protiviti®
Face the Future with Confidence

Customer Service and Complaints: How Firms Can Build Long-Term Resilience and New Capabilities

Regulatory agencies around the world have intensified their focus on financial institutions' customer service activities amid a dramatic COVID-19-related surge in complaints. These stepped-up regulatory efforts come during a period when many customer services functions have been forced to pivot to 100% remote operations and as many financial services companies are looking to build up their capabilities for managing complaints to meet the increased activity.

At the peak of the pandemic, financial institutions reacted with short-term measures to servicing customer complaints. Since then, some firms have successfully launched long-term sustainment plans while many others, still rebounding from the pandemic's impact, continue to struggle with their approach.

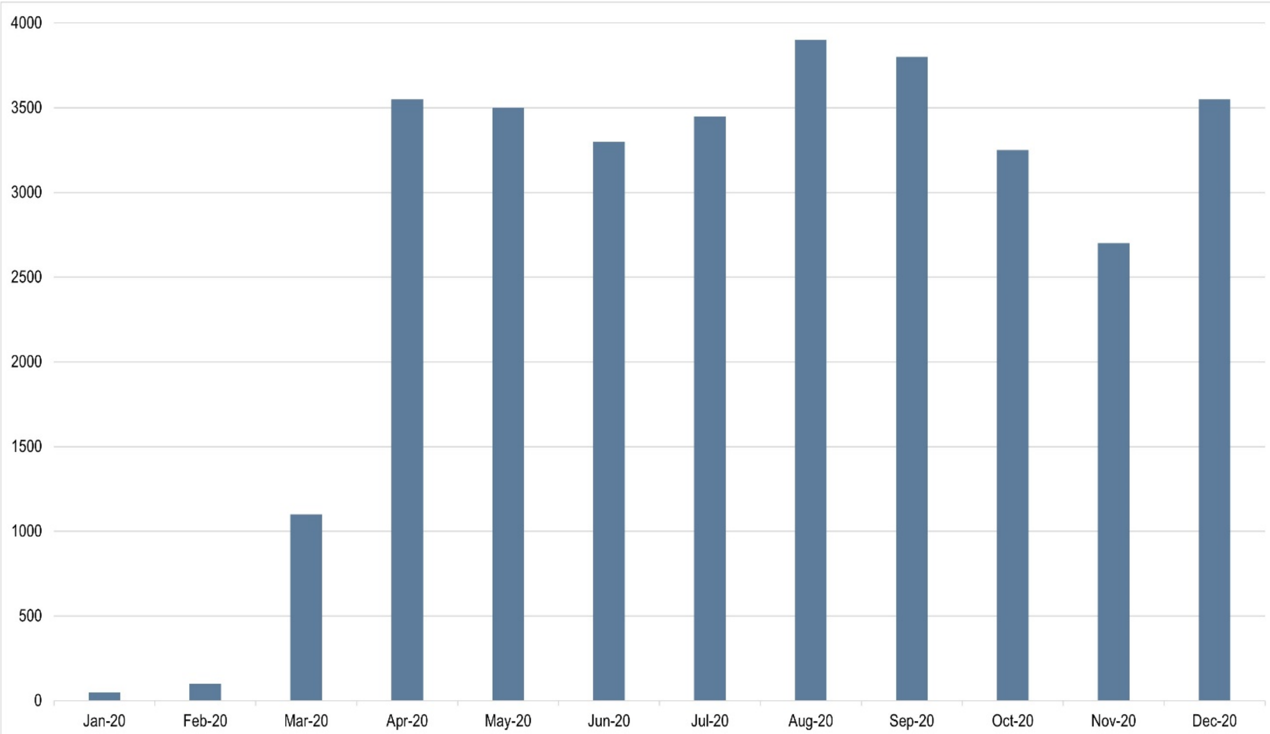
Given the heightened regulatory attention, financial institutions should reexamine their customer service models, using the lessons learned during the height of the pandemic to understand how these models can be enhanced to meet changing regulatory expectations and to improve their own resilience to future market disruptions.

What's Driving the Increase in Customer Complaints?

Beginning in April 2020, the U.S. Consumer Financial Protection Bureau (CFPB) captured more than 3,000 complaints mentioning *coronavirus* or other related keywords nearly every month, according to its 2020 Consumer Response Report and as shown in **Figure 1** below.

For U.S. financial services companies, the rollout of emergency relief programs, such as the Paycheck Protection Program (PPP), unemployment benefits, CARES Act loan forbearance and loan payment deferrals, required additional customer service support. Calls related to these programs and customer payment disputes and fraud claims increased, as did individual borrower efforts to obtain loan forbearance and modify mortgages and other consumer loans.

Figure 1: Complaints to CFPB mentioning *coronavirus* or related keywords, by month.



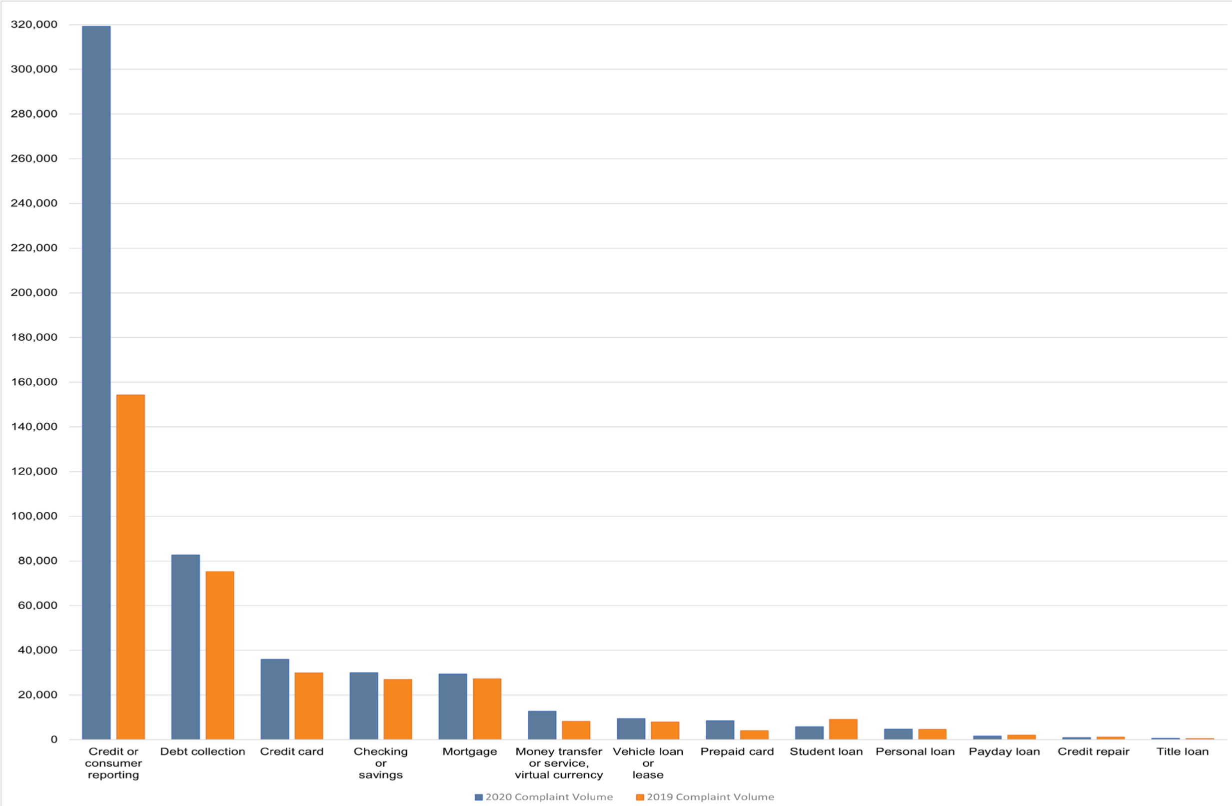
Source: U.S. Consumer Financial Protection Bureau

As stay-at-home orders went into effect, a number of large global banks with multiple customer service channels and consumer products encountered various levels of disruptions. Some entire channels could not service customers after shutting down branches or offshore centers. In addition, customers' increased use of social media and online press coverage highlighting cases of slow or inadequate responses to resolve customer inquiries amplified regulators' concerns over how customers were being treated.

The CFPB disclosed that complaint volume increased by 54% over the prior year to approximately 542,300 complaints in 2020. As **Figure 2** below shows, the biggest driver of the increase was credit and consumer agency complaints, which increased by 59% year over year. Other categories of complaints included debt collection, credit card, checking or savings, mortgage, money transfer, vehicle, and prepaid card complaints

Meanwhile. companies with technology-enabled customer service channels (such as websites or mobile automated responses using chatbots) faced fewer spikes in service disruptions compared to those that had to quickly adjust channels, like offshore contact centers.

Figure 2: Volume of complaints to CFPB by financial product or service and year*



*The volume of complaints is not equal to the volume of consumers who submitted complaints to the bureau. It excludes complaints where the consumer did not indicate a specific consumer financial product or service.

Source: U.S. Consumer Financial Protection Bureau

Heightened Regulatory Scrutiny in the United States and Internationally

In the United States, the acting head of the CFPB, Dave Uejio, indicated in a February 10, 2021 blog post that the bureau is focused on escalated complaints and is aware of some companies not meeting their obligation to respond to complaints. "It is the bureau's expectation that companies provide substantive responses that address the issues consumers describe in their complaints," Uejio said, adding that he has requested the bureau's Consumer Response unit to prepare a report highlighting the companies with a poor track record on these issues. "We will be publishing this analysis and the senior leadership of these companies can expect to be hearing from me."

The United States is not the only country seeing a rising trend in complaints escalated to regulatory agencies. A quick sampling from regulatory agencies around the world shows similar trends. For example, in the United Kingdom, the Financial Ombudsman Service noted that complaints across most credit products continued to rise in Q3 2020.

The Australian Financial Complaints Authority (AFCA) released data showing that between July 1, 2019, and June 30, 2020, complaints increased 14%, compared with 2018-2019. The data shows the product categories driving complaints include credit cards, consumer loans, housing finance, and deposit taking or payments.

Also, many international regulatory agencies are signaling that there will be increased scrutiny of complaints handling and resolution. Among them, the U.K.'s Financial Conduct Authority (FCA), AFCA and the Monetary Authority of Singapore (MAS) have responded with various statements and actions that make clear that they regard companies' attention to complaints and their resolution time as critical.

In a statement, the U.K.'s FCA said it considers that "firms have now had enough time to embed new ways of working, and accordingly, failure to comply with complaint handling requirements should only arise in exceptional circumstances connected to the impact of COVID-19."

AFCA noted that between July 2019 and June 2020, $258.6 million in compensation was awarded through AFCA's dispute resolution work. In addition, the agency noted in its 2019-2020 annual report that it had made written submissions on areas of reform, including draft legislation for enforceable industry codes of practice.

And, in March 2021, the MAS published a report on draft regulations for complaints handling and resolution in response to industry feedback. The regulations are expected to take effect January 3, 2022.

How Financial Institutions Have Responded

To keep pace with growing customer service demands and meet timelines to respond to regulatory complaints, financial services companies have taken numerous actions including:

- Quickly establishing remote working environments to avoid bumps in service periods, and accelerating moves to a cloud infrastructure if current on-premise infrastructure cannot handle the increased volume of remote work.
- Shifting overall service center placement, such as relocating from offshore to onshore, centralizing on-shore location, or consolidating off-shore operations to better support remote work.
- Accelerating the digital transformation of customer service channels from a nonpersonal approach to a personal one and enhancing those channels' capabilities, with improvements such as sophisticated chat bot responses.
- Handling customer-inquiry surges by hiring contract resources or training redeployed staff.

Building Overall Resilience for Future Disruptions

While these immediate responses have proven to be useful short-term remedies, financial services firms need to plan and implement longer-term strategic courses of action to deal with future customer service disruptions. There are number of important questions that business leaders should be considering around resilience. For example, in the event that another pandemic-level disruption reoccurs, does the business have a resilience strategy to withstand, or recover from such a disruption and continue to perform all customer service functions? Does the company have remote-work and return-to-office strategy? Will staff be redeployed? How will it handle spikes in channels?

The short-term strategies many firms are deploying could come at a hidden, long-term cost. Spikes in customer service inquires may have actually been depressed for certain credit products because customers were granted relief options such as payment deferrals, no-fees solutions and other favorable terms. Once the government relief options expire, it could drive another increase in inquiries. Also, the trends that exacerbated the spike in customer inquiries, such as the use of social media to voice complaints, will continue.

Financial institutions should create the right infrastructure to handle this potential surge and to avoid the type of backlogs and issues they faced during the peak of the pandemic. The root cause of the original spike in inquiries was the disruption caused by the pandemic, including the suspension of face-to-face operations, the immediate shift to a remote work environment and the overwhelming of certain customer service channels that existing technology infrastructure could not support. Now, a subsequent cause might be that favorable terms associated with relief programs will be ending.

Enhancing Technology, Data and Digital Infrastructure

There is a lot at risk for firms that fail to make long-term investments to ensure resilience in their customer service programs. In addition to costly backlogs in customer complaints, they face additional regulatory scrutiny, loss of customers to competitors and liabilities arising from not servicing an inquiry.

Among the steps to take now, firms should review their relevant technology infrastructure and evaluate all points of contact with the customer and servicing. This process can begin with these immediate actions:

- Set strategy based on the customer service experience the institution wants to achieve.
- Perform a current-state assessment of customer servicing and complaints volume against the set strategy by answering these questions:
    - What are all the contact points that occur on-shore and off-shore and through what channels are they reached?

    - Where is complaint volume coming from – both internally and those that are escalated to the regulators?
    - What types of complaints does the institution receive?
    - What is the cost to service the complaints?
- Does a proper complaints governance framework exist to monitor, report on and resolve complaints in a timely manner?
- Determine the short-term improvements to leverage complaints by, for example, shifting the complaints intake to self-serve channels, auto-adjudicating financial related complaints, and improving first-contact resolution.

Once those immediate actions are taken, these productive measures can be implemented to build long-term resilience in servicing customers:

- Invest in the in-house data infrastructure used to capture data typologies surrounding the outcome of disputes sent through all channels (i.e., evaluate and classify customer contact center types).
- Utilize those typologies in a predictive analytics workstream to identify which customer contract points lead to the highest number of inquiries that are escalated to complaints internally and to regulatory agencies. Mitigation actions derived from the predictive analytics workstream should be implemented to drive the desired customer outcomes. The goal is to become more efficient at reducing the number of inquiries that lead to complaints and to avoid spikes in complaints escalated to regulators.
- Modernize technology infrastructure to handle a disruption in operations or channels
    - Address the people and process risks of workers going off-line or reaching capacity by moving to the cloud to allow the dispersion of employees or relocation.
    - Invest in technologies that can provide contactless responses and communications to customers, such as call-back features or chatbots. These measures may enable resolution of lower-risk contact points and may also highlight contact points that often lead to complaints.
- Invest in process simplification to look at single points of failure that may result in a dispute being escalated to a complaint.
- Re-evaluate the costs and benefits of the contact center activities to drive continuous improvement.
- Refresh the compliance governance framework and complaint resolution process.

It’s important that firms learn from the experience of born-digital leaders during this period. Specifically, in the area of servicing customer inquiries, firms with more technology-enabled contact center responses suffered less disruption than those that used the old channels of customer service. Companies should start directing their customers toward, and educating them on, their digital channels and enhance those channels. For instance, a chatbot should be able to cover different response areas with good response times.

Finally, many firms today are struggling to leverage their own disparate internal data and analytics. The consumer client is looking for more predictive or intuitive output or capabilities in providing solutions. Consumers who seek resolution rather than context are jumping right into digital to complain. The time is now ripe for investment in data and analytics. A number of large financial service institutions have already made this commitment, enhancing their apps and other customer service capabilities, and even those that previously were on the fence have been forced by the pandemic to accelerate digital transformation plans by about five years.

Even without the regulatory attention, the message is very clear: Those companies able to leverage data and analytics and invest in technology infrastructure and processes that will allow them to get in front of complaints will be more successful and resilient in the longer term.

Contacts

Nirav Shah
Managing Director,
Risk and Compliance
+1.312.476.6458
nirav.shah@protiviti.com

Lucy Pearman
Managing Director,
Global Risk & Compliance
Transformation Leader
+1.212.603.8334
lucy.pearman@protiviti.com

Joe Petitto
Managing Director
Business Performance
Improvement
+1.571.382.9705
joe.petitto@protiviti.com

protiviti®