

Regulator Assessment: Qualifying Regulatory Provisions

Title of proposal: Improving Complaints Handling. (Changes to the Dispute Resolution sourcebook (DISP)).

Lead regulator: FCA

Date of assessment: 29 July 2016

Commencement date: 30 June 2016 (26 October 2015 for the call charges rules)

Origin: Domestic

Does this include implementation of a Cutting Red Tape review? No

Which areas of the UK will be affected? The rules apply to regulated firms in all areas of the UK.

Brief outline of proposed new or amended regulatory activity

In December 2014 the FCA published Consultation Paper 14/30 consulting on proposed changes to the complaints handling rules. In July 2015 we published feedback to the consultation, and the accompanying Cost Benefit Analysis, and final rules (Policy Statement 15/19).

Extending the 'next business day rule', where firms are permitted to handle complaints less formally, without sending a final response letter, to the close of three business days after the date of receipt

Reporting all complaints, including those handled by the close of three business days after the firm receives them

Raising consumer awareness of the ombudsman service, by sending a 'summary resolution communication' following the resolution of complaints handled by the close of the third business day after receipt

New rules limiting the cost of calls consumers make to firms to a maximum 'basic rate', including all post-contractual calls and all complaints calls

Improvements to our 'complaints return' which requires firms to send us data twice a year on the number of complaints they receive.

Which type of business will be affected? How many are estimated to be affected?

The majority of the new rules apply to all of the approximately 56,000 regulated financial firms (with some exceptions).

Price base year	Implementation date	Duration of policy (years)	Business Net Present Value	Net cost to business (EANDCB)	BIT score
2016	30 June 2016	10	267.84	-29.2	146

Please set out the impact to business clearly with a breakdown of costs and benefits

Transitional and ongoing costs

We expect the extension of the 'next business day' rule for handling complaints less formally, to three business days will have a net benefit both to consumers and to firms, including in terms of the costs of handling complaints. The total numbers of complaints in recent years have been (approximately) 5.4 million (2013), 4.5 million (2014) and 4.2 million (2015). Based on internal FCA assessment, we consider that future numbers will remain relatively stable and we take the 2015 figure (4.2m) as basis for our assessment.

Firms we surveyed estimated an approximate increase in the percentage of complaints dealt with if the timeframe is extended to three business days in the range of 1% to 10%, with a 5% increase being typical, though for some firms it may be much higher. A 5% increase of all complaints would equate to approximately 210,000 complaints handled potentially faster and more cheaply (without the need to send a final response letter) for firms. Based on information collected from firms, we estimate an average cost of escalating a complaint to the 'formal process' to be around £150 per complaint. This estimation has been validated during the consultation process. Applying this figure to 210,000 complaints, this amounts to savings of about £31.5m per year.

Some firms mentioned that incremental costs in relation to IT resources and upgrading databases which would not be substantial enough to affect the impact of the changes. Others identified broader investment, including additional governance and support costs, training, quality assurance and relationship management costs. At the time of producing the CBA it was considered disproportionate to derive quantitative estimates of these costs, given their relatively low magnitude.

In relation to the new requirement to report the numbers of all complaints received, firms are already required to record all complaints (including for root-cause analysis) and we are aware that they have systems in place to do so. The additional cost of reporting complaints handled within the proposed three-day period should therefore be negligible.

In relation to the new requirement to inform complainants and potential complainants about the ombudsman service by sending a 'summary resolution communication', we have estimated the overall cost to the industry to be approximately £3.3m per year, based on the estimated total number of complaints estimated above (4.2m), and factoring in the proportion of customers who require a letter (approximately 53%)¹ rather than email or other form of communication, and the cost of sending a letter (£1.50).

Changes regarding all charges will result in cost transfers from consumers to firm. A number of firms said that the cost of implementation would be 'cost neutral' and some firms said they have already implemented Freephone numbers across the business. At the time of producing

the cost-benefit analysis, it was considered impracticable to quantify the aggregate cost to business in presence of important gaps in underlying evidence (e.g. number of calls across the industry). We consider it would be disproportionate to go back to firms at this stage to achieve an aggregate estimate.

The implementation of new complaint returns is likely to entail one-off costs, mainly related to the set-up of systems to collect data and training staff. Impacts on ongoing costs are likely to be negligible. At the time of producing the cost-benefit analysis, it was considered not reasonably practicable to assess the aggregate costs across the whole spectrum of financial services firms. It would be disproportionate to engage in the estimation of those one-off costs as part of this retrospective impact assessment.

Please provide any additional information (if required) that may assist the RPC to validate the BIT Score.

<https://www.fca.org.uk/publication/consultation/cp14-30.pdf>
<https://www.fca.org.uk/publication/policy/ps15-19.pdf>