2014

# DIAGNOSTIC REVIEW OF CONSUMER SERVICE PRACTICES IN BANKING INDUSTRY OF PAKISTAN

**DISCLAIMER**

This work is a product of staff of the 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.

**ACKNOWLEDGMENTS**

This brief summarizes the results of the industry wide Survey on Consumer Service Practices prevalent in banking industry of Pakistan. The survey was made possible by the generous contribution of time and efforts of 46 banks who responded to our questionnaire.

# LIST OF ACRONYMS

| | |
|---|---|
| **ATM** | Automated Teller Machine |
| **BPD** | Banking Policy Department |
| **CCTV** | Close Circuit Television |
| **CPD** | Consumer Protection Department |
| **FCP** | Financial Consumer Protection |
| **FTC** | Fair Treatment of Consumers |
| **IT** | Information Technology |
| **KFS** | Key Fact Statement |
| **OECD** | Organization for Economic Cooperation and Development |
| **SOA** | Statement of Account |
| **VP** | Vice President |

## BACKGROUND

In the wake of the financial crisis, a great deal of attention has turned to the Financial Consumer Protection agenda and consequently, the subject has become the priority target for many regulators across the globe. In our country's context, it would not be out of place to mention that many components of the emerging consumer protection agenda are already in place. It is emphasized that with a view to increasing responsible finance and Financial Consumer Protection, any regulatory reform has to be based on the assessment of the prevalent practices in the industry regarding customer service.

In this backdrop, Consumer Protection Department had taken up the development project of reviewing the existing level of financial consumer protection within the banking industry. The objective of this study is to explore the good practices being adopted by the banks while dealing with customers and simultaneously identify areas that need supervisory guidance.

A questionnaire was developed in line with the globally accredited parameters of Financial Consumer Protection such as Culture, Disclosures, Sales Practices, Service delivered during course of banking relationship and Dispute resolution mechanisms. The good practices are derived from the work of standard setting multilateral agencies working in the areas of Financial Consumer Protection. E.g. World Bank and OECD. The Questionnaire was sent to all 47 banks out of which 46 provided responses whereas one regretted to respond due to the process of its winding up.

The brief contains a consolidated commentary on aforementioned areas of Consumer Service. It also entails good practices as well as the way forward through which the industry can achieve the good practices.

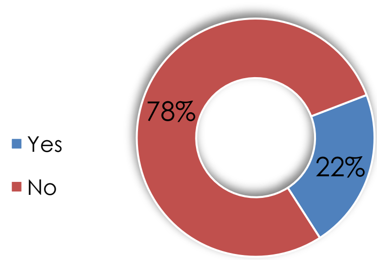
# INSTITUTIONAL AND POLICY FRAMEWORK

**GOOD PRACTICES: The bank understands the meaning and essence of FCP and translates the same into explicit policies and service standards to derive maximum customer satisfaction by ensuring adherence to the laid down standards. Further, the Board and Senior Management recognize the importance of Service Quality by ensuring provisioning of adequate resources and monitoring of its performance.**

The institutional and policy framework constitutes the incorporation of specific and written policies on Financial Consumer Protection, the deliverables in the form of Codes of Conduct and the adherence of the bank to such stated codes.

**Figure 1**

**Industrywide Explicit FCP Policy**

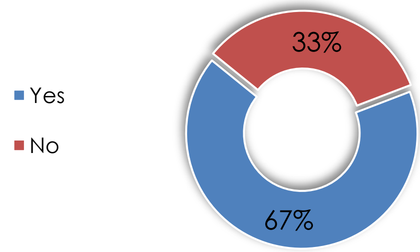



The apparent results shows that 36 of the total 46 banks surveyed don't have an explicit policy on FCP. The sector wise analysis reveals that one Public Sector bank, 3 Microfinance and 6 Private banks reported to have policies closely related to FCP.

Similarly, 15 banks out of the total surveyed do not have specific codes of conduct or guidelines to be followed while dealing with customers. While, the sector wise representation of the remaining ones having such codes or guidelines can be seen as follows:

**Figure 2**

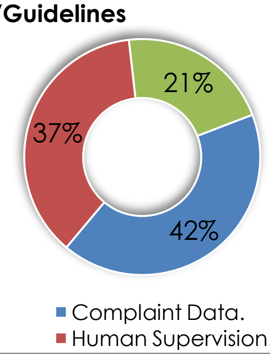
**Industrywide written Code of Conduct/Guidelines**




A little deeper probe into the modes through which adherence to service quality deliverables is evaluated, reveals that even the banks not having written or explicit codes of conducts, do keep an eye on the way customers are treated either through analyzing the complaints data or through human supervision. 30 banks incorporate Service Quality deliverables either directly or indirectly into the performance evaluation criteria of their employees.

**Figure 3**

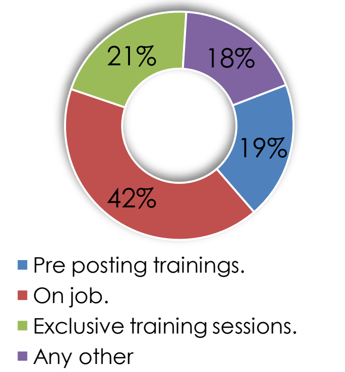
**Industrywide Adherence to written Code of Conduct/Guidelines**




It is interesting to find out that banks use different training techniques to make their employees aware of the respective Service Quality standards. In exclusive terms, on job trainings were reportedly used by 32 banks followed by pre posting trainings techniques which were used by 15 banks.

Figure 4

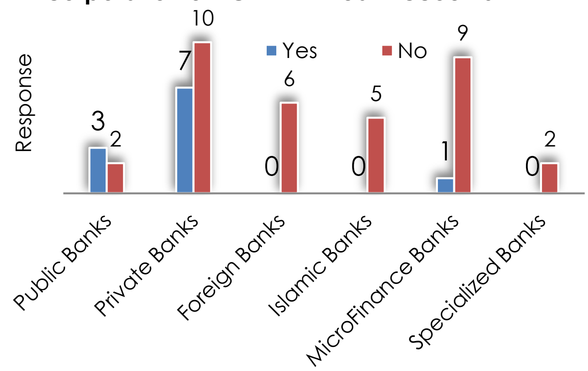
Industrywide Practice to Desseminate Code of Conduct/Guidelines




It is admirable that the banks made efforts to educate customers regarding the Service Quality Standards (whether explicit or implicit). In this regard, the survey revealed that information to customer is disseminated through branch displays, emails and website publications. Besides, 11 banks also reported to mention Service Quality initiatives in their annual accounts or public disclosures.

Figure 5

Incorporation of FCP in Annual Accounts




None of the banks reported to have any external collaboration with a service quality or financial consumer protection fora.

**<u>REACHING THE GOOD PRACTICES:</u> The recent introduction of "Fair Treatment of Customers" (FTC) framework and the regulatory requirement to conceive and implement the referred framework by July 2015 is expected to bridge the gap between the existing institutional and policy framework and the best practices pertaining to the area. The FTC framework is forecasted to be delivering a positive cultural change in the banks to take up the FTC concept as a profit proposition.**

# SALES PRACTICES AND DISCLOSURES

**GOOD PRACTICES: The banks ensure that the customers are offered most suitable products with key information that informs the consumer of the fundamental benefits, risks and terms of the product. Standardized pre-contractual disclosure practices are adopted where applicable and possible to allow comparisons between products and services being offered in the industry.**

This chapter aims to uncover the way banking products are being offered to the customers. It includes elaboration on affordability assessment of products, the basic level of information given to customer, the effectiveness of advertisements, the practices that mitigates forced selling and the professional competencies of the sales staff.

One of the most crucial aspect of fair or responsible sales is that the product or service being sold by the bank should be in line with the need of the consumer. The survey findings divulges that 35 of the total Respondents conduct suitability assessment prior to offering the product to the customer whereas 5 do it after offering i.e. they rely on customers' choice. The remaining 6 didn't respond, it may be deduced that they as such do not conduct suitability assessments.

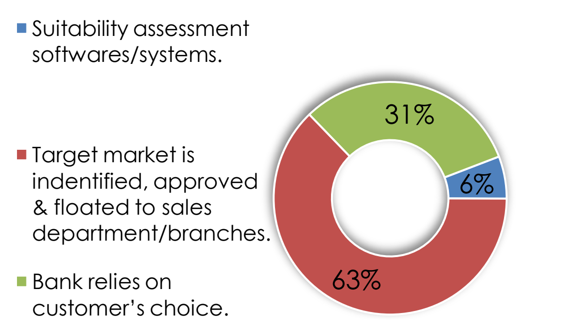
The banks who undertake the suitability assessment reportedly followed a combination of following three methodologies:

a. Suitability assessment software.
b. Identifying the target market for sales department.
c. Bank relies on customer choice.

The findings elaborate that more than 50% of the banks follow option 'b'. However, it is highly admirable to observe that banks are investing in technology to assess suitability of their offerings with the needs of their customers.

**Figure 6**

**Industrywide Practice of Suitability Assessment**



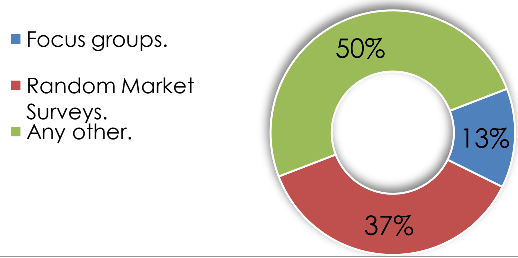

As per the instructions of SBP, it is mandatory for the banks to offer a cooling off period to the customers on bancassurance. Cooling off periods are important safeguards that enable an individual to withdraw from an arrangement without penalty. This is one of the accredited practices to discourage forced sales. This study uncovers that 8 banks have gone extra mile from the aforementioned mandatory requirement and are offering cooling off periods for other products like Debit and Credit Cards.

In order to gauge prevalence of bundling and tying clauses in the industry, practices regarding offering of pay order, demand draft issuance facility to walk in customers were analyzed. The results indicate that more than half of the industry does offer such facilities to walk in customers. Similarly, upon delving into the offering of Automated Teller Machine (ATM) only cards to customers, it was discouraging to see that less than 25% of the banks offer such standalone cards whereas the rest inherently club debit cards features with the ATM cards mostly without explicit procedures of acquiring the customers' consent first. For lockers provision to non-account holders, majority of the industry offer locker facility to account holders only.

Out of total Respondents, the banks who advertise their products, 29 banks affirmed that they evaluate the effectiveness of their advertisements.

**Figure 7**

**Industrywide: Methods being used to Guage Effectiveness of Advertisements**




While delving into the professional competency of the bank's sales staff, it was figured out that though the banks may not have a minimum level of educational requirement for products sales staff however, they focus on trainings and experience to ensure that the customers are served by appropriately by well trained staff.

**<u>REACHING THE GOOD PRACTICES:</u> One can see that some banks have improved their sales and disclosure practices by introducing KFS and cooling off periods, however, elements like suitability and effectiveness of advertisements still needs a lot more attention to reach the best practices. It will not be out of place to mention here that the introduction of industry wide Codes of Conducts may help increasing the level of average services practices across the industry. The regulatory interventions in terms of negative reinforcements of undesirable conduct of banks can further enhance the existing level of sales and disclosure practices in banking industry. One of the examples of such regulatory interventions is that banks may legally be made responsible for all statements made in their advertising and sales materials and maybe penalized for any deceptive sales/marketing. Further, banks may put in extra effort for capacity building of their staff in the field of Service Quality.**

# CUSTOMER ACCOUNT HANDLING AND MAINTENANCE

**GOOD PRACTICES: Statements from a bank are regarded as the most valid record and evidence of a transaction for a customer. Thus, statements need to be self-explanatory and clear. Simultaneously, the banks may protects the confidentiality and security of the personal data of its customers against any anticipated threats or hazards to the security or integrity of such information, as well as against unauthorized access. However, the controls deployed to ensure protection of customer's funds and data may not be illogically stringent that instead of protecting the customers, end up being nothing more than a nuisance value.**

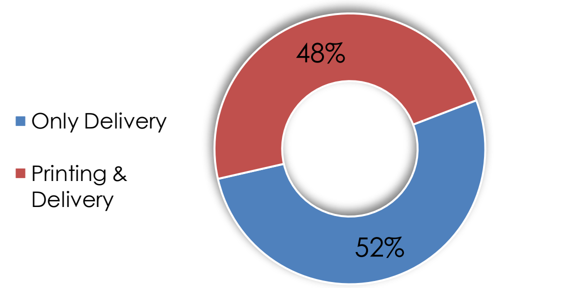
This chapter covers the service practices covering the areas like customer record creation, retention, protection of customer privacy and dormancy issues.

The questions used to assess this chapter are derived out of the most common issues currently being faced by the customers.

The survey shows that 44 banks have outsourced dispatch of Statement of Accounts (SOA) as is allowed by SBP. However, the matter of concern here is the invasion of the customer's privacy. When asked that to what extent the dispatch of SOA has been outsourced, 23 out of the 44 banks (as mentioned above) responded outsourcing to the extent of delivery only. Whereas the rest have even outsourced the printing of SOAs. The effectiveness of controls here plays the most vital role to ensure secrecy and fidelity of consumer's information.

**Figure 8**

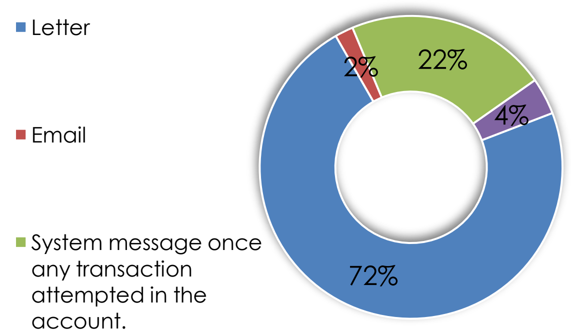
**Industrywide: Outsourcing of Dispatch of SOAs**




On the contrary, banks using complaint data and other random checks to ensure timely dispatch of SOA are an encouraging sign for responsible banking across the industry.

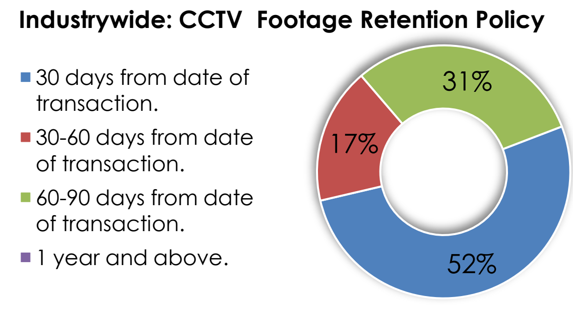
**Figure 9**

**Industrywide: Communication of Dorlmancy**




As regards communicating the dormancy of accounts to customers is concerned, it was observed that most banks prudently write a letter to the customers upon reaching dormancy. However, a few rely on the customer to conduct a transaction, upon which the bank in system based message informs him of the dormancy. Keeping in view the heterogeneous practices adopted by banks for lifting of dormancy, the survey reveals that 76% of the banks only entertain dormancy lifting request if the same is filed by the customer himself on a visit to his/her parent branch. It is appreciative that such prudent approaches that amplify the integrity of the sector however, the customers under extra ordinary circumstances like paralyzing health conditions may not be left in lurch. The banks may devise a mechanism to help such kind of customers.

Figure 10




SBP has explicitly prescribed record retention period to the banks. However, retention of the secondary evidences in ATM cases like CCTV footages has been left to the discretion of banks. The findings of the survey show that only 14 banks retain CCTV footages for 60-90 days from the date of transaction. 8 banks retain for 30-60 days from date of transaction whereas, the remaining retain the footages for 30 days from date of transaction.

**REACHING THE GOOD PRACTICES: It is recommended that the banks adopt comprehensive and well articulated Standard Operating Instructions for customer account handling and maintenance procedures. Efforts may be dedicated to analyze the effectiveness of current policies not only in light of the customers' complaints but the good practices as well (both local as well as international landscape maybe taken into account) e.g. ensuring proper working of cameras and retention of CCTV footage as per the industry's best practices. Further, it is also strongly recommended that the banks may evaluate the risks associated with any malpractice of consumer protection and the ways to mitigate it.**

# COMPLAINT HANDLING

Internal dispute resolution mechanism of a bank is the most important indicator of institution's overall philosophy towards consumer protection. The complaint handling in banks must be robust as it is the first level of dispute resolution forum for an aggrieved person. Besides, it provides valuable piece of information that can be used to achieve growth through improved product and services.

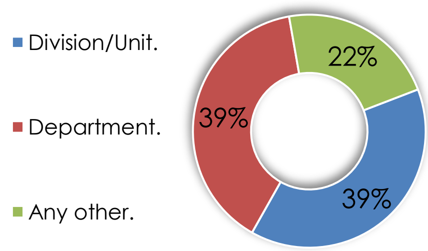
**<u>GOOD PRACTICES:</u> The complaint handling mechanism in a bank encompasses institution's philosophy about customer complaint, management structure, IT systems and procedures to deal with complaints. Good practices suggest that a bank's internal complaint handling should be**

- **Fair and transparent**
- **Efficient, enabling complaints to be resolved in a minimum possible time**
- **Visible and accessible to all type of customers**
- **integrated into core business of the bank and**
- **there is right tone at the top i.e the senior management give due consideration and importance to the function.**

SBP vide its BPD Circular 17 of 2004 prescribed the minimum requirements for bank's internal set up for complaint handling. In compliance of these instructions all banks have established a complaint handling function commensurating with their scale of operations. The survey revealed that in most of the banks the function is headed be an officer not below the rank of VP. In most of the banks this complaint handling is part of service quality department, however, 8 banks reported to have complaint handling as a part of their operations department. Generally in foreign banks and micro finance having low volume of complaint, the functions are performed by a unit or some officer as an additional task.

**Figure 11**

**Industrywide: Complaint Handling**



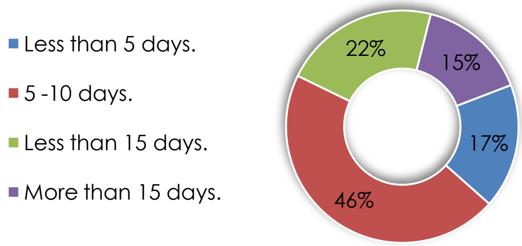

It may be worth mentioning that in most of the banks the service quality is a part of retail banking group. While such a setup may facilitate quick resolution of complaints, it may affect unbiased and fair treatment of complaints.

As regards number of complaint handled, the survey shows that more than 660,000 complaints were lodged at the bank's internal complaint handling unit/ department in year 2013- 14 out of which around 3000 complaints were reportedly outstanding as on June 15, 2014. Besides most of the banks reported to resolve a complaint within a period of 15 days which suggest that most of the bank have efficient complaint management mechanism.

The results further indicate that most of the banks consider complaints data as useful source of information. Most of the banks reported that they compile the data, analyze it and make use of the same in improving product, services and delivery channels.

Figure 12

**Industrywide: Average time taken to resolve Complaints**




**<u>REACHING THE GOOD PRACTICES:</u> In order to further strengthen the internal complaint handling function at banks, it is suggested that banks may adopt escalation matrices for monitoring the timeliness of complaint disposal. Further, it is also recommended that banks may include disclosures relating to complaint handling function in their annual accounts. Besides, adoption of mystery shoppings and other surveys may help banks build up more efficient and effective grievance redressal mechanisms.**