



New FSA 'one-stage' complaint-handling process will require special attention from nominated Heads of Complaints

SEPTEMBER 2011

©2011 CHARTER UK

Contents

I	Introduction	1
II	Why are these changes being made?	2
III	Many existing complaint-handling systems are not 'fit for purpose'	3
IV	New complaint-handling rules do not discriminate against CMCs	4
V	'Muddling through' is not an option	4
VI	A pivotal moment for the industry	6
VII	Conclusions	7

I. Introduction

In its consultation paper CP11/10, dated May 2011, the FSA announced a number of key changes being made in the area of complaint handling within the financial services sector, including a requirement for firms to nominate a senior individual to take responsibility for the complaints-handling function from 1st September 2011.

This important milestone is one of many new rules set out in CP11/10. These new regulations will require substantial changes to be made across a wide variety of policies, procedures and systems in order to make sure that firms will be able to provide adequate redress for their customers, both efficiently and effectively.

The newly appointed Heads of Complaints who accepted responsibility for this area on 1st September must not underestimate the far-reaching impact of these changes. UK banks, insurance companies and other financial services firms need to understand that the new rules outlined in CP11/10 will demand an enforced culture change across the entire organisation, including a total overhaul of how complaints are handled.

In addition, these new rules will necessitate a comprehensive review of how firms' key IT systems, management information (MI), reporting and HR policies will need to change in order to automate key tasks, capture complaints effectively, and perform root cause analyses to determine the underlying reasons for customer dissatisfaction. For a firm's nominated Head of Complaints in particular, it will be vital to address all of these areas very carefully in order to ensure that FSA compliance is achieved and any associated penalties are avoided.

In short, the changes required by CP11/10 represent a pivotal moment for the industry, since the time has come for financial services firms to decide how they are going to address these new requirements, not only in terms of compliance, but also as a way of improving efficiency and gaining greater customer insight within the organisation.

II. Why are these changes being made?

The switch from a two-stage to a one-stage complaint handling process aims to make it quicker and easier for dissatisfied customers to complain.

For years, consumer rights champions have argued that this two-stage complaints process was simply a way for firms to fob off legitimate complaints, with anecdotal evidence suggesting that some financial services providers only ever considered complaints that had reached 'stage two'.

As a result, the 'two-stage' complaint-handling process will be abolished from 1st July 2012 in favour of a new 'one stage' process. Under these new FSA rules, a firm's *first* response will be its *final* response. The FSA hopes that this change will encourage firms to resolve complaints fairly when they are presented for the first time, rather than relying on a customer's persistence – or lack thereof – when pursuing a complaint.

Following the abolition of the two-stage process, the onus will therefore be on firms to investigate complaints properly, rather than making it incumbent on customers to re-approach firms if they are dissatisfied.

As part of the guidance contained within CP11/10, the FSA has also reinstated that firms should have comprehensive policies and procedures in place in order to support a root cause analysis of customer complaints, and to record any decisions taken by senior personnel in this area. At the same time, firms should also adopt proportionate measures to ensure that any clients that have suffered detriment and have been potentially disadvantaged are also given appropriate redress, even if they have not complained.

'Our evidence suggests that roughly half of large firms may be using [the two-stage complaint-handling process] in ways that may lead to significant consumer detriment, which means that enforcement action is unlikely to be an efficient use of our resources; and secondly it is our view that the [two-stage] process is inherently prone to abuse.'

The Financial Services Authority, CP11/10

III. Many existing complaint-handling systems are not ‘fit for purpose’

All of the UK’s major financial services organisations use more than one complaint-handling system. In fact, some large banks and insurance companies use upwards of 60 different systems within a single organisation - which is clearly not sustainable under these new FSA rules. With so many disparate approaches in place, many firms face a number of serious challenges in order to comply with new FSA complaint-handling rules.

For a start, most legacy IT systems are hard wired to observe a two-stage complaint-handling process. These will require a considerable investment in time, money and resources to adapt to the single stage process as the industry moves towards the July 2012 deadline.

A disjointed approach to complaint-handling also makes it impossible for any firm to have a universal view of the complaints that it’s receiving. It also makes it hard to achieve any real consistency with its customer interactions. Add to this that the management information (MI) produced by these systems is often fragmented and difficult to produce, it makes it virtually impossible to ensure reliability of data to perform accurate root cause analysis.

To overcome these challenges, a firm’s complaint-handling system will need to be capable of comprehensively capturing and collating complaint information at every customer touch-point. In fact, the FSA is now actively encouraging firms to capture any complaints at the first point of contact, whether that is via email, the website, call centre, or a third party. It will also need to be flexible enough to adapt to future regulatory changes and capable of embedding best practice approaches – combining ease of use with speedy complaint resolution. However, this can be very difficult to achieve without systems that are fit for purpose in this regard.

Unfortunately, unless UK banks and financial services firms take action in these areas now, an increasing number of complaints are likely to end up with the FOS, and the fees associated with this ‘escalation’ will continue to mount. According to the FOS, complaints about financial firms soared by 54 per cent in the first six months of 2011 compared with the previous six months.¹

Given that firms can currently be charged £500 for any complaints that are deemed to have merit by the FOS, the cost to the financial services industry could very quickly run into tens of millions of pounds.

Some large banks and insurance companies use upwards of 60 different systems within a single organisation – which is clearly not sustainable under these new FSA rules.

¹ <http://www.independent.co.uk/news/business/news/complaints-against-financial-firms-up-50-per-cent-in-past-six-months-2349906.html>

IV. New complaint-handling rules do not discriminate against CMCs

In addition to catering for individual customers, the FSA has also warned firms against dismissing complaints that come through claims management companies (CMCs), even in instances where a CMC has raised the complaint through a standard template letter.

In a guidance note published in July 2011, the FSA said that whether consumers complain directly or through a third party, their complaints should be dealt with in the same way by any firm, the FOS, and the Financial Services Compensation Scheme (FSCS).

In fact, the guidance specifically states: *“A complaint may be generated because a CMC has brought a particular issue to a consumer’s attention. This does not mean that the complaint is less valid than any complaint that has been brought directly by a consumer”*²

As a result, nominated Heads of Complaints may find themselves squarely in the crosshairs as this new generation of CMCs become even more aggressive in their marketing and customer complaints begin to soar – just as the FSA’s strict new complaint-handling rules come into effect. At the same time, consumers are becoming increasingly aware of their rights in this regard, which means that the consumer appetite for lodging complaints is likely to grow even further.

For all of these reasons, this is a pivotal moment for financial services organisations, as it will be impossible to comply with these new rules unless a robust enterprise platform is implemented to cope with these changes.

V. ‘Muddling through’ is not an option

The majority of firms and trade associations that responded to the FSA’s consultation on CP11/10 actually opposed the abolition of the two-stage process, largely because they felt that the costs related to this move to a one-stage complaints process would be excessive, with estimates for the project ranging from £24 million to £84 million.³ Many firms also objected to the removal of the two-stage process because they believed that referrals to the FOS would increase as a result, which would also lead to increased costs.

However, consumer representatives and individual respondents strongly supported the proposed abolition of the two-stage process. As such, it remains the FSA’s view that allowing a two-stage process has facilitated

poor complaint handling by firms, and that the regulator has seen enough evidence of inappropriate use of the two-stage process to justify its abolition.

However, because ‘legacy’ complaint-handling systems cannot easily be adapted to a one-stage process, there may be the temptation for some firms to ‘paper over the cracks’ and to do the best they can with what they’ve got. However, this approach is clearly untenable. Regardless of the FSA’s rule change, multi-platform, disparate complaint-handling systems are enormously inefficient. As such, why should firms spend money, time and effort on what is essentially a ‘sticking plaster’, when more strategic action is needed and, in fact, unavoidable?

² <http://www.ftadviser.com/FTAdviser/Regulation/News/article/20110719/c9639a40-b209-11e0-86ff-00144f2af8e8/FSA-Do-not-dismiss-claims-firm-complaints.jsp>

³ <http://citywire.co.uk/new-model-adviser/fsa-to-raise-fos-compensation-cap-to-150000/a495419>

V. 'Muddling through' is not an option (cont.)

For banks and other financial services companies operating in the UK, the scale of the changes required should therefore not be underestimated. Any firms that choose to muddle through and simply do the bare minimum to comply with these new regulations will face serious challenges in terms of their IT resources, since disparate legacy systems and a lack of management information will make the move from a two-stage to a one-stage process both difficult and inefficient.

Regardless of the FSA's rule change, multi-platform, disparate complaint-handling systems are enormously inefficient.

Charter UK is already working with a number of high street banks and other financial services organisations to ensure that their customer service employees have all the information and systems they need to cope with the FSA's new one-stage process, whilst also improving in other areas such as their speed of response, automation of tasks, and the ability to capture any complaints at the first point of contact. With this approach, firms can demonstrate best practice and show the FSA that they are proactively seeking, capturing and taking action on any feedback related to complaints in a consistent, professional manner.

Unless firms are willing to adopt this kind of unified system, it will also be very difficult for firms to identify important trends related to customer complaints, such as the (well-publicised) problems associated with Payment Protection Insurance (PPI).

By taking a more holistic approach to data capture, however, firms will be able to use detailed management information to gain a much better overview of complaints within the organisation, so that problems can be dealt with more efficiently, and much earlier on in the process.

Charter UK's unique technology also allows firms to drill down, collate and report on this kind of customer contact feedback in detail. As such, firms can go beyond simply ensuring that they've responded to their customers in accordance with FSA regulations, as they can also conduct a thorough root cause analysis that will reveal sub-standard business processes, along with the financial impact they're having on the organisation.

By choosing to go beyond the 'bare minimum' in this way, banks and other financial services firms can also use these tools to implement a high-quality solution that is able to automate many of the manual processes related to customer complaints, which means that customers are responded to quickly, accurately, and within the organisation's Service Level Agreements (SLAs). Factors like these are becoming increasingly important in the financial services sector, as service is now a key differentiator that can help to encourage customer loyalty in this increasingly competitive market.

VI. A pivotal moment for the industry

For all of these reasons, the benefits of switching to a single unified complaint-handling system go far beyond FSA compliance; firms can realise efficiency gains of up to 50% by replacing multiple systems with a single complaint-handling system.

With this approach, it is also very easy for banks and other financial services organisations to gain key insights on products and policies that are in need of improvement, and also to identify any procedures that are causing unacceptable 'bottlenecks' for their customers.

In addition to these benefits, a unified system will also provide a much lower cost of ownership compared with multiple, disparate systems, and will also help financial services firms to build a better reputation with industry regulators, as it will make compliance much easier to achieve and demonstrate, and will make it much easier to implement additional regulatory changes in the future.

Firms can realise efficiency gains of up to 50% by replacing multiple systems with a single complaint-handling system that is fit for purpose.

With this kind of system, senior executives will also benefit from better reporting and management information, which will help to uncover any hidden problems through more accurate root cause analysis. In fact, managers will often be able to examine customers' 'expressions of dissatisfaction' long before they turn into actual complaints. When used in this way, MI can actually help to highlight potential problems long before they become more serious.

This kind of intelligence-led analysis is absolutely vital for the financial services industry. The FSA has stated that the extent and quality of the root cause analysis undertaken by firms will directly affect the extent to which they are able to identify recurrent or systemic problems and take appropriate action. The knock-on effect for customer service will also be considerable, since the firm will be able to achieve much greater consistency in terms of its communications, and will thus be able to build a much stronger brand image as a result.

This last point is important, as brand value is becoming increasingly important in the financial services sector, especially as the big supermarkets begin to push further into this already-competitive market. In the face of these challenges, now is not the time to be listed amongst the 'worst offenders' when it comes to customer complaints.

For all of these reasons, forward-looking firms need to view the FSA rule changes as more than just a compliance issue. Instead, firms should see these changes as an opportunity to adopt an enterprise-wide approach to gaining valuable customer insight which will enable them to enhance their reputations and maintain brand integrity.

VII. Conclusions

This is a pivotal moment for the financial services industry. Nominated Heads of Complaints must not underestimate the effect that moving from a two-stage to a one-stage complaints process will have on their organisation, not only in terms of their customer-facing policies, but also in terms of their IT systems, their HR needs, and their internal operations.

Already, the number of complaints being made to both the FSA and FOS has begun to grow significantly. Between April and June, 81,000 individuals contacted the FOS - more than double the figure that was recorded across the same period one year earlier.⁴ Like it or not, it appears that the floodgates have now well and truly opened when it comes to complaints, and this trend shows no signs of abating.

This change will therefore require a significant commitment to resources and effort. Firms simply do not have the option of relying upon deferred timescales, part-solutions, or additional staff. In other words, trying to 'make do' with existing systems and solutions is simply not an option, especially as many firms have grossly misjudged how much time and expense these new FSA rules will demand.

Even with multiple extensions from the FSA, financial services firms have failed to cope with the PPI crisis effectively: at least one major bank has already admitted that it will not meet a deadline imposed by the FSA for banks to clear its backlog of complaints about PPI, and complaints to the FOS are still pouring in at a rate of more than 800 a day, mainly due to mis-sold PPI.⁵

Clearly, there are important lessons to be learned here. Firms will comply with the rule change required by CP11/10 – that is not in question – but it remains to be seen whether banks will learn anything from the PPI crisis and meet their obligations more efficiently this time, and before the next 'scandal' appears on the horizon.

Without a doubt, these enforced changes to complaint-handling will increase the workload at all financial services organisations in the UK. IT solutions that are fit for purpose can help to address this problem, however, by making complaint-handling more streamlined and efficient, and can also help to reduce the cost of compliance by using root cause analysis to deliver increased customer insight in order to actively address and resolve the problems behind the complaints – which is exactly what the FSA will be expecting to see.

With this approach, firms can go beyond compliance alone, and can focus on important strategic benefits building their brand, improving efficiency, and ensuring that they have a future-proof system in place for the next round of regulations that the FSA/FCA decides to impose.

⁴ <http://www.financial-ombudsman.org.uk/publications/ombudsman-news/95/95.html>

⁵ <http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/8743064/Payment-Protection-Insurance-complaints-top-800-a-day.html>



Contact us

Charter UK 2 Church Street Walton-On-Thames Surrey KT12 2QS United Kingdom

Tel: +44(0)845 5 198 960 Fax: +44(0)845 5 198 961

Email: info@charter-uk.com Website: www.charter-uk.com