

Microsoft Financial Services White Paper
Compliance

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Complaints Management

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Introduction

In the first paper in this series on compliance, the opening statement defined compliance as ‘meeting all the legal and regulatory obligations that a commercial concern faces.’ Complaints management is another area in which organisations have specific compliance requirements. The majority of companies provide some form of help desk or after-sales service but many, especially those in the regulated industries may not realise that they have an obligation to provide specific information to the regulator. In some sectors, the information must be provided in electronic format.

Within financial services, complaints procedures are governed by provisions set out in the FSA handbook.

This states that:

‘a firm must have in place and operate appropriate and effective internal complaint handling procedures (which must be written down) for handling any expression of dissatisfaction, whether oral or written, and whether justified or not, from or on behalf of an eligible complainant about that firm’s provision of, or failure to provide, a financial service.’¹

The manual itself refers to the BSI standard ‘British Standard 8600:1999

Complaints Management Systems – Guide to design and implementation’. This standard describes a framework upon which to build a complaints management procedure and is further strengthened by an independent assessment programme, CMSAS 86:2000 which allows an organisation to have its procedures certified by a third party.

The FSA not only sets out the time-scales in which complaints must be handled but also defines the types of records that must be created and maintained, and the retention period; a minimum of 3 years from the receipt of complaint. The FSA states that a user should also be able to submit complaints by any reasonable means, including electronic.

More significant, however, is the requirement that, from mid-2005, an organisation must electronically submit reports every six months to the FSA. Should a system failure prevent electronic submission, the FSA must be notified of that failure immediately and the organisation must submit the report by an alternative method.

However, management goes far beyond reporting to the regulator as the recent Allied Dunbar case shows. The company was fined £750,000 for not handling complaints properly.

As Andrew Procter, FSA’s Director of Enforcement, said: “The fair treatment of customers does not begin and end at the point of clinching a sale. It applies to all aspects of the relationship between firm and customer including the fair handling of a customer complaint. Where firms do not deliver the required standards and fail to treat their customers fairly we will intervene.”

It is clear from the specific failings at Allied Dunbar that a complaints management system must be computerised and supported by a data management and reporting system (as described in the Analytics and Management paper earlier in this series).

This also takes us full circle to where we started in this series – the requirement to retain and manage electronic records and achieve evidential weight of the records. This does not just mean e-mails, it means all relevant records held electronically, whether to demonstrate appropriate checks for money laundering, maintain and submit complaints records, or any other business record.

¹ DISP 1.2.1 R, Manual on Complaint Handling Procedures for Firms

The Rising Tide of Complaints

Now, more than ever, financial services organisations are realising the importance of putting the customer first. The climate in which providers operate has changed profoundly with customer service now seen as the major differentiator. As modern life has become more stressful, customers are becoming increasingly frustrated by incompetent and inefficient service.

Complaints management is a core element of the Financial Services Authority's (FSA) regulatory regime, within its statutory objective of consumer protection. Highly publicised scandals such as the mis-selling of endowment mortgages and pension products have also raised the profile of complaints.

FSA legislation compels UK financial services companies to formalise their complaints procedures and issue reports detailing the result of all customer complaints. The rules are set out in Block 4 of its Handbook, outlining complaints handling procedures for firms, jurisdiction of the Financial Ombudsman Service (FOS) and the complaints handling procedures of the FOS². These require that:

- Complaints must be acknowledged within five working days, giving the name or job title of the individual handling the complaint, together with details of the firm's complaint handling procedures;
- Within four weeks of receiving a complaint a firm must send the complainant either a final response, or a holding response, explaining why the firm is not yet in a position to resolve the complaint indicating when the firm will make further contact;
- Within eight weeks a firm must send the complainant either a final response, or a response explaining why a decision has not been reached, giving reasons for the delay and indicating when it will provide a final response. The complainant must also be informed of their right to take the complaint to the Ombudsman;
- Twice yearly reports must be submitted to the FSA setting out the type and number of complaints received, including the number of complaints 'closed' by the firm within the four week and eight week periods and any outstanding complaints.

Under Part XVI of the Financial Services and Market Act (FSMA), the FSA established the FOS to handle complaints from customers dissatisfied with a firm's response to a complaint.

In 2003 it dealt with 462,340 enquiries, a 19 per cent increase on the previous year. More than 60,000 people visit the FOS website every month with a third of those downloading the complaint form. During the same period in 2003, the Ombudsman's customer contact division referred a record 62,170 new cases to adjudicators for more detailed dispute resolution work, a 44 per cent increase on the previous year. The number of people complaining about financial services firms and products has reached such a level that the Ombudsman has almost doubled its staff to 660.

A number of high profile cases have highlighted the failure by organisations to put the necessary processes in place. Friends Provident was fined £675,000 for mishandling endowment mortgage complaints after around 5,500 complaints were rejected due to 'systemic weakness' in the firm's complaints procedures, exposing customers to a large

² http://www.fsa.gov.uk/handbook/BL4DISPpp/DISP/Chapter_1.pdf

potential loss³. To date, £11.5bn has been paid out for pensions mis-selling and almost £1bn in compensation concerning endowments.

“Firms should be under no illusion as to the standards expected in relation to complaints handling. We will not tolerate poor systems which expose consumers to the risk that genuine complaints, which may deserve compensation, are rejected unfairly,” says Andrew Procter, the FSA Director of Enforcement⁴.

Under its regulatory duty to improve customer satisfaction and combat negative perceptions, the FSA and British Standards Institute (BSI) have published key criteria for a complaints management solution:

- All complaints management procedures must be documented and made available to the customer and internal staff;
- It must be able to handle complaints via multiple channels and must allow for the investigation and resolution of complaints;
- It should manage redress where appropriate, either in the form of a written apology or financial recompense;
- It should ensure that Service Level Agreements (SLAs) specified by the FSA are adhered to, and that the complainant is kept informed of the status of their complaint at all times;
- It should capture and retain any documentation associated with a complaint for a minimum of three years;
- It must be able to supply reports to the FSA at regular intervals.

The message from the regulator is clear, they are placing increased importance on the adequate handling of complaints through appropriate record keeping systems and controls. Firms must get their complaints management processes in order or face censure.

³ FSA Press Notice: <http://www.fsa.gov.uk/pubs/press/2003/135.html>

⁴ *ibid*

The Customer is Always Right

It may be an old adage that 'the customer is always right' but with increased competition in the financial services market no business can afford to be unprepared to handle and resolve complaints in a timely and efficient manner. Traditionally, one of the major factors behind people not complaining concerned a lack of feedback regarding a complaint, let alone a satisfactory outcome.

John Tiner, Chief Executive of the FSA, has stated that the regulator is looking closely at complaint volumes to highlight problem areas but stressed that the industry should, "view each complaint as an opportunity to improve service, rather than a necessary consequence of doing business."⁵

Handling a complaint effectively can enshrine customer loyalty but those that fall through procedural gaps can lead to unhappy customers, regulatory fines and adverse publicity. Experience has shown that an unhappy customer tells more people about a bad customer experience than a happy customer tells about a good one. This may seem like com-

mon sense, but why, in the light of the FSA/BSI guidelines on complaints management solutions, are complaints not managed effectively?

All financial services firms know that complaints exist, yet many still do not have a structured and systematic approach to dealing with customer feedback, treating it as a box-ticking exercise with little added value. According to figures by the BSI⁶, only 30 per cent of financial services organisations have a clear definition of what constitutes a complaint. Less than 10 per cent have any mechanism in place to reliably record that a customer is in the process of having a complaint dealt with. Further, less than five per cent consistently check back with customers to ensure they are satisfied with how their complaint was handled.

Without these processes being owned by senior management, service offerings cannot be improved nor new products designed that will attract customers and have little impact on the culture or behaviour of a provider. An ad hoc approach may well work for some complaints, but the importance of having a structured and systematic approach cannot be underestimated.

Systems and controls are important, but from a customer point of view it is irrelevant how they contacted a firm, who they spoke to, or when – if they have complained it is because they are unhappy and want the situation resolved. For financial services firms operating in an increasingly segmented and competitive market, this can have a major impact on business revenues, with customers far more likely to switch providers if their expectations are not met.

Firms need to deliver products across multiple channels while moving to a customer-centric model. The level of success a provider achieves is determined by how well an organisation manages its customer information. Ironically, firms need customers to complain more in order to help raise customer service standards.

"Many organisations are finally realising the value that can be derived from a centralised complaints management solution," says Andy King, Business Consultant, Getronics. "The business case is compelling enough without the regulatory demands but these have acted as a catalyst to spur many firms into action."

⁵ Speech to CML Annual Conference 'Regulation, regulation, more regulation...and complaints': www.fsa.gov.uk/pubs/speeches/sp165.html

⁶ www.bsi-global.com

The cost of gaining new market share is significantly higher than extending existing relationships. Customer complaints management therefore needs to be seen as a value-added resource rather than a nuisance, or an extended overhead. If complaints are handled well and resolved to mutual satisfaction, happy customers are a powerful marketing tool. By getting to know customers better as they progress through their lifecycle, from prospect to new customer to loyal customer, businesses can learn what products and services to offer, creating cross-selling opportunities.

So how can an organisation achieve consistency in its processes and achieve a complaints management solution that enables better customer retention?

Turning Complaints into Compliments

The automation of the complaints management process can help financial institutions handle more customers in an efficient manner, manage routine problems and thus enable staff to spend their time on complex dispute resolution.

According to King, creating a culture of compliance involves managing the information processes and operational risk. The problem is essentially one of data storage and its retrieval, a problem compounded by the number of legacy systems.

“Many of these organisations have been formed from Mergers and Acquisitions and so have disparate applications, different operating platforms and technologies. It is a huge integration task to try to consolidate that information together,” he says.

“One of our customers had over 30 complaints management systems and all of this information needed to be put into one view, so internal management could see exactly what was going on and more importantly enable them to report to the FSA correctly.”

Unless the owner of the complaint can view all of the contacts that a customer has made and can track the status of the work needed to resolve it, reaching a satisfactory outcome is impossible. From the moment a complaint is logged, the status of the complaint should be clear to whoever is working on that case at any time.

In order to satisfy the FSA's requirements for managing processes, a solution must also audit all activity during the processing of a complaint to ensure case files are up to date.

“This is crucial when you submit reports to the FSA, because they must also include any complaints that were dismissed along with supporting evidence to the FSA's satisfaction. The regulator will ask serious questions if any record or part of a trail is missing,” says King.

Multi-Channel Support

The core of an effective complaints management solution is best of breed electronic content management technology that ensures all data, regardless of format, is stored securely and is immediately accessible when required. This creates an enterprise-wide, seamless service that enables the complaint to be followed from inception to resolution.

Although data retrieval is a critical factor in enabling effective complaints management, the way organisations receive complaints, and the variety of different channels that need to be managed can cause additional problems. While the majority of complaints typically are initiated by phone through customer service centres, channels such as e-mail are increasingly being used.

A single complaint can consist of multiple contacts with an organisation using a combination of e-mail, fax, phone, or letter. All of these interactions need to be recorded and stored securely for resolution, adding a further layer of complexity to the management of a complaint.

Recording each complaint as an individual case, with an internal reference and owner is a must. Case management is crucial if a customer makes an enquiry concerning the status of their complaint on separate occasions and through different channels. A case may also consist of multiple tasks, for example, a customer may complain about more than one product, or aspect of a product, at a time and this information must be logged to ensure adequate redress.

An integrated workflow engine is therefore critical to create, allocate and monitor all tasks and processes to ensure service level agreements are met. This also allows multiple users to work on a single case. As a result, complaint procedures can be defined to ensure every complaint is treated consistently from start to finish.

Single View of the Customer

A key factor in enabling case management is access to a single customer view and ensuring there is one version of the truth. By managing all of the channels, a solution can then bring together all of the relevant information to a case file for each individual complaint and deliver an integrated customer experience.

By integrating all channels within an institution's database, all of the customer contact details, previous interactions, products they have purchased, and the feature they are complaining about can be viewed and amended by any authorised user. This enables the customer service team to be flexible and efficient in dealing with complaints and ensures the institution can meet its service level agreements.

Solutions that offer a management dashboard can also provide an overview of complaints handling activity, enabling managers to have complete visibility and thorough analytical tools. This analysis can include volumes; break down by product or business line; and team performance. Delivery through a browser will also ensure a user can access the system from any machine, helping to minimise support costs.

"This information and every associated record have to be available at the touch of a button through an easy to navigate browser system, to create a single view of the customer," says King. "This includes flagging a case for immediate attention if no work has been carried out within the FSA deadlines."

"Ideally you want to solve a complaint on the very first contact and that is not possible if a complaints handler has to search through multiple systems and screens, paper files and e-mails. A complaints management system is all about making staff more efficient," he adds.

With an investigation under way, an automated solution will ensure real-time updating of customer and case information whenever any contact or correspondence occurs. This enables banks to produce reports covering all aspects of their complaints process in line with the FSA and FOS legislation.

"The advantage of a single view is that financial services companies can create more well informed strategies," explains King. "They can make customer service a key business differentiator by passing the information collated by one system down to product development teams."

Multiple task management is critical to ensure complaints staff are aware of any other outstanding problems. If a customer complains about more than one aspect of a product, the complaints management solution must manage each individual 'sub complaint' but manage the overall case as well. When a customer then checks on the status of a complaint, this enables the owner to see the progress of each element to ensure a comprehensive and high standard of customer service.

Creating a Dynamic Environment to Increase ROI

A solution with these elements will ensure that complaints are managed efficiently and effectively, however it will provide little return on investment unless the information and comments captured are analysed and used to improve products and processes.

While capturing and actioning a complaint is critical, a complaints management solution also identifies problem areas or products that can be highlighted to management.

A total complaints management solution should not simply capture complaints if organisations want to make the most of enterprise intelligence. Any information given by customers regarding products also needs to be recorded and passed on to the relevant marketing and development teams help those teams to better understand their product and develop market-leading offerings.

Therefore, establishing an infrastructure that can understand the existing customer base will enable the sales, service and marketing channels to respond quickly and effectively. This can lead to increased customer satisfaction and loyalty, increased retention rates and ultimately increased business opportunities.

“If financial services firms can capture and use this information it is a huge strategic differentiator, if they can then pass that information onto the product development teams,” says King. “For example, a customer comment on an interest rate traditionally might not have been viewed as a complaint but now firms are realising the value of this information and want to record it.”

Conclusion

Effective complaints management is based on common sense – an unhappy customer is unlikely to buy further products from a provider that cannot resolve a complaint effectively. Without an automated, integrated complaints management solution, financial services institutions will continue to struggle to gain a true picture of their customers and their needs.

The FSA ruling on complaints management is yet another example of a regulation that places not only specific data retention requirements on those organisations that are subject to it, but also mandates electronic reporting. As an organisation carries out its project to become compliant, it must ensure that any solution it implements is capable of meeting complaints management record retention and reporting requirements, as well as the stringent data protection requirements that this will involve.

Meeting the requirements of compliance cannot be seen as an option, it is a cost of doing business.

However, financial services organisations must also keep in mind the strategic importance of implementing this type of project. Cutting-edge providers realise the importance of enterprise-wide information to enable other business units to take advantage of the information a firm has collected for marketing and new business opportunities.

Replacing a lost customer can cost an organisation as much as five times as keeping an existing one. Turning internal information into intelligence that can be used to develop new opportunities is a critical success factor, creating a dynamic business development environment that can engender customer loyalty and ultimately increase profitability.

Is your organisation compliant?

For Further Information

If you would like a full, detailed list of regulations affecting the Financial Services Industry and their associated impact on IT, please e-mail :
fsindust@microsoft.com

For more information about Microsoft in Financial Services please visit:
www.microsoft.com/uk/financialservices

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