



# THE FCA'S COMPLAINTS HANDLING THEMATIC REVIEW

What do we already know?

WHITEPAPER

## ABOUT

On the 3rd of September 2013, Linda Woodall, Director of Mortgage and Consumer Lending Subdivision at the Financial Conduct Authority (FCA), gave a speech to the Building Societies Association (BSA). In this speech, she announced that the FCA was going to launch a thematic review into complaints handling across the board for financial firms.

An update to the FCA's thematic review into Payment Protection Insurance (PPI) complaints handling has just been released, leaving many wondering what has happened with the review announced last September. This paper sets out the knowns shared within the industry already. The FCA is still to release its complete and official findings.

## HAS PPI TAKEN OVER, LEAVING OTHER REVIEWS BEHIND?

The complaints handling thematic review announced by Linda Woodall is not the first the FCA has carried out. Around the same time as the speech to the BSA, the regulator released a report specifically regarding PPI complaints handling.

This report included the findings of the FCA's investigation into how 18 medium sized firms dealt with PPI complaints. It found that only six were handling the complaints fairly. The FCA addressed this issue by "working closely with all the firms in the sample whose complaint handling caused us concern to ensure they are taking immediate action to review rejected complaints and redress customers who have been treated unfairly or underpaid, and to improve their complaint

handling processes to a level that consumers would expect.” It also put formal requirements in place for firms which did not provide adequate responses.

An update to this review was published on the 29th of August 2014, in which the FCA stated it is still working with the 18 firms mentioned above to ensure their complaints handling meets expectations.

In this update, the FCA announced that 2.5 million PPI complaints handled in 2012 and 2013 were to be reopened. This was due to an investigation into uphold rates which fell to around 60% at their lowest during that time, indicating that redress may not have been appropriately distributed.

Martin Wheatley, Chief Executive of the FCA, reported that the process for handling PPI complaints is “working well.”

The FCA will continue their work in investigating PPI complaints as, despite the process appearing to run much more smoothly, PPI is still an issue for both the regulator and the Financial Ombudsman Service (FOS). 78% of new cases opened by the FOS last year were about PPI – a huge 140% increase on the previous year.

The update on this review may have been prioritised over one into complaints handling as a whole due to the sudden surge in interest which demanded immediate attention. New data released on the 2nd of September by the FOS shows that PPI complaints in the first half of 2014 have halved compared to the same time last year, from 266,228 new cases opened between January and July 2013 to 133,819 new cases in 2014.

Chief Ombudsman Caroline Wayman said of the data; “Responsibility for sorting out the mass mis-sale of PPI is still the major part of the ombudsman’s workload.” But it looks like the wave of PPI complaints is starting to slow down, leaving the FCA and FOS with more space to concentrate on other issues. The results of the thematic review into complaints handling may now be published sooner rather than later.

## **BUT WHY IS ANOTHER THEMATIC REVIEW INTO COMPLAINTS HANDLING NEEDED?**

As well as undertaking a review of PPI complaints, The FCA had been investigating the amount of complaints that were escalated to the Financial Ombudsman Service (FOS) overall and found the amount was very high: 508,881 new cases were

taken on by the FOS between March 2012 and 2013 which was a 92% increase from the previous year; “the highest number of cases we have received in any year since the ombudsman service was set up in the year 2000.”

The vast increase in complaints being escalated meant that something was, or was not, happening in the stages between a firm receiving a complaint and it going to the FOS.

This is where the complaints handling thematic review announced last September comes in.

In her speech, Linda Woodall noted; “The thematic review will identify why complaint handling is not working well for some consumers and address any poor practice within firms.”

## **WHAT SHOULD IT ACHIEVE?**

The FCA’s thematic review of complaints handling should improve practices and help firms to manage their complaints efficiently to provide their customers with satisfactory resolutions to avoid intervention from a third party such as the FOS.

## **COVERAGE OF THE REVIEW**

The review involved fifteen companies, including three general insurers, who were given a set of mock complaints. They were assessed on a number of issues including how:

- Complaints were categorised;
- Recorded;
- Reported;
- Resolved;
- Analysed via Root Cause Analysis.

The reasoning behind this was to see how much the firms differed on these points and to see, for example, if a customer could make the same complaint to two different companies and have it upheld by one and rejected by another. Naturally there were inconsistencies, especially in categorisation which varied wildly from firm to firm. Some had a minimal amount of categories; others had a much larger choice which would make performing root cause analysis extremely difficult.

In speaking with the industry ourselves it is clear that some firms truly are at polar opposites when it comes to categorising complaints and performing Root Cause Analysis. In one instance a firm moved from over a hundred potential categories to just a handful of core topics. What was very clear was that specific

firms had no chance of achieving meaningful Root Cause Analysis as the same complaint could be recorded differently by each potential handler.

The difference in offers of compensation was another inconsistency, even within the same company. Employees speaking directly with the person who complained generally made lower offers than case handlers who were more removed from the situation. This could be because they wanted to get the problem solved quickly while they had immediate contact and did not have the time to sit down and assess the issue thoroughly.

There were weaknesses recorded by all firms when assessing the above points, which was exactly what the FCA set out to discover. These weaknesses will have been given higher visibility within the participating companies due to the nature of the review eliciting executive support, another goal of the FCA; "We will use our new assessment approach to place greater onus on 'senior persons' to understand how effective their firm's complaints handling process is, and how they use the complaints experience to identify and correct the systemic causes behind customers' complaints."

## TIMESCALES

The original plan for the review was covered in Linda Woodall's speech; the first phase was to run until the end of 2013 and the second phase was to start early 2014. Woodall went on to say that; "We [the FCA] intend to reach a conclusion on our findings from the thematic review, and provide recommendations, in Q2 2014." As of yet, no firm conclusions have been published, a consultation paper was expected in Q3 to invite responses to the FCA's findings.

Initial findings shared with the industry, as at April 2014, are that the following areas still need further review:

- Case capture - how in-bound calls are recorded and used;
- Case handling - the ownership of a case and communication with clients whilst it is being progressed;
- Processes - management of supply chains in household insurance claims;
- How medical conditions are dealt with in travel insurance;
- Handling of claims with long chains of delegation; and
- Clarity of product documentation.

## WHAT DOES THIS MEAN?

When these recommendations are published, firms will be able to submit responses and declare their agreement or voice their concerns.

## WHAT WOULD MORE TIME MEAN? AMENDING DISP RULES

One possible outcome of the review could be an extension of the 'close of next working day' regulation, which could turn out to be either a positive or a negative change. Having more time to review a complaint will mean a fairer assessment and will help to make sure the customer is truly satisfied, hopefully reducing FOS referral rates and avoiding processing complaints simply to hit targets. On the other hand, having a longer window for resolution could mean lower priority cases are left on the back burner until the last minute while those with higher priority are given more attention. One thing is certain; if this change is implemented, the FCA will need to change their publication rules in order to deal with a much higher volume of complaints data.

## WHAT CAN YOU DO NOW? REPORTING COMPLAINTS

Firms should already have a process in place for reporting complaints data to the FCA. But if the regulator puts its plans in place to extend the 'close of next working day' rule, then all complaints will in turn become reportable, regardless of when they were closed. If this becomes regulation, processes currently in place will need to be reassessed. Starting to keep records of all complaints data now, rather than just data for those complaints not completed after the close of the next working day, is a good step towards implementing a new process and will ease the transition and give you a step up when the time comes to change.

## WHAT MIGHT YOU NEED TO DO? CHANGING SYSTEMS

If the FCA decides to make their recommendations into regulation, companies will need to make some changes. If your current system for complaints handling does not comply with Management Information reporting and Root Cause Analysis objectives, it will need to be changed. This could mean updating existing systems to an entirely new software solution or upgrading or adapting any software or systems you currently use.

# CONCLUSION

The main reason for the high number of new cases referred to the FOS between 2012 and 2013 which sparked this review was due mainly to the large rise in PPI complaints. As a relatively new phenomenon which took off extremely quickly, firms were struggling to catch up. But once the interest in PPI starts to slow, firms should be left with a competent complaints management system that will be able to handle feedback with ease.

Having a system that can help to achieve regulatory compliance is essential for keeping up with changes the FCA may implement. With 58% of reportable complaints made via Apteans Respond complaints and case management system, it is clear that Apteans have cracked the code for FCA compliance. If you would like to benefit from the knowledge and security of 20 years' experience in dealing with complaints, contact Apteans for a demo of Respond today.

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