



September 10, 2009

Mr. Doug Melville
Ombudsman and CEO
Ombudsman for Banking Services and Investments
401 Bay Street, Suite 1505
P.O. Box 5
Toronto, ON M5H 2Y4

Dear Mr. Melville:

First of all we would like to congratulate you on your appointment as Ombudsman and CEO of OBSI and wish you every success over the coming years. We look forward to working with you and to contributing wherever possible to the development of reasonable approaches to complaint resolution that assist our mutual clients and stakeholders.

Thank you for meeting with us to discuss your 2009-2010 budget development. We appreciated your willingness to engage in such discussions. The information about the context in which OBSI is working, including the nature of the complaints, OBSI processes, operational challenges, possible areas where efficiencies can be gained and OBSI's pending demands and expenses was very useful. Our discussion certainly provided industry members with a better understanding of the issues and challenges facing OBSI, as well as the context in which OBSI is formulating its budget. We welcome these types of meetings, which contribute to an open and positive relationship between OBSI and its stakeholders.

You indicated that you and your Board would welcome our comments for the Board's consideration during its upcoming budget deliberations on September 22, and we are pleased to provide below the joint comments of the banking and investment industries. We understand that our comments will be provided directly to the Board as part of the background for this year's budget decision.

This year's short time frame for consultation with industry stakeholders precluded sharing of the actual proposed budget. We understand OBSI's constraints, but note that it is difficult to provide detailed feedback when we do not have the benefit of a proposed budget. Under the circumstances, we can only offer general comments about the approach to budget development.

As you noted, over the last year OBSI has faced significant challenges that must be addressed to ensure its continued viability. We recognize those challenges and, in fact, share many of them – particularly the increased complaint volumes resulting from the downturn in the economy and lower interest rates, and the resulting strained resources to handle the increased workload. It is from the perspective of having to deal with those challenges ourselves that we provide our comments.

Our main concern about the proposed approach to the 2009-2010 budget is the significant expense increases that we anticipate will result from the additional staff positions you appear to

be proposing. Adding 12.5 staff would result in a further increase of \$1.3 million¹ or 22%. The cumulative effect is a 73% increase in OBSI's budget over a three-year period. In the current economic times, increases of this magnitude are not sustainable.

Operational Efficiency

Although you have identified – and in some cases already implemented – some measures to gain operational efficiencies, we strongly believe that it is both possible and necessary to find additional ways of handling the increased volume of complaints without further staff increases. As the chart in Appendix A clearly demonstrates, during the period 2004 – 2009 the number of investigations completed per staff member has fallen from 24.7 to 17 per year and on a per investigator basis from 29.3 to 20.4 – a decrease of 30%.

As a sample comparison, we also looked at how OBSI's handling of investigations compared to that of the average of the internal bank ombudsmen (Appendix B). While we recognize that it is not a direct comparison, we question whether it is reasonable to expect OBSI to be handling only a third of the caseload per investigator that the internal ombudsmen's staff handle. We recognize that OBSI cannot contact internal bank staff directly, nor directly access missing information, but it does have the benefit of the internal ombudsmen's completed case file and the assistance of the internal bank ombudsmen's offices with setting up appointments and providing any missing information, which in turn adds to the tasks required of the bank staff.

OBSI's increase in staff between 2004-2009 (18 in 2004 to 46 in 2009²) and the proposed increase of 12.5 staff in 2010 (under the Expected scenario), together amounts to a 225% increase over six years. This is in stark contrast to the experience of the industry, which in this time of economic turmoil, has been aggressively searching for efficiencies as firms are forced to "do more with less". The industry is looking for *reduced* costs in all areas of its spending.

It is important for OBSI to be sensitive to, and to adjust its operations to reflect, the significant fiscal pressures faced by the organizations that it serves and that provide its funding. We urge you to make greater efforts to identify how the increased volumes can be handled with existing staff.

External Assistance

To assist with finding greater efficiencies in OBSI's operation, it may be valuable for OBSI to undertake a professional process re-engineering review. Several of our members have completed such reviews and would be pleased to provide you with the benefit of their experience and referrals to suppliers that have assisted them. For example, members report that switching to an automated IVR telephone system resulted in increased efficiencies in handling call volumes; and that amending web and other information about their complaint resolution process resulted in an appreciable reduction of misdirected calls to the ombudsman office.

You also may want to use the proposed industry council or a separate joint industry/OBSI task force to explore ways of implementing improved efficiencies in the overall complaint resolution

¹ Estimate based on 2008 audited financial statement, listing personnel costs of \$3,718,736 for 35 staff (\$106,250 per staff member)

² The Appendices use the average for the year, while this is the actual current number.

process. OBSI and the SROs are looking for shortened time frames for complaint handling by individual industry members. Perhaps a holistic examination of the process – from the firm through OBSI – could result in overall efficiencies that would benefit customers overall, as well as saving costs for OBSI and individual firms.

Prioritizing Resources

In times of peak demand for resources, it is often necessary to examine the entire organization and its functions, assess priorities and reassign resources – even on a temporary basis – to the areas of greatest need. Some of our members have found it valuable to staff front line positions with more highly-skilled individuals who are able to quickly assess and deal with complaints on first contact instead of having to refer them to others for decision-making. While this increases front-line costs, it does reduce overall costs by having the decision made at an earlier point in the process thereby reducing duplication of effort.

Since OBSI's primary objective is the handling of complaints, other lower priority activities could be deferred temporarily until the peak has passed and resources are available. Without knowing exactly what expenses will be proposed in the budget, it is difficult to identify specific costs that might be considered a lower priority. Examples that come to mind, however, include:

1. delay implementation of the new *Terms of Reference* provisions related to 90-day limits on banks' internal complaint handling and OBSI's involvement in systemic issues,
2. delay the scheduled external review assessing OBSI's compliance with its *Terms of Reference*, which will take considerable internal resources for preparation and management, and
3. review the necessity for discretionary expenses. Our members have had expenses such as travel, entertainment, training, outreach and other discretionary expenses cut from their budgets. Only expenses critical to business operations remain.

Realistic Expectations

During peak times it is often necessary to adjust expectations about how quickly an organization can respond to its clients. Most clients understand the current environment and the effect that the recession has had on complaint volumes and organizations' ability to deal with them. Communications with stakeholders, including complainants, Board members and member firms would be critical to setting reasonable expectations during the current peak in activity for OBSI.

OBSI, like other organizations, needs to anticipate and accept backlogs from time to time in the short term and to find ways to manage such backlogs without additional staffing. In all scenarios it is important for any organization to continually and aggressively manage staffing levels to ensure that costs are contained. In our experience, staffing complements are rarely reduced as a matter of course when the peak has passed.

We understand that the Office of the Privacy Commissioner of Canada utilized outsourcing on a short-term basis to assist it with reducing a backlog of complaints. This may be an approach OBSI could consider to assist with peak demand, particularly on the investment side.

During our discussions, you outlined three projected planning scenarios – low, expected and high projections for complaint volumes, noting that the budget would likely be based on the

“expected” scenario. Our members are seeing declines in their volumes. Since their experience is usually reflected a short time later in OBSI’s numbers, we suggest that the “expected” scenario is overly pessimistic and that the “low” scenario may be a more realistic estimate for OBSI’s purposes.

We would suggest that OBSI use the “low” scenario but have a contingency plan that would allow it to adjust the budget and member assessments during the year if actual experience is significantly higher and – despite all efforts to increase efficiency – additional staff is necessary.

Reserve

There was some discussion of the need to rebuild the operating reserve over two years to have on hand at least three months of operating expenses. Our members oppose this course of action given the implications for significant increases in assessments in the near term. While we agree that it is prudent to set aside funds for emergencies, the reserve should be built up more gradually with funds found from within the existing budget, not by budget increases that are unlikely to be reversed.

Ongoing Consultations

We look forward to OBSI continuing to communicate with the industry post-budget to ensure that industry stakeholders are aware in a timely way of OBSI’s approved plans and budget for the coming year. We also look forward to working with you to address the issues of streamlining processes, adjusting the fee model, media relationships, and other matters that arise that would impact our members.

Next year we would like to see in place a more formal consultation process that will involve industry stakeholders at an earlier point in the strategic planning and budget development process, and will provide us with more time and information prior to the development of the 2010-2011 budget to provide more detailed input. To this point – and given the volatile environment in which we are currently operating – it also would be helpful if OBSI were able to provide quarterly information about actual versus projected expenses.

This abbreviated consultation process on the 2009-2010 budget has been a good first step toward increasing OBSI transparency and enhancing the communication between OBSI and its industry stakeholders. We appreciate your efforts to facilitate this process and look forward to continued communications between OBSI and industry stakeholders.

Yours sincerely,



Linda Routledge
Director, Consumer Affairs
Canadian Bankers
Association



Susan Copland
Director
Investment Industry
Association of Canada



Jon Cockerline
Director, Policy-Dealer Issues
The Investment Funds
Institute of Canada

Appendix A: OBSI Cost and Activity Information

Thursday, September 10, 2009

	2004	2005	2006	2007	2008	Est. 2009	% Change 2004-2009
Budget							
Budget	3,025,000	3,600,000	3,900,000	4,111,862	4,944,889	5,803,739	92
Actual expenditures					4,781,586		
Employees (FTE data not available)							
# employees	18	17	23	26	34	42	133
# full-time employees	16	15	22				
# part-time employees	2	2	3				
# investigation & management staff	16	14	18	19	27	35	119
Case files opened							
Banking - early resolution	73		85	174	249	322	341
Banking - full investigation	127	82	86	77	63	45	-65
Banking - total	200	82	171	251	312	367	84
Investment - early resolution	62		46	113	249	367	492
Investment - full investigation	166	82	112	104	101	155	-7
Investment - total	228	82	158	217	350	522	129
Total early resolutions opened	135	144	131	287	498	689	410
Total full investigations opened	293	164	198	181	164	200	-32
Total files opened	428	308	329	468	662	889	108
Case files closed							
Banking - early resolution	73		85	175	185	275	277
Banking - full investigation	148	69	60	65	84	63	-57
Banking - total	221	69	145	240	269	338	53
Investment - early resolution	62		50	103	211	263	324
Investment - full investigation	186	79	66	102	110	113	-39
Investment - total	248	79	116	205	321	376	52
Total early resolutions closed	135	144	135	278	396	538	299
Total full investigations closed	334	148	126	167	194	176	-47
Total files closed	469	292	261	445	590	714	52

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Thursday, September 10, 2009

	2004	2005	2006	2007	2008	Est. 2009	% Change
Per case costs							
All closed investigations	\$ 6,450	\$ 12,329	\$ 14,943	\$ 9,240	\$ 8,381	\$ 8,128	26
Closed full investigations	\$ 9,057	\$ 24,324	\$ 30,952	\$ 24,622	\$ 25,489	\$ 32,976	264
Investigations/Staff Ratio							
Per employee							
Early resolution case files closed	7.5	8.5	5.9	10.7	11.6	12.8	71
Full investigation case files closed	18.6	8.7	5.5	6.4	5.7	4.2	-77
All case files closed	26.1	17.2	11.3	17.1	17.4	17.0	-35
Per investigator							
Early resolution case files closed	8.4	10.3	7.5	14.6	14.7	15.4	82
Full investigation case files closed	20.9	10.6	7.0	8.8	7.2	5.0	-76
All case files closed	29.3	20.9	14.5	23.4	21.9	20.4	-30

Sources: Budget data was obtained retrospectively from OBSI staff until the 2008 annual review which provided budget info for 2008 and 2009. Actual expenditures only available in the 2008 annual review and publication of the 2008 financials. Staff data was obtained from OBSI staff. Annual reviews listing staff facilitated estimating number of investigation/management staff. Case investigation and early resolution data is from the Summary of Statistics provided by OBSI staff with comments noting differences between that and the annual report for the stated year. See individual cell Comment notes providing references for specific data.

Appendix B - Comparing Staffing and Case Volumes at Banks and OBSI

Thursday, September 10, 2009

	OBSI	OBSI relative to		Average	Av Banks*
		All Bank Average	Bk + Sec Avg	All Banks 10 banks	w Securities 7 banks
<u>2009 CBA-estimated at 4/3 of Q1-Q3</u>					
Cases					
# complaints opened	889	4.5	3.5	198	253
# investigation staff	35	11.7	11.7	3.0	3.0
Average complaints opened per staff	25	0.4	0.3	66	84
# complaints closed	714	3.9	3.0	185	235
# investigation staff	35	11.7	11.7	3.0	3.0
Average complaints closed per staff	20	0.3	0.3	62	78
Contacts					
# front line complaints (calls, letters, e-mails)	12,831	4.8	3.7	2,677	3,453
# front line staff handling initial contacts	5	2.7	2.7	2.0	2.0
Average front-line complaints per staff	2,406	1.8	1.4	1,338	1,727
<u>Q1 - Q3 2009</u>					
Cases					
# complaints opened	667	4.5	3.5	149	190
# investigation staff	35	13.0	10.9	2.7	3.2
Average complaints opened per staff	19	0.3	0.3	55	59
# complaints closed	536	3.9	3.0	139	176
# investigation staff	35	13.0	10.9	2.7	3.2
Average complaints closed per staff	15	0.3	0.3	51	55
Contacts					
# front line complaints (calls, letters, e-mails)	9,647	4.8	3.7	2,008	2,590
# front line staff handling initial contacts	4	2.7	2.2	1.5	1.8
Average front-line complaints per staff	2,412	1.8	1.7	1,336	1,410
<u>2008</u>					
Cases					
# complaints opened	662	4.7	4.1	140	161
# investigation staff	27	10.5	8.9	2.6	3.0
Average complaints opened per staff	25	0.5	0.5	54	53
# complaints closed	590	4.0	3.2	148	182
# investigation staff	27	10.5	8.9	2.6	3.0
Average complaints closed per staff	22	0.4	0.4	57	60
Contacts					
# front line complaints (calls, letters, e-mails)	8,764	4.5	4.2	1,954	2,071
# front line staff handling initial contacts	n/a			1.4	1.8
Average front-line complaints per staff				1,359	1,183
<u>2007</u>					
Cases					
# complaints opened	468	3.2	2.6	145	180
# investigation staff	19	7.4	6.3	2.6	3.0
Average complaints opened per staff	25	0.4	0.4	56	59
# complaints closed	445	2.9	2.4	151	189
# investigation staff	19	7.3	6.1	2.6	3.1
Average complaints closed per staff	23	0.4	0.4	58	61
Contacts					
# front line complaints (calls, letters, e-mails)	8,822			1,949	2,071
# front line staff handling initial contacts	n/a			1.4	1.8
Average front-line complaints per staff				1,356	1,183
<u>2006</u>					
Cases					
# complaints opened	329	2.1	1.6	154	211
# investigation staff	18	7.0	5.9	2.6	3.0
Average complaints opened per staff	18	0.3	0.3	60	70
# complaints closed	261	1.6	1.2	164	211
# investigation staff	18	7.3	6.2	2.5	2.9
Average complaints closed per staff	15	0.2	0.2	66	73
Contacts					

# front line complaints (calls, letters, e-mails)	11,365	1,994	2,385
# front line staff handling initial contacts	n/a	1.4	1.6
Average front-line complaints per staff		1,387	1,491