



Increased complaints handling and reporting requirements for financial firms

CP 311 Internal dispute resolution: Update to
Regulatory Guide 165 (RG 165)



What are the proposed changes?

2018 saw the Financial Services Royal Commission and other regulatory inquiries into governance, accountability and culture at financial firms highlight a gap between consumers' expectations and industry practice, and a lack of profile for the 'voice of the customer' in the decision-making process at these institutions. We are seeing many institutions starting to rethink the purpose, value and design of their complaints handling frameworks, in part to better inform risk assessments, but also to better assess the extent to which the organisations' values are cascading consistently to customer experiences.

The 2016 Ramsay Panel Review¹, ASIC research and the Financial Services Royal Commission all highlighted shortcomings in consumer complaints handling, both internally within firms and within external dispute resolution (EDR) bodies. Following this, ASIC have initiated a consultation into the proposed revisions to RG 165 focused on uplifting internal complaints handling.

The new external and proposed internal dispute resolution (IDR) regimes may be arriving at an opportune time for some, while for others they may be seen simply as adding complexity. While they certainly may add some level of complexity to complaints frameworks, they also have the potential to augment financial firms' ability to analyse, learn from and respond to the rich pool of market feedback that complaints registers can provide about the firms' products and services and how they're received by customers.

As a result of the 2016 Ramsay Panel Review, three predecessor complaints resolution bodies (FOS, CIO and SCT) were merged into the Australian Financial Complaints Authority (AFCA) on 1 November 2018. This has fundamentally reshaped the Australian financial dispute resolution framework.

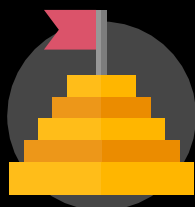
AFCA has increased power, compared to the preceding EDR bodies, including increased monetary and compensation amount limits, and will be naming firms in published decisions and identified systemic issues.

ASIC is responsible for overseeing AFCA and setting the standards for IDR within financial firms. All financial firms that are required to be AFCA members (except for credit representatives and exempt SPFEs) are subject to the IDR reforms as set out in the proposed updated RG 165. ASIC's stated aim from these reforms is to *"create and maintain positive complaint management cultures that welcome complaints and focus on fair and timely consumer outcomes."*²

ASIC is seeking public input on the consultation documents and draft new RG 165 by **9 August 2019** and aims to release the final standard by the end **2019**. A further, separate consultation on the publication of IDR data will commence in early 2020.

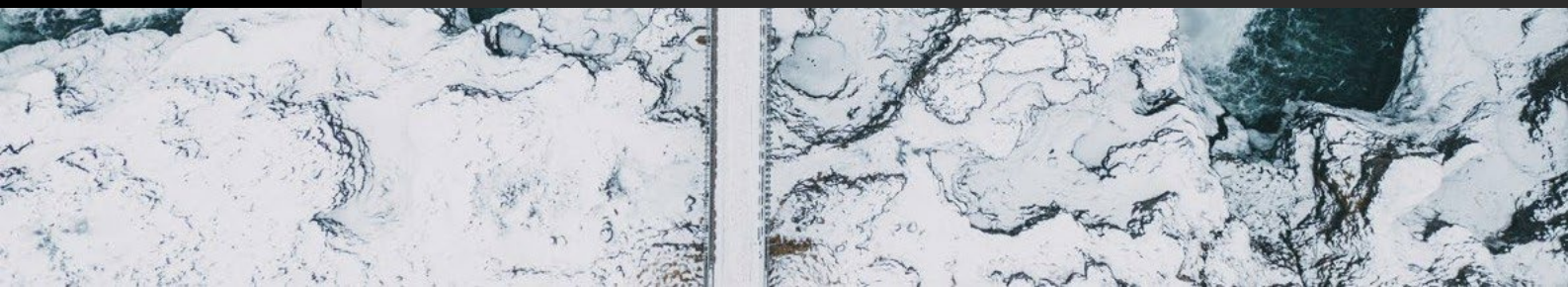
¹Review of the financial system external dispute resolution and complaints framework, Final Report, Professor Ian Ramsay and Panel, April 2017.

²CP 311 Internal dispute resolution: Update to Regulatory Guide 165 (RG 165)



Firm performance in how they handle customer complaints will increasingly be in plain sight. This greater transparency will inform consumer and broader public understanding of how well firms treat their customers

ASIC Deputy Chair, Karen Chester





Proposed legislative changes

The proposed changes to RG 165, as set out in the draft regulatory guide, reflect the standards for complaint handling in AS/NZS 10002:2014 *Guidelines for complaint management in organisations* (AS/NZS 10002:2014) and align with new statutory requirements for IDR. The proposed changes include:

Expansion of IDR requirements to cover superannuation trustees

Trustees of APRA regulated superannuation funds will be subject to the new RG 165 except for self-managed superannuation funds (SMSFs), trustees of approved deposit funds and retirement savings account (RSA) providers.

New definition of a complaint including social media complaints

The new standard will define complaints in line with AS/NZS 10002:2014, the changes from the current definition are shown in bold:

*An expression of dissatisfaction made to **or about** an organisation, related to its products, services, **staff** or the handling of a complaint, where a response or resolution is explicitly or implicitly expected **or legally required**.*

This definition establishes social media as a legitimate channel for making complaints and ASIC expects that, at a minimum, complaints on a financial firm's own social media are included in the IDR process and reportable to ASIC.

New requirement to record all complaints received, including those resolved immediately

The current RG 165 encourages, but does not require, firms to record complaints that are resolved within five business days.

The proposed requirement to record all complaints, regardless of the timeframe in which they are resolved, will provide firms with much deeper data to understand consumers needs and identify emerging issues. Additionally, this requirement will strengthen data integrity under the new IDR reporting regime and may assist firms in identifying triggers within the new Design and Distribution Obligations (DDO)³ regulation.

The key challenge for firms will be ensuring that all complaints, regardless of the channel on which they are received, are recorded.

New data requirements

To comply with the requirements of the IDR data reporting regime, financial firms will be required to:

- Record a unique identifier for each complaint received; and
- Collect and record a prescribed data set for each complaint received including complainant information, the product or service subject to complaint, a summary of the complaint and the outcome/response.

Reduced maximum IDR response timeframes

ASIC consumer research found that complainants that were not provided with a conclusion within 45 days demonstrated significantly higher levels of dissatisfaction and experienced more stress throughout the IDR process. Therefore:

- For superannuation and trustee complaints, reduce the maximum IDR response timeframe from 90 days to 45 days.
- For all other complaints (excluding specified credit complaints), reduce the maximum IDR response timeframe from 45 days to 30 days.

New requirements for IDR responses

All IDR responses should have a sufficient level of detail, having regard to the complexity of the complaint and the nature and extent of any investigation conducted.

If a financial firm rejects, or partially rejects, a complaint, the response must clearly set out the reasons for that decision including the firm's findings and referencing information to support those findings.

New requirements for determining if a complaint has been resolved to the complainant's satisfaction

Complaints should not be closed and categorised as resolved without the firm assessing the complainant's level of satisfaction with the actions taken.

This challenges firms to either obtain confirmation that the complainant is satisfied, or to be able to demonstrate to ASIC that they have reasonably concluded that the complainant is satisfied.

New requirements for identifying, escalating and reporting on systemic issues

The new requirements include:

- Boards and financial firm owners must set accountabilities for complaints handling functions, including processes for identifying systemic issues; and
- Reports to Board and executive committees must include analysis of consumer complaints, including any systemic issues that arise.

³For further information on DDO, refer to PwC's *Product Life Cycle and Design and Distribution Obligations publication* dated April 2019.



Data reporting regime and publication of IDR data

The Ramsay Review recommended the introduction of a **mandatory IDR data reporting regime** which has been established through the AFCA Act. ASIC are proposing that all financial firms captured under RG 165 must:

- Report a prescribed set of data for each and every consumer and small business complaint received; and
- Lodge IDR data reports through the ASIC Regulatory Portal in a prescribed data format on a six monthly basis.

This presents a number of challenges, not least how to ensure completeness of customer complaints data reported to ASIC. Ensuring all expressions of dissatisfaction are recorded has always been a challenge and is only becoming more difficult with the ever increasing channels available to customers to express dissatisfaction, particularly now that ASIC's definition of a complaint includes those made on social media.

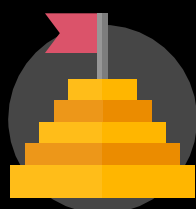
Data quality will also be a significant challenge; ASIC has defined 20 mandatory, and a further 9 conditional, data points to be reported for each complaint received and the data must be submitted in a prescribed format. The current complaints handling systems utilised by firms may not be fit for purpose and complaint recording may require significant uplift ahead of the IDR reporting requirements coming into effect.

However, this reporting regime also gives rise to opportunities for firms to better understand their customers needs and, more importantly, where they are failing to meet them. The availability of extensive and standardised customer complaints data can be used to firms advantage to identify issues before they become systemic and present operational and reputational risk.

ASIC have confirmed that they will open a consultation on the publication of IDR data in early 2020 but, at this stage, they intend to publish IDR data at both aggregate and firm level *"to inform consumer and broader public understanding of how well firms treat their customers"*⁴.

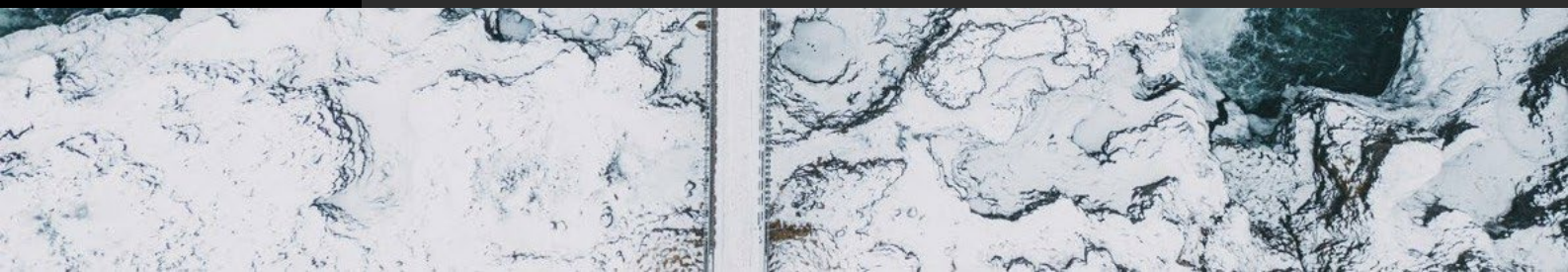
This would bring Australia in line with the UK's approach to financial complaint reporting; since 2017 the Financial Conduct Authority (**FCA**) has been publishing firm level complaint data for specific firms and aggregate industry data. This has resulted in a number of UK financial firms being dubbed the "worst offenders", a consequence which will undoubtedly make some Australian firms feel concerned.

⁴ASIC Deputy Chair, Karen Chester



The absence of such effective redress, and the failure of firms to identify and look into systemic complaints, were key findings of the financial services royal commission and the prudential inquiry into the CBA (Commonwealth Bank)

ASIC Deputy Chair, Karen Chester



How can PwC support you?

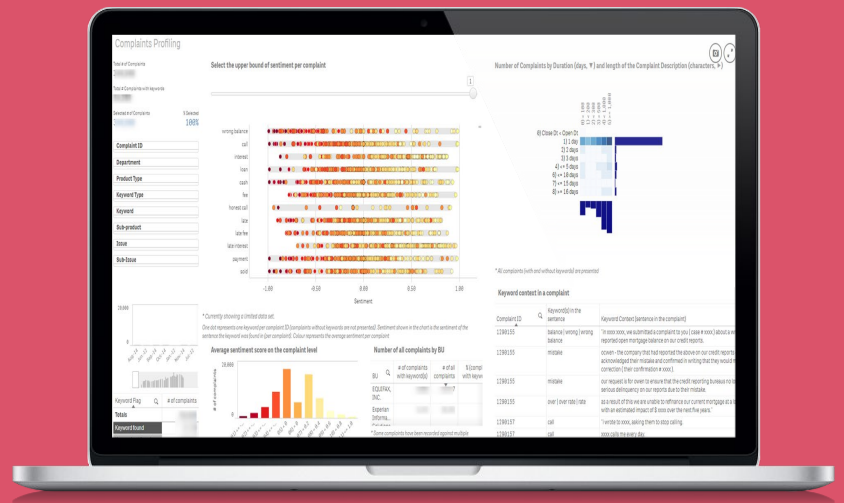
Ahead of the new IDR requirements coming into force, which will likely be at the end of 2019, PwC can support you in a number of ways:

Readiness Assessment

- Complaint framework maturity assessment against best practices and market expectations;
- Gap analysis of current complaint framework vs. ASIC's new requirements;
- Gap analysis of current complaints data vs. the prescribed ASIC data points;
- Data quality assessment of current complaints data to identify issues and gaps; and
- Assistance in updating policies, frameworks and processes including developing Board and management reporting to better identify systemic issues.

Data Transformation

- Development of automated and repeatable data transformation process to enable your current complaints handling software to efficiently work with ASIC's data requirements accurately and efficiently.



Completeness of complaints data

- Using **Scribe**, a transcription and machine learning platform developed by PwC, we can help you to ensure you are recording all complaints received. Scribe is a complaints management solution that listens to customer conversations, transcribes voice to text, and uses machine learning to identify if the conversation is an expression of dissatisfaction, and then further classify complaints into categories; and
- PwC can use sentiment scoring techniques to identify “*expressions of dissatisfaction*” from your social media data, thus meeting the requirement of RG 165 to capture social media complaints within your IDR processes and data.

We take an innovative data analytics approach to customer complaints data, which includes:

- Analysing formal complaints along with social media complaints, identifying themes that may be an indication of a systemic or process issue;
- Identifying operation and reputation risks and measuring the severity of the issue by applying sentiment scoring techniques which is based on the emotive language of the complaint; and
- Assist with ranking of customer complaints based on how negative a customer might be feeling.

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