COMPLAINTS EXCELLENCE

Implementing the FCA's "Improving complaints handling" - PS 15/19

HUNTSWOOD
CONTENTS

INTRODUCTION 3
BACKGROUND 5
CHANGES AND IMPACT 7
WHAT DOES GOOD LOOK LIKE? 13
HOW HUNTSWOOD CAN HELP 22
How firms handle complaints continues to be a key regulatory litmus test for the FCA. The regulator discovers much about how a firm regards the interests of its customers through how it deals with complaints.

The FCA’s updated complaints rules were finalised in July 2015, and come into force on 30 June 2016 (bar the call charges rule which comes into effect 26 October 2015). As firms prepare, this paper addresses the following:

- The main changes proposed by the FCA
- Key questions you need to think about
- A best practice model for implementation

As you prepare to implement the rules, this White Paper is designed to give you helpful and constructive guidance in your planning activities.
BACKGROUND

We’ve provided some essential information below on the Thematic Review, Consultation Paper and Policy Statement

TR14/18 – COMPLAINT HANDLING
FCA Thematic Review - November 2014
This was established to discover where firms can provide a better customer experience.

The FCA created a working group to discuss and debate issues ahead of proposing remedies. This collaborative approach can be said to have ‘broken the mould’.

It was made up of:
1. 15 major retail firms, accounting for:
   • 79% of banking complaints
   • 60% of home finance complaints
   • 26% of general insurance complaints (excluding PPI)
   • 42% of life insurance complaints
   • 42% of investment complaints
2. The Financial Ombudsman Service (FOS)
3. Five trade bodies
4. Consumer bodies

CP14/30 – IMPROVING COMPLAINTS HANDLING
FCA Consultation Paper - December 2014
This outlines the FCA’s proposed approach to applying the remedies recommended by the working group in the Thematic Review.

The FCA had no choice in many of the changes which were required as part of the UK’s implementation of the Alternative Dispute Resolution Directive (ADR).

The rules affect firms across all financial services sectors in the UK (as well as certain branches of UK firms in the EEA, and certain branches of EEA firms in the UK).

PS15/19 – IMPROVING COMPLAINTS HANDLING, FEEDBACK ON CP14/30 AND FINAL RULES
FCA Policy Statement - July 2015
This explains the FCA’s finalised new rules on complaint handling.

The key difference from CP14/30 are that the implementation date for the call charges rule has been delayed from summer 2015 to 26 October 2015.

There have also been amendments to the complaints return form (page 23 & 24 of the paper), to be implemented 30 June 2016.

“...TOO OFTEN THE BANKS HAVE NOT TAKEN CUSTOMER COMPLAINTS SERIOUSLY. MANY BANKS HAVE HAD VERY HIGH PERCENTAGES OF THEIR COMPLAINTS UPHeld BY THE FOS FOR FAR TOO LONG.”

CHANGING BANKING FOR GOOD
PCBS - JUNE 2013
The Thematic Review working group made a series of recommendations. The FCA considered these closely as it developed its policy proposals, which it is now consulting on. See the following summary table detailing the recommendations and responses.

You’ll notice that the only working party recommendation not taken forward was that of the complaints definition. The complaints definition is an area of ongoing concern for firms. At this point, the FCA expects firms to apply it themselves.

<table>
<thead>
<tr>
<th>Working Party Recommendation</th>
<th>CP Proposal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calls to complaint lines should not charge more than a ‘basic rate’</td>
<td>Taken forward - new rules limiting the cost of calls to financial services firms</td>
</tr>
<tr>
<td>Widen the definition of a complaint to match industry practise (e.g. removing the more subjective element of ‘material’ distress or ‘material’ inconvenience)</td>
<td>Not taken forward - a subjective assessment is sometimes needed</td>
</tr>
<tr>
<td>Extend the time frame of the ‘Next Business Day’ (NBD) rule for ‘informal complaints’</td>
<td>Taken forward - proposal to extend the time frame to three business days</td>
</tr>
<tr>
<td>Remove the ‘non-reportable’ complaints element of the NBD rule so that firms would report all complaints received</td>
<td>Taken forward - proposal for firms to report and publish all complaints</td>
</tr>
<tr>
<td>Review the biannual complaints return to include more consumer centric measures</td>
<td>Taken forward - proposal to make general improvements to the ‘complaints return’</td>
</tr>
<tr>
<td>Revise the FCA complaints publication to include more customer focused and contextualised data</td>
<td>Taken forward - proposal to make general improvements to the complaints publication</td>
</tr>
</tbody>
</table>
“Consumers are entitled to complain and to seek compensation from firms when things go wrong. We want to ensure that the process of complaining is straightforward, transparent and fair to customers, while allowing firms to handle complaints as effectively as possible.”

CP14/30
CHANGES AND IMPACT

Huntswood has identified the most crucial headlines from the policy statement, and how they’ll affect your firm. Alongside these, we’ve distinguished four key themes that will impact your firm upon implementation.

THE PS’S FOUR THEMES OF CHANGE:

1. The next business day (NBD) rule will be extended to three working days
2. A ‘summary resolution’ communication, to include FOS rights, to be sent to all complainants
3. ALL complaints to be reported to the FCA (including NBD complaints)
4. A basic call rate for customers

The following section takes each of the four themes of change, and breaks them down into the regulatory drivers, the opportunities for firms, and the challenges firms will face.

CP HEADLINES

It is likely that your operating model will need to change.

Many of the critical decisions will involve some form of change to the current complaints operating model.

These changes require careful consideration by senior management, and in some cases, a reassessment of a firm’s complaints risk appetite. For instance:

• What is the appetite within firms to have their frontline staff making complaints decisions?
• How comfortable are you with your frontline staff issuing the summary resolution communication?

What complaints definition are you going to use?

The industry requested greater definition around what constitutes material distress and material inconvenience.

The FCA decided that it did not need to clarify this definition for firms, and that it was the industry that had caused many of the issues by using too broad a definition.

It is unlikely the FCA will change its stance.

Will a broader definition be able to accommodate the new environment of having to report all complaints?
FOUR THEMES OF CHANGE

1. THE NBD RULE WILL BE EXTENDED TO THREE WORKING DAYS

<table>
<thead>
<tr>
<th>Regulatory drivers</th>
<th>Opportunities</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>More complaints can be dealt with quickly, and at first point of contact</td>
<td>Improved customer outcomes and customer satisfaction scores through more timely complaint handling</td>
<td>Defining a complaint under DISP as distinct from a general expression of dissatisfaction</td>
</tr>
<tr>
<td>Removes the ‘artificial cut off’ of NBD</td>
<td>Reduced cost in the specialist complaints teams</td>
<td>Increasing the remit of frontline staff, e.g. administration, call centre, or other third party outsource provider</td>
</tr>
<tr>
<td>Lessens the tendency to chase customers to accept resolution at NBD</td>
<td>Follow through into FCA published statistics enhances reputation</td>
<td>Ensuring staff have the right skills and knowledge</td>
</tr>
<tr>
<td>Reduces the number of less serious complaints taking up to eight weeks to resolve</td>
<td>Better customer experience</td>
<td>Training, enhanced reporting and quality assurance (QA)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ensuring systems and processes capture the right level of information at investigation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Or, including a ‘triage’ step within specialist complaint teams to deal with NBD – three day complaints</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Changes to external customer documentation and websites</td>
</tr>
</tbody>
</table>
FIVE THEMES OF CHANGE

2.

A ‘SUMMARY RESOLUTION’ COMMUNICATION (SRC) FOR THREE DAY COMPLAINTS INCLUDING FOS RIGHTS

Regulatory drivers

- FCA research found that customers value a written response at the end of the resolution of their complaint
- Increase customers’ awareness of the ability to have their complaint looked at independently by the FOS where they do not agree with the firm’s response
- Allowing immediate FOS referral where previously, customers waited a maximum of eight weeks for this information in the final response
- Influencing firms to improve complaint outcomes
- The FCA sees the referral to FOS in the closing stage of all complaints as an industry incentive to get complaints handling right first time, and also a measure to rebalance some of the information asymmetry that exists in the complaint process

Opportunities

- Personalising the standard text / letter / email to enhance the customer’s outcome and experience further
- Provide additional clarity to the process
- Increase professionalism of the response

Challenges

- FOS referral rates may increase significantly
- Ensuring communication is ‘tailored to the customer’
- Need to increase control points, quality checking and quality assurance activity
- Maintaining a minimum level of information to evidence to the FOS a complaint was properly considered

OTHER CHANGES

Complaints can be referred directly to the FOS (without the firm considering first), and decisioned by them, assuming both the firm and the customer agree.
Challenges

• More training and QA overhead for more accurate recognition and recording of complaints
• Multiple entry points of complaints including Twitter, email and live chat (and via differing distribution channels)
• Systems and process changes due to new complaint codes
• Feed into root cause analysis
• Rigorous sign off / governance at each level of reporting
• Firms may apply the DISP definition in different ways
• Increased scrutiny, and potentially sensational headlines. These messages must be managed carefully
• Senior figures will want to ensure reported figures are accurate and reflective
• Senior management may consider complaints definition to ensure they are recording actual complaints

Opportunities

• Conducting more robust root cause analysis (RCA), potentially fixing more problems than at present
• More accurate reporting to improve identification and rectification of issues
• Putting complaints figures in better context for customers

Regulatory drivers

• The thematic review found that some firms target the resolution of complaints by the end of NBD. This meant a large percentage of complaints would never be recorded (75% of complaints in some cases)
• Reporting of all complaints will promote positive firm behaviour and mean the FCA has a line of sight on all issues
• Potentially serious complaint trends / issues are no longer hidden
• Increased complaints transparency for customers
• Greater ‘media’ exposure acting as a positive influence on firm behaviours

3. ALL COMPLAINTS TO BE REPORTED TO THE FCA (INCLUDING ‘INFORMAL’ COMPLAINTS), AND UPDATES TO THE COMPLAINTS RETURN

10 COMPLAINTS EXCELLENCE
FOUR THEMES OF CHANGE

4.

A BASIC CALL RATE FOR CUSTOMERS POST-SALE

Regulatory drivers

- Allowing all customers to make contact regardless of their financial circumstances or vulnerability

Opportunities

- Demonstrating to customers that you do not apply unnecessary charges when:
  - Something goes wrong
  - They have any post contract change or need to check their understanding or ask a simple question
  - They want to make a claim or exercise a right of the policy
  - Encouraging customers to contact you however they prefer; by email, web, text, phone or letter

Challenges

- Potential loss of income derived from this activity
- Operationalising the change, and ensuring customers do not use historic numbers
- Publicising the change and ensuring all material is accurate

“FINANCIAL SERVICES FIRMS REPORT ABOUT FIVE MILLION COMPLAINTS EACH YEAR AND PAY OUT ABOUT £5 BILLION IN REDRESS TO CONSUMERS, SO ANY CHANGES TO THOSE PROCESSES ARE SIGNIFICANT AND CAN HAVE A SUBSTANTIAL IMPACT.”

FCA CP14/30
WHAT DOES GOOD LOOK LIKE?

When taken in the round, the changes appear to exercise common sense. However, there are some big questions surrounding your firm’s risk appetite and operating model that need to be resolved. Whilst we’ve identified many of them below, there may be more depending on your approach.

RISK APPETITE

It’s difficult to argue against the policy intent of what the FCA is proposing – creating better experiences for customers when they complain. The difficulty will lie in how firms manage the challenges that implementation inevitably brings. Your firm will need to make some critical decisions based on its complaints operating model, and its risk appetite.

After understanding the changes, work with your steering group to answer the following essential questions. This will define your firm’s risk appetite:

**High level**

- What approach will you take to the complaints definition? Will you keep it open, or try to quantify materiality?
- Will you need to reorganise the structure of your complaints operating model?
- What will be the impact on your people? What considerations might you need to have?
- What will you rely on the frontline to handle? What will specialist complaint handlers tackle?
- How will you create and send the SRC?
- How will the proposals impact your control environment?

**Frontline staff**

- Will frontline staff handle complaints for the first three business days?
- Are you confident your frontline staff can handle more complaints?
- Do your frontline staff currently differentiate between material distress, and material inconvenience?
- How will you ensure decision making is consistent?
- Can your frontline staff record the right level of information?
- Should your frontline staff be responsible for issuing the summary resolution communication?
## WHAT DOES GOOD LOOK LIKE?

### Governance and MI

- How will the increased reporting requirements impact existing MI?
- How will the changes impact your conduct risk appetite and key performance indicators (KPIs)?
- What systems and oversight will monitor that performance?
- How will you demonstrate your performance falls within that risk appetite?
- Is your current MI ‘pack’ fit for purpose at each level of the organisation?
- Will the new reporting rules require further internal changes i.e. added complaints categories, changes in IT, operational reporting, MI packs, and IT systems?
- Do you currently capture ‘informal’ complaints in the same way as reportable complaints?
- Since all complaints will be reportable, how will this affect RCA?

### FOS

- Will raising awareness of the FOS encourage more customers to escalate their complaints?
- Does your board consider this to be a good or bad thing?
- Are systems and processes currently set up to hold sufficient evidence of the process (for the FOS and RCA purposes)?

---

### RISK APPETITE
WHAT DOES GOOD LOOK LIKE?

OPERATING MODEL

Will you change your operating model? You have three options:

1. Stay the same and just update your reporting

2. Don’t ask the frontline to do anymore, but invest in a more effective centralised triage that direct simple complaints to teams that will use the three day flexibility and issue SRCs

3. Utilise the frontline to handle certain simple complaint types

If your firm chooses option three, Huntswood has created an implementation model for utilising the frontline on the following page. It enables complaints to be dealt with quickly, whilst still maintaining adequate governance and controls.
WHAT DOES GOOD LOOK LIKE?

DATA TAXONOMY

Review your complaints data to establish what can be resolved within three working days by frontline staff.

Make sure that all of your current ‘NBD’ complaints data is included in this review.

Cleanse your data where necessary.

Define three to five of the most common complaint categories that could be resolved in three business days by frontline staff.

FRONTLINE STAFF

Once these three to five complaint categories have been identified, upskill your frontline so that they can effectively handle these without escalating to specialist teams.

Give the frontline decision trees and template SRCs per complaints type.

ESCALATION PROCESS

When a complaint arrives which is not one of the common three to five complaint categories identified, it will need to be escalated through a triage process. This will route on to one of three different teams depending on the type of complaint.

RUNNERS TEAM

For the most common cases taking longer than three days (around 70%)

REPEATERS TEAM

For less common complaints again taking longer than three days to resolve (around 20%)

RARITIES TEAM

For the obscure, complex and rare cases needing specialist attention (around 10%)
WHAT DOES GOOD LOOK LIKE?

ENGAGE SENIOR MANAGEMENT AND ENSURE THEY ARE SATISFIED WITH THE APPROACH

Under the forthcoming Senior Managers Regime and Senior Insurance Managers Regime, a designated Senior Manager will hold personal responsibility for the firm’s customer complaints management.

Any regulatory breaches within complaints will be automatically attributed to mismanagement by that Senior Management Function (SMF), unless they can evidence that they took ‘reasonable steps’ to prevent the breach.

This will mean senior managers responsible for complaints will become much more challenging in their management of the complaints function. They will therefore need to be taken on this implementation journey.

PROJECT - ROBUST AND CLEAR PLANNING

Start with the end in mind. This change has set regulatory timescales so deadlines cannot be missed. Please see page 21 for our proposed high level timeline, and supporting project plan.

Your organisation needs to:

• Understand the reasons for change
• Understand your options
• Make appropriate decisions early enough to enable you to plan an effective approach to roll out

Once your firm has reviewed its current operating model in the context of the changes, you can begin to plan any changes which may need to be rolled out. A typical delivery model for this would look at areas such as policy, process, systems, and people.
System changes are essential to implementing CP14/30. Start with looking at the new reporting requirements, and how they’ll change the way you record and report complaints; work with your IT department on this.

Once you’ve factored in your business model, you can start to engage your system supplier to support these changes.

All of the major complaints management system providers are in the process of launching enhanced versions of their software to best support the new DISP rules.
WHAT DOES GOOD LOOK LIKE?

Culture:

Any changes in approach or policy are likely to impact all employees that interact with customers.

It is critical to a successful implementation to make sure that your people understand, and buy-in to the changes. Senior management must instil a positive culture.

You can put the customer at the heart of your business and drive fair outcomes through:

• Regularly reviewing policies and procedures
• Comprehensive training and competence
• Fair remuneration / incentive policies
• Quality investigations and decision making
• Robust controls focused on quality rather than process

Training:

Employee training should be tailored to each role, specifically explaining the key changes and responsibilities for that individual.

Where frontline staff handle more complaints, computer based training will not suffice, so how will you train them?

Take into account the 70/20/10 model for learning and development.

- Everyday learning: Informal, on the job, experience-based, and practice
- Classroom follow up: Coaching, mentoring and development through others
- In the classroom: Formal learning interventions, and structured workshops
**IMPLEMENTATION TIMELINE**

**PLAN**
From December 2014 your firm should have been:

a) Conducting a gap analysis and impact assessment on its current state

b) Working through and answering key risk appetite questions to understand the implementation activity required. Engage senior management and IT on the impact of the proposed change

c) Updating your gap analysis, impact assessment and risk appetite considerations upon publication of final rules

**TRANSFORM**
Take your risk assessment and risk appetite decisions to determine what you need to do to make the changes. Then turn this into a detailed project plan.

You should be engaging senior management to sign off your plan.

**IMPLEMENT**
From September 2015 to the beginning of 2016 your firm should be looking at the two elements of implementation:

Business requirements / operating model
Designing, building and implementing changes to policies, processes and procedures.

Technology requirements
Designing and building system updates and implementing changes to the reporting requirements.

**EMBED**
From the beginning of 2016 you should be looking to take your people on the journey through effective change management and training.

Particular focus should be paid to frontline staff.
HOW HUNTSWOOD CAN HELP

Huntswood is a leading adviser in the implementation of the upcoming complaints rules. With 20 years’ experience in highly regulated industries has given us the technical expertise to understand and meet our clients’ needs.

OPERATING MODEL REDESIGN AND IMPLEMENTATION

As you navigate the operational complexities of complaints, Huntswood’s Regulatory Consulting business is perfectly positioned to assist your firm in developing its complaints operating model.

Typically, we’d start with a ‘current state’ review to establish exactly where your firm sits in the context of the changes that need to be made. Once this is done, we carry out a ‘gap analysis’, helping you to determine the steps that need to be taken to go from the ‘current state’ to a ‘preferred state’.

CASE STUDY

This year we worked with a major insurer to review their current operating model, and then design, build and embed a new one.

The issue

After an FCA visit in 2014, and through its own internal assessments, this firm had found weaknesses in its complaints operating model and framework:

• Complaints had always been resolved within individual business areas
• No central complaints database was in operation
• Complaints MI was sparse at best
• There were deficiencies in its employees’ ability to recognise complaints
• Where complaints were identified, only limited tactical root cause analysis (RCA) activity was taking place

As an insurer underwriting policies on a global scale, and often through third parties, the new complaints framework needed to be flexible enough to encompass more than just the requirements of the FCA. The firm recognised a lack of specific complaints expertise within its own compliance and operational teams; Huntswood was asked to assist.

Our solution and delivery

Using our in-depth knowledge of complaint handling practices across the industry, we helped the firm to build a centralised complaints framework.

This took into account the requirements of the FCA along with our knowledge and expertise of best practice across the industry. We also worked with the firm to implement a more effective IT solution, and develop an interim complaints database to enable it to produce meaningful complaints MI.
HOW HUNTSWOOD CAN HELP

We support your firm in covering every angle of complaints excellence. We explore your individual needs and come up with tailored solutions.

TAKING YOUR PEOPLE ON THE JOURNEY

Of course it’s not just the processes that you need to look at, but your people too. Huntswood can work with your firm to drive change within the overall culture of your organisation, as well as deliver small and large-scale learning programmes.

We help you to make sure that the right understanding and behaviours are embedded in your staff. This way, you can be sure that all of your operational staff are travelling right alongside you on your complaints journey and beyond.

CASE STUDY

Huntswood recently helped a new retail bank launch in the UK, and in particular, designing and delivering learning and development programmes for them in the complaints space.

Our solution and delivery

We trained and equipped all of this firm’s call centre customer service agents in time for the launch of the bank. Huntswood trained over 900 complaint handlers and team leaders across 25 model office locations. This included ensuring the bank’s values ran through all sessions involving technical design and delivery of soft skills, systems and procedures. The training encompassed 46 four-week long induction programmes, completed over an eight-week period, on two different sites.

This was a massive success. Huntswood received glowing testimonials from the bank in all areas of delivery.
Want to talk us more about complaints excellence?

Get in touch with Stephen:

STEPHEN HUMPHREYS  
HEAD OF PROPOSITIONS  
01189 71 8467  
SHUMPHREYS@HUNTSWOOD.COM