



# Complaints Management

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Section 1

# Regulatory Expectations

# Regulatory focus on complaint handling

## UK Regulation

- ▶ Complaint handling has long been a focus of the FSA, though this focus has increased in recent times with the FSA initiating a programme to drive improvement in the quality and transparency of banks' complaint handling

### April 2010 the FSA published the outcomes of its review of complaints handling in banking groups:

- ▶ The FSA found poor standards of complaint handling within most of the banks
- ▶ 18% of cases reviewed resulted in an unfair outcome for the complainant, whilst 36% showed poor quality complaint handling
- ▶ In most banks the FSA found various weaknesses in the culture and processes leading to poor complaint handling and also found very low levels of senior management engagement
- ▶ As a result of this review, two banks have been fined for poor complaints handling (RBS/Natwest and LBG) with five banks introducing changes to address significant failings

The FSA has published a number of changes to complaint handling rules as a result of the thematic review (issued as CP11/10)

| Rule change  | Challenges facing banks   |
|--|---|
| <b>Governance &amp; Oversight</b> <ul style="list-style-type: none"> <li>▶ Individual to be appointed to oversight complaints - designed to strengthen oversight and engagement in complaint handling, enabling senior management to lead the complaints agenda</li> </ul>   | <ul style="list-style-type: none"> <li>▶ Defining a governance framework that clearly articulates accountability and responsibility for complaints, and appropriate senior management oversight</li> <li>▶ Defining and agreeing a risk appetite statement that is understood and can be a benchmark for measurable processes and behaviours</li> <li>▶ Ensuring remuneration policies align with fair outcomes</li> <li>▶ Implementing appropriate MI that identifies and measures fair outcomes</li> </ul>  |
| <b>Process</b> <ul style="list-style-type: none"> <li>▶ Removal of the two-stage complaints management process - considered to lead to unfair outcomes</li> <li>▶ Strengthening factors firms should take into account when assessing complaints, such as FOS decisions – firms not seen to reflect FOS decisions appropriately</li> </ul> | <ul style="list-style-type: none"> <li>▶ Re-defining approach to complaints handling where two-stage process is currently in place – impacts frontline staff, operations, systems</li> <li>▶ Design and implementation of an effective training &amp; competency regime that ensures consistent handling of complaints across the firm</li> <li>▶ Establishing an effective QA process that ensures review of the quality of decisions reached and assesses consumer outcomes</li> <li>▶ Developing guidance to ensure that decisions are consistent</li> </ul> |
| <b>Enabling Change</b> <ul style="list-style-type: none"> <li>▶ Strengthening root cause analysis (RCA) through articulating prescriptive requirements</li> <li>▶ Setting out requirements for remedial action where recurring or system issues are identified through RCA</li> </ul>  | <ul style="list-style-type: none"> <li>▶ Implementing a robust RCA framework that allows for effective decision making ultimately leading to improved outcomes for consumers</li> <li>▶ Designing an effective process to evidence consideration of systemic / recurring issues and actions taken to remediate customers impacted</li> </ul>  |

# Regulatory focus on complaint handling

## EU Regulation

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Regulatory requirements for complaints varies across Europe. Although all EU financial services firms are expected to have in place complaints handling procedures, the specifics of these requirements differ according to the regulation stipulated by the relevant national regulatory authority.

Financial services firms, within the EU, regulated by national competent authorities are subject to independent complaints schemes that deal with financial complaints. These are sometimes called Ombudsman, arbitration or mediation schemes. They can usually consider your complaint only after you have raised the matter with the firm and given them the chance to put things right.

Knowledge and understanding of relevant, current and future regulatory requirements relating to complaints is significant when performing a complaints review whether process or outcome focused.

Understanding your jurisdictions regulatory requirements is key to performing and successful review.

At a Pan-European Level there is currently a focus on Consumer protection and creating a level playing field across the EU for financial services. Recent publication of draft MiFID II and upcoming changes to IMD and rules surround the sale of PRIPs are all part of this focus.

Complaints handling has not gone un-noticed.

EIOPA – European insurance and occupational pensions authority, published a draft report on best practice for complaints handling in November 2011 whilst these are not currently rule s for regulation and therefore not subject to the ‘comply or explain’ requirement under EIOPA this review of best practice may point to a view to implementing cross EU standards which could affect your current regulators requirements in this regard

Best practice advice from EIOPA covers :

- ▶ Content of a complaints management policy
- ▶ Organisation of internal complaints management function
- ▶ Registration
- ▶ Reporting
- ▶ Internal follow up of complaints handling

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Section 2

## Key Challenges

# Key Challenges

- ▶ There are wide variations in the market with different firms at different stages. In our experience, no firm has leading practice throughout the end to end process.
- ▶ Some firms see complaint handling in isolation and as an operational process. Others are starting to focus on continuous improvement with complaints seen as a means to improve their standing in the market place.
- ▶ Although some firms are considering the wider customer experience, there is still a disconnect in many firms between complaints handling and wider customer relationship management (CRM) strategy.

## Core complaint handling

Core complaint handling has improved with firms implementing more effective systems and looking to improve quality but there are still some common failings:

- ▶ Lack of ownership in individual cases
- ▶ Fragmented structures making it more difficult to ensure a seamless process
- ▶ Lack of consistency in approach across sites with different levels of effectiveness
- ▶ Lack of clarity of roles

## Route cause analysis (RCA) & continuous improvement

Most firms have defined their RCA process with:

- ▶ Separate management information (MI) and RCA teams
- ▶ A clear understanding of how RCA is arrived at

However, difficulties faced by firms include:

- ▶ MI not at a sufficient level of granularity to aid the RCA process
- ▶ Lack of consistency in the application of RCA
- ▶ Limited profile for RCA within the firm
- ▶ Inappropriate mechanisms for tracking and managing change
- ▶ Disconnect between RCA analysis and resolution of issues identified

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Section 3

## Ernst & Young – Point of View



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# Commercial benefits of complaint handling

**Complaints are a key barometer of the health of your business. Effective complaint handling can bring a number of commercial benefits, including reducing costs and increasing revenue**

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## **Commercial benefits associated with effective complaint handling:**

- ▶ Enhanced customer experience and potential to increase customer advocacy when something has gone wrong
- ▶ Generating customer insight, in particular understanding of what customers value from products / propositions and incorporating this feedback into new product design and sales processes
- ▶ Ability to deal with emerging customer issues quickly and effectively
- ▶ Potential to reduce complaint handling costs through continuous improvements and improved operational management

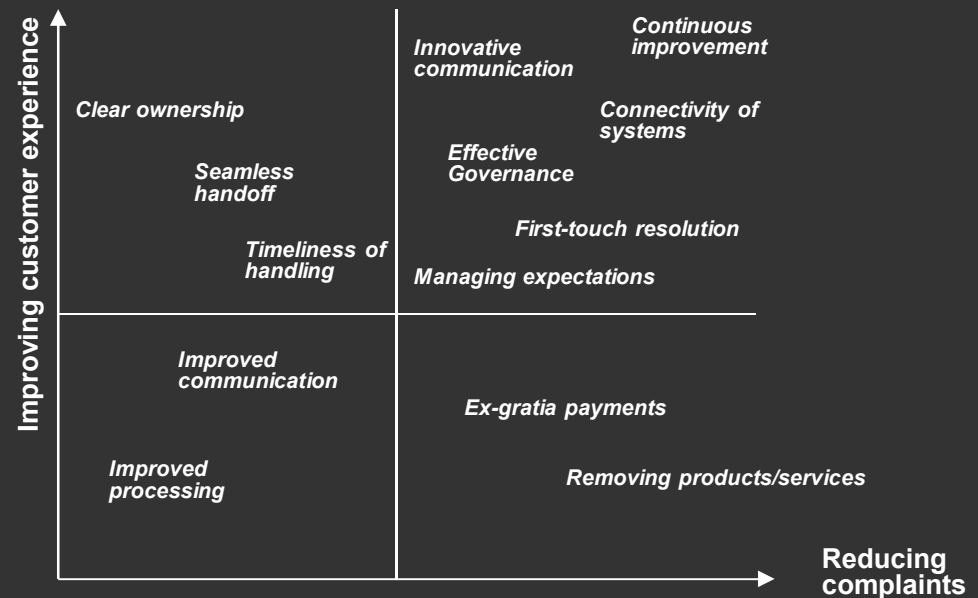
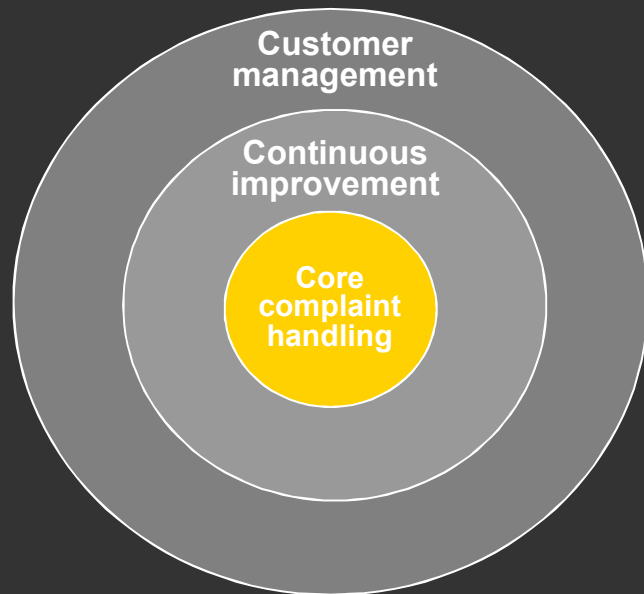
## **Business case for improved complaints handling:**

- ▶ Ernst & Young has undertaken research exploring the experiences of UK retail bank customers with complaints. Key findings included:
  - ▶ 18% of bank customers are dissatisfied and, by their definition, make a complaint
  - ▶ Over half of complainants were not satisfied with how their complaint was handled
  - ▶ Over 40% of complainants felt less loyal towards their bank after experiencing the complaints process
- ▶ As a result, banks may be losing up to 4% of their customers each year due to poor complaints handling, with even more customers either letting their accounts go dormant or not purchasing additional products

# 'Leading practice' in complaint handling

Leading practice is individual to each firm but there are three main areas that can help move towards leading practice

- ▶ The three areas of focus that can help you move towards leading practice are:
  - ▶ Enhancing the core complaint handling process.
  - ▶ Building and embedding a robust continuous improvement process.
  - ▶ Managing complaints within the wider customer relationship management (CRM) environment.
- ▶ Traditionally, attention has centred on the core complaint handling process. Now there is more emphasis on embedding continuous improvement and managing within the context of CRM.
- ▶ The right-hand diagram illustrates how individual changes can help firms move towards leading practice. Those firms that sit within the top right hand box achieve higher customer advocacy and a reduction in complaints over time.

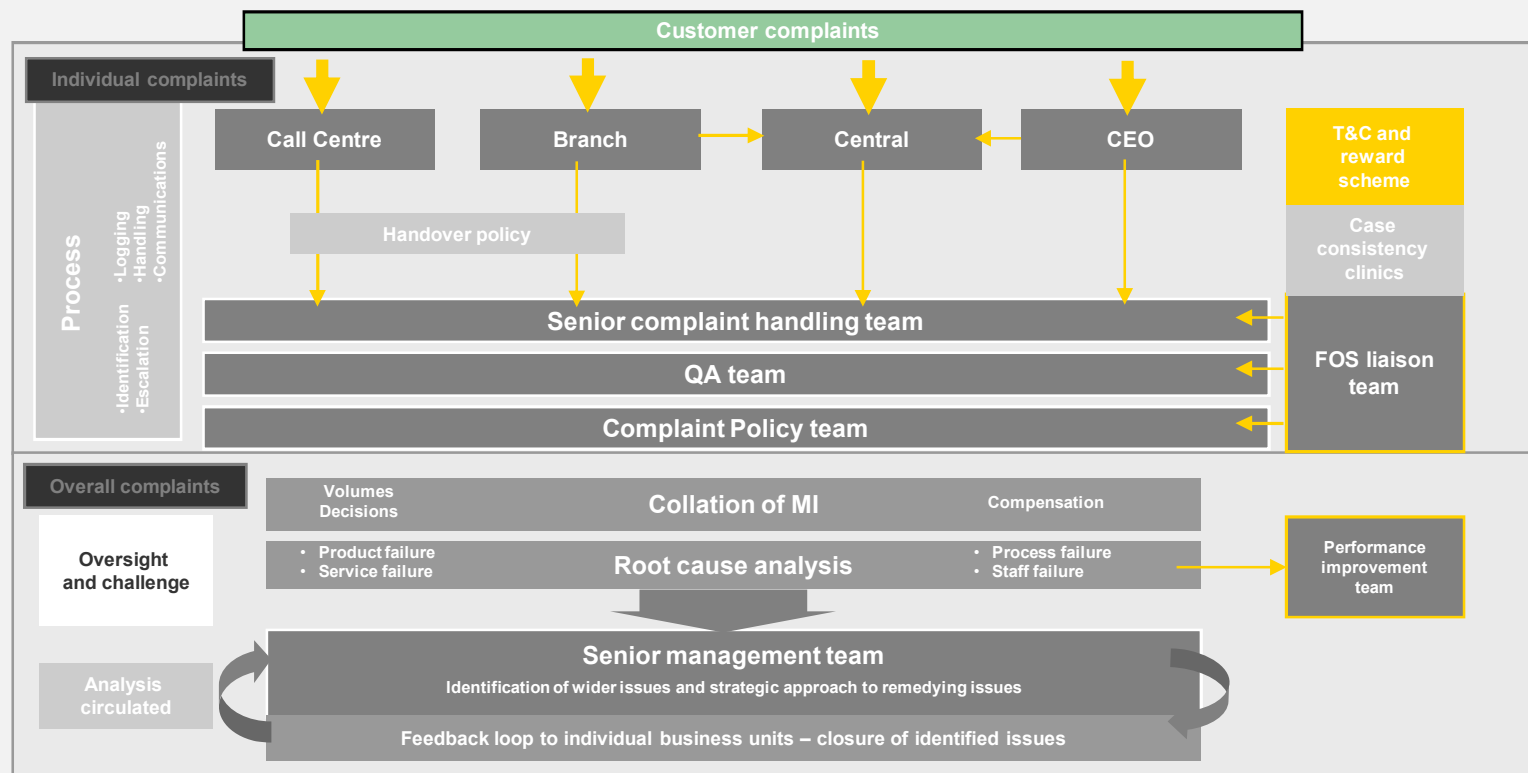


# Complaints Operating Model

A well-designed operating model has a number of key components

- ▶ Each component should perform a defined role with associated responsibilities
- ▶ Ownership of cases needs to be clear and unambiguous
- ▶ As a result, cases are handled consistently and effectively

Example for Operating Model



# Our Approach and Methodology



- ▶ We have worked with a number of leading banks and insurance companies in relation to complaints handling and, more recently, we have assisted firms in responding to the FSA thematic review findings
- ▶ We hold regular complaint handling forums at which we gather and share thoughts from across the industry
- ▶ We have a strong relationship with the Regulators, holding regular discussions on complaints and related issues



**Thank you**

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