

Financial Conduct Authority



**August 2025 update:**  
**This review is historical. See [What we publish](#) for more information and current views.**

Thematic Review

TR14/18

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# Complaint handling

November 2014





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# 1. Executive summary

## Overview

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The Financial Conduct Authority has been working with a number of major retail financial firms on a forward looking thematic review, aimed at identifying the areas that need improvement so that consumers get a better experience when they complain in future. This paper summarises the key findings of that work.<sup>1</sup> All firms should consider the themes highlighted in this paper and evaluate their own complaint handling against our findings.

While we want all consumers to have a positive experience with firms in the financial services industry, it's important to be prepared for times when they don't. Previous work by us and our predecessor organisation, the Financial Services Authority (FSA), suggests that complaint handling is an area that may not always be positive. We believe that complaints can give firms an opportunity to retain and enhance their consumer relationships if they are dealt with well. Viewed in this way, complaints are a vital part of the connection between firms and consumers. They also offer all firms the ability to learn from their mistakes and improve their products and services.

We did this review to identify any barriers within firms that prevent effective complaint handling in the future. Our supervision of firms focuses on their culture and behavior – which can be seen in how they treat consumers. This is why how firms handle consumer complaints matters, and always will. By understanding firms' complaint-handling policies and processes, we wanted to see whether consumers had been put at the heart of firms' businesses. In relation to complaints, this means firms having effective and transparent complaint-handling arrangements which ensure that complaints are dealt with reasonably, promptly and fairly.

Our rules on dispute resolution set a framework for how firms should deal with complaints as we want to avoid a tick-box approach to regulation. Our rules seek to ensure that consumers are treated fairly and that firms have sufficient flexibility to deal with each case individually.

We have conducted previous reviews into firms' complaint handling<sup>2</sup> and have used a variety of regulatory tools and actions when we found concerns. Unlike previous thematic reviews, this work was not aimed at examining firms' compliance with our rules, nor was it intended to uncover past poor practice. Instead it represents a collaborative approach; working with industry to identify common themes and barriers to effective complaint handling, as well as to explore possible solutions. In short, rather than look at what has gone before, this work sought to find out what changes can be made to how firms handle complaints to make sure that the interests of consumers are at the heart of firms' complaint-handling processes in the future.

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1 Payment protection insurance (PPI) complaint handling is excluded from this review. This is because we have done, and continue to do, significant work specifically on PPI complaint handling, including enforcement investigations into several firms.

2 For example, [FSA Review of complaint handling in banking groups 2010](#).

It is important to remember when reading the results of this review that our intention with this work was not to develop a standard view of what constitutes good or bad complaint handling. Rather, we wanted to gauge what, if anything, was preventing firms from fully considering the needs of their consumers in their complaint-handling processes and what could be done to ensure complaints are handled better in future.

### **What we did and how we did it**

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We invited 15 major retail firms – encompassing activities from all retail sectors<sup>3</sup> – and five trade bodies to take part in our review. We also sought input from the Financial Ombudsman Service<sup>4</sup> and consumer bodies.

We asked firms to carry out self-assessments to better understand how complaints are dealt with in practice, as well as providing their documented policies, processes and management information (MI) for our review. We also established, and chaired, a working group of the participant firms and trade bodies to identify and discuss common complaint-handling issues. Our approach provided valuable insight into how firms manage their complaint functions. This allowed us to observe any barriers to effective complaint handling.

We were most interested in any barriers that exist within firms' internal policies and processes. We chose to consider barriers in this way as it focused our attention on firms' culture and whether there were limitations that prevented them from putting the customer at the heart of their business. We would like to thank everyone who contributed to this review, especially the working group members. Chapter 2 provides further detail on our approach.

### **Why we did it**

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Complaints matter, and how they are dealt with can say much about a firm's culture. Firms should deal with complaints fairly and promptly (using competent staff) and, where appropriate, redress should be provided. Dissatisfied consumers should not find it difficult to complain nor should the procedure be anything other than straightforward.

Complaints can be used to provide valuable feedback to firms, helping them to improve the products and services they offer, as well as enabling them to build and enhance their relationships with consumers. Our review focused on whether there were any barriers for firms in handling complaints effectively at any of the five key stages of firms' complaint handling (below):

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<sup>3</sup> Banks, Building Societies, General Insurers and Life Insurers.

<sup>4</sup> The Financial Ombudsman Service resolves complaints between financial services firms and consumers.

### Five key stages of firms' complaint handling

1. identifying a complaint
2. recording a complaint
3. internal reporting of a complaint
4. provision of redress
5. carrying out root cause analysis<sup>5</sup>

Weaknesses, or failures, at any of those stages may result in poor consumer experiences and outcomes, as well as affect firms' ability to remedy complaints effectively.

### What we found

We found that:

- Firms have taken steps to improve their complaint handling – both as a result of previous regulatory work and as a result of firms' own initiative. For example, senior managers are more involved and engaged in complaint handling. Firms have also told us they are empowering their staff to make the right judgements and to demonstrate empathy.
- However, it is clear that firms could – and should – do more to deliver fair complaint handling and consistent outcomes for all consumers. We found weaknesses in each of the five key stages of firms' complaint handling, which may affect consumers' experiences and outcomes.
- Barriers exist that affect how effective firms are at complaint handling. Our observations together with the firm self-assessments and working group discussions led to the conclusion that there are four main barrier themes
  - application of our rules
  - cultural
  - operational; and
  - specific barriers in relation to MI and root cause analysis.

Our findings are detailed in Chapter 3.

<sup>5</sup> This analysis enables firms to identify and address the underlying reason for or root cause of consumer complaints. Firms can use it to proactively identify and correct issues before they become widespread.

## Next steps

Addressing the barriers identified at the five key stages of firms' complaint handling may require actions from all regulated firms as well as regulatory actions.

The working group made a series of recommendations, which it believes may improve complaint handling at firms. These include suggesting that we consider making changes to the DISP rules and the complaints data reported to us – for more detail, see Chapter 2. We are considering the recommendations further and expect to include any resulting policy proposals on improving complaint handling and related issues in a forthcoming consultation.

All of the firms in the review have also committed to making improvements in respect of the five stages of complaint handling. We welcome firms' actions and expect them to lead to improved complaint experiences and outcomes for consumers.

All firms – and not just those who participated – should review the findings in this report and consider how they relate to their own complaint handling arrangements.

### *Delivering better consumer outcomes through improved complaint handling*



## 2. Our approach and methodology

The approach taken to this thematic review was intended to be different to previous thematic work on complaints.<sup>6</sup> Rather than focus on firms' past complaints handling, we wanted to be more forward looking to see whether there were any barriers that prevented firms from delivering good consumer outcomes in relation to complaints. Our focus on the discovery (and mitigation) of future issues was complementary to, but distinct from, our previous regulatory work on complaints. This review also did not consider PPI complaints, which is the subject of other, ongoing work.

We pursued a collaborative approach to working with industry, with firms actively participating in the review through self-assessment. The self-assessment tasks were an important element of this work as we wanted to see how firms dealt with complaints in practice. By using self-assessment we were able to observe how, firm by firm, various complaint scenarios were handled. It also offered firms the opportunity – and us the ability – to see how they assessed and monitored their own performance. This allowed us to explore both issues and solutions with firms.

We selected 15 major retail firms to represent a cross-section of the UK retail sector: seven banks, two building societies, three general insurers and three life insurers participated in our review. The firms chosen accounted for 79% of banking complaints, 60% of home finance complaints, 26% of general insurance complaints (excluding PPI), 42% of life insurance complaints and 42% of investment complaints reported to the FSA (our predecessor organisation) in the complaints return covering the period July to December 2012. This period represented the most recent data that existed while we were scoping out the thematic review. Once the firms were selected our focus was on their complaint-handling processes in place during our review (September 2013 to April 2014).

### How our objectives fed into our methodology

Our primary aim, as a forward-looking thematic review, was to discover where common issues and barriers may exist within firms that prevent effective complaint handling. However, we were also interested in whether there were any specific issues and barriers within individual firms and their action plans to address them. We designed our methodology to capture evidence of both types of barrier.

Our methodology was therefore based on:

- our review of firms' operating models and management information (MI)
- self-assessment tasks (designed by us and carried out by firms) – including targeted quality assurance

<sup>6</sup> [FSA Review of complaint handling in banking groups 2010.](#)

- firms' individual and collective analysis of both their own results and the aggregate results for all participants
- implementation of a working group (chaired by the review team and made up of participant firms and selected trade bodies) for the discussion of common barriers, including suggestions for industry improvement.

We also engaged with other key stakeholders in our consideration of firms' barriers, including: the Financial Ombudsman Service; consumer bodies and industry trade associations. This enabled us to explore the extent to which the barriers identified were recognisable to the wider community and also whether they were acknowledged as barriers.

We describe more about our approach and methodology below.

### **We assessed firms' operating models and MI**

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Our review was concerned with issues and barriers *within* firms so we needed to understand how firms actually dealt with complaints in their businesses. We assessed firms' operating models to see not only how firms had structured their complaint-handling functions but also to understand the engagement of, and oversight by, senior and executive management.

By understanding how firms had organised and structured their complaint-handling arrangements we were able to design firm self-assessments (see below). These were instrumental to our ability to identify barriers within firms' own processes and procedures.

Additionally, to supplement the self-assessments, we also reviewed a sample of MI used by firms' senior management to assess the effectiveness and efficiency of their complaint-handling arrangements. We focused on the quality of customer outcomes measured by MI and whether improvements were made to the products and services provided to customers as a result of this MI and analysis. We were particularly interested in how firms used their complaint MI to help them to identify and correct the underlying reasons for, or root causes of, complaints.

## We designed firm self-assessments and worked with firms' senior managers to successfully implement them

### The Self Assessments

1. We asked firms to provide their complaints process maps and structure charts as well as the last Board level reports and documentation in order for us to better understand:
  - a. how firms organised their complaint functions; and
  - b. what information on complaints was passed to, and considered by, senior management (especially appropriateness and quality).
2. To see how firms identify, record and report complaints in practice firms were then asked to process fictitious complaints through their identified complaints processes and answer set questions.
3. Firms were then asked to assess their results in (2) and provide presentations to the review team and their supervisors on areas which could be considered 'best practice' and also 'areas for improvement' which led to discussion and questions from the FCA.
4. To see how firms consider redress, we asked firms to process set scenarios through their complaint structures. Similar to (3), firms presented their analysis of their results to the review team and their supervisors – again identifying 'best practice' and 'areas for improvement'.
5. To see how firms approach and conduct root cause analysis, we selected three topics for presentation by each firm to the review team and the firms' supervisors. The topics were chosen following the review team's assessment of the information provided in (1) as well as discussion with firms and their supervisors.

So we could better understand how firms handle complaints in practice – and to recognise any existing common barriers – we asked them to do self-assessments to explain and demonstrate to us what they do. The results of the self-assessments showed the complaint journey at each firm. As the self-assessment tasks were standardised, we were also able to compare firms' results and identify and compare common themes. This helped us to discover whether barriers existed across all firms as well as identifying where individual firms had specific issues.

To give us a fuller picture we wanted to see how firms had set up their operating models to identify and record complaints, as well as to handle them. So we asked firms to provide 'process maps' of their complaints structures (from first identification to resolution). We then asked them to process a series of standardised 'fictitious complaint' scenarios (containing a variety of issues<sup>7</sup>) through their complaint-handling processes. This captured both 'first-point-of-contact' staff (e.g. staff for whom complaints is not their main role, such as branch or call centre staff) as well as 'escalated' complaints staff (e.g. those who work in dedicated complaints teams).<sup>8</sup>

<sup>7</sup> Ranging from complex financial loss to simple service/ administration issues – e.g. failure to amend a direct debit instruction. Scenarios were provided for each main product group – retail banking; home finance; general insurance (excluding PPI); life insurance and investments.

<sup>8</sup> Some firms also had separate executive complaints and/or Financial Ombudsman Service complaints teams.

Our rules expect firms' senior management to take an active role in the oversight and control of complaint handling in their firms.<sup>9</sup> So, we asked each firm to nominate a senior manager to oversee the assessments and be part of the working group. Each senior manager was responsible for completing their firm's self-assessments and to ensure they were carried out independently of compliance and the business in each firm. Most firms used their internal audit or risk functions.

### **We carried out targeted quality assurance on firms' self-assessment work**

Using firm self-assessment was a new methodology for us when looking at complaints – but one that we believed was appropriate to this type of discovery review. However, to ensure we could reasonably rely on firms' self-assessment results we sampled a selection of the self-assessment work carried out by firms in the review. We visited them, interviewing their staff on the front-line and those handling escalated complaints (including both staff who had participated in the testing and those who hadn't) as well as meeting firms' independent 'assurance' functions and any dedicated Financial Ombudsman Service teams.<sup>10</sup> We were assured from our sample that firms had taken a comprehensive and consistent approach to the self-assessment work.

We also undertook limited – and specific – file reviews of consumer complaints at an additional sample of firms in our review. Together with our parallel work with the Financial Ombudsman Service<sup>11</sup> and consumer bodies, these activities gave us confidence that we were identifying the right issues for the working group to discuss and debate.

### **We asked senior managers to present their findings, identify any weaknesses and set out what actions they were taking**

We asked senior managers to present their self-assessment findings and answer questions we had set around the five key stages of complaint handling – to identify whether, and where, there were any barriers. We aggregated these results to inform our views about common barriers across the industry. We also asked the senior managers to identify any specific weaknesses they found at their firms and to set out what actions they were taking as a result.

This resulted in the firms in the review committing to a number of actions to address the issues they identified from their individual results. The firms' FCA supervision teams will be able to monitor firms' progress against their stated improvement action plans. Many firms said they found the use of scenario cases and self-assessment activities useful and they intend to carry out similar exercises in future.

<sup>9</sup> DISP 1.3.7R requires that the person with responsibility for oversight of the firm's compliance with DISP 1 must be carrying out an FCA governing function.

<sup>10</sup> Some firms have specific teams which deal with complaints that are referred to the Financial Ombudsman Service.

<sup>11</sup> In particular the Financial Ombudsman Service offered detailed analysis of trends they have observed in the complaints which reach them.

## We set up a cross-sector working group

### How it worked

**The FCA:** created formal terms of reference and operated the secretariat function; chaired the meetings; set the agenda.

**Participant firms:** contributed views; suggested improvements and proposed recommendations which they believe would help firms in the five key stages of complaint handling.

**Trade bodies:** represented the views of their wider membership.

We invited the 15 participant firms to join a working group to:

- consider the five key stages of firm complaint handling
- discuss the self-assessments and
- consider improvements to firms' complaint handling

We also invited five trade bodies to participate in order to ensure that we captured broader industry views. We chaired the working group as well as set the agenda. For example, we presented the aggregate firm self-assessment results to the working group for discussion. We also actively sought the views of the Financial Ombudsman Service and consumer bodies on the themes emerging from the working group as well as the working group recommendations.

### The working group's recommendations

Dedicated complaint telephone lines should not use numbers that charge consumers more than a 'basic rate' (including mobile users).

Reconsider the definition of complaint (e.g. removing the more subjective element of 'material' distress or 'material' inconvenience).

Extend the time-frame of the 'next business day' rule (e.g. extend to one week).

Remove the 'non-reportable' complaints element of the next business day rule so that firms would report all complaints received.

Review the biannual Complaints Return to include more consumer-centric measures.

Revise the FCA complaints publication (e.g. including more consumer-centric measures and contextualised data).

### **A working group case study**

#### ***Telephone numbers for making a complaint***

In light of Which?'s recent campaign<sup>12</sup> we asked the working group to consider the telephone numbers firms provide for customers wanting to make a complaint.<sup>13</sup>

The cost of using different types of telephone number is complex due to the wide variety of contracts available between the customer and their telephone service provider. For example, customers using their mobile phone to make a complaint may find that 'freephone' 0800 and 'local rate' 0845 numbers are not 'free' or charged at 'local rate' depending on their telephony package with their mobile phone provider.

The working group considered the various telephony options available to customers and debated various proposals on the best way forward.

It recommended that:

- firms should not use telephone numbers which charge more than the 'basic' rate which would be similar to the position under the Consumer Rights Directive<sup>14</sup> and
- firms that use freephone 0800 and local rate 0845 numbers should provide an alternative 03 number for customers using a mobile phone

<sup>12</sup> [www.which.co.uk/campaigns/premium-rate-phone-numbers/](http://www.which.co.uk/campaigns/premium-rate-phone-numbers/)

<sup>13</sup> To note, we are not aware of any participant firms currently using 09 'premium' rate telephone numbers for their complaints lines.

<sup>14</sup> The Consumer Rights Directive (Directive 2011/83/EU), as implemented by the Consumer Contracts (Information, Cancellation and Additional Charges) Regulations 2013 (the 'CRD Regulations'), requires that traders do not charge consumers more than the basic rate to telephone a customer helpline about something they have bought. It currently does not apply to contracts for financial services (although it does apply in certain respects to ancillary contracts for financial services). The CRD Regulations came into force in June 2014.

## 3. Our findings

### Overview

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As set out in Chapter 2 we conducted this review to identify whether there were any barriers within firms to deal with consumer complaints fairly and consistently. Our primary objective was to consider common, shared barriers applicable across the industry. However, we were also interested to note individual barriers at firms – and in particular their corrective action plans.

From the firms' self-assessment results we recognise that although firms have sought to improve how they deal with complaints they could – and should – be doing more to ensure that customers are treated fairly.

We identified the following themes around firms' common barriers:

- application of our rules (DISP)
- operating models
- culture
- approach to and ability to conduct root cause analysis and
- MI

As well as observing barriers we also recognised some encouraging developments and activities within firms. We have presented these as 'case studies' and they give an indication of some innovations firms have made. They also demonstrate that some firms have begun to consider the consumer outcome – and experience – more in their current complaint handling.

However, although we were pleased to see innovations by firms there remains much more for them to do before we can be confident that their complaint handling demonstrates that they have consumers firmly at the heart of their businesses. We have also included some examples of specific barriers seen within firms which we have described as 'learning opportunities'. The resolution of both firms' individual and common barriers will be fundamental to them delivering good consumer outcomes and experiences.

Next, we summarise our findings and observations in more detail. These are based principally on firms' presentations to us on the self-assessments they conducted as part of this review. Issues that surfaced during working group debate, and our analysis of firms' MI and operating models, are also reflected.

### **Firms' operating models – and how our rules are applied in practice – may negatively impact on their consideration of consumer complaints**

All of the firms in the review reported that they had established their complaint-handling operations to be, in their view, compliant with our complaint-handling rules in DISP. However, looking at firms' policies and processes, we found instances where firms had sought to follow our rules by adopting a tick-box compliance approach without a proper appreciation of the effect on consumers and of their individual needs. This can have the effect of ultimately driving their complaints operations in ways which may not be in consumers' best interests. Good judgement in ensuring customers are treated fairly should always be applied when considering individual consumer complaints.

Firms adopting a centralised model typically escalated complaints identified by first-point-of-contact staff to a central (escalated) complaints handling team for investigation and resolution. Firms adopting a more decentralised approach were more likely to empower their first-point-of-contact staff (in their call centres or branches) to attempt resolution of simple and easy-to-remedy complaints.

The results of our review did not favour one model over another. However, some general observations (from the self-assessments and working group discussion) apply to both:

- **Firms do not always consider how their processes and procedures, designed to comply with DISP, can themselves affect consumers.**

Almost all firms reported designing policies and processes with the intention of complying with our DISP rules. However, we found that over reliance on firms' policies and processes – and the resulting tick-box approach adopted - could limit the ability of staff to exercise good judgment. We believe that the extent to which staff feel they can challenge policies and processes reflects on their ability to employ effective judgement. For example, do staff members feel able to overturn a process or procedure (including the provision of redress for financial loss and/or material distress and material inconvenience) which the staff member (who has engaged with the consumer) believes would deliver the 'wrong' outcome when applied to the circumstances of that consumer?

Firms should consider, for each complaint, whether the consumers' outcome and experience demonstrates that the firm has really put the interests of consumers first. Inadequate application of good judgement – and the principle of treating customers fairly – may be leading to poor outcomes.

- **Firms are trying to make their complaint communications more consumer-focused.**

The specific rules on final response letters (sent to consumers once the firm has concluded its investigation into a complaint and reached an outcome) are not especially prescriptive.<sup>15</sup> However, our rules do require (amongst other things) firms to promptly explain to consumers their assessment of the complaint, and their decision, in a way that is fair, clear and not misleading.<sup>16</sup>

<sup>15</sup> DISP 1.6.2R.

<sup>16</sup> DISP 1.4.1R.

During working group discussions, firms told us they had interpreted our rules to mean they must adopt a conservative, legalistic approach to final response letters. This could result in lengthy letters responding to every point raised by a consumer, with firms believing this was the only way they could comply with our rules. Most firms were aware that by choosing to adopt this style and tone, it was difficult to engage constructively with the consumer's complaint. So most firms are now:

- making more attempts to speak to the consumer to understand their complaint and point of view, both as part of the investigation and before issuing a final decision letter and
- looking at the style, tone and content of their final decision letters

#### **Case study: Improved consumer communications**

Some firms are using external communications specialists to improve their consumer communications. One working group contributor said their aim was to 'produce a letter that they would be happy for a family member to receive'. We noted with interest that some firms were specifically looking at techniques and processes employed by non-financial services companies. As a result, some firms' responses are becoming less 'legalistic' and adversarial, which results in more read-able and more easily understandable correspondence from firms.

#### **Learning opportunity: Final Response Letters**

Some firms had created additional requirements for their staff in their internal Final Response Letter policies and processes. This resulted from a misunderstanding of our rules. As mentioned previously, our rules are not especially prescriptive. Amongst other things, they require a response which offers redress or remedial action (whether accepting the complaint or not) or one which rejects the complaint and giving reasons for doing so. Firms also continue to have an obligation to communicate with their consumers in a way which is clear, fair and not misleading.

From our work in the review, we have become aware that some firms' compliance departments have created additional processes where staff risk a quality audit fail unless they follow the firms' policy. For example, requiring a line-by-line rejection or acceptance of each aspect of a consumer's complaint, even incidental matters which, on a more holistic review of the consumer's issue, do not form part of the substance of the complaint. This is likely to result in unnecessarily long and confusing letters (especially if the firm accepts a minor point but rejects the main substance of the complaint). The harder it is for a consumer to understand a firm's response the less likely it is that the Final Response Letter is fit for purpose.

The firms in our review are all aware of the desirability of improving their policies and processes for Final Response Letters and we would encourage all firms to consider the consumer more in their communications.

### We identified inconsistency in firms' definition of a complaint

- **Firms generally adopted a conservative – and broader – approach to defining what constituted a 'complaint' under our rules. This has consequences for what firms report to us in their biannual complaints return.**

To determine whether a customer has raised a complaint or not, we asked senior managers to confirm what definition their staff used to identify a matter as a complaint. Firms gave a range of definitions, with almost all indicating they used a wider definition than the one specified in our rules.<sup>17</sup> Some senior managers said the definition of complaint in DISP was complex and subjective. For example, firms said their staff found it difficult to identify 'material' distress or 'material' inconvenience. As a result, to ensure they do not miss any regulatory complaints firms often adopted a broader definition of complaint – that of 'any expression of dissatisfaction'.

The firms included in our review were eager to capture all expressions of dissatisfaction (thus including in their regulated complaints process complaints which technically fall outside our definition otherwise known as 'non-regulatory' complaints). However, this results in a lack of consistency between firms, making comparisons between them difficult.

Non-regulatory complaints, such as those that could be dealt with swiftly and by front line staff, could be treated alongside regulated complaints in which there is a claim that financial loss or material distress or material inconvenience has occurred. By their nature, these more complex complaints require more investigation and a more in-depth response. As a result, firms that treat non-regulated complaints as regulated complaints could inadvertently be putting customers into a more formal process than necessary. For example, a consumer may have only been seeking an apology for the length of counter queue in branch (a non-regulatory complaint<sup>18</sup>); but end up in the formalised regulated complaints process to 'resolve' and remedy the cause of the complaint. The consumer may have to wait for a formal apology and an explanation of the reason for the counter queue when all they wanted was the apology and an acknowledgement of the issue – neither of which required the full formal process. Again, there needs to be a full consideration of what is in the consumer's best interests.

The inconsistency of firms' complaint definitions may also have implications for any peer group comparisons as discussed below.

### We found inconsistencies in the complaints data firms reported to us in the complaints return

Firms' choice, of both operating model and definition of complaint, impacts on the data which they report to us twice a year in their complaints returns. As highlighted above our review identified possible inconsistencies in the data firms reported. This may make it more difficult to carry out meaningful peer group analysis between firms. Our work with consumer bodies made us aware that the distinction between reportable and non-reportable complaints<sup>19</sup> is also not well understood.

<sup>17</sup> The FCA handbook defines a complaint as:

'Any oral or written expression of dissatisfaction, whether justified or not, from, or on behalf of, a person about the provision of, or failure to provide, a financial service or a redress determination, which alleges that the complainant has suffered (or may suffer) financial loss, material distress or material inconvenience and relates to an activity of that respondent, or of any other respondent with whom that respondent has some connection in marketing or providing financial services or products, which comes under the jurisdiction of the Financial Ombudsman Service.' The MiFID definition is similar, but ends at 'material inconvenience.'

<sup>18</sup> Assuming this did not cause financial loss, material distress or material inconvenience.

<sup>19</sup> Only complaints which are not resolved by the close of next business day need to be reported (DISP 1.5.1.R.)

**We are reviewing the complaints return and plan to consult on any resulting changes in the data firms submit to us later in the year.**

### **Complaints dealt with by close of next business day**

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Once identified as a complaint, firms told us they try to resolve simple or easy to remedy complaints quickly – as our rules intend.<sup>20</sup> For complaints resolved by the close of the next business day<sup>21</sup>, our rules<sup>22</sup> do not require firms to issue a written response informing consumers of their referral rights to the Financial Ombudsman Service. Firms are also not required to report these complaints to us in their biannual complaints return. We discovered that all firms record their non-reportable data – which we were able to analyse. For the time period we reviewed, the reportable volumes increased as did the non-reportable volumes. However, we are considering whether our current next business day rule remains appropriate as:

- Consumers often reasonably expect firms to be able to resolve their complaints quickly and, where appropriate, informally. By their nature, informal processes tend to produce faster outcomes.
- Consumers' complaint experiences are generally improved when they have one point of contact throughout their complaint. Multiple hand-offs within a firm can be a source of consumer frustration and duplication of effort for the firm.
- The increase in online communications between consumers and their firms has altered the way consumers and firms interact with each other.

### **We identified weaknesses in identifying and recording complaints**

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The results of the firms' self-assessments showed inconsistencies in their identification and recording of complaints. We also discovered that firms' complaint procedures and computer systems could prevent more accurate recording of complaints. For example, whether first-point-of-contact staff had easy access to firms' complaint systems to record a complaint.

All of the firms in the review have agreed to improve how they identify and record complaints. The firms' FCA supervision teams will be able to monitor firms' progress against their stated improvement 'action' plans.

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<sup>20</sup> DISP 1.5.1R.

<sup>21</sup> N.B. resolution is only where the firm's solution and/or redress is accepted by the customer.

<sup>22</sup> DISP 1.5.1R.

**A selection of examples of improvements being introduced at some firms for identifying and recording complaints by:**

- having significant staff training programmes
- introducing best practice guidance for staff
- enhancing systems e.g. making it easier for staff to categorise a complaint
- repeating the self-assessment test scenarios to compare results (to track whether improvement can be evidenced)

**Learning opportunity**

We observed that firms employ a wide variety of systems and tools to record complaints. However, not all staff have access to relevant systems which had a noticeable impact on affected front line staff. For example, at one firm front line staff had to capture the key points of the complaint and forward to a centralised escalated complaints team to log on the system. This increases the possibility of incorrectly capturing the consumers concerns and may lead to inaccurate recording. Also, this process may require the centralised team to further communicate with the consumer resulting in frustration for the consumer especially if the issue was incorrectly captured at the outset.

Although we appreciate that firms want to keep processes simple and easy to use – especially for their front line staff who are not dealing with complaints full-time – they must also consider the impact on the consumer of their processes. Duplicative processes resulting in repetitive conversations are undesirable for both consumers and firms.

**We found inconsistencies between redress for financial loss and redress for material distress and material inconvenience**

- Redress for financial loss ('redress') is separate from redress for material distress and material inconvenience ('distress and inconvenience'<sup>23</sup>):
  - Redress for financial loss is financial compensation to remedy the financial loss (e.g. refund incorrectly charged fees).
  - Redress for distress and inconvenience is an award to recognise the impact an issue has had on the consumer (e.g. correspondence addressed to a recently deceased person being received by their relatives – despite the firm having been informed).

In the self-assessment scenarios firms almost always offered redress in the scenarios given.<sup>24</sup> However, there was some inconsistency both across firms and within firms about the amount of redress offered.

<sup>23</sup> The Financial Ombudsman Service uses the term "trouble and upset".

<sup>24</sup> We would have expected redress to be offered in all scenarios.

All firms in the review have agreed to improve their approach to redress and distress and inconvenience. The firms' supervision teams will be able to monitor firms' progress against their stated improvement 'action' plans.

**Some examples of improvements being introduced by various firms to improve their approach to redress and distress and inconvenience by:**

- reviewing the Quality Assurance frameworks in place and ensuring they are aligned across all business areas
- annually testing and reviewing the use, purpose and suitability of any 'calculators' available to staff
- providing more examples and context to staff on how to assess 'materiality' when determining 'distress and inconvenience'

- **Front-line staff frequently offered lower amounts of redress than dedicated, or 'escalated', complaints teams.**

We observed that the levels of redress which first-point-of-contact staff can arrange are often less than the amounts which escalated complaints teams can offer. This is not, by itself, a cause for concern – provided first-point-of-contact staff do not attempt to inappropriately resolve complex or sensitive complaints and know when and where to escalate a complaint.

We noted that not all first-point-of-contact staff are empowered to resolve complaints (and offer redress). However, we were keen to know what staff at all levels would do in a given situation – to see how embedded firms' processes were in identifying where redress was due and also how staff would manage escalation to appropriate staff. Therefore, in some instances, the first-point-of-contact results are purely hypothetical as in a real-life situation firms said such staff should not be attempting resolution.

We also noted that all firms have financial limits as to what staff (both first-point-of-contact and escalated) can pay in redress.

However, although there are systems and policies in place, the self-assessment results indicate that firms' policies on redress (for example which interest rate to apply to a redress amount) are not always followed – increasing the inconsistency of redress. Where relevant, firms have committed to increasing staff training and improving any redress calculators that staff have access to.

- **The subjectivity of 'distress and inconvenience' may result in inconsistent awards.**

Firms reported that decisions on distress and inconvenience awards could be inconsistent. We observed that, in general, first-point-of-contact staff offered lower amounts. We became aware through our quality assurance (where we spoke to first-point-of-contact and escalated complaints staff) that first-point-of-contact staff often saw their role as being 'problem solvers'. As such, they actively sought to remedy the consumer's complaint (which in turn could lead to fewer referrals to escalated complaints teams). Aiming to resolve matters quickly for consumers at first-

point-of-contact may, therefore, mean less inconvenience in the process of making a complaint.<sup>25</sup> Additionally the types of complaints that first-point-of-contact staff are usually empowered to resolve are generally standard, simple and easy to remedy cases (e.g. re-sending documents or refunding fees) where distress and inconvenience is less likely to be a part of the complaint.

We observed, and the working group discussed, the difficulties encountered in providing meaningful distress and inconvenience guidance to staff at all levels. The working group considered that the subjectivity of distress and inconvenience payments (the same scenario is unlikely to affect all consumers in the same way) made it difficult for them to issue 'fail safe' guidance to staff. Firms told us that distress and inconvenience, due to their inherent subjectivity, can make consistency difficult. However, firms should not use this to excuse any inadequate consideration of distress and inconvenience.

#### **Case study: Increasing the professionalism of staff, and raising the profile of complaints, through independently recognised training schemes**

A number of firms were able to evidence their commitment to staff development on complaints. One firm worked with an independent qualification body to pilot relevant complaint-handling training – leading to a certificate in complaint handling. Staff at all levels of the business (e.g. general call centre staff to dedicated complaints teams) were encouraged to undertake the training and sit the assessment. The firm noted that staff feedback to the experience was positive and they are looking to extend the pilot. Another firm sought independent verification from a recognised professional institution that its 'in house' complaints training met an objective standard. The firm gained knowledge from the institution and also confidence that its training was appropriate to equip staff to handle complaints.

#### **Learning opportunity**

We became aware that firms use different terminology when considering financial loss and distress and inconvenience. Terms such as 'goodwill' and 'ex gratia' can confuse the distinction made in our rules between financial loss and distress and inconvenience.

For example, we were aware that at least one firm in the review required its staff to consider financial loss, distress and inconvenience and gestures of goodwill separately. The distinction between distress and inconvenience and gestures of goodwill was not immediately obvious to us and could leave the consumer similarly confused. The firm is now addressing this issue through a re-training programme.

#### **Firms still have more to do on developing their root cause analysis**

We found that firms have more work to do to develop their root cause analysis capabilities to both address the underlying reason why customers have complained, as well as driving product and services improvements.

<sup>25</sup> Distress and inconvenience can arise from both the initial problem and also any delays or hassle in getting the problem resolved.

Firms adopting a centralised approach employ a central root cause analysis team to review MI and identify and monitor root cause analysis across the business. Firms using a decentralised approach require each business area to identify and carry out their own root cause analysis.

The results from our review do not favour one approach over another. However, we have identified improvements which can be made:

- greater consideration of tactical and strategic root causes for customer complaints and
- using a wider source of relevant data

### Considering tactical and strategic root causes

We asked firms to present examples of where they have used their MI to identify possible root causes for consumer complaints. We selected three root cause analysis topics – or case studies – for firms to present. We chose the topics based on our analysis of firms' MI received during the course of the review. All the firms in our review were able to give examples of changes (largely operational) made as a result of their root cause analysis. However, fewer firms were able to demonstrate that they had considered, and applied, root cause analysis more holistically – for example by considering whether their business model or culture may constitute a root cause (considered to be strategic causes rather than the more commonly considered operational causes).

#### **Case study: How one firm's root cause analysis led to it improving its Power of Attorney process**

One firm amended and simplified its Power of Attorney procedures as a result of receiving multiple similar complaints. The number of complaints was small, but the firm's root cause analysis did not focus solely on volume. By considering the impact on consumers of common, and often traumatic, life events (such as mental and physical incapacity requiring a lasting Power of Attorney), the firm was aware that even a small number of complaints could cause the affected consumers unnecessary and avoidable difficulty. The firm was also conscious that, as the complaints all related to the firm's standard lasting Power of Attorney process; it may be affecting many more consumers not in a position to complain. The particular circumstances of a lasting Power of Attorney highlighted the need for swift and sensitive handling – and resulted in the firm improving its processes.

As the above example demonstrates, we were pleased to see that firms did not always focus their root cause analysis on areas with the highest number of complaints. Some firms also considered the impact on a customer group (especially vulnerable groups, for example, the elderly) when deciding how to carry out root cause analysis.

- **Most firms were able to provide examples of where they had identified (and fixed) operational causes but very few considered more strategic causes such as those related to business model or culture.**

We found that some firms were not always considering the full implications of root cause analysis. For example, the impact the analysis could have across different product groups, distribution channels, regions, or in other parts of the organisation. We found that 'silos' appear to exist in some firms meaning that the findings from root cause analysis are not always considered across the business.

All firms in the review have agreed to improve their approach to root cause analysis. The firms' supervision teams will be able to monitor firms' progress against their stated improvement 'action' plans.

#### **Examples of improvements being introduced by some firms to improve their approach to root cause analysis by:**

- improving IT systems to enable better complaint categorisation to ensure that relevant data is captured and can be used in the root cause analysis process
- tackling identified 'silos' by establishing opportunities for knowledge sharing across the business
- developing a root cause analysis 'tracker' to detail any actions to be taken, including likely time-scales

#### **Using all sources of data**

- **Firms are beginning to use a wide range of sources to consider customer satisfaction, including the use of surveys and monitoring social media.**

#### **Case study: use of surveys – increasing consumer engagement**

Several firms have increased their consumer engagement to monitor how their businesses are delivering against customer expectations. Some firms undertake general satisfaction surveys, while others request feedback specifically in relation to complaint handling (targeting consumers who have complained). Most firms who used surveys also used separate marketing or data gathering companies to conduct the survey itself.

The surveys are used to identify where firms could be doing better and as a 'tracker' for progress against identified themes. Such surveys are reviewed alongside 'traditional' MI and help to inform their business. As well as using surveys, some firms do market research specifically focused on consumer sentiment to ensure that their communications and activities are meeting both firms and consumers' expectations.

However, we found that firms are not always considering all possible sources of data when carrying out root cause analysis and that firms cannot always easily take advantage of the data and MI they do have to carry out root cause analysis. Our findings on firms' MI (covered in the section below) are also relevant here.

- **Firms could be using more sources of data in their consideration of root cause analysis.**

Whilst we were encouraged to note that many firms undertake customer surveys we found that not all firms used these as a source of information in conducting their root cause analysis. We are aware that firms are increasing the range of data they collect and analyse, and increasingly social media is relevant. But more needs to be done to feed such sources of 'intelligence' into firms' strategic consideration of root cause analysis.

### **We identified weaknesses in the Management Information (MI) used by senior management to oversee and control firms' complaint-handling processes**

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From the self-assessment activity and our review of firms' MI we found that:

- Firms generally reported good operational data on basic complaint measures (volumes, age of complaint etc.).
- Firms could improve their MI to make it more informative and insightful on consumer experience and outcomes. More information is needed on the quality of complaint handling and the underlying reasons why customers have complained.

However, we identified four areas where improvements could be made:

- **Overall messaging:** Commentary needs to be balanced and focused on consumers' experiences rather than the outcome from a firm's perspective. For example, firms using peer group comparisons as a success measure rather than concentrating on their own results and considering their own consumers' outcomes and experiences.
- **Interpretation:** It was not always easy to interpret the reports due to excessive length or being overly detailed. In one case, the commentary did not correlate with the data being reported where the number of upheld complaints was used as a measure of customer satisfaction. Also, in most cases trend analysis identified potential issues but there was little or no commentary on the actions being taken to address the trend.
- **Quality metrics:** Most firms had metrics on operational performance, i.e. complaint volumes or age of complaint. However, few firms provided metrics which covered the quality of complaint handling or consumer outcomes.
- **Targets:** All firms set targets for complaint handling but in some cases more thought could be given to the usefulness of the target. Importantly, targets should be ones the firm can influence and should not encourage poor behaviour. For example, some firms set as a target the number of cases referred to the Financial Ombudsman Service. This is not something directly within firms' control as the consumer decides whether to refer a case.

All firms in the review have agreed to improve their complaint MI. The firms' supervision teams will be able to monitor firms' progress against their stated improvement 'action' plans.

**Examples of some MI improvements being introduced by various firms such as:**

- increasing their use of customer data and feedback
- improving the analysis of Financial Ombudsman Service data
- including quality assurance of complaint handlers' performance as a quality measure so improvement can be evidenced

**Learning opportunity**

We became aware of several measures firms used that could provide misleading and unhelpful information to senior management. Although we were encouraged to note that one firm considered 'quality of outcome' for consumers as a measure, it was disappointing to see that the metric used to determine quality was the amount of redress paid. This implies that the larger the redress amount the better the consumer outcome. Without more context and explanation of the metric and what the firm meant by 'quality' we did not feel that this was a helpful inclusion in the firm's MI. All firms have committed to reviewing their MI to ensure that their metrics and interpretation are appropriate.

## 4. Next steps

We are grateful for the contributions made by all the participants in this thematic review. Although firms have shown us encouraging examples of where progress has been made, firms can and should do more to ensure that they deliver consistent and fair complaint handling for consumers.

### **Actions by firms in our review**

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The 15 firms in the review have identified improvements they can make in each of the five key stages of firm complaint handling. We welcome the actions they are taking and expect these to lead to improved complaint experiences and outcomes for their customers.

### **Actions for all firms**

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All firms should consider how our findings relate to their own complaint-handling operating models, policies and practices. In particular, firms may like to focus on:

- whether their complaint-handling policies and processes fully consider whether their approach to complaints have the interests of consumers at their heart; avoiding a tick-box approach to compliance with our DISP rules
- reviewing their definition of 'complaint' and training their staff where the definition is not properly understood
- whether their systems and processes could inhibit accurate recording of complaints (and further consider how this impacts on their ability to conduct root cause analysis)
- the observations made about consistency of redress and distress and inconvenience payments
- considering their approach to root cause analysis – focusing on the observations made here, and
- whether they can make any improvements to their MI (messaging, interpretation, quality metrics and use of targets)

### **We are considering the working group's recommendations further**

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The working group proposed recommendations, including changes to our DISP rules. The group believes these recommendations will potentially enable the industry to provide better complaints experiences and outcomes for consumers.

The working group proposals also include reconsidering firms' biannual reporting of complaints data to us. We are also keen to collect and publish more transparent and contextualised consumer-focused data on complaint experiences and outcomes.

We are now doing some further research in light of these recommendations, with a view to developing policy proposals, which we expect to consult on soon. We would welcome responses from firms then.

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