

Check against delivery

'What consumers want from the complaint handling process'

Most consumers don't like complaining.

That may seem an odd thing to say when there were almost two million bank complaints 'logged' from customers in the UK last year, with one million of those relating to current accounts.¹

However, research shows that less than one third of consumers who complain will pursue their initial complaint, despite being dissatisfied with the response from their bank; with only 9 per cent of those who do stick with their complaint seeking redress from the Financial Ombudsman Service (FOS).²

So why do most people give up?

Could it be that if the process of complaining is more time consuming and irksome than the cause of the grievance, most consumers will decide to cut their losses?

Could it be the industry has historically viewed complaints as a less important, unprofitable part of their business, to be contained and minimised?

Certainly, the FSA's complaints handling review last year identified a number of deep

1 http://www.fsa.gov.uk/pages/Library/Other_publications/commentary/aggregate_com/index.shtml Complaints resolved by close of business the next business day are excluded (DISP 1.5.1R).

2 <http://www.consumerfocus.org.uk/news/bank-complaints-handling-continue-to-let-down-customers-reveals-new-consumer-focus-research>

rooted barriers and failures in complaint handling by banks, with 36% of cases reviewed being found to be poorly handled, and 18% of cases resulting in an unfair outcome for the consumer.³

In the FSA's opinion, poor quality complaint handling was a cultural problem for most banks, with very low levels of senior management engaged in the complaint system, with a focus on process and the level of refunds, rather than fair outcomes for customers, and root cause analysis.⁴

Of course, since the FSA took responsibility for the regulation of retail bank deposit taking in November 2009, there are now a number of regulatory drivers to improve the complaint handling process.

Before I talk about what consumers want from the complaint handling process, it's important to set out some of the context of where we are, and perhaps where we're going, from a regulatory and consumer perspective.

It was only in September 2009 that the FSA first published aggregate complaints data, and the FOS began publishing firm specific complaints data. In April last year, new rules required firms to publish their own complaints data every six months.

'*Transparency*' is a big part of the FSA's agenda to drive up industry standards on complaint handling, and from a consumer perspective the disclosure of complaint data allows customers to compare who is good and who is bad. If more consumers in the UK used this data to consider switching their banking, one might expect complaint handling to become a more important aspect of the banking service, and for quality to improve through market competition.

³ http://www.fsa.gov.uk/pubs/other/complaint_review.pdf

⁴ Chapter 4, FSA Complaint Review, *ibid.*

However, there are two practical limitations to the transparency approach at present.

Firstly, 87 per cent of the UK current account market is in the hands of the ‘Big Five’ banks, Lloyds, Barclays, HSBC, RBS/NatWest and Santander.

The Consumer Panel believes that effective banking competition is essential in the UK consumer interest, as a mechanism to help promote a market that provides greater choice and value for money for consumers.

We believe this is particularly the case where the second tier of our banking industry has effectively been wiped out by building society demutualisation and industry consolidation. We would like to see new entrants joining the industry to drive up appropriate choice and effective competition.

But there is a practical challenge to that happening due to a number of systemic factors which form barriers to market entry, in addition of course to the ‘*free-if-in-credit*’ banking model. So called ‘free-banking’ makes it extremely difficult for new entrants to offer fee-based accounts, even although these products might provide many customers – particularly those who pay lots of charges – better value for money overall. We would like to see charges related to the cost of the bank providing a particular service for a particular individual, in order to provide genuine full transparency in the UK current account market.

But it remains no easy process to set up a new bank in the UK and there have been very few new entrants indeed; for example, Metro Bank describes itself as the UK’s first new retail bank in over 100 years.⁵

A second hurdle is the fact that switching in banking has yet to catch on with consumers. While UK consumers happily switch their energy supplier – 36% of

5 <https://www.metrobankonline.co.uk/about-us/>

customers did so in the past two years – or phone company or insurer (26% and 22% of customers did so respectively in the last two years), only 7% of customers moved their main account in the same period.⁶

The Independent Commission on Banking (ICB) want to make it much easier and quicker for customers to switch their current account as a measure to increase competition.⁷ We support this. The OFT initially reported some progress in reducing error rates on switching but their latest update in March shows that error rates have in fact gone up.⁸

Issues around errors in switching accounts are a particular concern given consumers have little control over payment mechanisms and their transfer. The Consumer Panel would like to see '*full account number portability*', an initiative that has had positive impacts on competition in the mobile telephone market, to remove the risk associated with transfer. With developments in technology, this proposal represents a practical and powerful solution for consumers, and competitive banks.

The ICB also wants the new Financial Conduct Authority (FCA) to have a clear primary duty to promote '*effective competition*'. However, we see the primary duty of the FCA as being focused on consumer protection, but, we agree that promoting effective competition is a vital means to deliver good consumer outcomes.

Yet, it remains unclear how effective competition can be significantly improved without someone grasping the nettle of current account cross-subsidisation; for example, how can consumers compare the true costs of different banking providers when overdraft charges and lower interest rates mask the true costs of the '*free-in-credit*' business model?

6 <http://www.mirror.co.uk/advice/money/2011/04/13/banks-to-be-forced-to-make-it-easier-for-customers-to-switch-current-accounts-115875-23056971/>

7 <http://s3-eu-west-1.amazonaws.com/htcdn/ICB-Interim-Report-Executive-Summary.pdf>

8 '*Personal current accounts in the UK*', OFT Progress Update, March 2011.

What we can say, perhaps, is that there appears to a growing appetite at both the UK and EU level for greater transparency in the costs of personal banking. Certainly that is an issue that Commissioner Michel Barnier (DG MARKT) has been keen to progress, and we understand there may be some draft legislative proposals in this space at the EU level shortly.

If our direction of travel is for greater transparency of service charges, with automated switching at the click of a mouse, then future banking will surely have to embrace a culture of consumer focused outcomes?

In other words, a first class complaint handling service might be very good for business in a future world of greater switching and improved banking competition.

Swift and fair dispute resolution, like clear and competitive tariffs, will be attractive to most consumers. It must be one of the factors that will drive people to switch in the future.

Embrace this now, and you have a competitive edge when bank switching takes off – and just like for the utilities markets, it is surely only a matter of '*when*' before account switching really does take off.

But until those new days dawn, I would argue that the best immediate hope for consumers in fairer dispute resolution are the improvements being driven by the FSA.

What then do consumers want from the complaint handling process?

- **An accessible procedure.** The narrow proscribing of how a complaint must be made and intimidated is not helpful – for example, telephone banking staff who say they cannot deal with a complaint which arises from their service,

and insist complaints must be made to the branch in writing is an unacceptable barrier. Such barriers are of course against the FSA's Rules, which allow complaints to be made by any '*reasonable means*'.⁹ For most consumers that must mean electronically or by telephone. Given the technology we have why shouldn't the complaints process be a 5 minute electronic procedure, except for the most complex and difficult of cases?

- **A swift procedure.** Banks report that they can resolve simpler complaints – representing 60 to 80% of all complaints – by the close of the next business day. Consumers are clearly looking for speedy, hassle-free redress, proportionate to the nature and complexity of their complaint. Complaints that are dragged out don't benefit anyone.
- **Effective communication.** For more complicated complaints, consumers will want to know their individual complaint is being properly considered, and not being met with a *pro forma*, pre-printed rebuttal as the FSA's review found with the use of standard text which was '*either completely irrelevant or not tailored*' to the customer's actual complaint.¹⁰ Clearly not all complaints will be justified, but unless you properly communicate why a complaint is not being upheld, you will inevitably create another complaint.
- **A fair outcome.** The FSA's review identified poor quality investigation of complaints, poor decision-making, and inadequate redress payments; all of which makes for a very unfair dispute resolution process. The fact the FOS have an average bank complaint upholding rate of 50% indicates there remain significant problems with complaint handling.

The ending of the '*two-stage*' complaints process from September this year is

⁹ DISP 1.3.2G

¹⁰ Paragraph 3.10, FSA's Complaint Review., *ibid.*

very welcome news from a consumer perspective.

Many commentators have criticised the two-stage process as a requirement for the consumer to simply state their complaint twice, with the volume of complaints effectively being managed down by poor procedures and performance.¹¹

A simplified one-stage complaints process is more accessible and will focus the minds of firms to resolve disputes fairly, which failing the consumer can proceed to the FOS without further delay. The FOS of course will be able to make individual compensatory awards of up to £150,000 from next January.

Accordingly, with a new streamlined complaints procedure it must make good business sense for firms to invest in better complaints handling. The failure to do so will impact adversely on complaints to the FOS, customer loyalty, and ultimately may give rise to more systemic failures, exposing firms to regulatory enforcement and fines.

For example, weaknesses in the Bank of Scotland's complaints handling over the sale of investment products, resulted in a £3.5m fine last month, and a requirement to review over 8,600 rejected complaints. The FSA found that 45% of Bank of Scotland complaints rejected should have been upheld.

This of course follows the £2.8m fining of RBS and Barclays in January for '*multiple failings*' in the handling of customers' complaints.¹² Of the complaint files reviewed 62% failed to follow FSA timelines and disclosure of FOS referral rights, with 53% showing deficient complaint handling.

11 <http://www.which.co.uk/news/2011/05/fsa-announces-new-complaints-handling-rules-254860/>

12 <http://www.which.co.uk/news/2011/01/rbs-and-natwest-fined-by-the-fsa-241966/>

However, we do know that it is possible to do complaints handling well, as demonstrated by the only one bank that did so in the FSA's review. This was evident through the following factors:

- a member of the Executive had clear responsibility and accountability for complaint handling;
- complaint handling was a standing agenda item at the bank's Executive Committee;
- senior management were focused on quality of complaint handling as well as volumes of complaints, and were actively involved in driving up standards;
- complaint handling was supported by a robust, risk-based quality assurance function, which focused on the consumer outcomes delivered, as well as the process;
- root cause analysis was robust, with evidence of remedial action for a wider population of customers (where considered appropriate);
- a clear and thorough training programme was in place for all staff handling complaints (including front-line staff), which supported fair decision-making; and
- the remuneration structure for complaint-handling staff focused on quality and did not encourage negative behaviours.

We might also want to look at complaint handling as part of the more fundamental urgent need to repair the damage done to the industry's reputation, which in truth has not been assisted by the banks battle to evade its Payment Protection Insurance (PPI)

responsibilities.

We know that PPI is not a bad product *per se*, but the mass misselling of single premium PPI by our banks – and the efforts to avoid resolving consumer complaints over PPI - revealed how far we had travelled. From the local bank being a customer's trusted financial friend and advisor, to the customer being reduced to a source of rent extraction, regardless of the value of service provided to that customer.

That model is not sustainable, and I would argue that with more and more customers – and potential customers - becoming '*consumer savvy*' through technology, what consumers want is a fair, transparent and reliable service, where they are placed at the heart of that service.

Things will go wrong, mistakes will be made, but a bank that can resolve mistakes fairly and speedily will earn greater confidence from consumers. If banks get serious about complaint handling, and invest more in that service, there is no reason why the process of complaining cannot be streamlined through technology, made less adversarial and confrontational, with a view to producing fairer outcomes for both parties, to retain customer loyalty and a good reputation.

As I have argued, if our direction of travel – through UK and EU regulation and political will - is greater transparency, account switching and effective banking competition, then a good, robust complaint handling service will become increasingly essential. Better to embrace that now than be left behind?

Mike Dailly

Financial Services Consumer Panel

www.fs-cp.org.uk

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