



**Deloitte.**

The power of complaints  
Unlocking the value of  
customer dissatisfaction

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## Leading complaints management practices can help improve customer service, strengthen underlying compliance controls and avoid the growing potential for regulatory fines or damage to an institution's reputation.

Complaining works. And customers who follow the old "squeaky wheel gets the grease" adage know it. By focusing primarily on placating complaining customers instead of holistically repairing broken practices, many financial institutions ("financial institution(s)" or "institution(s)") miss the "forest for the trees" and fail to realize that embracing customer complaints can reap benefits for them, too.

Complaints are valuable feedback, and they can provide both direct and indirect insights into what a financial institution is doing well and what it needs to work on. Complaints can help proactively identify trends and identify broader product and line of business service issues before they become systemic problems. And actively managing complaints can help improve underlying compliance controls and customer service while avoiding the growing potential for regulatory fines or damage to an institution's reputation.

### Serious business

The provisions of legal or regulatory enforcement actions in many ways are a proxy for customer dissatisfaction. Certain regulatory actions can arise from customer complaints and the enforcement of rules that seek to protect customer interests. A comprehensive complaints management program integrated with compliance management systems, therefore, can serve as an "early warning system" that can let financial institutions know where they are at risk for regulatory action and help reduce the potential of legal or regulatory actions and sizeable monetary fines.

And the payoff is more than hypothetical. Large US financial institutions know the regulatory and monetary realities well, having paid a total of \$187 billion in fines since 2009, in over approximately 140 cases. But they are still on the hook for another 264 cases, according to a recent industry report.<sup>1</sup>

#### Early detection

A comprehensive complaints-management program integrated with the compliance management system can serve as an "early warning radar system" that can let financial institutions know where they are at risk for regulatory action. It can help proactively identify compliance risk and reduce the potential of legal or regulatory actions and sizeable monetary fines.

#### Quality in, quality out

A strong early warning system is only as strong as the complaint intake process that supplies it with complaint information. Financial institutions should consider investing in high-quality complaints intake capabilities across all channels as a prerequisite to developing strong detection capabilities.

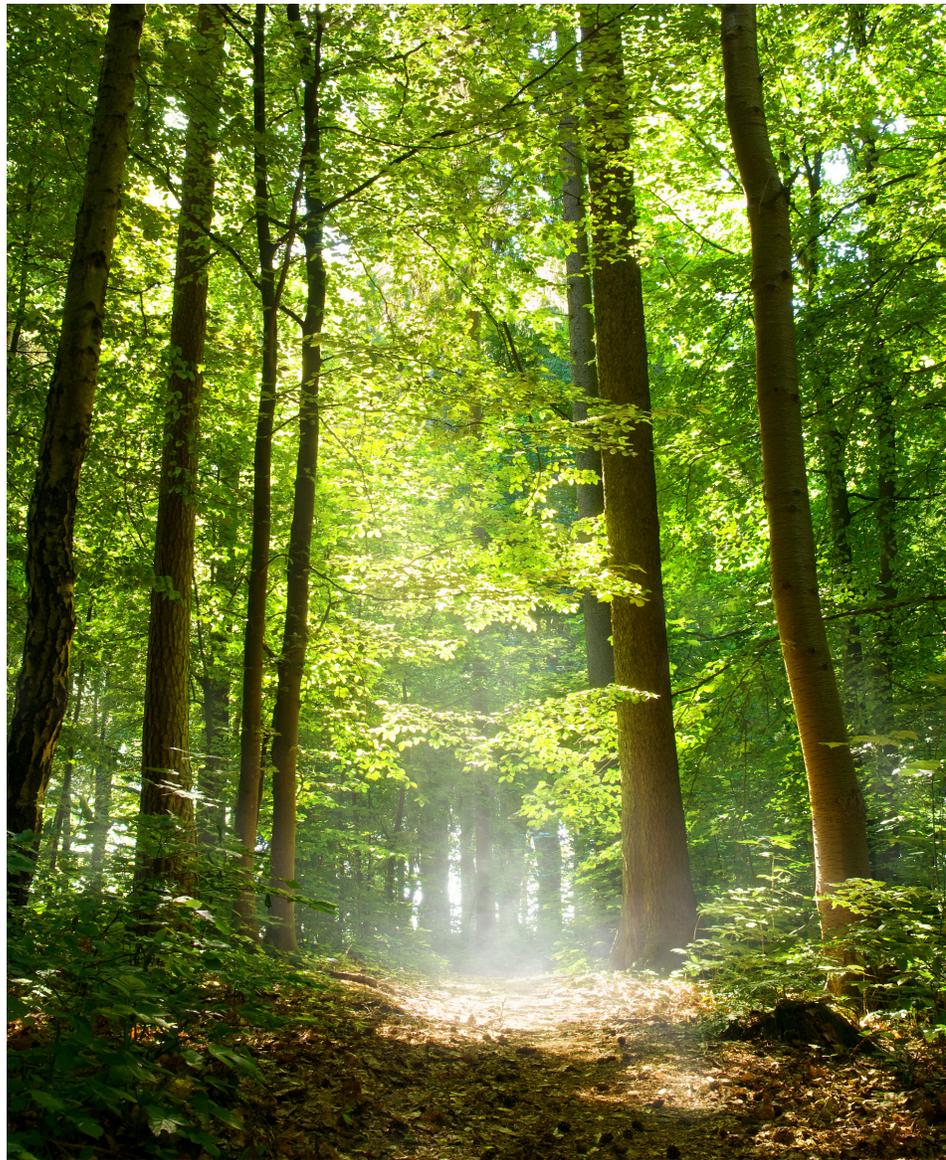
<sup>1</sup> Source: *KBW Bank Litigation Tracker—Second Edition*, Brian Gardner, Frederick Cannon, Michael Michaud, KBW Global Research, March 2015

Financial institutions—from banks and diversified financial services companies to payday lenders, finance companies, debt servicers and credit reporting agencies— need to look at complaints in a new light; understanding the value of complaint data and of appropriately addressing complaints has never been more critical. As the financial services landscape becomes more competitive and as regulators continue to increase their scrutiny of financial institutions’ regulatory compliance performance, institutions should remain diligent in proactively managing complaints.

**Proactively managing complaints** involves more than simply responding to customers and remediating complaints on an ad-hoc basis. Institutions focused on proactive management understand that managing complaints effectively is essential and includes assigning business value to complaints. Leading institutions assign business value to complaints by developing a complaints management program that aligns with their overall strategy, provides a fundamental part of the customer experience and helps generate and protect earnings. Failing to act strategically with regard to complaints management can mean missing product and service enhancement opportunities, negative impacts to revenue from regulatory fines, and damage to the institution’s reputation.

#### **A great response**

Effectively managing customer complaints involves assigning them real business value by developing a complaints-management program that aligns with the organization’s overall strategy, supplies a fundamental part of the customer experience, and helps generate and protect earnings.



## Voice of the Customer

What customers are saying is important, and financial institutions should take note. Regulatory Agencies such as the Consumer Financial Protection Bureau (CFPB or “Bureau”) and the Office of the Comptroller of the Currency (OCC) are actively listening. The CFPB, as its name implies, has made defending consumers its top priority and is paying serious attention to customer complaints.

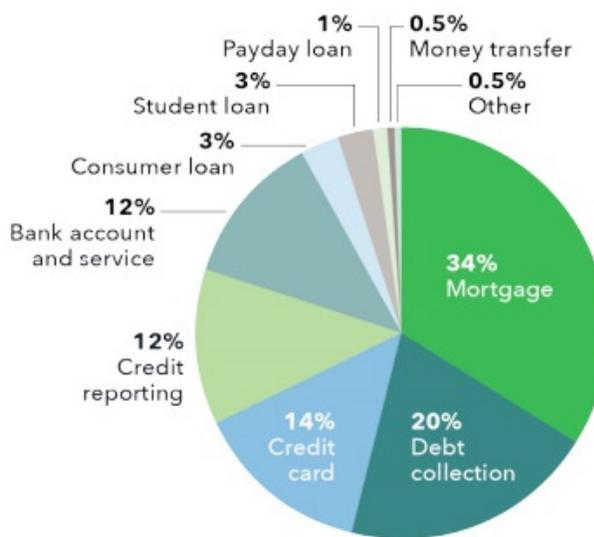
The CFPB’s strategic plan through 2017 includes goals that relate specifically to the Bureau delivering effective response to customer complaints and conducting supervisory examinations that will assess an institution’s compliance management systems (CMS). This includes evaluation of an institution’s complaints response, as well as activities that foster compliance with Federal consumer financial laws, promote a fair consumer financial marketplace, and prevent unlawful discrimination.<sup>2</sup> The level of transparency sought by the CFPB serves increasingly as a means to help the Bureau regulate the financial services industry and impose enforcement actions or fines when needed. This focus also means that institutions should dedicate sufficient and qualified resources to increase their capacity for managing complaints in order to get ahead of the curve.

The CFPB significantly amplified the customer voice by establishing a database during the Bureau’s inauguration that it uses to share customer complaints publicly online.<sup>3</sup> More recently, the CFPB has taken steps to make customer complaint narratives and institution complaint response data public. And, the OCC, Board of Governors of the Federal Reserve System (FRB), and the Federal Deposit Insurance Corporation (FDIC) continue to process questions and complaints concerning consumer issues within their supervisory oversight. So the question facing financial institutions is this: “Could we have prevented a public airing of our customer issues by strengthening our complaints program?” The CFPB data reveals that customers often file complaints with the Bureau after first doing so directly with the institution. Arguably, there is an opportunity for financial institutions to help mitigate their legal and reputation risks through a more responsive and effective complaints management program.

## What are customers complaining about?

### Complaints handled by the Consumer Financial Protection Bureau

Between July 21, 2011, and June 30, 2014, the CFPB received approximately 395,300 customer complaints.\* Here’s how they break down by category.



\* This analysis excludes multiple complaints submitted by a given consumer on the same issue and whistleblower tips. All data are current as of June 30, 2014.

Note: Percentages may not sum to 100 percent due to rounding.

Source: [http://files.consumerfinance.gov/f/201407\\_cfpb\\_report\\_consumer-complaint-snapshot.pdf](http://files.consumerfinance.gov/f/201407_cfpb_report_consumer-complaint-snapshot.pdf)

And, there is a real cost in not doing so. Since 2011, financial regulators have applied more of a customer lens in their supervisory efforts and have brought four major customer complaint-centric enforcement actions, some including fines, against financial institutions. Such enforcement actions compel these institutions to perform internal audits and testing, develop new policies and procedures, execute new remediation projects and implement new compliance plans, often within short timelines.

<sup>2</sup> <http://www.consumerfinance.gov/strategic-plan/>

<sup>3</sup> <http://www.consumerfinance.gov/complaintdatabase/>

## Getting into the desired mindset

Getting serious about customer complaints and learning to use complaints to the benefit of the institution requires a shift from the historical mindset of customer complaints being solely negative. Not only is the organization well-served by partially viewing complaints as “a good thing,” it should also consider using the results of complaints analysis to help drive cultural change in key areas. One such area where many financial institutions struggle is failing to embrace the value of capturing and analyzing those complaints that may not appear to the casual eye to be more “serious” complaints but in reality represent real consumer protection risk and potential regulatory violations.

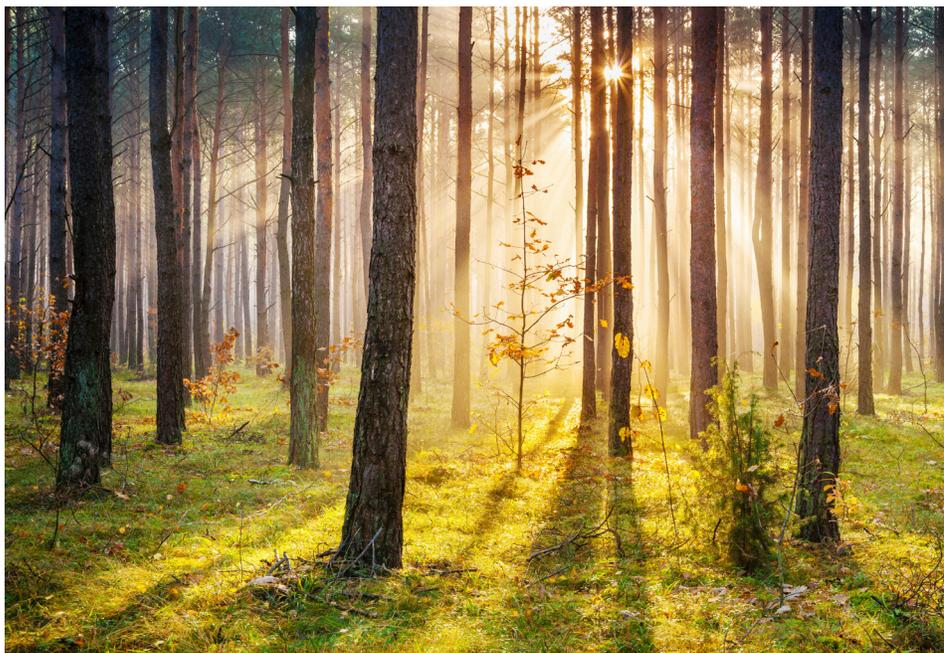
## Consider more than traditional customer complaints.

Broadening the organization’s view means expanding the definition of complaints to more closely align with regulatory expectations. Arguably, the more customer interactions a financial institution can appropriately classify as a complaint or not, the more pieces of data available to assess and determine the institution’s strengths, weaknesses, and potential compliance risks. While operational considerations may dictate a risk-based approach to classifying complaints, broadening the definitional view allows the organization to address and remediate concerns it might view only as “general servicing issues,” while regulators might view them as “complaints.”

There is also a growing industry awareness that regulators make inquiries and other such communications part of the complaints-review/compliance examination process. The regulators’ rationale is that inquiries often develop into expressions of dissatisfaction (i.e., complaints) and may provide other information that is very useful from a business or compliance perspective (e.g., customer service breakdowns, misleading marketing materials, or a pattern

of customer confusion about a product or a service). These inquiries could in turn escalate to potential UDAAP (Unfair, Deceptive, or Abusive Acts or Practices) concerns.

An internal Deloitte analysis of public consent-order data since July 2012 clearly illustrates expectations for the inclusion of inquiries, even those left via voice recording, within a complaints management program. More specifically, in four significant instances where institutions were ordered to incorporate complaints and inquiries management into their CMS, including policy and procedure development, the orders came alongside hefty restitution costs and federal penalties totaling more than \$589 million in the four cases combined. Ultimately, adding customer inquiries to the mix provides a more complete set of data that is available to spot emerging patterns and problems before they become larger regulatory issues.



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## Changing the way an institution manages customer complaints requires real action. A considerable first step is realizing that satisfying customers and satisfying regulators are not two mutually exclusive propositions.

### **Connect complaints management efforts to compliance management efforts.**

Changing the way an institution manages customer complaints requires real action. A considerable first step is realizing that satisfying customers and satisfying regulators are not two mutually exclusive propositions. Organizations that maintain a complaints management program that does not coordinate effectively with the CMS may end up utilizing resources inefficiently, missing out on economies of scale that could benefit their bottom line, and perhaps creating processes that work against each other. A potentially better alternative is for financial institutions to align their complaints management program with the CMS. This evolving practice may better address the CFPB's stance that inadequate management of customer complaints can represent significant CMS deficiencies and require the same level of rigor as other compliance system components such as audit or board and management oversight.

How financial institutions manage and respond to complaints is also considered a significant component of the CFPB's CMS assessment. CFPB guidelines state that response to customer complaints represents one of the key "interdependent control components" for compliance management in an organization. In short, a strong CMS should include a comprehensive complaints management program.

Comprehensively addressing complaints should be done with plenty of forethought and a well-defined sense of purpose with an eye towards a holistic enterprise-wide solution. Institutions need to apply transformative solutions to the challenge, and work diligently towards listening to their customers in order to remain competitive in the marketplace.

### **Modify or create incentives programs as a way to get employees to work in the best interest of the organization.**

As organizations move towards thinking of complaints as "good things", it's important to remember that complaints still represent potential mistakes or control weaknesses. Holding business or shared services units accountable for remediating their mistakes or control weaknesses to drive improvements in products, services, and processes will remain essential. Incentives can be an important tool to help ensure this important work gets done in an efficient manner.

For example, incentivizing employees to identify, report and resolve mistakes can help speed the development of a robust body of complaints data. The sooner this body of data can be used to develop a more forward-looking and fact-based capability to detect and address emerging regulatory compliance risks, the better off organizations will be from a risk management perspective.

An incentive or reward based program that supports a "satisfied customers" philosophy ultimately can help an organization save money, enhance its offerings, and gain a competitive advantage. Achieving the right mix when it comes to incentives and accountability can help show employees that leadership is serious about addressing complaints as a critical component of the organization's risk-management posture and its business strategy.

## How to start building an early warning system

How well an organization develops and connects its complaints management program with its CMS will determine how well it can consistently identify and respond to potential regulatory risks and avoid the costs they present. The goal is to develop an early warning system that can be used to anticipate and avoid compliance risk. Some considerations to help achieve that goal are captured below.

- **Improve the complaints taxonomy.** Refining or developing the common language or nomenclature the company uses to record and categorize complaints and inquiries will help employees “speak the same language” when managing complaints and building systems.
  - **Get incentives right.** Compensating and empowering people to uncover complaints and develop smart plans to act on them—whether for customer remediation or for a new business strategy—is a simple way to drive employees to act in the best interests of the company and facilitate buy-in from leadership.
  - **Assess the institution.** Performing quality assurance reviews or self-testing through multiple lines of defense can help identify where and why complaints are arising, how they are being dealt with, how long are the response times, and where there are opportunities to make the process more efficient and/or effective.
  - **Work toward end-to-end reporting capabilities.** Building end-to-end capabilities in developing actionable and meaningful reporting can assist financial institutions to follow complaints through a comprehensive process: from receipt of a customer communication, through the tracking process, final issue remediation, and ultimately to enhancements in the institution’s products, services or processes.
- **Assign a champion.** Changing the culture on complaints will take leadership, so it is helpful that a high-level executive is accountable and “owns” responsibility for driving change when it comes to harnessing the value of complaints across the organization.
  - **Take some big steps to change culture.** Establishing or better utilizing an ongoing training and communication strategy on complaints management can help employees get onboard with their organization’s new complaints perspective, setting a tone at the top that lets workers know it’s okay to bring complaints, and the underlying root causes behind them, to light.
  - **Change products, services or processes based on complaints.** Focusing on the products or services that customers are confused or complaining about and making appropriate improvements to them can result in a more customer-friendly reputation.

### The way forward

Putting into motion a comprehensive plan to pull value out of complaints takes a lot of hard work. Staying ahead of competitive and regulatory pressures takes work, too. And figuring out what steps to take to begin transforming your organization, while perhaps daunting at first, is an important move forward in today’s financial regulatory environment.

**For more information, please contact:**

**Tom Rollauer**

Executive Director,  
Deloitte Center for Regulatory Strategies  
Deloitte & Touche LLP  
212.436.4802  
trollauer@deloitte.com

**James Siciliano**

Senior Manager  
Deloitte & Touche LLP  
703.885.6498  
jasiciliano@deloitte.com

**John Graetz**

Principal  
Deloitte & Touche LLP  
415.783.4242  
jgraetz@deloitte.com

**William (Will) L. Brown, III**

Manager  
Deloitte & Touche LLP  
212.436.6867  
wbrowniii@deloitte.com

**Tom Nicolosi**

Principal  
Deloitte & Touche LLP  
215.405.5564  
tnicolosi@deloitte.com

**DCRS**  
**Deloitte Center**  
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