



BANKING, INSURANCE, AND CAPITAL MARKETS

TRANSFORMING CUSTOMER COMPLAINTS INTO BUSINESS SUCCESS

CUSTOMER COMPLAINTS — A CONCERN FOR MARKET EROSION AND EXPOSURE TO REGULATORY RISKS

Changes in technology, regulation, and customer behavior are continuously redefining the retail banking landscape, specifically on how financial institutions track, respond to, and address customer complaints. Due to technological advancement in mobile technologies and the use of social media for real-time communication, the rate at which customers voice their complaints with institutions has increased. Customer complaints are rapidly becoming an additional source of regulatory scrutiny, thereby exposing financial institutions to increased fines and penalties.

As a result of these trends, the traditional approach to managing customer complaints is no longer proving effective, while the cost for remaining in the status quo is high — customers will be lost, market share will be eroded, and regulatory actions will result in financial loss and reputational damage. A new era has emerged where managing customer complaints ranks among the top-priority strategic issues for financial institutions. Successful financial institutions are transforming their customer complaints into business success through the use of centralized complaints management programs.

Navigant's experience working with some of the top-tier financial institutions have shown that four fundamental components — robust governance structure, appropriate systems and technology, data governance and big data analytics, and well-trained people — are the key drivers of a successful centralized complaints management program. When correctly implemented, these components can transform the complaint management process into an effective and efficient one.

WHAT DOES THIS MEAN FOR YOU?

Technology is Pushing a More Proactive Customer-Centric Approach

Technological advancement and easy access to information are driving the necessity for financial institutions to embrace a customer-centric strategy to improve competitiveness. Service excellence, customer responsiveness, and customer trust are key ingredients for retaining customer loyalty in the retail banking industry today. Although many customers still communicate directly with their bank through standard channels (e.g., via phone calls and emails to bank branches), a growing number of customers now use digital channels (social media and websites) to voice their opinions and complaints publicly.



Most of the time, these complaints are addressed on a one-off basis, preventing financial institutions from observing overall trends and gathering critical insight that can inform agile business operations. A fragmented complaints management program can result in slow corrective actions, poor audit trails, and an ineffective customer feedback mechanism. These traditional programs for tracking and addressing customer complaints can be a daunting task for financial institutions, thereby increasing the risk of unresolved issues. For financial institutions to survive this new paradigm, they need to take a more proactive approach to managing and addressing customer complaints.

Regulatory Agencies Have Taken Note

The Consumer Financial Protection Bureau (CFPB or the Bureau) and other federal regulators now have public websites for customers to lodge formal complaints against financial institutions. The individual complaints, the financial institution’s responses, and the programs these institutions have set up to address similar issues are actively monitored and analyzed. In instances where the CFPB finds similar patterns in industry activities resulting in similar complaints by customers, the regulatory body may consider carrying out further research across the industry to identify and address regulatory loopholes or in some instances consider further regulations.

The CFPB operates under a risk-based prioritization process in which entities that will be examined are selected. Exhibit 1 below illustrates the CFPB’s prioritization approach, which is based on market and institutional-level assessment of risks a financial institution may pose to the consumer. Financial institutions, therefore, should become more aware of their customers’ most pressing concerns, take proactive measures to identify controls, and put in place tools to reduce compliance breaches and regulatory risks.

Exhibit 1: CFPB risk-based prioritization approach for financial institutions



Source: Adapted from CFPB Supervisory Highlights, 8th edition, Summer 2015.

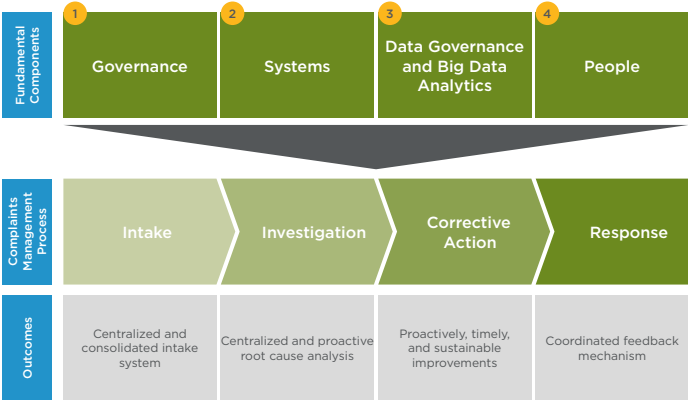
KEY CONSIDERATIONS FOR IMPLEMENTING A CENTRALIZED COMPLAINTS MANAGEMENT PROGRAM

The experiences and observations of Navigant’s banking, insurance, and capital markets team revealed that there are four fundamental components that are critical for implementing and sustaining a centralized complaints management program:

1. Robust governance structure
2. Appropriate systems and technology
3. Data governance and big data analytics
4. Self-driven and well-trained people

Exhibit 2 below shows the outcomes of applying the four fundamental components to a complaint management process, i.e., complaints data are consolidated, easily tracked, and monitored; root cause analyses become proactive; corrective actions are timely and sustainable; and customer feedback is coordinated.

Exhibit 2: Centralized Complaints Management Program



Source: Navigant

Governance

The buy-in of the board and senior management is imperative for the successful implementation of a centralized complaints management program. The best practices for a robust governance structure include well-documented policies and procedures, which guide process owners for collating, investigating, and addressing complaints, including how they respond to and provide customers with feedback. Additionally, a robust governance structure ensures that there is adequate monitoring and quality control mechanisms across the entire complaints management process, including the line of business, channels, and third-party suppliers. Finally, standardized reporting to executive management on performance metrics and statistics about the complaints management process is paramount.

Systems and Technology

Investment in the right systems are critical to deploying a centralized complaint management program. There are various tools that can be implemented to help manage customer complaints. For example, systems that aid effective communication with customers, such as online chat tools, social media platforms, and self-scheduling tools for meetings and appointments are critical for engaging with millennials. These tools create a positive platform that facilitate immediate issue discussion, resolution, and followup. Other examples of systems and tools that can support an effective customer complaint management process include:

- Complaints-tracking systems, which are important for logging and keeping tabs on complaints
- Early-warning systems that flag emerging or recurrent issues
- Management information systems for reporting trends in complaints
- Institution's intranet for displaying digital versions of policies, procedures, and job aids
- Systems for generating customer correspondence templates
- Imaging systems for retaining complaints records and several more

Systems and technology facilitate successful coordination among teams, automate activities, reduce errors, increase turnaround time, and enable audit trails of customer complaints.

Data Governance/Big Data Analytics

Big data and data analytics offer attractive solutions for a strong complaints management program, but unlocking their power requires a profoundly technical and measured approach. Many institutions are already using data analytics to monitor customer complaints broadly, but few are using complaints to drive changes that address the root cause of critical issues.

A sound data governance strategy is imperative for leveraging big data analytics. Data governance entails a formalized and integrated organizational structure, complete with defined roles and responsibilities, sufficient representation from key business leaders, and technology functions. It is a best practice to ensure that collected complaints data has standards for data fields, nomenclature, definitions, usage rules, and models. This will ensure that the data collected is uniform and consistent to drive deeper analytics and help generate actionable insights. Finally, data governance strategies should have vigorous and well-controlled processes to ensure efficient and effective handling of the data.

People

The final and most important component of a centralized complaint management program is having the right people with the appropriate skills and attitude to drive the entire program. Successful financial institutions allocate a dedicated team to manage the complaints management program. The team composition should reflect a strong understanding of the organization's internal systems and processes, familiarity with financial industry standards, regulatory requirements, privacy laws, reporting obligations, data analytics, and other business-specific knowledge to correctly interpret complaints and exercise sound judgment. There should be collaboration between the team and other subject matter experts within the firm to investigate the root cause of issues, identify resolutions, and develop action plans.

Consistent training, appropriate incentive programs, and individual performance metrics are ways to ensure that people continue to effectively manage customer complaints. In some cases, the delegation of authority and empowerment of employees (especially front line/branch staff) to make decisions can be impactful.

BENEFITS OF CENTRALIZING THE COMPLAINTS MANAGEMENT PROCESS

Standardized Intake System

Omnichannel customer complaint intake is critical but can create more problems if not centralized. It is best practice to consolidate complaints data from various channels in a standardized format and store in an accessible central database. Data analytics can be leveraged to categorize and tag customer complaint data in a standardized format. The standardized format ensures that key records of complaints such as time, date, and frequency are maintained and that each complaint can be traced back to the source through which it was received. Categorization and tagging allow for ease of conducting investigations to identify root causes of issues. It also facilitates trend analysis to monitor the frequency and severity of a customer's issues with the institution, thereby fostering a proactive root cause analysis on trending issues.

Investigation

A centralized complaints management program increases the chances of higher coverage and completeness in conducting root cause analysis. This is because a centralized investigation process facilitates coordination among the investigation team and prevents a disaggregated approach to addressing complaints.

Tracking complaints data for recurring issues or missed opportunities can facilitate the institution’s response to addressing those issues. Coupled with a consolidated complaints intake system, a centralized investigation process will enable the complaints management team to appropriately score issues based on risk to help prioritize corrective actions.

Corrective Action

A centralized complaints management program facilitates proactive, timely, and sustainable corrective actions. When a customer complaint is received, the best practice is to take the opportunity to immediately address that issue; however, many financial institutions are slow to fix issues, which usually results in an accumulation of unresolved customer complaints that can lead to a systemic problem. Eventually, this can turn into dissatisfied customers, brand and market erosion, and exposure to regulatory risks. In some cases, a huge financial loss may be incurred from regulatory actions. Between 2012 and 2015, financial institutions incurred an estimated \$7.3 billion in financial loss from enforcement actions by the CFPB (Exhibits 3 and 4). Proactive corrective actions by financial institutions on customer complaints could presumably have lessened the financial cost as well as the reputational damage some have incurred from the regulatory actions.

A major roadblock to proactive corrective action is the slow approval of funding to fix issues, which is often caused by internal organization bureaucracies. Availability of appropriate funding is critical for an effective corrective action process to allow immediate implementation of remedial action.

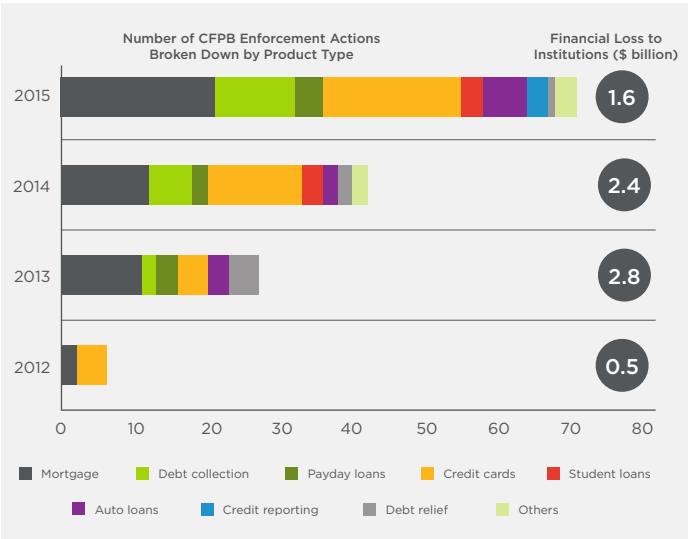
Response

A customer-centric financial institution strives to provide timely response to customers on their complaints. This shows transparency and affirms that the financial institution is focused on individual customer issues. A centralized complaint management program fosters a coordinated feedback mechanism to the customer.

Structured communications routines (such as bi-directional feedback programs) should be set up to mitigate the risk of information silos between stakeholders, often leading to the lack of coordination among the complaints management process stakeholders and poor feedback to the customer.

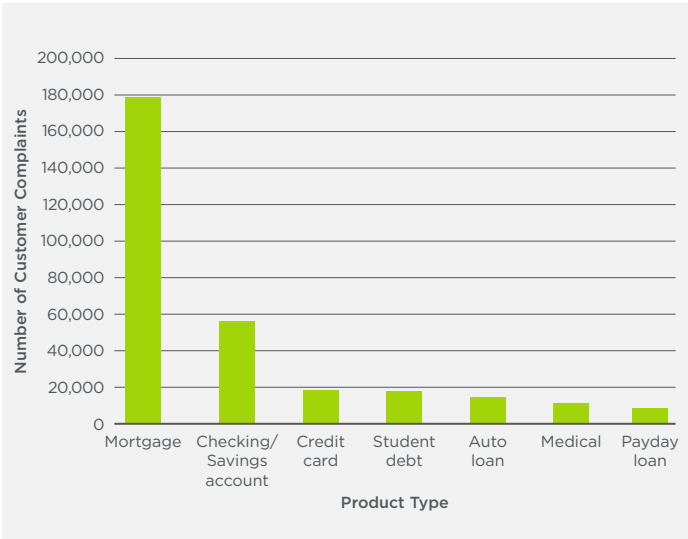
Customer complaints are inevitable. However, they present an opportunity for financial institutions to serve the customer better and build long-lasting customer loyalty. To improve competitiveness and reduce regulatory risks, financial institutions must embrace a centralized complaints management program to enhance the customer experience and improve existing products, services, and operations.

Exhibit 3: Financial Impact of CFPB Regulations on FIs



Source: CFPB Complaint Database (2012-2015) Enforcement Actions

Exhibit 4: Number of Customer Complaints to CFPB



HOW NAVIGANT CAN HELP

Navigant Consulting, Inc. is an independent consulting firm, recognized for its technical competence, innovative solutions, and hands-on approach. Navigant specializes in operations strategy and transformation, regulatory strategy and compliance, and risk management.

Navigant has significant experience working with financial institutions to address the evolving compliance and regulatory landscape related to customer complaints management to ensure our clients are on the forefront of industry best practices and prepared for potential regulatory examinations. Navigant has assisted numerous top-tier servicers in evaluating and improving key elements of their complaints management program as a part of establishing a robust and effective compliance management system. Some of our work include CFPB readiness assessments, Office of the Comptroller of the Currency-mandated redesign work, and State Attorney General Settlement compliance. Navigant understands CFPB expectations and industry best practices for identifying, tracking, reporting, and resolving customer complaints.

As part of previous engagements, Navigant has:

- Conducted detailed assessment of clients' handling and resolution process for customer complaints in accordance with the CFPB examination manual and Regulation X.
- Identified operational and compliance gaps in financial institutions' processes and developed actionable recommendations prioritized by risk rating.
- Developed complaint reports for management and the CFPB, a corporate complaint handling policies and procedures manual, a root cause analysis methodology, and a complaint-reporting database to track against CFPB regulations and industry standards.

Navigant professionals have a wide range of experience and accreditation, including CPAs, CIAs, MBAs, PMPs, Lean Six Sigma experts, financial analysts, industry experts, and former regulators.



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About Navigant's Financial Services Advisory and Compliance Practice

Navigant Consulting, Inc. (NYSE: NCI) provides a wide range of services, from consulting and compliance to litigation and investigative support, to help highly regulated industry organizations address their most critical business issues. Our Financial Services Advisory and Compliance practice works collaboratively with banking, insurance, and investment management clients to achieve their business objectives by improving operational effectiveness and mitigating compliance risks. Our comprehensive service offering focuses on our clients' key opportunities and challenges including core business operations, technology, human capital, regulatory compliance, strategic transformations, customer service, and business process outsourcing. We bring deep industry, consulting, and technical expertise, and are known for partnering with our clients to realize their business objectives.

About Navigant

Navigant Consulting, Inc. (NYSE: NCI) is a specialized, global professional services firm that helps clients take control of their future. Navigant's professionals apply deep industry knowledge, substantive technical expertise, and an enterprising approach to help clients build, manage, and/or protect their business interests. With a focus on markets and clients facing transformational change and significant regulatory or legal pressures, the firm primarily serves clients in the healthcare, energy, and financial services industries. Across a range of advisory, consulting, outsourcing, and technology/analytics services, Navigant's practitioners bring sharp insight that pinpoints opportunities and delivers powerful results. More information about Navigant can be found at navigant.com.

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