
	2-5 years	34	4.9	34.0	51.0
	6-10 years	21	3.0	21.0	72.0
	10 years or more	28	4.0	28.0	100.0
	Total	100	14.3	100.0	

Table 4d

How long have you been a customer of this life insurance company?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 1 year	6	.9	6.0	6.0
	2-5 years	23	3.3	23.0	29.0
	6-10 years	18	2.6	18.0	47.0
	10 years or more	53	7.6	53.0	100.0
	Total	100	14.3	100.0	

Table 4e

How long have you been a customer of this investment company?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 1 year	3	.4	3.0	3.0
	2-5 years	20	2.9	20.0	23.0
	6-10 years	22	3.1	22.0	45.0
	10 years or more	55	7.9	55.0	100.0
	Total	100	14.3	100.0	

Table 4f

How long have you been a customer of this Broker/ Adviser?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 1 year	12	1.7	12.0	12.0
	2-5 years	28	4.0	28.0	40.0
	6-10 years	25	3.6	25.0	65.0
	10 years or more	35	5.0	35.0	100.0
	Total	100	14.3	100.0	

Table 4g

How long have you been a customer of this Credit Card provider?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 1 year	7	1.0	7.0	7.0
	2-5 years	30	4.3	30.0	37.0
	6-10 years	29	4.1	29.0	66.0
	10 years or more	34	4.9	34.0	100.0
	Total	100	14.3	100.0	

The main data were subject to exploratory factor analysis to ensure the validity and reliability of the measurement used. Each of the measures derived above was analysed in turn. All measures were shown to be uni-dimensional, as expected, and summary statistics are provided in table 5.

Table 5

Exploratory Factor Analysis, Summary Statistics

Measure	KMO Measure (Significance of Bartlett's Test)	% of variance explained	Reliability-Cronbach's Alpha	Range of Factor Loadings
Procedural-Impartiality	**0.80 (0.000)**	**86.46**	**0.92**	**0.91-0.94**
Procedural-Refutability	**0.72(0.000)**	**82.65**	**0.90**	**0.77-0.88**
Procedural-Explanation	**0.90(0.000)**	**66.65**	**0.92**	**0.76-0.87**
Procedural-Familiarity	**0.77(0.000)**	**90.58**	**0.95**	**0.94-0.96**
Interactional-Bilateral Communication	**0.74(0.000)**	**82.56**	**0.89**	**0.81-0.86**
Interactional-Courtesy	**0.77(0.000)**	**91.48**	**0.95**	**0.95-0.97**
Distributive Fairness	**0.92(0.000)**	**69.67**	**0.94**	**0.77-0.88**

Briefly, the KMO measure and Bartlett's Test are a measure of how suitable a measurement scale is for factor analysis, with levels of 0.70 or more and significant tests being desirable. The data in column two are indicative of the fact that all of the scales derived for this study are highly suitable for factor analysis. The percentage of variance explained helps identify the acceptability of factor analysis results. Measures of 0.60 or more a generally considered acceptable, with measures greater than 0.70 being excellent. The data presented show that the results of factor analysis for the scales employed in this study are generally excellent. The measure of reliability, Cronbach's Alpha, shows the internal consistency of a measurement scale. Levels of 0.90 or more are considered excellent and all measures in our study are of this order. Finally, Factor Loading statistics show how each question contributes to the overall measure. Values of 0.70 or more are generally considered highly significant, meaning that all individual questions contained in the questionnaire contribute meaningfully to the overall measurement.

As is generally considered good practice, the factor solution outlined above was also subject to confirmatory factor analysis (CFA) to further validate the initial data analysis. Two alternative solutions were also tested to provide a contrast to the preferred model. In the interests of parsimony, detailed results are not presented here, however, it is worthy of note that the statistics for the main model were indicative of a good fit with the data. Specifically, the Root Mean Square Error of Approximation was .07 (0.07 or less is acceptable) the Goodness of Fit Index 0.9 (0.9 and above considered acceptable) and the Normed Fit Index 0.92 (0.9 and above considered acceptable). All of these statistics were significantly superior to the alternative models tested. Therefore, it is concluded that the Fairness Index, as derived for this study, is a reliable and valid measurement instrument.

The raw data for the study were collected using a five point scale, labelled 1-5, with the ends of the scale being identified as strongly disagree (1) and strongly agree (5) and the mid-point as neutral. In order to produce a Fairness Index, with a score of between 0-100, the following transformation was applied:

$$\text{Index Score} = (\text{Initial Score} - 1) \times 25$$

Thus, if a respondent answered 5 to a particular question, this would be translated into an index score of 100, i.e. (5-1) x 25. Alternatively, an initial score of 4 would mean an index score of 75, an initial score of 3 an index score of 50, an initial score of 2 an index score of 25 and an initial score of 1 would mean an index score of 0. The index score for each item was then used to find the average score, either for a particular fairness dimension, or the Fairness Index in total.

RESULTS

Dimensions of Fairness: All Institutions

In this section, scores for each fairness dimension are provided in turn. **Commentaries on the Index score for each dimension are provided immediately after figure 1 below on page 26-27.** For the four dimensions of **Procedural Fairness**, the global Fairness Index scores for the financial sector as a whole were as follows:

- **Refutability**
  - My x takes notice when I complain about something
  - My x is willing to change things when I tell them I am not satisfied
  - My x lets me change things on fair and reasonable terms
  - **Index Score: 65.5**

- **Explanation**
  - My x takes time to explain its decisions to me
  - My x is willing to explain its products and services
  - My x tries to make sure I understand the information it provides
  - My x tries to make sure that I understand what I am buying
  - My x provides me with clear information at all times
  - My x keeps me appropriately informed when providing products and services
  - My x’s promotional material is accurate and informative
  - **Index Score: 76.0**

- **Impartiality**
  - My x makes sure it is not biased towards certain customers
  - My x makes efforts to treat all customers equally
  - My x makes sure that it does not favour some customers over others
  - **Index Score: 68.5**

- **Familiarity**
  - My x makes the effort to understand my circumstances
  - My x provides advice which is suitable for me
  - My x provides advice which takes account of my circumstances
  - **Index Score: 71.2**

For the two dimensions of **Interactional Fairness**, index scores were:

- **Communication**
  - My x listens to my needs and reacts accordingly
  - My x is willing to listen to my point of view
  - My x takes notice of any points and suggestions that I make
  - **Index Score: 69.6**

- **Courtesy**
  - My x shows courtesy in its dealings with me
  - My x treats me with respect
  - My x is considerate in its dealings with me
  - **Index Score: 81.6**

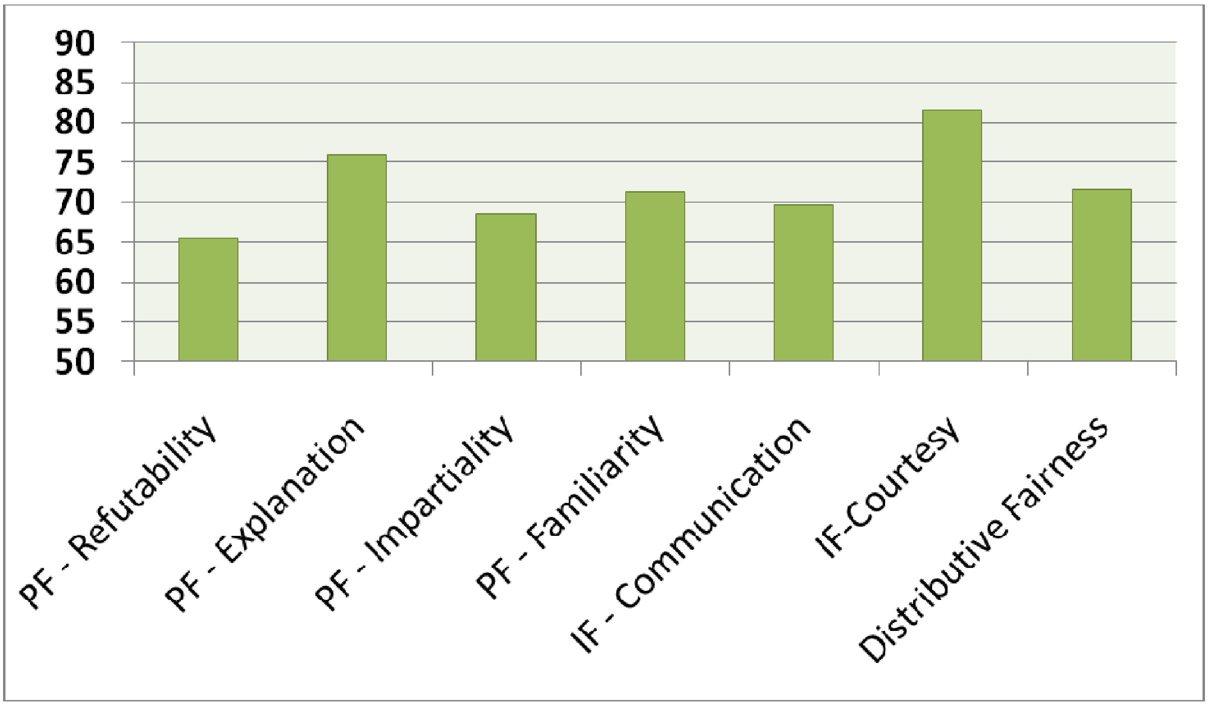
And the index score for **Distributive Fairness** was:

- **Distributive Fairness**
  - My x makes sure that I only end up with products which take account of my circumstances and are suitable for me
  - My x provides products which perform as I have been led to expect
  - My x keeps its promises
  - My x delivers what it says it will
  - I benefit from my interactions with my x as much as they do
  - My x ensures that any charges I pay are fair
  - My x gives me a fair deal
  - My x ensures that any terms and conditions attached to products are fair
  - **Index Score: 71.5**

These scores are shown in graph form in Figure 1 below.

Figure 1

Perceptions of Fairness by Dimension: Index Scores: All Institutions



The initial global Fairness Index score, the average for all measures taken for all types of financial institution, is **72.4**. This represents a moderate sense of perceived fairness on the part of consumers. Not a ringing endorsement of the industry, but neither is it wholly unsatisfactory. It should be borne in mind that this is an average score for all dimensions for all firms which masks wide variations across the various sectors of the financial services industry, the identified components of fairness and, indeed, the performance of individual companies.

In the financial services sector as a whole, it is clear that the Interactional Fairness dimension of Courtesy is particularly positively rated by consumers. This is an encouraging finding for financial services firms, as those operating in the sector have in general not always enjoyed the best of reputations for courteous customer service. However, firms have more work to do in the area of Bilateral Communication, the other Interactional Fairness dimension, which is rated below perceptions of fairness generally. Finally, perceptions of Distributive Fairness are just below the average level for perceptions of overall fairness.

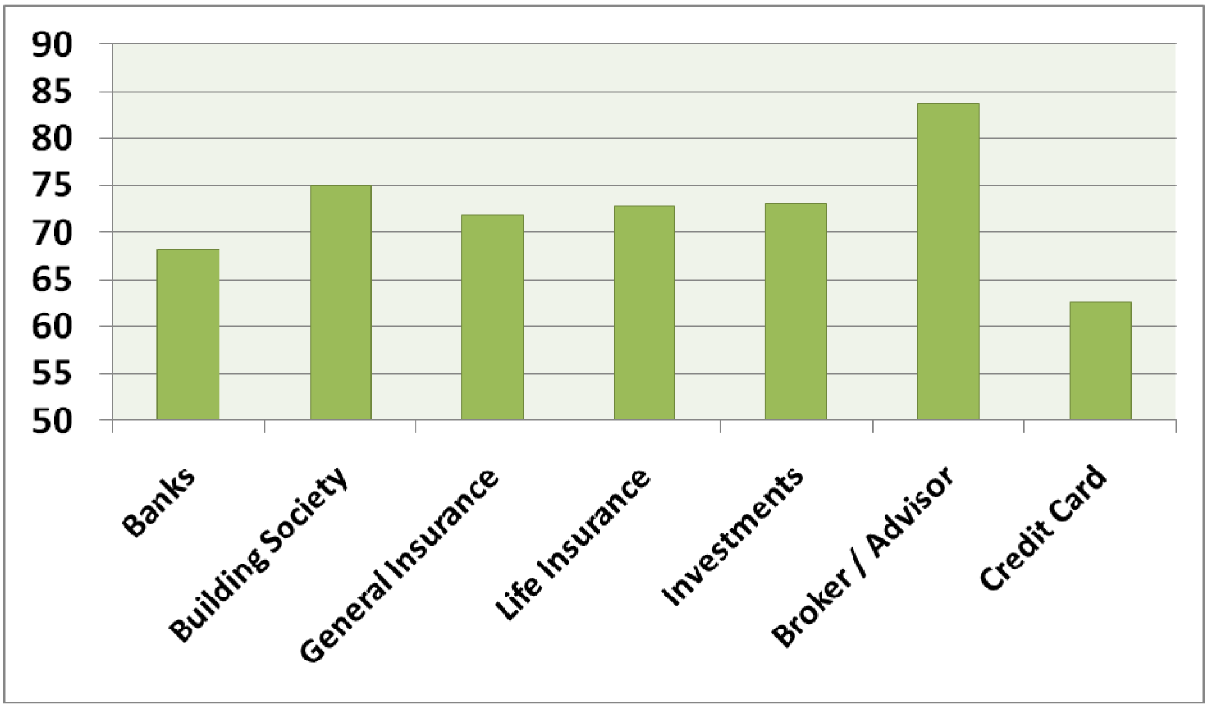
The picture for Procedural Fairness is also mixed. The dimension of Explanation is the best rated by consumers, indicating that firms are perceived to be quite proficient in explaining products and services and keeping consumers appropriately informed. Familiarity receives a rating roughly equivalent to global fairness, whilst the ratings for Impartiality and, in particular, Refutability, are low. The data implies that financial services firms have more to do in terms of taking notice of complaints and allowing consumers to change things on what they perceive to be fair and reasonable terms.

Overall Fairness and Institution Type

The data also reveal significant differences in Fairness Index scores between customers of the different types of institutions covered in the survey. Details are show in figure 2.

Figure 2

Overall Perceptions of Fairness and Institution Type



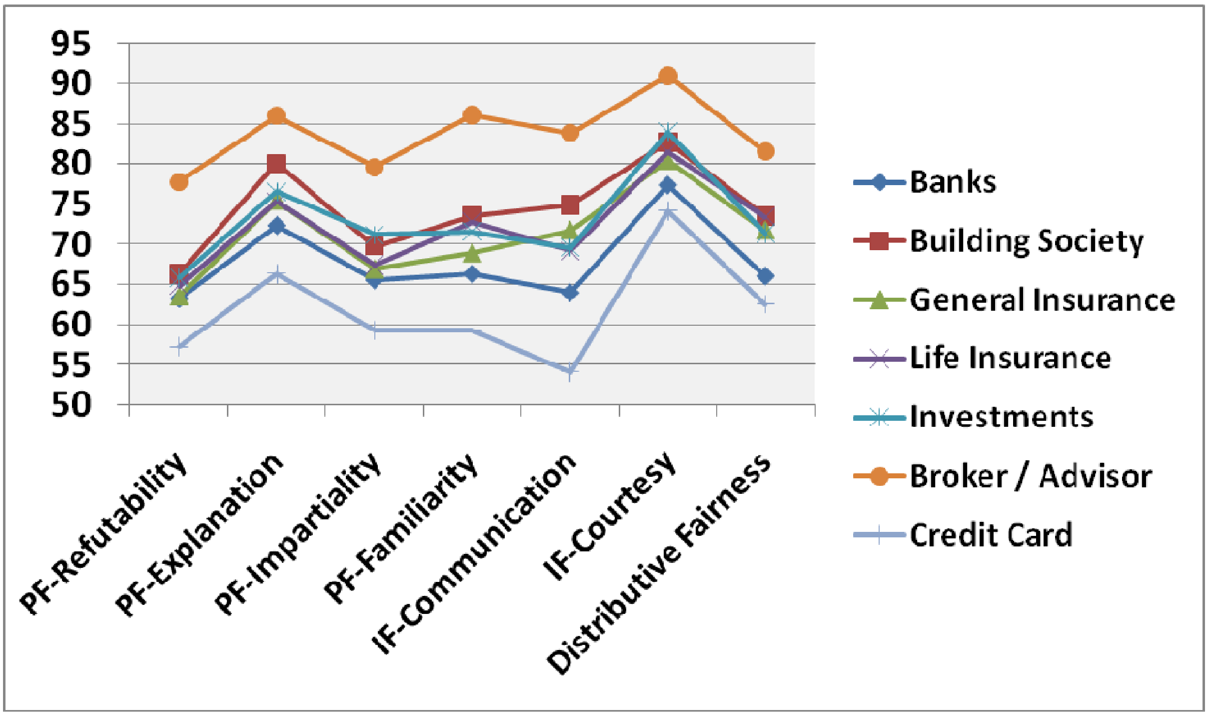
The data show that consumers perceive credit card companies to be the least fair in global terms, with an index score of **62.57** compared with the average for all institutions of **72.4**. Further statistical testing (not reported) indicates that this difference is highly significant. Banks, with an overall perception of fairness rating of **68.14**, are also rating as significantly less fair than the average. General Insurers (**71.88**), Life Insurers (**72.17**), Investment Companies (**73.10**) and Building Societies (**75.00**) are perceived as broadly average, with no significant difference from the overall industry average apparent. However, it should be noted that a small increase in overall perceptions of fairness for Building Societies would result in them being perceived as significantly fairer than the average financial services institution. Finally, brokers/advisors enjoy by far the highest ratings on overall fairness, with an index score of **83.63**, which is significantly more than the industry average. This is perhaps not surprising given the relatively strong relationships between brokers/advisors and their clients.

Dimensions of Fairness and Institution Type

Figure 3 shows the perceptions of Fairness Index score for each fairness dimension for the different types of institution covered by the study. It provides an insight into the relative strengths and weaknesses of each sector. Given their generally poor performance, it is not surprising that credit card companies and banks are generally seen as lagging on all dimensions of fairness, whilst brokers/advisors score relatively well on all dimensions. The pattern of results is generally similar across institutions. The scores for Refutability and Bilateral Communication are particularly poor for credit card companies. Banks also rated poorly in terms of Refutability and Bilateral Communication relative to other dimensions of fairness. Building societies perform well in the areas of Explanation and Bilateral Communication compared to their performance in other dimensions relative to other institutions.

Figure 3

Dimensions of Fairness and Institution Type



Drivers of Overall Fairness: Importance Analysis

Importance analysis was facilitated by the fact that a single, overall measure of global perceptions of fairness was collected as part of the survey. As a result, the standardized regression statistics from the following regression can be used to provide an insight in to the relative importance of the various dimensions of fairness in driving overall perceptions of fairness:

Overall Fairness = c + a(PF-Refutability) + b(PF-Explanation) + c(PF-Impartiality) + d(PF-Familiarity) + e(IF-Bilateral Communication) + f(IF-Courtesy) + g(Distributive Fairness)

The adjusted R squared for the model was 0.72, indicative of an extremely high level of fit, with a significant ANOVA test (f=262.30, sig=0.000) providing further evidence of the satisfactory nature of the model. Details of the regression co-efficients are shown in table 6. Significant co-efficients are highlighted.

Table 6

Drivers of Fairness: All Institutions

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.287	.106		2.703	.007
	Procedural Fairness - Refutability	.017	.027	.017	.633	.527
	Procedural Fairness - Explanation	.093	.043	.082	2.186	.029
	Procedural Fairness - Impartiality	-.015	.024	-.015	-.620	.536
	Procedural Fairness - Familiarity	.052	.033	.056	1.587	.113
	Interactional Fairness - Communication	-.023	.029	-.024	-.799	.424
	Interactional Fairness-Courtesy	.223	.035	.203	6.395	.000
	Distributive Fairness	.616	.041	.591	15.114	.000

a Dependent Variable: Overall my xxxx treats me fairly

Results indicate that three dimensions of fairness are significant in driving overall perceptions of fairness. In order of importance these are Distributive Fairness, Interactional Fairness-Courtesy and Procedural Fairness-Explanation. The standardized beta co-efficients indicate that Distributive Fairness is almost three times as important as Courtesy in driving overall perceptions of fairness. In turn, Courtesy is more than twice as important as Explanation in influencing global assessments of fairness. For financial institutions overall, other dimensions of fairness are not statistically significant in explaining overall perceptions of fairness. Mindful that there are likely to be institutional variations in importance, below we report the results of importance analysis for each institution type. The overall fit statistics for all regressions were highly acceptable, with all ANOVA tests showing significant models and adjusted r^2 ranging from 0.77 to 0.62.

Table 7

Drivers of Fairness: Banks

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.100	.281		.355	.723
	Procedural Fairness - Refutability	.103	.072	.118	1.418	.160
	Procedural Fairness - Explanation	.367	.121	.315	3.043	.003
	Procedural Fairness - Impartiality	-.003	.064	-.003	-.042	.966
	Procedural Fairness - Familiarity	-.017	.110	-.017	-.153	.879
	Interactional Fairness - Communication	-.075	.094	-.071	-.792	.430
	Interactional Fairness- Courtesy	.193	.099	.172	1.953	.054
	Distributive Fairness	.449	.126	.429	3.563	.001

a Dependent Variable: Overall my xxxx treats me fairly

Table 7 shows the results for banks, which indicate that the same three dimensions are significant as is the case for all institutions. However, in the case of banks, data for standardised betas show that Explanation is a more important driver of overall perceptions of fairness than Courtesy. However Distributive Fairness remains the most important driver of perceptions of fairness.

Table 8 presents the data for building societies. The data show that the Procedural Fairness dimension of Explanation is not a significant driver of fairness for building societies, in contrast to financial institutions as a whole. In the case of building societies, only Courtesy and Distributive Fairness are significant drivers of perceptions of fairness and the degree of influence is more evenly distributed between these two dimensions than for other contexts. The primary drivers of perceptions of fairness clearly vary by sector type.

Table 8

Drivers of Fairness: Building Societies

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.760	.253		3.003	.003
	Procedural Fairness - Refutability	.002	.057	.003	.043	.966
	Procedural Fairness - Explanation	-.059	.116	-.053	-.506	.614
	Procedural Fairness - Impartiality	-.064	.049	-.080	-1.297	.198
	Procedural Fairness - Familiarity	.116	.073	.133	1.598	.113
	Interactional Fairness - Communication	-.123	.075	-.136	-1.655	.101
	Interactional Fairness-Courtesy	.382	.077	.417	4.984	.000
	Distributive Fairness	.598	.101	.604	5.935	.000

a Dependent Variable: Overall my xxxx treats me fairly

Table 9 shows the data for general insurers and exhibits a pattern of influence which is similar to that for all institutions. Again, Explanation, Courtesy and Distributive Fairness are identified as significant drivers of overall perceptions of fairness, with the latter being the single most important influence. Table 10 shows the data for life insurance companies, where overall perceptions of fairness are influenced by Courtesy and Distributive Fairness, the same pattern as for Building Societies.

Table 9

Drivers of Fairness: General Insurance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.047	.298		.156	.876
	Procedural Fairness - Refutability	.036	.071	.035	.510	.611
	Procedural Fairness - Explanation	.241	.119	.205	2.014	.047
	Procedural Fairness - Impartiality	-.056	.068	-.052	-.817	.416
	Procedural Fairness - Familiarity	.013	.084	.013	.159	.874
	Interactional Fairness - Communication	.027	.069	.026	.385	.701
	Interactional Fairness-Courtesy	.277	.122	.241	2.265	.026
	Distributive Fairness	.481	.124	.447	3.880	.000

a Dependent Variable: Overall my xxxx treats me fairly

Table 10

Drivers of Fairness: Life Insurance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.264	.270		.979	.330
	Procedural Fairness - Refutability	.036	.080	.034	.445	.657
	Procedural Fairness - Explanation	-.013	.111	-.011	-.119	.906
	Procedural Fairness - Impartiality	-.045	.073	-.045	-.616	.539
	Procedural Fairness - Familiarity	.057	.078	.061	.724	.471
	Interactional Fairness - Communication	-.169	.092	-.160	-1.845	.068
	Interactional Fairness- Courtesy	.280	.083	.286	3.379	.001
	Distributive Fairness	.818	.114	.725	7.151	.000

a Dependent Variable: Overall my xxxx treats me fairly

For investment companies, as shown in table 11, perceptions of fairness are dominated by Distributive Fairness. The importance of performance and financial returns in the case of investments probably accounts for the importance of the outcome fairness relative to Procedural and Interactional Fairness in this context. Table 12 shows the data for brokers and advisors. In the case of brokers and advisors, the generally influential dimensions of Courtesy and Distributive Fairness are joined by the Procedural Fairness element of Familiarity. It is perhaps not surprising that Familiarity should be seen as a significant driver of perceptions of fairness in this context, as a degree of familiarity is crucial to fulfilling the role of broker/advisor successfully. Finally, table 13 shows the results for credit card companies. In this context, in addition to the generally influential dimensions Courtesy and Distributive Fairness, The Procedural Fairness dimension of Refutability is viewed as a significant driver of overall perceptions of fairness. This is likely due to the fact that consumers have the occasional need to challenge payments debited from their cards, or to question interest and other charges and when they do so, they welcome what they perceive to be a fair response.

Table 11

Drivers of Fairness: Investments

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.567	.394		1.441	.153
	Procedural Fairness - Refutability	-.032	.092	-.030	-.345	.731
	Procedural Fairness - Explanation	-.146	.136	-.131	-1.076	.285
	Procedural Fairness - Impartiality	.141	.083	.131	1.696	.093
	Procedural Fairness - Familiarity	-.036	.101	-.040	-.351	.727
	Interactional Fairness - Communication	.031	.092	.031	.342	.733
	Interactional Fairness- Courtesy	.082	.114	.067	.717	.475
	Distributive Fairness	.859	.137	.822	6.262	.000

a Dependent Variable: Overall my xxxx treats me fairly

Table 12

Drivers of Fairness: Broker/Advisor

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.182	.336		.542	.589
	Procedural Fairness - Refutability	-.052	.054	-.059	-.955	.342
	Procedural Fairness - Explanation	.108	.118	.087	.913	.364
	Procedural Fairness - Impartiality	-.033	.049	-.039	-.665	.508
	Procedural Fairness - Familiarity	.231	.104	.239	2.222	.029
	Interactional Fairness - Communication	-.057	.070	-.065	-.816	.416
	Interactional Fairness- Courtesy	.214	.100	.164	2.128	.036
	Distributive Fairness	.549	.092	.572	5.942	.000

a Dependent Variable: Overall my xxxx treats me fairly

Table 13

Drivers of Fairness: Credit Card Company

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-.154	.262		-.589	.557
	Procedural Fairness - Refutability	.169	.079	.145	2.144	.035
	Procedural Fairness - Explanation	.031	.105	.026	.294	.770
	Procedural Fairness - Impartiality	-.090	.070	-.080	-1.286	.202
	Procedural Fairness - Familiarity	.139	.078	.143	1.779	.079
	Interactional Fairness - Communication	.060	.073	.059	.821	.414
	Interactional Fairness-Courtesy	.281	.083	.253	3.402	.001
	Distributive Fairness	.506	.092	.458	5.511	.000

a Dependent Variable: Overall my xxxx treats me fairly

Fairness Dimensions: Contrasting Importance and Performance

In financial services generally, and for all institutions when analysed individually, Distributive Fairness is the most important driver of overall perceptions of fairness, normally by quite some margin. The fact that overall, and for individual institution types, ratings of Distributive Fairness are middling at best should provide cause for concern. Firms need to convince customers that they are enjoying fairer outcomes. The Distributive Fairness dimension includes items such as "*My x provides products which perform as I have been led to expect*", *My x delivers what it says it will*", "*I benefit from my interactions with my x as much as they do*", "*My x ensures that any charges I pay are fair*" and "*My x gives me a fair deal*". Financial services firms need to do more to deliver to customer expectations in these important respects and to influence consumer perceptions in these important areas where possible. The influence of the Interactional Fairness dimension of Courtesy provides more welcome news for most types of financial services firms. Generally, institutions are rated very favourably in terms of Courtesy, the data showing that it was the best rated dimension overall and for all of the institutional contexts covered in the study. Given that this is generally the second most important driver of perceptions of fairness, this level of performance provides a positive influence on fairness in financial services. For building societies and life insurance companies, only Courtesy and Distributive Fairness influence overall perceptions of fairness significantly and as a result, the points made in this paragraph are particularly germane.

For banks and general insurers, Explanation is also a significant influence and this element of fairness is also reasonably well rated, although not to the degree that is the case for Courtesy. Therefore, along with improving Distributive Fairness, excelling at Explanation also provides a strategy for improving overall perceptions of fairness for these types of institution. Investment companies should concentrate very much on improving perceptions of Distributive Fairness, as this is the primary influence on overall perceptions of fairness for such institutions. At present, investment companies receive average ratings for Distributive Fairness. Finally, for credit card companies, in addition to the focus on Distributive Fairness identified as necessary for all institutions, the area of Refutability requires particular attention. This dimension is significant in shaping overall perceptions of fairness for credit card companies, but these companies are perceived to perform relatively badly in this area by consumers. Taking greater notice of complaints and leaving consumers with the perception that they are able to change things on fair and reasonable terms would assist in this respect.

THE FAIRNESS INDEX: FUTURE DEVELOPMENTS

The measures incorporated into the Fairness Index have been shown to be robust in terms of statistical reliability and validity. In addition, significant variations in perceptions of fairness are apparent between the different dimensions which make up overall fairness and between the various types of financial institutions covered by this study. However, as with any cross-sectional study, the data collected for this study represents a “snapshot” which provides an insight into consumer perceptions at a certain point in time. The FSRF intends to use the newly created Fairness Index to measure perceptions of fairness on a quarterly basis. Our approach will provide a barometer of consumer perceptions across the various dimensions of fairness and overall fairness, as well an insight into variations between institution types. In time, a nuanced understanding of variations in perceptions of fairness over time will be provided.

Additional plans include data collection which will enable analysis of the contrast between personal reflections and generic views. Specifically, some participants will be asked to respond with reference to “my bank”, “my building society” etc, whist others will be asked for their views on “banks”, “building societies” etc in general. It is expected that consumers will hold a more positive view about their own institution rather than institutions in general, as this pattern of results has been observed in other contexts, such as experiences with the National Health Service. Other plans include an analysis of the impact of fairness perceptions on trust and loyalty in financial services and a study of how perceptions of fairness vary with demographic factors such as age and gender. Finally, the impact of complaining behaviour and firms’ response to complaints will be analysed.

As previous experience with the Trust Index has highlighted the potential for large variations in scores between individual companies, the Forum believes that individual providers should avail themselves of a bespoke Fairness Index analysis. Such as study would provide empirically sound and independently verified trend data of this highly important aspect of corporate performance and consumer financial wellbeing.

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