

# Analyzing Complaints

## How to Understand your Bank's Complaint Data

BY LIZA WARNER, CPA, CFSA, CRMA

**A**CCORDING TO the March 2020 Consumer Financial Protection Bureau (CFPB) Consumer Response Annual Report, the CFPB received its two millionth complaint in 2019! During that same year, over 350,000 complaints were received. That's a lot of complaint data that reflects consumer concern about financial transactions. For the CFPB and regulatory agencies, the data also highlight potential exam target areas. For banks, the data translate to a problem with sustaining their brand image and ensuring customer loyalty, among other concerns.

For these and other good business reasons, every bank should understand the story that its own complaint data tells. The requirement for an effective and responsive consumer complaint resolution process is consistent across the regulatory agencies and banks have been addressing individual complaints to make sure that customer issues are satisfactorily resolved. Customer satisfaction is important; customer loyalty is invaluable.

What does it mean for a customer to be loyal? We all have our own definitions and there are many companies that have made a healthy business helping others understand and improve customer loyalty. In the simplest terms, a loyal customer is a customer who keeps coming back. A customer who experiences the same issue repeatedly, then complains and receives satisfactory resolution, may be happy—for the moment. But will they be loyal? There is much to learn from a single complaint, but a bank can learn much more from a collection of complaints. In this case, the bank can make improvements in products, services, and processes to prevent issues and future complaints.

Another good reason for a bank to understand its complaint data is that the regulatory agencies have been collecting, analyzing, and using complaint data in their supervision process for years. Timely identification and resolution of regulatory issues are hallmarks of an effective compliance management system (CMS). The complaint data can provide an early indication of potential regulatory issues or issues that may cause inadvertent customer harm. For the data to be helpful, the bank needs to establish definitions and guidance addressing the information to be collected.



A written complaint management program will provide guidance for consistent identification, resolution and documentation of complaints throughout the bank. At a minimum, the program should include:

- The bank's definition of "complaint";
- The process to be followed in taking and resolving a complaint;
- Minimum data to be collected and entered into the bank's complaint database in addition to the narrative details of each complaint;
- Standard data field formats to allow for sorting and trending of data such as: the date of the complaint, product, service, standard categories of complaints related to each product or service, channel (branch, online, social media, customer service center, regulatory agency, etc.), tags to help identify groups of customers such as servicemembers or older customers, response date, complaint narrative, etc.;
- The roles and responsibilities for those involved in the process including customer-facing and call center personnel; monitoring and testing; database management, analysis, and reporting; and bank management and committees reviewing the analysis;
- Reports to the Board of Directors or a board committee to facilitate oversight;
- Risk ratings and their definitions to be assigned to each complaint;
- The escalation process for complaints that are: risk-rated high, reference potential discrimination, or threaten litigation, etc.;

- The process for root cause analysis and resolution of a complaint or group of complaints;

The amount of information may seem overwhelming and as with any data set, its usefulness will be dependent on how it can be sorted and trended to identify patterns. Some smaller banks may opt for a spreadsheet solution while larger institutions will typically have complaint management software in place to gather data and facilitate analysis. The CFPB provides access to their complaint database and publishes the referenced annual reports that may provide insight into areas requiring review. The March 2020 report highlights the products/services and their associated percentage of the 352,400 complaints received in 2019.

How does the distribution of your bank's complaints compare with the information collected by the CFPB? A closer look at the types of complaints in each category may direct you to the areas into which the bank should take a deeper look. Summarized below are the top five complaint categories by product/service.

**Credit or consumer reporting (44 percent):** The CFPB provides the following options to best describe the consumer's complaint:

- Credit monitoring or identity theft protection services;
- Improper use of report;
- Incorrect information on report;
- Problem with a credit reporting company's investigation into an existing problem;
- Problem with fraud alerts or security freezes; and
- Unable to get credit report or credit score.

Complaint	Percentage
Credit or consumer reporting	44
Debt collection	21
Credit Card	8
Mortgage	8
Checking or savings accounts	8
Student Loan	3
Money transfer or service; virtual currency	2
Vehicle loan or lease	2
Personal loan	1
Prepaid card	1
Payday loan	0.6
Credit repair	0.3
Title loan	0.2
Other	0.9

NOTE: The March 2020 CFPB Consumer Response Annual Report excludes some complaints that the bureau received, including multiple complaints submitted by a given consumer on the same issue (i.e., duplicates), whistleblower tips, and complaints the bureau found were submitted without the consumer's authorization. Complaint data in this report is current as of January 1, 2020. Complaint numbers are rounded throughout the report; therefore, the numbers and percentages may not sum to sub-totals or 100%.

The most common issue reported was "incorrect information on report." In addition, of the consumers who identified incorrect information on a report as the issue, most indicated they did not recognize an account on their report. This could be indicative of identity theft, potentially fraudulent sales practices, or it could be an error in the information provided by one of the national consumer reporting agencies. Note that the majority of these complaints were addressed to the credit bureaus rather than banks.

**Debt collection (21 percent):** Consumers can submit complaints about banks collecting their own debt or companies collecting debt on behalf of the original lender (third-party collectors). When filing a complaint with the CFPB, a consumer can select the type of debt for which they are seeking resolution, and the issue that describes their problem. These include:

- Attempts to collect debt not owed;
- Communication tactics;

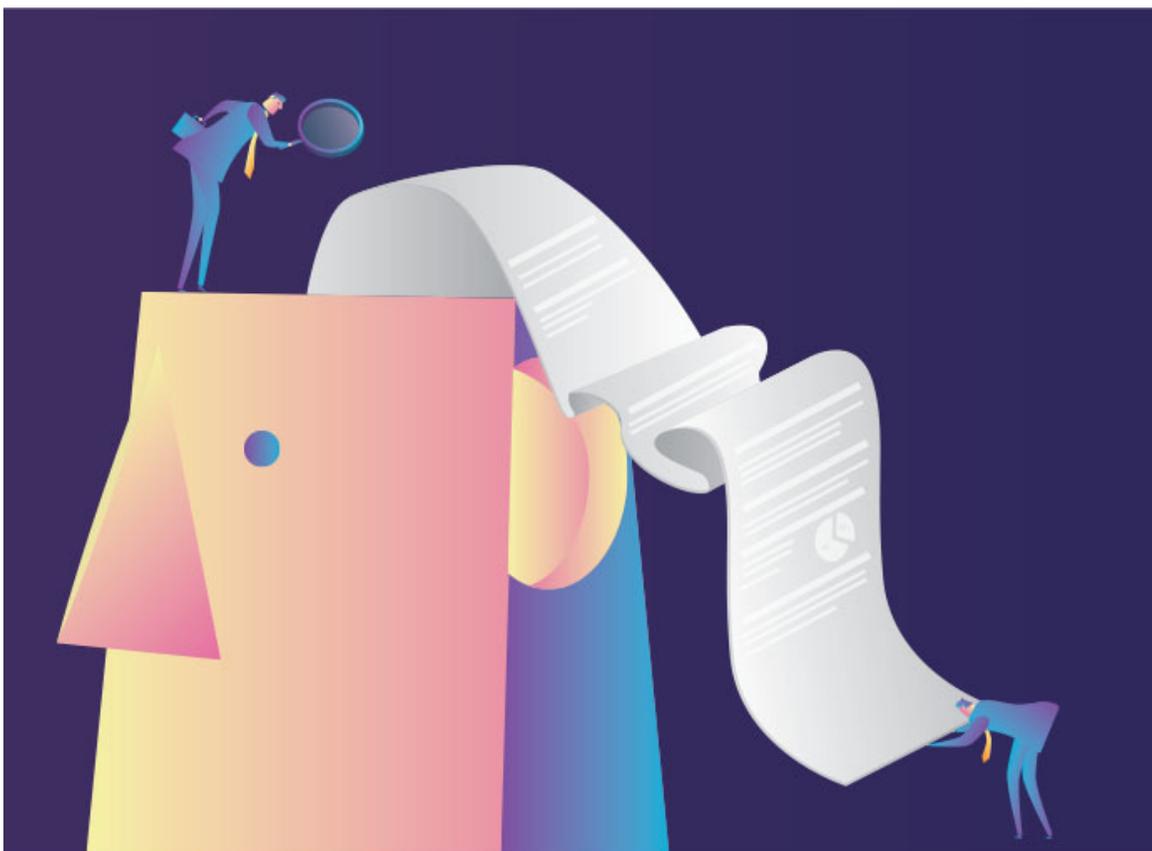
- False statements or representation;
- Threatened to contact someone or share information improperly;
- Took or threatened to take negative or legal action; and
- Written notification about debt.

The most common issue in 2019 was "attempts to collect debt not owed." In these instances, consumers reported that the debt:

- Was not theirs;
- Resulted from identity theft;
- Was paid; or
- Was discharged in bankruptcy and is no longer owed.

If your bank is working with third-party debt collectors, you will want to make sure, on a periodic basis, to review the complaints the third party receives from your customers to ensure they are handled according to your standards and in compliance with debt collection and other consumer regulatory requirements.

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**Credit cards (8 percent):** Consumers complained about one of the following options:

- Advertising and marketing, including promotional offers;
- Closing credit card account;
- Fees or interest;
- Getting a credit card;
- Other features, terms, or problems;
- Problem when making payments;
- Problem with a credit report or credit score;
- Problem with a purchase shown on a statement;
- Trouble using card; and
- Struggling to pay a bill.

The most common complaint in 2019 was "problem with a purchase shown on your statement," more specifically, the chargeback process—whether on transactions initiated by the consumer or unauthorized transactions. Consumers frequently stated disputed transactions were not refunded even though proof of the unauthorized transaction was provided, or they expressed dissatisfaction with a product/service purchased. Review of the bank's error resolution procedures under Regulation Z/Truth in Lending will provide assurance the bank is handling these types of issues in a compliant manner.

Consumers also complained about rewards programs and being unable to redeem advertised benefits such as statement credits, after meeting the program's terms and receiving contradictory information from customer service representatives about credit card rewards and other benefits. These complaints are indicators that rewards programs may not be explained clearly in advertisements or in training materials for bank personnel. Addressing this swiftly will mitigate the potential for what could be construed as unfair, deceptive, or abusive practices.

**Mortgages (8 percent):** The CFPB tracks the type of mortgage and issue that best describes the complaint from the following:

- Applying for a mortgage or refinancing an existing mortgage;
- Closing on a mortgage;
- Problem with a credit or consumer report;
- Struggling to pay mortgage; and
- Trouble during payment process.

The most common issue was "trouble during payment process" including improper application of funds, failure to credit funds to the account, and excessive fees charged to the loan.

- Servicing-related complaints included:
- Late fees being assessed in spite of payments being made on or before the end of the payment grace period;
- Incorrect application of additional money paid above the monthly payment amount;
- Denial of consumer requests to close an escrow account;
- Discrepancies with escrow analysis resulting in increased monthly mortgage payments; and
- Issues related to the loss mitigation process.

In the mortgage originations process, consumers complained about:

- Long application and approval processes;
- Unauthorized credit inquiries;
- Changes in terms that were not disclosed timely; and
- Lenders refusing to honor rate lock agreements after delays in the application process.

With home ownership being the largest contributor to personal wealth, mortgage loan origination and servicing require strong operational and compliance procedures to ensure consumers receive fair and responsible products and services in compliance with the myriad of regulatory requirements.

**Checking or savings account (8 percent):** Of the standard deposit products, checking accounts received the most complaints—not surprising, since they are used in everyday transactions. Consumers complained about issues related to:

- Depositing and withdrawing funds;
- The inability to access their funds because of holds on deposits;
- Discrepancies between when the bank told them funds would be released and when they were made available;
- Overdraft fees—the bank paid transactions when the consumer was not enrolled in an overdraft protection program;
- Mobile banking applications especially when making deposits; and
- Unauthorized transactions.

Though these types of complaints are common across institutions, monitoring and trending these complaints along with root cause analysis may disclose opportunities for improvement in the bank's processes, customer communications, and personnel training, thereby reducing the number of complaints.

## Metrics

There is a lot to be learned from the CFPB complaint data and even more to be learned by reviewing your bank's data. Assuming you have collected standard data about each complaint, you can start to filter the data to identify patterns, trends, and findings that warrant reporting to key stakeholders including business line management, risk management, compliance, senior management, and the Board of Directors. Questions and metrics to consider include:

- The number of complaints received each month, quarter, year and changes between periods;
- Channel where complaints were received (branch, online, customer service center, social media, regulatory agency, Better Business Bureau, third-party partners, etc.);
- Complaints sorted by product or service;
- Within each product or service, the number and type of each complaint received (based on standard definitions);
- Complaints received before and after rollout of new products or system changes;
- Analysis of COVID-19 complaints;

*(Note: FinCEN issued several advisories related to COVID-19 fraud and scams, and the CFPB also published a Complaint Bulletin in May 2020 addressing complaints mentioning coronavirus keywords—see FinCEN Red Flags Flags for COVID-19-Related Fraud: What You Need to Know, on page 4 of the November–December 2020 issue.)*

- Whether any category of customer was impacted more than others for each type or pattern of complaint received, for example, service-members, older customers, low-moderate income customers, etc.;
- Classification of complaints as low, moderate, or high, based on the bank's risk rating definitions (Report on the change between reporting periods and attendant reasons);
- The number of high-risk complaints related to potential discrimination, litigation, and reputation risk and whether they were satisfactorily resolved;
- Root cause analysis for isolated complaints and complaint trends to identify whether they may affect a larger population of customers and to identify required changes in process, training, or communication to deter future issues and complaints;
- Review of complaint narratives to understand the nature of the complaints;
- CFPB and other regulatory data or enforcement actions to see if complaints are highlighted as instrumental in the action (You can apply the learning to your own bank); and
- Remediation amounts and trends.

Complaint data is also quite useful to the first (business), second (compliance and risk management), and third (internal audit) lines of defense in executing day-to-day mandates. To illustrate, below are a couple of examples.

**Example No. 1—Payment posting:** A mid-size bank's customer care department (responsible for fielding and resolving consumer complaints) received an increased number of complaints related to late fees on retail loans in the last month. The increase seemed unusual, so they promptly notified the Retail Loan Services (RLS) department. Upon further investigation (root cause analysis), RLS isolated the complaints to a period after the bank transitioned to a third-party lockbox service. After discussions with the third party, the bank became aware of processing delays at the third party. An onsite visit further revealed the third party was not tracking when payments were received and was not processing all payments on the day or as of the day received, as required by the Truth in Lending Act. This resulted in certain payments being posted late and accounts being assessed a late fee. The bank reviewed all late fees for the affected period to determine the extent of customers impacted by the lax process. Late fees were refunded to all customers who were incorrectly charged.

**Example No. 2—Introductory rates:** The compliance department reviewed complaint information as part of its normal monitoring routine and noted an increase in home equity line of credit (HELOC) promotion complaints. The promotion provided an introductory interest rate for the first six months of the HELOC. Upon further investigation (root cause analysis) the compliance department found the system instructions for setting up the introductory rate were not clear, resulting in some customers not receiving the lower introductory rate. In addition, controls did not exist to validate proper set up after the fact. For example, there was no daily report of new HELOCs boarded to the servicing system that includes rate information. The issue could have been detected proactively if this report was reviewed regularly.

Consumer complaints provide insight into the effectiveness of a bank's operations and CMS. Patterns, trends, and root cause analysis raise red flags that may point to potential regulatory issues, particularly unfair, deceptive and abusive practices. According to the CFPB Complaint Database, nearly 340,000 complaints had been received in 2020 through October 27, thus tracking more complaints than at the same time in 2019. During these uncertain times, especially as financial transactions are being conducted online without as much face-to-face or verbal interaction, banks should actively focus on building and reviewing a complaint management program. It is important to address complaints swiftly, proactively and effectively to retain loyal customers.

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### ***ABOUT THE AUTHOR***

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