

**Report
to
British Telecommunications Plc**

**By
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EXECUTIVE SUMMARY

This Report was commissioned by BT from the Compliance Institute. The brief given to the Compliance Institute was to provide an independent overview of BT's Compliance arrangements. The Compliance Institute's remit largely covers financial services, and we have no detailed technical expertise in the telecommunications industry. Nevertheless, many of the issues and problems involved in operating an effective Compliance function within a regime subject to oversight by an external regulator, are the same whatever the nature of the business

In assessing Compliance arrangements in any firm, one of the main issues to be considered is whether or not a vigorous Compliance culture prevails within the organisation. A Compliance culture may be said to exist when Compliance is an integral part of the firm's operations, rather than the prerogative of a remote Compliance department. It should have the explicit and full-hearted backing of senior management, and be seen by all members of staff as applying to them. The Compliance Institute is pleased to be able to confirm that in its view, a vigorous Compliance culture does prevail within BT.

In order to arrive at this conclusion we considered the role of senior management, at BT and the ways in which it ensures that the Compliance function is sufficiently resourced, and that Compliance issues are discussed and resolved at the appropriate level.

Particularly important in assessing Compliance within a firm is the emphasis given to training, both to ensure that staff are technically competent, and also to ensure that the importance of Compliance issues is unequivocally and forcefully stated. There is a clear and extensive commitment given by BT to training, including a close involvement by Compliance both in the content of the training and in the maintenance of training records.

Also crucial is the involvement of the Compliance team in day to day operations not only to make sure that formal Compliance requirements are met but also to resolve day to day problems and to adopt a hands-on approach to recruitment, product development and monitoring. These were clearly demonstrated during a visit to Newcastle Call Centre.

It is emphasised that good Compliance is good business practice and in no way inconsistent with risk, innovation and vigorous competition in a highly competitive market. BT is to be congratulated in achieving good Compliance.

INTRODUCTORY COMMENTS

The Compliance Institute has pleasure in presenting its Report to BT following our inspection and review of BT's Compliance programme. We are pleased to report that our overall impressions are very favourable indeed, and we believe from what we have seen that the programme is working well, that both management and more junior staff have a good attitude to Compliance, and that it is taken very seriously indeed throughout the company.

Before proceeding to comment in more detail, we think it appropriate to give some background information regarding the Compliance Institute, and the approach adopted in carrying out the review.

The Compliance Institute is the only non-profit making organisation representing and promoting the interests of people involved in Compliance, mainly in financial services. . All profit is returned to Members in the form of benefits and services. Its annual turnover is around £200,000, the majority of which derives from membership subscriptions, with most of the remaining balance coming from conferences and seminars.

Its mission is "to advance the standards of competence amongst compliance staff, offering them the benefits of professional status and opportunities for professional development". Currently the Institute has some eight hundred Members, all of whom have joined as individuals, rather than as company or corporate members.

We enjoy a constructive relationship with the Financial Services Authority (FSA), the unified statutory regulator of the financial services industry whose key officials frequently speak at Institute events and we talk to them about compliance matters at senior level, right up to the Chairman.

The Institute is governed by a Council of its Members who are drawn from a variety of business backgrounds within the financial services sector which enables it to represent the different interests and concerns of all Members. A President elected by Council, presides over the Council, its Boards and Committees.

The Compliance Institute faces a considerable and growing challenge as regulation continues to expand in both scope and complexity. We are also aiming to extend our interests beyond financial services, and to associate with other industries subject to external regulation.

The review does not therefore set out to be a full audit of Compliance within BT; we claim no expertise in telecommunications technology, our expertise being in financial services. Our aim was therefore to provide a perception to BT from the point of view of another, very different industry. That said, it was remarkable that many of the discussions centred around problems regarding the operation of a Compliance function within a commercial enterprise and the importance of a clear and public demonstration of commitment to Compliance by senior management. Here we found much common ground.

It is true that in some ways the operation of regulation and of the Compliance function within firms differs. For example, Ofcom, unlike FSA, does not carry out inspection visits to its regulated firms, and in BT, unlike some financial services firms; Compliance's terms of reference cover all aspects of the firm's activities.

However, the points of similarity far outnumbered the points of difference.

SCOPE OF THE REVIEW

The review was carried out by Mr Stephen Gore, Regulatory Development Manager of the Compliance Institute. Following discussions with Mr John Bexon, Head of Compliance Planning and Programmes in BT, a number of topics were agreed to be suitable for incorporation in the review, and Mr Gore subsequently paid a short visit to BT's offices at Westside, Apsley, followed by a day at the BT Call Centre in Newcastle, and a further day at BT's Colindale House SSC in North West London. The Compliance Institute would at this point like formally to express its grateful thanks for the unfailing courtesy and hospitality accorded to Mr Gore, and for the help given to Mr Gore by a large number of BT employees, in particular, Mr Bexon and Mrs Theresa Watling, BT Regulatory Compliance Manager. The comments that follow are those of Mr Gore although the Compliance Institute is happy to be associated with them.

The review was essentially concerned with the way in which Compliance operates within BT and in particular whether this is a vigorous "Compliance culture". I define this term as describing an attitude to Compliance which sees Compliance as an integral part of the modus operandi of the firm, seen by all members of staff as applying to them, and having the explicit and full-hearted backing of senior management. This is in contrast to a firm in which Compliance is seen as a brake on new business acquisition and innovation and where the Compliance expertise and responsibility resides only within the Compliance function, which is seen as rather isolated and issues edicts based on their interpretation of regulatory requirements but otherwise has no rapport within the company. In such a company, the Compliance function is ignored as far as possible, and only consulted when all the decisions have in principle been made.

Where there is a vigorous Compliance culture, Compliance plays a full part in important projects and promotions as part of the team and is seen by all employees as an integral aspect of BT's operations. It is my view that there is a Compliance culture within BT.

I did not look at every aspect of BT's operations but instead selected a number of topics with which I was familiar as they are also crucial issues for Compliance functions within the financial services industry. They proved to be as appropriate in illustrating the issue of compliance culture in BT as in a leading financial services company.

ISSUES CONSIDERED

1. Attitude of senior management
2. Attitude of more junior management level
3. Attitude of junior staff.
4. Work of Compliance.
5. Policy Structure and Scope
6. Terms of Reference
7. Job Descriptions
8. Suitability of Compliance staff
9. Approval of Literature
10. Training

These issues are considered under appropriate headings. There then follows an account of the visit to the call centre at Newcastle in which some of the themes discussed in previous paragraphs are gathered together as an illustration of how BT Compliance works in practice..

ATTITUDE OF SENIOR MANAGEMENT

The attitude of senior management to Compliance is very clear seen both by the high profile given to Compliance in the organisation and in the public expression of BT's Compliance philosophy in comments made on their open website.

The Regulatory Compliance Steering Group, which meets quarterly, monitors and co-ordinates BT's regulatory compliance performance. Reporting to it is the Compliance Control Board, the membership of which consists of the Directors of Internal Audit and Regulatory Compliance, plus the Heads of the various Compliance functions. This Board receives monthly reports from the Lines of Business Compliance Control Boards and the Business Unit Compliance Control Board.

The Regulatory Compliance Steering Group has also been charged with specific Compliance strategic objectives, the first of which is an objective to comply with regulatory obligations. It consists of the Compliance "owners" of each Line of Business, the Group General Counsel and the Director of Regulatory Compliance is a member. The Group receives quarterly reports from the Compliance Control Board, and is responsible for reviewing their work, and using compliance metrics and risk assessment techniques to identify and resolve compliance issues and exposures.

In that way, the Regulatory Compliance Steering Group can ensure that Compliance issues are fully discussed and any issues raised in the reports are dealt with effectively and in a timely manner. If an issue were to remain unresolved at Compliance Control Board level, it could be referred up to the Regulatory Compliance Steering Group and in the ultimate, to the most senior Boards, the Board Audit Committee and the Operating Committee.

However, given its high-level membership it would be expected that the Regulatory Steering Group would resolve all but the most serious and far-reaching compliance and regulatory problems.

I feel that this is very important because certainly in the financial services industry, severe problems sometimes arose because problems identified by Compliance did not come to the attention of senior management until it was too late. Even when remedial action was agreed, there were sometimes insufficient checks to ensure that it had actually been implemented.

This was often because Compliance was insufficiently represented at Board level, and there was a feeling that only good news should be drawn to the attention of senior management. I think that such a failure is very unlikely to happen at BT; it is clear that Compliance has a very powerful voice at the highest level, and that both the Boards and Steering Group are charged with unambiguous responsibilities with regard to Compliance, and take those responsibilities very seriously. I am confident that any important problems would be identified quickly, remedial action decided and implementation discussed and agreed.

Senior Management also make their attitude to compliance clear in their Mission Statement, presented as the Regulatory Compliance Statement. This says categorically that "It is BT's policy to be fully compliant with the regulatory regimes in which the BT Group operates whilst encouraging innovation, BT's competitive spirit and its willingness and ability to take informed and fully assessed commercial risks". The Statement goes on to discuss risk, competition, and innovation, but there is nothing to suggest that this will in any way detract from the first section of the Statement. I have no difficulty with this, and would argue that were regulation to discourage risk, competition and innovation, it would have failed. Certainly that is the view taken in financial services.

The positive attitude to compliance of senior management in BT is also demonstrated by the publication in 2004 of a detailed account of BT's compliance philosophy and commitments on the website www.bt.com, which is available to the general public.

The document is substantial, running to nineteen pages, and is very well-written, and very informative. It demonstrates clearly that BT has an effective compliance programme, and gives full details of compliance policy and approach, how the regime is organised, and the contents of the risk reviews and performance measures.

There are a number of very important commitments made by senior management. To take only a few examples, in the Foreword, the Finance Director states that regulatory compliance has the full support of the Group Board and management, and that it is part of BT's overall corporate governance and social responsibility. In paragraph 1.2 about the responsibilities of senior management, commitment to high standards of compliance, leading by example, and a special responsibility for ensuring that BT activities do not violate applicable regulations and are conducted fairly, legally and with integrity are all unequivocally accepted as being within the responsibilities of senior management.

In paragraph 3.3, the approach to compliance is clearly set out with the functions of promoting an appropriate culture within the Lines of Business, identifying and mitigating the risks of non-compliance, and helping lines of business understand that commercial objectives are not incompatible with a compliance framework all receiving the backing of senior management. It is also notable that they have endorsed a series of open days where the profile of the compliance team was raised, and compliance issues could be openly discussed, and where appropriate, guidance given.

It has to be said that the document is not immediately apparent, and would-be readers have to click on to the Society and Environment link, then to the Business Principles link. The Society and Environment link is at the very bottom of the home page, and from its title it might not be completely apparent that information about compliance is to be found there. Although the Business Principles link would seem the obvious one to choose for any reader well versed in compliance issues, it might not be quite so obvious for readers not so well versed. BT might consider whether the document should be more immediately accessible, perhaps via its own overt link. After receiving this observation the report has also been published at www.tirf.co.uk.

Finally, under this heading, whilst at Apsley, I had a very useful interview with the General Manager Process Training and Communications–Customer Contact, whose department has a vital role in equipping customer contact employees with the knowledge, skills, information processes and procedures to support the objectives of customer experience, cost reduction and employee engagement.

As a member of senior management, he clearly demonstrated his total commitment to compliance. Assuming that his attitude is reflected among senior management as a whole, which I have to suppose is the case, BT has little to fear about their attitude to compliance.

ATTITUDE OF JUNIOR MANAGEMENT AND JUNIOR STAFF

BT has commissioned biennial reports from DVL Smith Limited, an independent source, the latest being in February 2004. This report highlighted a small but positive shift in attitudes with the result that 88% of those interviewed now claim that they understand the compliance issues that apply to their job, 85% considering that compliance is a key part of their job, and 77 % feeling that compliance issues had been communicated effectively. It was particularly notable that 91% agreed with the proposition that complying with regulatory requirements makes for good business practice, and such comments as “compliance is embedded”, “compliance is automatic” and “we’ve got past the idea of compliance just being a burden” must be very encouraging for BT.

I assume that they will wish to continue this exercise in 2006, and subsequently, as it provides very valuable source material for their confidence about attitudes, and a check to ensure that the improvements noted in the previous reports are maintained and if possible increased.

My visit to the Newcastle Call Centre, limited though it was to one day, confirmed the comments made in the DVL Smith Limited Reports. All four of the management team to whom I spoke were fully aware of compliance issues, supported the stance taken by BT, and accepted that adherence to BT Compliance principles and requirement would be among the criteria used to judge their performance, and ultimately, remuneration. Among the call staff too Compliance was seen and accepted as an integral part of their work.

BT COMPLIANCE-POLICY STRUCTURE AND SCOPE

The main objective underlying the work of the function of compliance in BT is for there to be an integrated and effective business wide compliance framework measured against best practice principles and standards, which support BT's wider strategy, embodied both in BT's brand and people values. This policy is communicated via BT's internal website and is described in BT's Annual Report. The scope of BT's responsibilities is always being reviewed to ensure that it aligns with current legislation and other regulatory requirements. Current and future plans are published on the internal website.

A Regulatory and Compliance Joint Forum has recently been set up to ensure that information is made available to those who need it, and a weekly update is issued highlighting important regulatory and legal issues and developments. Compliance is responsible for identifying Compliance issues and any resulting training requirements.

A Code of Conduct entitled "The Way We Work" sets out high corporate and personal standards and details precisely what is expected of employees, and the penalties which will result from non-compliance.

There are also regular meetings with the regulator Ofcom and other industry players, and a complaints system to ensure that complaints from the regulators, competitors and the public are reviewed to see if any trends are revealed which might demand further action.

Many of these features have their counterparts in financial services, but one feature which is particularly noticeable, and particularly favourable, which is not always found in financial services is the close identification of compliance with the business. Compliance does not exist as something outside, or remote, or as a business-prevention unit, but as an entirely natural and acceptable part of carrying on business.

BT COMPLIANCE-TERMS OF REFERENCE

There is no discrete Compliance department as such within BT covering all aspects of compliance, but a number of compliance functions each responsible for the detailed aspects of BT's operations.

However, the Director of Regulator Compliance accepts overall responsibility for these functions. This is inevitable given the scale and variety of BT's operations, and the possible danger of fragmentation is overcome by the existence of the Compliance Control Board which has among its members representatives from the various Compliance functions. Typical of the Terms of Reference for the functions is that for the Wholesale Compliance Board.

This Board has responsibility for ensuring inter alia, that adequate and relevant training and briefings are given, that staff understand their roles and responsibilities, and that they communicate the management culture (as set out in the Code of Conduct), which supports compliance through coaching rewards and, where these prove insufficient, disciplinary procedures. In addition, the Board has responsibility for reviews, audit, "health checks", and investigation and rectification of any actual or potential non-compliance.

Face to face meetings are held monthly, with attendance by the member or nominated compulsory. Minutes, including decisions and action points are kept and retained for two years. These meetings may be supplemented where necessary by audio conferences, workshops and task forces.

The Terms of Reference reflect arrangements elsewhere but the fact that they are closely defined and wide-ranging means that all employees, especially managers, working in that function are aware of the Board's existence, and obliged to take it seriously. It should also mean that trouble is spotted very quickly and not allowed to fester.

BT COMPLIANCE-JOB DESCRIPTIONS

I was able to look at the Job Description both for Mr John Bexon for Mrs Theresa Whatling, Regulatory Compliance Manager within Internal Audit and Regulatory Compliance. By way of illustration, the comments that follow relate to Mrs Whatling's Job Description Form. It is made clear that the job requires understanding of the regulatory, fair trading and competition Rules relevant to the work of the Division. The key purposes of the job make reference to the Regulatory Compliance Statement and the requirements to be independent, responding to the creation of the new regulator Ofcom, and the confidence and perception of customers.

As is to be expected, the key duties and responsibilities include compilation of reports, monitoring, projects for driving change, information for management statistics, and undertaking work arising from the actions of Ofcom, and BT's own initiatives.

However, having such responsibilities means that the Compliance function is able to play a full part in meeting BT's overall compliance responsibilities, and is not inhibited by any exclusions or reservations to other functions.

The personal capabilities and skills required also mean that Compliance department staff have the capabilities to meet its responsibilities whilst at the same time having the interpersonal skills to deal effectively with customers at all levels, to motivate and manage well, and the appropriate knowledge to guide and advise.

Recruitment is undertaken through BT's standard interviewing process where people, normally but not necessarily already employed within BT, are selected for interview based on their ability to meet the requirements of the Job Description. A more formal approach will be adopted if an appropriate computer-based examination can be devised and implemented. There is a formal Continuing professional Development programme.

It seems to me that it is important that Compliance staff possess appropriate skills, both technical and interpersonal to integrate the idea of Compliance into the business as a whole, and to support the concept that compliance is part of good business practice.

BT COMPLIANCE-PRODUCT DEVELOPMENT AND CHANGE MANAGEMENT

There is a structured approach to embed compliance issues in both new products and services development and in change initiatives generally. Product Development is undertaken by individual lines of business, as they are responsible for their own products, but they are supported by the Compliance Risk team, who will be reviewing the key processes. A review of the BT Wholesale Regulated Product process has been undertaken. Within BT Retail, the implementation process is regularly reviewed, and is scheduled for review in the Compliance Control Board.

BT Global has an agreed product process with change management controls, and there is an implementation plan, which was subject to audit by Internal Audit and Risk Assessment.

Again, it is a great strength for BT to place responsibility for product development and change management within the lines of business where it truly belongs, with the Compliance and Internal Audit functions providing support, review and audit but in no way diminishing the fundamental requirement for the Lines of Business to be aware of their Compliance obligations.

BT COMPLIANCE-MEASUREMENT

A set of Compliance metrics has been agreed and published in the 2003/4 Annual Report. These are being refined and improved and additional metrics are being devised; the metrics will also be risk assessed. There is regular reporting to senior management based on these metrics, together a formal Risk Review reporting on important issues, agreed actions and where appropriate, escalation.

It seems to me important that the work of Compliance is subject to specific and measurable criteria, and plays a full part in the risk Review so that its activities are clearly linked to the business, and its use of resource can be fully justified; some Compliance departments seem to be laws unto themselves, and are not able to focus their effort where it is most needed.

BT COMPLIANCE-MONITORING AND VALIDATION OF CONTROL EFFECTIVENESS

The annual Compliance Report is validated by Lloyds Registrars, an independent source, and the Compliance Risk Review follows that of the Internal Audit organisation, whose Risk Review processes are externally benchmarked.

In addition the Compliance Risk Review Plan has been discussed with Ofcom to ensure that current and future high risk areas have been correctly identified. It is intended that the Compliance programme and performance will be benchmarked against similar European organisations.

These factors indicate that Compliance within BT is robust, and is able to identify risks and to ensure that adequate controls exist to cope with them. It also ensures that this robustness can be objectively and factually demonstrated.

BT COMPLIANCE-SIGNING OFF ADVERTISING

A section on this topic has been included because in financial services there is probably no other topic that causes such endless arguments between Compliance departments and Marketing departments, and between regulated firms and the regulators. BT solves the problem by the involvement of the Legal department. Before sending copy to Legal department the product line needs to confirm to Marketing department that the information is factually correct, and that all the claims are factually correct, and can be supported by documentary evidence.

A checklist, covering details of the product, proposition, discount/offer, competition draw must be completed. Normally, five days notice is required.

Any dispute between Legal and Marketing departments must be resolved at a senior level.

The system seems to work, even though there is a potential for clashes of view between a cautious Legal department concerned with the precise meanings of words and the implications of the juxtaposition of statements, and a more imaginative and creative Marketing department. However, the involvement of senior management in settling disputes probably reduces the potential for such disputes; certainly the five days notice required for approval avoids the crisis atmosphere created by the demand for instant approval.

BT COMPLIANCE-TRAINING

As part of the review I visited BT's premises at Colindale where I was able to examine the training programme. There are mandatory courses for managers, covering the Competition Act, Data Protection and Privacy, Information Retention, Sharing Information and Winning Through Compliance, an introductory course which is mandatory for all team members who are not BT line managers. There are also specialist courses relating to Bid Management, Contract Law, Marketing and Advertising, Procurement Awareness and Product Stewardship, which staff carrying out those roles or working in those functions are recommended to take. (In practice, it seems likely that they will be expected to do so, and perhaps this might be made explicit).

In addition, there are courses particularly applicable to the various Lines of Business which are mandatory.

Details of the training programme appear on a training site within the BT internal website, and employees working in a particular Line of Business can click on to a link to discover which extra mandatory courses apply to their Lines of Business.

The Home Page of the website contains two very important messages the first to the effect that all staff must ensure that they put the material that they have learned into practice; in the case of line managers that responsibility extends to the staff for whom they are responsible. The second makes it clear that any attempt to gain certificates or accreditation without having completed the training will be regarded very seriously. These messages seem both apposite and well-placed; they clearly identify senior management's commit to training, and leave no excuse opportunity for claims of ignorance of BT requirements.

The information and required practice set out in the training material emanates from a number of sources, and includes external requirements, for example those dictated by Ofcom, the Competition Act or the Data Protection Act, and internal policy, determined by BT as the manner in which it wishes business to be carried out and customers and other parties have dealings with BT are to be treated. There a number of specialists who review regulatory and other external changes to determine whether and how BT practice and the material conveyed in training courses needs to change. However, for some courses, especially the Winning Through Compliance introductory course a formal distinction between the two sources is not made; it is presented as a series of requirements. I feel that this is the right approach; for most staff it is important to get the message across and to avoid potential for confusion.

The courses are taken on line and at the end of each a test has to be passed, each question being accompanied by four possible answers. If a wrong answer is selected, the candidate is referred back to the training material. However, if an insufficient number of questions are answered first time, the course has to be worked through again and the test retaken.

In order to check how the system works I worked through the Winning Through Compliance course. Considering that it will be taken by all team members, some of whom will not be particularly sophisticated, I felt that the material was informative, covering quite a large amount of topics, and easy to understand but not patronising nor self-consciously dumbed down. The questions at the end were fair and sufficiently demanding to require attention to the material without being too difficult. It was particularly helpful in making the course worthwhile that most of the wrong answers were at least plausible, not always easy to achieve, so that it would be very unlikely that the course could be passed by guesswork. The bank of questions is kept under review and varied.

It was also noticeable that the importance of Compliance, and the high degree of importance attached to it by senior management was very forcefully expressed.

Records of training courses successfully completed are kept online, and can be accessed by Compliance. Once a course has been completed, it must be retaken every two years and the record for each employee shows the courses successfully taken and the date of the next refresher course. Reminders about the imminence of the requirement to take refresher courses are issued, together with further promptings if any course is not taken. (Special arrangements exist for those on long-term absence or have other reason for not taking courses).

Ultimately, Exception Reports containing details of long outstanding courses are sent to the Compliance Control Boards, and appropriate action taken. By the use of online training data BT can exercise tight and effective control to ensure that all the compulsory and refresher courses are taken, and passed.

BT also issue a daily online information update BT Today to all staff. It is not compulsory reading, although in practice most staff read it. However, BT does not rely solely on it to disseminate information about practice changes, regulatory developments and the like.

If the information were sufficiently important and urgent it would be supplemented by briefing first of all by e mail to Compliance representatives within the Line of Business who would be responsible for briefing their colleagues. In any event, there are regular monthly briefings at which information is imparted and compliance issues discussed.

Such a large investment in training indicates how seriously it is taken by senior management within BT and it seems to be working very well.

VISIT TO NEWCASTLE CALL CENTRE.

I met primarily with the Call Centre Compliance Manager and the Broadband Compliance Manager; discussions were also undertaken with a Compliance Manager, and a Sales Manager.

Separate teams exist for sales, help and enquiries, and there is a small specialist team dealing with complaints. The visit was primarily concerned with the sales function, which is the largest within the Call Centre. Although BT has chosen not to make outbound calls at Newcastle at this moment in time, customers who have expressed interest in buying BT products may be regarded as "warm leads" and guided into purchases. These and all such contacts with members of the public raise issues of ensuring that customers are treated fairly and not exploited, which in turn raises serious Compliance issues. I am pleased to report that these issues are fully recognised at Newcastle, and that robust systems are in place to ensure that an effective Compliance regime is in operation.

The Customer Advisers are required to be aware of the Rules and to understand their application, and the Operational Managers are required to ensure that Customer Advisers undertake the necessary training, understand the requirements and apply them. The Call Centre Compliance team is responsible for supporting these processes and ensuring that appropriate procedures exist.

In addition, BT Retail Compliance have responsibility for ensuring that appropriate training is in place, and BT Group for the existence of relevant measures, and the instillation of a Compliance culture.

All entrants receive compliance training which is provided within induction training, even though some may be agency as opposed to permanent staff. For staff to be engaged in Broadband sales, the training period is five weeks. Even then, they work under close supervision, and only gradually can staff deal with customers alone.

The training consists of the computer based Winning Through compliance, together with new Entrant Training covering the Competition Act, Sharing Information, Data protection and Privacy, and Information Retention policy. During the training, each trainer regularly re-emphasises compliance throughout the entire course.

The Principles adopted reflect the principles set out in Winning Through Compliance, namely validation, ensuring that instructions of appropriate, mandatory statements, about fair trading and direct debit, correct identification of terms and conditions, and fair and factual comments on the competition. This connection demonstrates that the Winning through Compliance programme is not an academic exercise but an integral part of BT's commercial operations.

The training does not finish with the initial course, and is supplemented by a web-based call guide, consolidation of previous training, role play away from the call centre environment, and speedy information updates

The call centre operates via the use of call guides which have to be followed. After the initial courtesies and identification, there is a needs analysis process, which identifies the products available, and in the case of Broadband, whether the customer has appropriate equipment, what the minimum requirements are, and what other products are on offer. A recapitulation confirms the information given, contents and price, contract, and cancellation rights. Call guides such as these are essential in call centre dealing but, unlike some other call centres, the scripts do permit flexibility to cater for customers' comments, and callers are permitted to give advice and suggestions, either generic or specific.

Sales Managers are able to listen in on calls made by staff deemed to be sufficiently competent to deal with the public as part of the supervision process to ensure that the scripts are adhered to. They can randomly select previous calls to check compliance with the guides. I welcomed the opportunity to listen in to some calls myself during a visit to the section. I was impressed by the fluency with which the call guides were used, without the script sounding like a routine, gone through very many times before. Customers, some of whom seemed disagreeable, sometimes because of problems encountered elsewhere in BT, were dealt with courteously and with good humour, and their calls often ended with faith in BT restored. Customers' needs were assessed, fairly, and customers were left in no doubt as to precisely what they were buying.

Compliance is also exercised through everyday management. The Compliance team is regarded as the first point of contact on all compliance issues, provides support to the management team, signs off responsibility for compliance activity, and authorises briefings, including new regulatory requirements. Compliance is also involved with scripts at an early stage from design to delivery, and provides specialist back up and action plans as required.

If new products or services are developed, Compliance are involved both pre-launch in reviewing processes, system changes, and design of the training programme, including training the trainers. Post launch, Compliance reviews briefings, attends reviews, and monitors calls, and liaises with the Call Observation teams.

Apart from that, Compliance is involved in the everyday routine, providing support, guidance, and help and a performance management framework, involved with coaching, call observation, external and internal mystery shopping, and maintaining performance. All Broadband managers have compliance objectives.

There is an online Knowledge Management tool, OWL, within the Call Centre, which all staff can access, in which notices can be posted, and "hot topics" and alerts relating to Broadband highlighted. Links exist to a number of topics such as advertisements and consumers, and staff can also call up a brief account of BT Broadband, its key selling point, and the target market.

Although out-bound calling is not undertaken at the present time, there is an expectation that attempts will be made to convert general enquiries from customers into actual sales, and rewards are given for successful conversions.

This is not to say that there are specific targets, but if a reasonable number of sales were not to be made, it would be a cause for comment.

As a conversion from an enquiry to a sale might take more than one call, two or more callers might be involved. However, there is no dispute over who should get the credit; the call in which the sale is actually finalised is the crucial call. This is accepted on a win some and lose some basis.

None of this is inconsistent with the Regulatory Compliance Statement which makes it clear that BT is a commercial operation, engaged in a vigorously competitive market. However, if staff do receive bonus payments there is a potential danger that they will come to rely on them, and adopt high pressure tactics to make sales. It is clear that the Compliance management within the Call Centre recognise this potential danger, and the controls that exist are designed to ensure that every possible effort is made to ensure that it does not happen. They are certainly motivated to do so because their remuneration depends on achievement of Compliance objectives, which would be jeopardised if pressure selling gave rise to complaints and unfavourable comments in mystery shopping.

My visit to Newcastle convinced me that there is a clear commitment to both training and compliance and the devotion of a very considerable resource indicates just how seriously it is taken. Compliance is in situ not as a remote issuer of edicts but closely involved in a very practical way with all aspects of the business. The importance of the need to comply is emphasised at all stages, by line managers as well as Compliance representatives.

The Financial Services regulator has recently developed the concept of Treating Customers Fairly, and I feel that this idea usefully summarises the operation of the Call Centre. They are treated courteously, their needs ascertained, their rights explained, and the staff with whom they deal are well trained, subject to monitoring and checks, and are motivated to think in terms of compliance. It is difficult to see how they could be treated more fairly.

CONCLUSIONS

As mentioned previously, the crucial concept is that of compliance culture. This exists where compliance is embedded in the whole company, where senior management buy into it and make their commitment absolutely clear. There is a zero tolerance of non-compliance and sufficient resource exists to ensure that the aspirations are met. It is not only that the Compliance department have enough staff, but also that they are not detached from the business but an integral part of it, with a hands-on approach.

So far as BT is concerned, at Newcastle there is a very visible and substantial Compliance function which takes a full and detailed part in product and service development and in monitoring adherence to existing requirements. They demonstrate very clearly that there is no antithesis between an effective and vigorous Compliance function, and operating in a competitive and innovative environment. It is really good business practice which BT would operate even if there were no regulatory regime in place in order to attract and retain customers; the only difference is that the regime is set out formally with written practices and procedures, and specific people charged with Compliance responsibilities.

I therefore feel confident in assuring BT that there does exist within the organisation a secure and well-functioning Compliance culture such as some companies within the financial services sector would be pleased to enjoy.

Compliance culture does not come cheaply, and the commitment in terms of cost, resource and time has to be considerable and on-going. However, there is no evidence that BT visualises any diminution of that commitment; on the contrary, a number of initiatives well on the way to completion, or are being developed, which will strengthen the compliance regime even more.

I have found the review of BT to be both stimulating and enjoyable, and my grateful thanks are due to Theresa Watling and John Bexon, and to the team at Newcastle for all their assistance. I am therefore pleased to be able to give the Compliance function such an encouraging endorsement.

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