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# When Customers Complain, Listen

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Bankers have often heard during the past four years that consistently putting shareholders before customers was a cause of the financial crisis, and that the return to basics in banking includes a recalibration of the interests of these constituencies.

The message, while occasionally well-intentioned, misses a fundamental point: The interests of shareholders and customers are not in opposition but in alignment. In fact, customer satisfaction is a relevant performance metric that can help shareholders decide whether a banking company is focused on sustainable profitability. Satisfied customers are good for business.

Bankers who aren't convinced of the revenue-generating potential of happy customers may find the expense side of the equation more persuasive. Unhappy customers can be costly, and not just because they are likely to take their business elsewhere. Regulators have made it clear that they are monitoring customer complaints as a potential indicator of systemic problems, and the Consumer Financial Protection Bureau is tasked with preventing unfair, deceptive, and abusive acts or practices. Persistent customer dissatisfaction, particularly when related to violations of consumer-protection and fairness laws, may indicate reputational and litigation risks that threaten the entire enterprise.

The manner in which an institution treats its customers begins with the values that executives instill in their employees, and in this regard the Hippocratic Oath taken by healthcare professionals offers a useful parallel. The implied directive not to harm is an important element, but the oath is much more than that: It's a promise to practice ethically and honestly, which can help reduce — though not eliminate — the reasons why customers complain in the first place.

Companies can reinforce a cultural commitment to doing the right thing for customers with a forceful, comprehensive approach to risk management. Similarly, the compliance function should review products and services, and related marketing materials, from the customer's perspective, and ask whether customers are getting what they were promised. These efforts can help make sure that the company's best intentions aren't compromised by sloppy procedures or a lapse in management's attention.

As important as these steps are, they aren't enough. Front-end systems aren't invulnerable because ethical and honest institutions still invariably receive customer complaints. The appropriate standard is not whether customers complain, but how a company responds. A well-designed complaint-management program is essential in measuring the business impact of what customers say about a company's products and services, and in managing the compliance, legal, and reputation risks associated with customer complaints.

### THE EVOLUTION OF COMPLAINT MANAGEMENT

Financial services companies in the past managed complaints to resolve customers' specific problems, but they are beginning to use complaint information as they should have all along: as a data-rich and analytically driven business and risk-management tool. Regulators are also using complaint data to root out patterns and practices that harm customers and violate consumer-protection laws. While financial companies are likely to notice a growing emphasis during examinations on complaint documentation, regulators have made it clear that they are not dependent solely on company data to achieve that purpose. The CFPB, for instance, actively solicits customer complaints. Its home page, in fact, prominently features a link to "Submit a Complaint" about mortgages, credit cards, bank accounts, auto loans, student loans, and credit reporting.

Complaints can indicate compliance and control weaknesses, systems and process flaws, and training and communications problems, among other things. By turning complaints into data and analyzing it for patterns and trends, bankers are increasingly able to detect problems with product design, marketing, sales and execution practices, service and servicing practices, and vendor performance. Companies are therefore more nimble not only in managing risks, but in improving their business. After all, the customer is the banker's most important asset, and what the customer says about the products and services delivered by a bank should inform business, product, service, and process-improvement efforts.

The multidimensional nature of complaints requires bankers to take a thoughtful, organized approach in designing a system to manage them. A well-designed system accounts not only for the variety of sources from which complaints can emanate, but also must help bankers decipher their meaning, and whether they are isolated and innocent or massive and menacing.

The breadth of products, features, and services offered, the number of channels through which they are sold and serviced, and the extent of outsourcing and partnering will determine the effort required to turn complaint data into meaningful information. These variables generally mean that each institution must seek its own tailored solution — though there are some fundamentals in building or improving complaint-management programs, processes, and systems.

## STEP ONE: IDENTIFY, ORGANIZE, AND CATEGORIZE COMPLAINT DATA

Companies must first make sure they are systematically capturing and coding all the information relevant to a complaint.

### COLLECTING THE RAW DATA

**Product, Service, or Activity**

- Credit card
- Auto loan
- Mortgage
- Product add-ons, including credit and identity-theft protection
- Investment or insurance
- Deposit and savings products

**Nature of Complaint**

- Servicing
  - Billing
  - Payment processing
  - Customer service
  - Collections
- Marketing and sales practices
  - Nuisance or annoyance
  - Disclosure
- Offer fulfillment
  - Points or other incentives
  - Blackouts and exclusions
- Collections
  - Rudeness
  - Collections law violations
- Fees and finance charges
  - Overcharges
  - Unwarranted fees
  - Nuisance fees

**Delivery Channel**

- Branch
- Direct mail
- Call center
- Internet
- Servicer
- Affiliated and third-party vendors or agents

**Complaint Recipient**

- Bank or branch
- Partners and vendors, including servicers, call centers, and agents
- External parties
  - Better Business Bureau
  - Federal and state regulators
  - State Attorneys General
  - Local, state, and federal elected officials
  - Media, including blogs and social media

Organizing complaint data using this taxonomy or one similar to it, and adding potential variables such as time and vintage, will make it easier to pinpoint problems and their root causes. Data management will also help identify potentially destructive patterns, call out issues that may require escalation and reporting, and improve governance protocols. It can also help provide more meaningful mitigation and customer remediation.

Tracking the complaint recipient is essential, even though it does not affect the substance of the complaint. The recipient can significantly alter the risk complexion, particularly when an issue involves third parties who may have their own views and agendas in interpreting what the complaint means, and how it should be resolved. Similarly, a high incidence of complaints to external parties is usually a signal that a company's internal complaint response and resolution process is not working very well, and may also signify the magnitude of the problem perceived by the customer.

## STEP TWO: ANALYZE, DIAGNOSE, AND TRIAGE

Analyzing complaint volumes, trends, and patterns across product, nature, and channel will yield important information about what's behind the complaints. For example, complaints filed about a reportedly undisclosed fee may vary greatly by delivery channel, with the problem markedly worse in products or services marketed through the Internet. That could signal a system-design problem resulting in a faulty disclosure link, or a coding flaw that allowed customers to bypass disclosure that was intended to be hard coded.

### Root Causes

Identifying root causes is the key to effective analysis from both a business and risk management standpoint, because a complaint has not been properly managed until its root cause has been identified. For example, a bank may notice an increase in complaints about rewards and incentive plans. The nature of the complaints initially implicates misleading marketing materials, but further analysis may reveal that execution problems in the back room are keeping customers from receiving the rewards or incentives that the marketing materials promised. Without root-cause analysis, the bank may miss the source of the problem and waste time and money attempting to clarify its marketing materials — while ignoring the back-office execution problems that continue to erode customer satisfaction and invite compliance and reputational risks.

Strong analysis identifies root causes and results in better, more sustainable solutions that improve businesses. That analysis is close to impossible without standardizing complaint data, and a burdensome and error-prone system can cause institutions to miss the forest for the trees and fail to diagnose the full extent of the problems and their causes.

### Finding Harm

A significant component of complaint analysis is identifying harm, which itself stems from the root-cause analysis and depends on how many customers have been affected and how long the problem has persisted.

Population analysis should identify all customers that could have suffered harm — not just those that complained. Regulators are certain to be exhaustive in their expectations on this score.

The time horizon also influences the extent of the harm done, and evaluating the problems with a particular product or service must include a review of changes to policies, marketing materials, and back-office systems and processes that support it. Banks' internal records — customer account and transaction records, as well as years of internal process, program, marketing, and product changes — are an essential element of this analysis. Weak document-retention policies can backfire, as regulators are likely to assume the worst in cases in which the bank cannot produce relevant documentation.

WHY YOU SHOULD CARE ABOUT CUSTOMER COMPLAINTS

- Virtue is its own reward; doing right by customers is the right thing to do
- Building trusting relationships with customers is good for business and builds revenues
- Preventing harm lowers expenses and limits customer attrition
- Managing complaints is an important risk-management and compliance function
- Regulators are listening to complaints about your company, even if you're not
- Ignoring complaints presents substantial litigation and reputational risks

Speed in halting identified harm is vital, and should be prioritized even over remediation. The longer customer dissatisfaction and harm persists, the greater the business costs, and the greater the financial, reputational, and legal expense associated with remediation. Regulators are also more likely to work productively with companies that deal quickly with instances of harm. The sophistication, speed, and credibility of the bank's own analyses, as well as its subsequent actions, are keys to managing the expectations of interested constituencies.

Urgency, however, does add another dimension to complaint analysis and risk management. While all complaints are important, some present more risk than others. Annoyance complaints regarding the frequency of upsell pitches by customer-service representatives require a response, but pale in comparison to complaints indicating potentially discriminatory or unfair, deceptive, or abusive statements by the same customer-service representatives. Discrimination and UDAAP complaints certainly demand greater oversight and action than annoyance complaints, as the potential for serious consumer-protection violations and customer harm are higher by an order of magnitude.

Here again, the affected population is quite important. Serious harm suffered by even a relative few is bad enough, but serious harm multiplied by a large population is big trouble.

### STEP THREE: REPORT

An effective complaints-management process must provide regular, multi-tiered reports that guarantee effective management, oversight, and governance. Business-line owners and compliance risk managers require the most granular reports; executives and boards require summary reports, at times supplemented by enough details to provide an accurate picture of what customers, and their complaints, say about the company and its vendors and partners. Generally, business-level reporting will feed executive and board summaries, and emphasize high-risk issues, developing trends, and remediation efforts that warrant their attention. Tiered reporting will allow both the trees and the forest to be covered, as each must be.

Again, well-organized complaint data will greatly improve the effectiveness of the reports, which may follow the taxonomy of the complaints-management system: product and service, channel, risks, priorities, and other dimensions, including affected populations and time horizons. Thoughtful reports will allow executives, and directors as appropriate, to focus on what the volumes and trends of complaints are saying, to separate the "white noise" of the normal course of business from the matters that deserve escalated attention and oversight, and to establish escalation triggers, key risk indicators, and service-level standards for the businesses, vendors, and partners. White noise is a particularly serious issue in any retail banking operation because the law of large numbers ensures that there will always be a certain level of complaints.

Tuning out white-noise distortion is no simple proposition, however. As important as it is for complaint reporting to prioritize risk, executives and boards can also err by focusing exclusively on perceived high-risk problems and ignoring seemingly minor complaints that may nonetheless speak volumes about business, servicing, and customer-care practices and problems. Companies are more likely to miss problems at third-party vendors and partners, though they can also crop up in internal call centers. Focusing only on escalated risks could, for example, result in failing to notice a pattern of complaints attributable to repeated customer handoffs that are not only inefficient, but also can confuse and annoy the customer, and increase the opportunity for error. Independent of potential compliance issues, it's good business to arm executives with information to question the incidence of customer hand-offs in the first place and seek process improvements.

Reporting should also identify potential financial and reputational risks associated with consumer complaints and issues, and summarize progress in eliminating root causes and customer remediation.

The reports can benchmark actual fixes against correction plans, and highlight any delays and the reasons for them.

### STEP FOUR: REMEDIATE

Remediation of customer complaints is in many ways the most difficult element of the complaint-management lifecycle. It's also probably the most important; the company's response is the ultimate factor in whether dissatisfaction is dispelled or hardens, and the potential financial, reputational, and legal costs depend on that answer.

Even relatively benign problems, like inappropriate assessment of late fees, can have cascading effects. But solutions can become even more difficult depending on the nature of the complaint. Overcharges, for instance, might be assessed based on average daily balances over a number of years; a customer might complain about the failure to deliver rewards that are based on product or service usage over an extended time period, and triggered by specific types of charges: retail stores, restaurants, gas stations, airlines, etc.

Beyond determining the accuracy of the customer's complaint, institutions then must decide how to resolve the complaint. It may not be enough to simply fix the problem and apologize to the customer. Some complaints demand financial restitution, and in still other cases it may be appropriate to secure customer goodwill by offering up extra rewards points, gift cards, or other tokens of appreciation.

Effective programs detail in-kind remediation, in which annoyances are fixed with apologies, high-anxiety annoyances are fixed with apologies and a goodwill offering, and harm is measured and reimbursed, often also with a goodwill offering. The response must be proportional and carefully conceived, or the institution faces compounding its reputational problem. Giving 20,000 air miles to someone who has suffered a financial loss is probably not appropriate, nor is offering a statement credit to a customer who no longer holds an account at the bank.

Remediation management should include action plans similar to those that respond to remediate audit and regulatory filings. The plans should reflect efforts undertaken to address customer complaints, and include timetables that ensure timely completion and hold individuals accountable for completion. The most effective plans are formal, written, and auditable, identifying responsible parties, required actions, and completion milestones. Reporting to management and directors will provide effective oversight and governance.

## CONCLUSION

Thoughtful, careful management of customer complaints through the four-step process described above is an essential component in just about any compelling corporate strategy or culture. Regulators have made a priority of using complaints as a roadmap to institutional deficiencies, but companies that use complaint management solely to mitigate compliance, reputational, and legal risks are missing a big part of the equation. Technical compliance isn't an end goal in itself; listening to complaints, and reacting appropriately, builds affinity with customers and strengthens sustainable businesses.

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