

By email to: [cp25-13@fca.org.uk](mailto:cp25-13@fca.org.uk)

Nick Platten  
Financial Conduct Authority  
12 Endeavour Square  
London E20 1JN

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## **AFM Response to CP25/13: Improving the complaints reporting process**

1. I am writing in response to this consultation paper, on behalf of the Association of Financial Mutuals. The objectives we seek from our response are to:
  - Express concern that our members will incur significant costs in implementing these proposals without reaping the benefits of simplification;
  - Suggest additional aspects of the complaints reporting process that the FCA may consider reforming; and
  - Provide a view on the questions set out in the consultation paper.

### About AFM and its members

2. The Association of Financial Mutuals (AFM) represents insurance and healthcare providers that are owned by their customers, or which are established to serve a defined community (on a not-for-profit basis). The mutual insurance sector manages the savings, pensions, protection and healthcare needs of over 26 million people in the UK and Ireland, collects annual premium income of over £23 billion, and employs nearly 23,000 staff<sup>1</sup>.
3. The nature of their ownership and the consequently lower prices, higher returns or better service that typically result, make mutuals accessible and attractive to consumers, and have been recognised by Parliament as worthy of continued support and promotion. FCA and PRA are required to analyse whether new rules impose any significantly different consequences for mutual businesses<sup>2</sup> and to take account of corporate

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<sup>1</sup> ICMIF and AFM, 2023: <https://financialmutuals.org/wp-content/uploads/2023/10/UK-Market-Insights-2023.pdf>

<sup>2</sup> Financial Services Act 2012, section 138 K: <http://www.legislation.gov.uk/ukpga/2012/21/section/24/enacted>

diversity<sup>3</sup>. Further, the Government have committed to double the size of the mutual sector as part of their agenda to grow the UK economy. FCA and PRA have been issued secondary competitiveness and growth objectives which should inform how they examine the impacts of regulation on mutual firms.

#### Introductory comments

4. We support the stated ambition of the proposals to simplify the complaints reporting regime. We acknowledge that for larger firms required to submit multiple returns, the proposed changes are likely to streamline their complaints reporting processes while making it easier for the FCA to collect comparable data.
5. However, many of our members are smaller firms who are only required to submit one return. For them, the proposed changes will not lessen the volume of reporting requirements, but they will incur costs in updating their existing internal complaints systems. This may include but is not limited to training frontline and second-line colleagues on new procedures and changing internal complaints MI.
6. In order to truly alleviate administrative burden for smaller firms such as our members, we ask the FCA to also upgrade the systems for submitting returns. Part of what makes the current complaints system so onerous is that data must be entered manually. Typically, firms construct a “mirror system” that captures data to suit the prescriptions of the return and then an individual manually enters the information into the return. We encourage the FCA to explore implementing a system which can read data from the output of firms’ internal systems (e.g. an Excel spreadsheet or a CSV file) and automatically complete the return. Such a system would go some way to alleviate the burden involved in reporting complaints data.
7. Our members have also shared that the current return submission system provides a poor user experience. They have reported that it is frustrating to navigate across the different data input sections, and the zoom function does not work well. They note that it is difficult to look at current submissions side-by-side with previous submissions. It would also be helpful if a return was prepopulated with relevant data from the previous return, for example the count of how many complaints were open at the end of the previous reporting period.

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<sup>3</sup> Bank of England and Financial Services Act 2016, section 20  
<http://www.legislation.gov.uk/ukpga/2016/14/section/20/enacted>

8. We have responded below to the specific questions raised in the consultation. We would welcome the opportunity to discuss further the issues raised by our response and are happy to be included in the published list of respondents.

Yours sincerely,

A handwritten signature in black ink that reads "Stephanie Blenko". The script is cursive and fluid, with the first name and last name clearly distinguishable.

Stephanie Blenko  
Head of Policy  
Association of Financial Mutuals

## AFM responses to questions raised in the consultation paper

**Question 1: Do you agree with our proposals to consolidate the DISP 1 Annex 1, CCR-Complaints, Funeral Plan Complaints, CMC Complaints and Payment Services Complaints returns? Do you agree with us deciding not to consolidate the other returns we have identified? If not, what would you propose?**

We support consolidating the five listed complaints returns into a single reporting mechanism. We offer no further comment.

**Question 2: Do you have any views on our proposal to link questions to a firm's permissions?**

We agree with this proposal and feel that it will create some efficiencies in completing returns.

**Question 3: Do you agree with our proposal for simplifying nil returns? If not, what would you propose?**

We agree with the proposal.

**Question 4: Do you agree with removing the group reporting option from the complaints return? If not, what would you propose?**

We offer no comment.

**Question 5: Do you agree with our amendments to the product and service categories? If not, what would you propose?**

We agree that the categories should be expanded, although the proposal lacks clarity in how more niche products within the insurance industry should be treated: take, for example, Holloway policies.

Under the proposals there is only one 'service provided' category that covers insurance – 'general insurance and pure protection'. Holloway-type policies are insurance policies first, some of which are sold with an investment element and some of which are not. They are life policies, not GI or pure protection. We assume that firms should include complaints data related to these policies under the "other investment products/funds" category but this is not abundantly clear. It would be helpful to have more guidance which sets out where in the regulatory return complaints related to Holloway products should be disclosed and whether the nature of the Holloway product purchased (with or without an investment element) impacts this categorisation.

As the FCA considers the implications for Holloway policies within this proposal, we would strongly recommend that all Holloway-type products, including those with an investment element, are categorised as insurance products. Not only do we feel that this is the more appropriate categorisation given that Holloway policies function more similarly to insurance products, but this would also minimise additional burden on small insurers such as our members. As these proposals stipulate different procedures depending on product categorisation, asking insurance firms to build two sets of procedures to accommodate Holloway products would create unnecessary complexity and administrative burden.

Further, we question the merits of the proposed complaint category: “mis-selling/non-disclosure/misrepresentation.” Regardless of how a product is sold, a customer could choose not to disclose or misrepresent the risk, whereas mis-selling seems to focus more on the actions of the party distributing the product. A distributor acting as agent could also choose not to disclose or misrepresent the risk explained to them by their client, but this could fall under the mis-selling banner.

This category seems to aim to collect data on instances of poor behaviour by both advisors and customers. The former is somewhat within the reporting firm’s control, but the other is less so. We urge the FCA to consider this and the possibility for incorrect inferences to be drawn from the proposed group of these complaints’ focusses.

It’s also worth noting that a complaint about a “claim outcome,” another of the proposed complaint focusses, might have a root cause of misrepresentation or non-disclosure. Therefore, the proposal as it’s written could yield data on complaints which could be misinterpreted based on whether the claim was upheld or not. In this instance also, it would be helpful to have more guidance from the FCA on how to classify the complaint’s focus to save firms time and resource debating how to categorise a complaint. Additionally, if the FCA were to stipulate that the “advising/selling/arranging” category were only to be completed by distributors, we feel this could help to mitigate the risk of data being misinterpreted.

The guidance for “mis-selling/non-disclosure/misrepresentation” includes complaints about allegations of misrepresentation made against the consumer, however these often come to light at the claims stage rather than the sales/renewal stage. It is unclear whether misrepresentation allegations at claims stage should be recorded within “claims outcome” or “mis-selling/non-disclosure/misrepresentation.”

**Question 6: Do you agree that we should capture details on complaints where the customer is identified as vulnerable?**

We are concerned that there is limited value to be gained by collecting information on whether complainants are classed as vulnerable, for several reasons. There is

a lack of consistency across the financial sector around recording vulnerabilities, partly as a result of the lack of prescriptive rules on the subject. For example, some firms may only record a vulnerability with the explicit consent of their customer, whereas others may record them without seeking consent. Consequently, there will be an underlying variability on the nature of the data reported.

Further, some firms who offer income protection insurance may automatically class all consumers who go into claim as financially vulnerable due to the interruption of income, whereas others may only do so with consent. Often the majority of complaints on insurance contracts are in relation to a claim. Those firms which automatically class all consumers in claim as vulnerable may have skewed data which implies that vulnerable members have a higher propensity to complain and hence are not receiving equivalent outcomes to non-vulnerable members.

It is not clear from the proposal whether firms would be required to note whether the vulnerability is correlated to the complaint or not. In other words, a customer may have a vulnerability recorded on their profile and separately may make a complaint but there may be no direct correlation between the two data points. For example, a customer may have a physical vulnerability recorded (e.g. hard of hearing,) but they may complain that an income protection claim has not be upheld for a back injury when they had not disclosed a past medical history of a bad back. In cases such as this, the customer's vulnerability will not have influenced their complaint.

As with all data gathering exercises from regulators, we feel that the FCA should clearly set out the purpose of the exercise and what they hope to gain from it. At present, the proposal seems to imply this exercise would involve data collection for the sake of collecting data, putting more burden on firms as a result.

On this basis, we cannot support the proposal as it is presented in the consultation.

**Question 7: Do you agree that contextualisation data should continue to be reported? If yes, what guidance should we provide to help firms report contextualisation data?**

We agree with this proposal. One member reports that although they don't currently need to calculate this for their return due to the low number of complaints they receive, they choose to do so and have regard to how well they perform against the industry. So, we feel that there is good value in this data for firms.

**Question 8: Do you agree that the guidance we are providing will help firms report high-quality complaints data? If not, do you have any views on what guidance we should be providing?**

Please see our responses to questions 5 and 6.

We feel that there would be some value to the FCA publishing further guidance on how to categorise complaints related to unique insurance products such as Holloway policies.

Should the FCA wish to carry out proposals related to tracking complaints from vulnerable customers, we would ask for further guidance to standardise vulnerability reporting. We feel that this would help to mitigate some of the issues set out in our response to question 6.

In addition, we note that the guidance in the consultation paper for insurance products is limited to the category “advising, selling, arranging, and renewing.” There is no guidance on the “product performance, general admin and customer service” or the “claims” categories. Whilst the FCA may consider these to be self-explanatory, guidance would be helpful to avoid confusion.

Notably, there is also no guidance on “product fair value,” one of the sub-categories in the prototype return. It is unclear what scenarios would result in a complaint being categorised as being related to “fair value.” It is unlikely that the average consumer would be adequately informed on the regulatory concept of fair value in order to cite that as their reason for complaint. Equally, the overall complaints data and analysis are used by firms as a source of MI when evaluating consumer outcomes and product fair value. It is unclear under what circumstances a single complaint could be attributed to this root cause, and therefore guidance in this area would be of benefit.

**Question 9: Do you agree with our proposals for Funeral Plan providers, CMCs, Payment Service providers and some consumer credit firms, which currently report annually, to provide complaints data half-yearly?**

We have no objections to this proposal.

**Question 10: Do you agree with our proposal that firms should submit data for periods ending 31 December and 30 June? If not, how should we set reporting dates?**

Many of our members already report in line with these reporting periods, so we support this proposal.

**Question 11: Do you have any views on our proposed approach to implementing the new return?**

The consultation paper suggests that the new complaints reporting process will be implemented 12-months from publication of the final policy statement with the first return provided covering the period ending 31 December 2026. Given that the policy statement is expected in late 2025, this does not provide 12-months for firms

to implement new systems, as they will need to be in place from the end of June 2026 to facilitate proper data collection.

However, we understand from engagements with the FCA policy team that they seek to collect the first return under the new process from 30 June 2027. We support this timeline as it gives our members more time to update the relevant systems and we ask that the FCA clarify that this is indeed the intended implementation timeline.

**Question 12: Do you agree with our proposal to publish firm level data from firms with greater than 500 complaints? If not, do you have any views on what would be an appropriate threshold for firm-level complaints publication?**

We offer no comment as this would not significantly impact our members.