



Fairness



Culture



Trust



Assistance



Visibility



Disclosure



Self
Regulation



Promptness

Sectoral Analysis of Complaint Handling Procedures at Banks - 2016



Banking Conduct & Consumer Protection Department, SBP

DISCLAIMER

This work is a product of staff of the Banking Conduct & Consumer Protection Department, State Bank of Pakistan with external contributions. The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of State Bank of Pakistan. The work is based on the data or information provided by the banks as a primary source. The accuracy or validity of the data lies on the concerned banks.

INTRODUCTION:

Banks are the first fora of redressal for consumer complaints. Empirically, the banks themselves handle and dispose of around 98% of the total consumer complaints whereas only 2% are escalated to Banking Mohtasib of Pakistan, SBP, courts, etc. The quantum of complaints being received and handled at banks make them a crucial arena of redressal for consumers. Besides, the Fair Treatment of Consumers (FTC) regime emphasizes the importance of banks embedding a culture that is committed to the fair treatment of their customers. Complaint handling is a very visible indicator of whether a bank has achieved the goal. Accordingly, being cognizant of the vitality of complaint handling at banks, State Bank of Pakistan (SBP) revamped and enhanced the minimum requirements for this function through issuance of Consumer Grievance Handling Mechanisms (CGHM) in 2016.

CGHM encompasses the “bare minimums” i.e. regulatory requirements as well as expectations and desires i.e. areas that can be explored as per bank’s own conduct risk appetite and acumen. As part of State Bank of Pakistan (SBP)’s more intensive and intrusive approach to the supervision of conduct risks, we have undertaken a sectoral analysis of complaint handling of the entire banking industry. Banks have been categorized into the following sectors:

1. Public banks
2. Private banks
3. Islamic banks
4. Microfinance banks
5. Others – Specialized/DFIs/Foreign banks (share in complaints less than 1%)

This review is based on stock taking from the 50 banks and DFIs through a questionnaire focusing on the regulatory expectations regarding the following key drivers affecting complaint handling at banks:



Figure 1 Key Drivers of Effective Complaint Handling at Banks

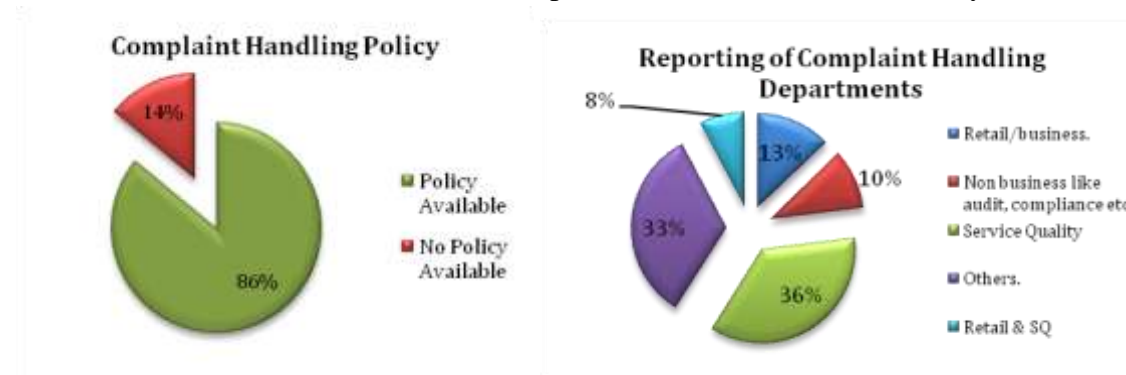
For ease of understanding, the drivers for effective complaint handling have been explained in colored boxes followed by the overall industry based findings. Statistical review on the sectors defined is placed in separate chapters thereafter.

Key Drivers for Effective Complaint Handling - an *Industry Snapshot*

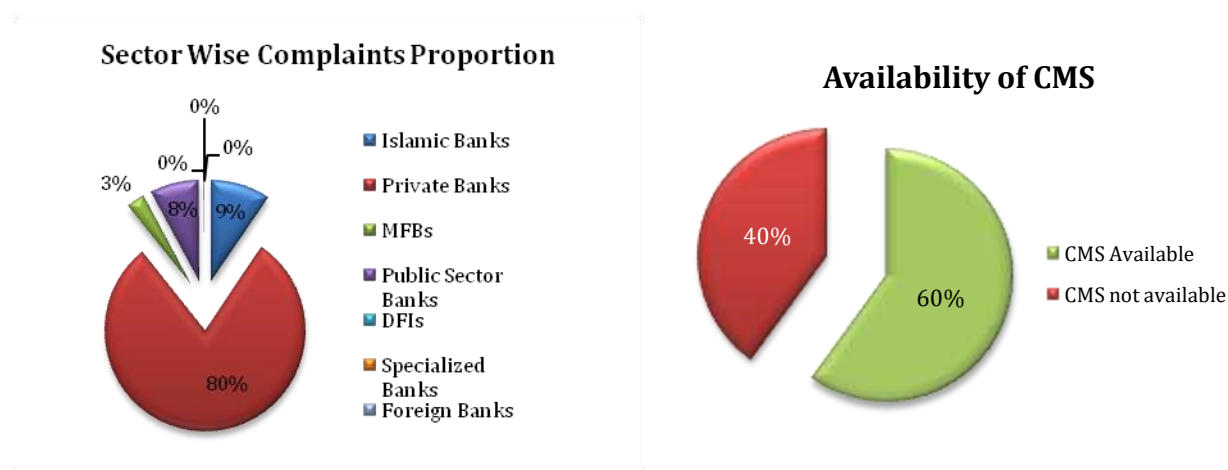
Banks have reported that they received **781,954** consumer complaints from customers and have disposed of **772,500** in 2016 which apparently is a remarkable job. However, the Key Result Areas (KRAs) for FTC and Responsible Grievance Handling spans beyond these numbers and include the following:

POLICY & STRUCTURE: Complaint handling policy is the first tangible print of higher management's mindset and the vision about complaints and its handling. Banks are required to put in place a complaint handling policy and delineate detailed procedures to deal with complaints for persistency and accountability. However, the comprehensiveness and pragmatism of complaint handling policy demonstrate bank's commitment towards Responsible Grievance Handling. Management's priorities are also reflective in how alive the policy is i.e. are the new requirements like market trends, legal or regulatory requirements incorporated into the policy in a timely manner? Similarly, it is expected that the banks will address the possibility of conflict of interest while adopting relevant structure of complaint handling function. However, the selection of structure or reporting line of the complaint handling reflects whether the mandate given to this function is restrictive to "fire fighting" or is considered to be an effective and independent source of products and systems reengineering.

As per the subject survey, 86% of the total respondents have explicit policy on complaint handling out of which 58% are those whose policies have been approved by their BoDs. It was encouraging to observe that around 74% of the respondents have revamped their complaint handling policies in 2016 signaling incorporation of the standards issued under CGHM. As for the structural arrangements within banks, 78% of the total surveyed banks have a full-fledged department for complaint handling. It was also promising to note the change in reporting lines from business nodes to non business /independent units like Service Quality, etc.



RESOURCES: A complaint handling function must be properly staffed and resourced. Responsibility for handling complaints should be allocated to staff that are identified, well trained and supervised. There should be sound recruitment practices, continuing training and learning opportunities, and systematic review and feedback for complaint handling staff. Similarly, an efficient complaint handling system can help banks channelize human capital towards responsible decision making and analysis of complaints that leads to sustainable growth through improvements in the banks' offerings. Efficient complaint handling systems also eradicates leakages and provides integration that reduces the processing time. Investments in people and systems indicate commitment at the top.



The stock taking of complaint handling human capital shows that a total of 343 employees / officers exclusively work on complaints; As per the complaints numbers provided by the banks, a complaint handling officer on an average, dispose of at least 9 complaints per day along with investigating other complaints which appear to be on higher side but it is assumed that TATs defined in CGHM are not breached and consumer surveys depict satisfaction. Regarding the talent management activities being undertaken by banks for complaint handling function; it was observed that banks claim to have adequate recruitment criteria and trainings for the relevant staff. However, none of the banks reported training gaps or relevant job descriptions which suggest misplaced priorities in talent management for the complaint handling functions in the banks.

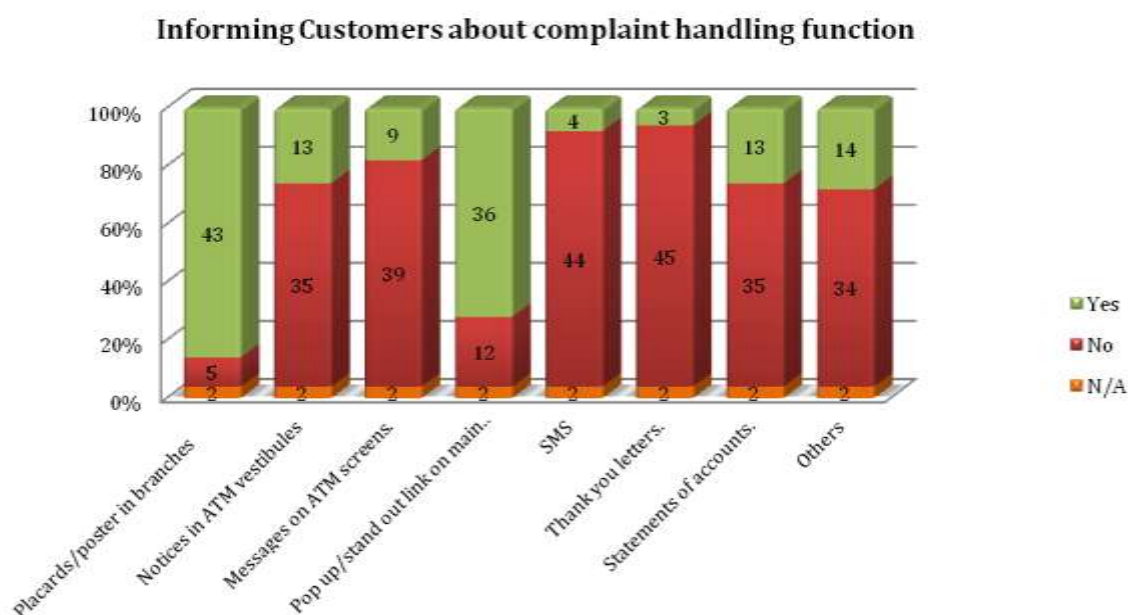
The review shows that 60% of the total banks have Complaint Management Systems (CMS). When asked about the structure and integration of CMS, out of the 30 banks that have CMS, 60% asserted to have CMS that is integrative and can be used by branches, call center, CMU, Higher Management, etc. However, availability or integration of other systems with complaint

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handling function concentrated in private sector banks. The data collected also indicate that 77% of the banks having CMS also contain inbuilt escalations features. Similarly, 57% of CMS deployed at banks have options for customized reports too.

PROCESS: Complaint handling process must embody the five fundamental principles of fairness, accessibility, responsiveness, efficiency and integration. The first check of effectiveness of a complaint handling process is its compliance to the definition of a complaint provided in CGHM followed by the measures taken by the bank to publicize its complaint handling function. Banks are required to acknowledge complaints and provide interims and final replies as stipulated under CGHM. The complaint handling process does not end at providing final reply to customer. The second leg of complaint handling process starts when complaints are analyzed followed by identification and rectification of issues. Processing complaints till their disposals only is against the spirit of effective complaint handling and qualifies as irresponsible banking conduct. It is expected that banks as per their clientele will develop and enhance complaint lodgment modes.

In order to review the visibility of Complaint handling at banks, respondents were asked to provide the modes through which they disseminate information or publicize their contact points and process of complaint handling. In this regard, placards/posters in branches are most commonly used modes followed by link on website. Banks were also seen using multiple modes of dissemination. Call Centers and helpdesks (emails) were seen to be most commonly found medium to lodge complaints at banks. It was very optimistic to note “out of box” yet very practical interventions related to complaint lodgment at banks like deployment of self service kiosks at branches and SMS services.



One of crucial element for effective complaint handling is its scope. The data collected through the subject survey shows that most common exclusion from the scope of consumer complaints is HR issues which indicate banks' clear comprehension about the definition of complaints. However, exclusions of complaints lodged through unregistered numbers (excluded from 14% of the banks) suggest possible inconvenience for the consumers. Similarly, non inclusion of ATM claims under complaints is also non-conducive to the essence of effective and responsible complaint handling.

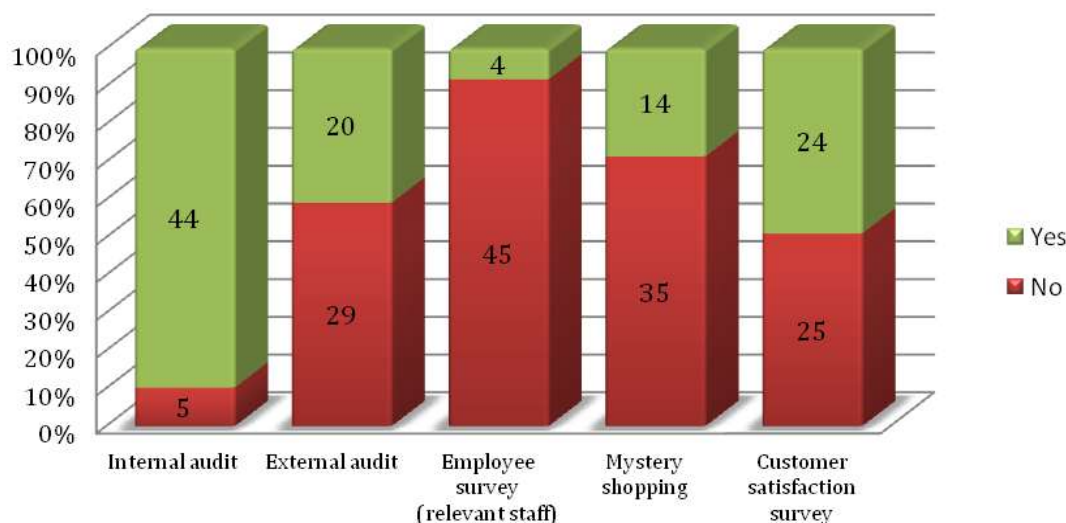
It was whelming to note that more than 80% of the banks are sending out the interim replies manually to incorporate the related expected contents under CGHM like the scrutiny required, expected time during which final reply would be provided etc. Around 44% of the banks claimed to have incorporated all the expected contents in their interim replies. Similarly, 61% of the respondents asserted to have adopted all the expected contents in final replies.

MONITORING: Responsible grievance handling heavily relies on tangible assessments of its performance that are evidences of the consumers being seen to be treated fairly. Besides being proofs of FTC, monitoring tools and controls help identify and address the gaps between expected and actual performance of complaint handling function. It also assists in raising bank's own service quality mark /standard. Accordingly, banks in addition to regular audits and conventional consumer surveys are encouraged to deploy additional feedback and monitoring mechanisms to improvise the function under consideration. Based on the scope, such tools can broadly be classified into two categories i.e. ones gauging quantum with operational efficiency and others assessing quality of complaint handling.

The subject survey conducted, seeks to delve into the monitoring practices that are deployed at banks to gauge effectiveness of complaint handling mechanisms. It was observed that banks have adopted various tools for the said purpose. The most common monitoring mechanism in exclusivity is internal audit at banks which is adopted by 88% of the respondents (44 banks out of 50) followed by customer satisfaction surveys which are being used by 48% of the banks (24 banks out of 50). 40% of the banks claimed to be using External audits too whereas 28% use mystery shopping and only 8% use employee feedback or satisfaction surveys.

Complaints Turn Around Times (TATs) are provided in CGHM and banks are required to comply with the same. It was encouraging to observe that banks analyze their complaints based on product or service, frequency/recurrence, geographic origination, etc. However, only 4% i.e. 2 banks do analysis on "amount involved" also.

Monitoing Tools for complaint handling



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Effectiveness of monitoring also depends on the level its results are reported to. As noted under “resources” that it is encouraging to observe adoption of escalation mechanisms in complaint handling. However, majority (52%) of these escalations are reportedly triggered on the parameter of “time”.

The data reported by the banks show that 50% of the banks i.e. 25 banks report the performance of their complaint handling function to BoDs or the management committee which indicates need for ownership and involvement from the senior management. Similarly, 52% of the banks asserted that based on the analysis or recommendation of their complaint handling function, systems and offerings have been changed in their banks.

CULTURE: An effective and responsible Complaint Handling Mechanism heavily relies on a culture that recognizes the importance of customer satisfaction and where complaint handling is viewed as a process that adds value to the organization. Commitment at the top management is imperative to change the perception of complaint handling from a regulatory compliance to a self adopted success code. Culture is the linchpin for the remaining key drivers of effective complaint. The Key outcomes/indicators gauging cohesiveness of Culture with Responsible Grievance Handling include Involvement and oversight by the top management/Board of Directors (BoDs), Employee Performance Management, Communications, resources allocation. etc.

Most of the indicators of culture are embedded within the previous key drivers like reporting and involvements, investments in resources, performance measurements, etc. However, the elements of communications and perceptions were assessed separately during the survey. The results show that communications are concentrated internally and that the banks are hesitant in external communications regarding complaint handling.

It is interesting to note that when asked explicitly that have any processes or offerings been changed in banks based on the recommendation of their complaint handling function, 52% of the respondents opted “yes”. On the contrary, when the respondents were subjectively asked to indicate their top achievements in complaint handling, only 3 banks mentioned accomplishments related to system reengineering other than complaint handling. This signals the need for building performance perceptions and reinforcing them as per the mandate of effective and Responsible complaint handling.

