

# Complaints as a Supervisory and Risk Management Tool

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*Alinda Murphy*

*Senior Examiner*

*Federal Reserve Bank of Kansas City*

*Laurie Lavaroni*

*Senior Compliance Manager*

*Federal Reserve Bank of San Francisco*

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# Agenda

- Introduction
- Federal Reserve System (FRS) Complaints Function
- Complaints as a Supervisory Tool
- Complaints in Compliance Risk Management (CRM)

# Introduction

- A supervisory view of complaints
  - Gauge the adequacy of an institution's CRM program
  - Indicate consumer protection concerns that may require industry regulatory guidance

# FRS Complaints Function

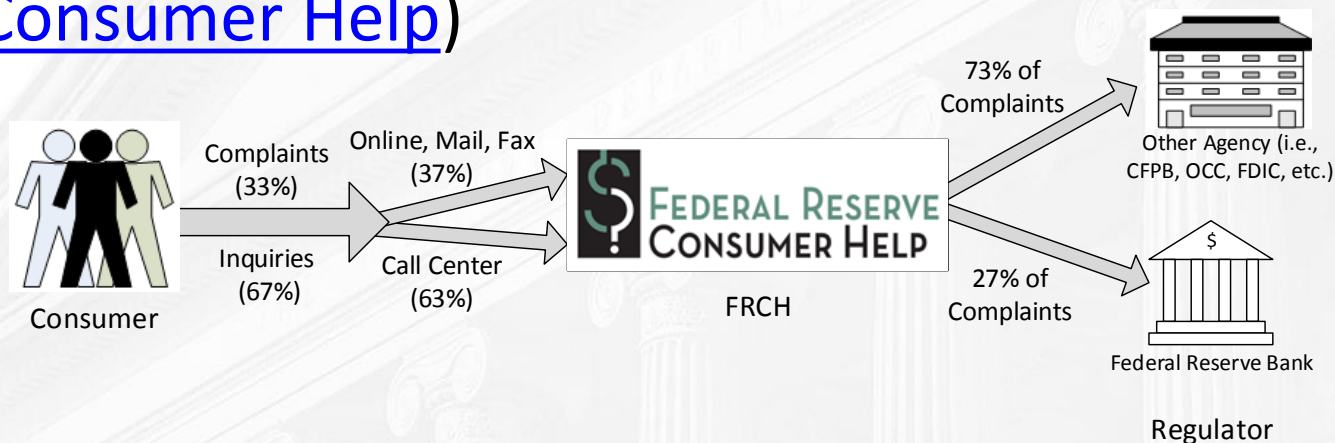
- Three complaint investigation process goals:
  - Safeguard the rights of consumers;
  - Ensure prompt and consistent responses to consumer complaints against entities regulated by the Federal Reserve; and,
  - Provide a means for identifying acts or practices of banks that may require further investigation and possible regulatory action.

# FRS Complaints Function *(continued)*

- Complaint definition
  - Exceptions
    - Orally submitted
    - Insufficient information or documentation
    - Litigated
    - Safety and Soundness issue
- Supervisory jurisdiction
  - Institution under FRS supervision
  - Joint supervision with Bureau of Consumer Financial Protection

# FRS Intake Process

- Two primary intake sources
  - Non-specialty complaints ([Federal Reserve Consumer Help](#))



2017

- Specialty complaints (Appeals, Presidential, Congressional, Chairperson, etc.)



# FRS District Investigation Process

## Retrieve

- Obtain complaints from the database

## Investigate

- Request bank response/ supporting documentation
- Adhere to procedures and time frames
- Analyze bank response
- Determine whether a violation of law or bank error occurred

## Respond

- Send consumer correspondence summarizing investigation process and conclusions

## Report

- Ensure quality
- Identify institution and industry trends
- Interface with supervision tools



# Complaints as a Supervisory Tool

## Investigation Focus

- Narrow focus on the consumer's allegation
- Point-in-time review of the stated complaint context
- May result in a target review, advisory visit, acceleration of a supervisory event, or specific activities during the next supervisory event

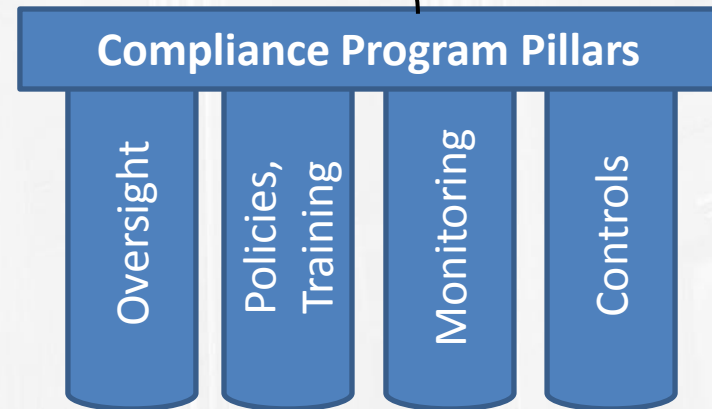
## Supervisory Focus

- Broad focus on complaint root cause and integration into bank compliance risk management program
- Considered during every type of supervisory event (monitoring, ongoing supervision, examination) and particularly when scoping an examination

# Complaints as a Supervisory Tool

*(continued)*

- Documenting and considering complaints during monitoring, ongoing supervision, and examination scoping
- May affect any of the four compliance program risk management pillars ([CA 13-19](#))
- Scoping “pertinence”
  - Quantity
  - Types
  - Resolution



# Complaints as a Supervisory Tool

*(continued)*

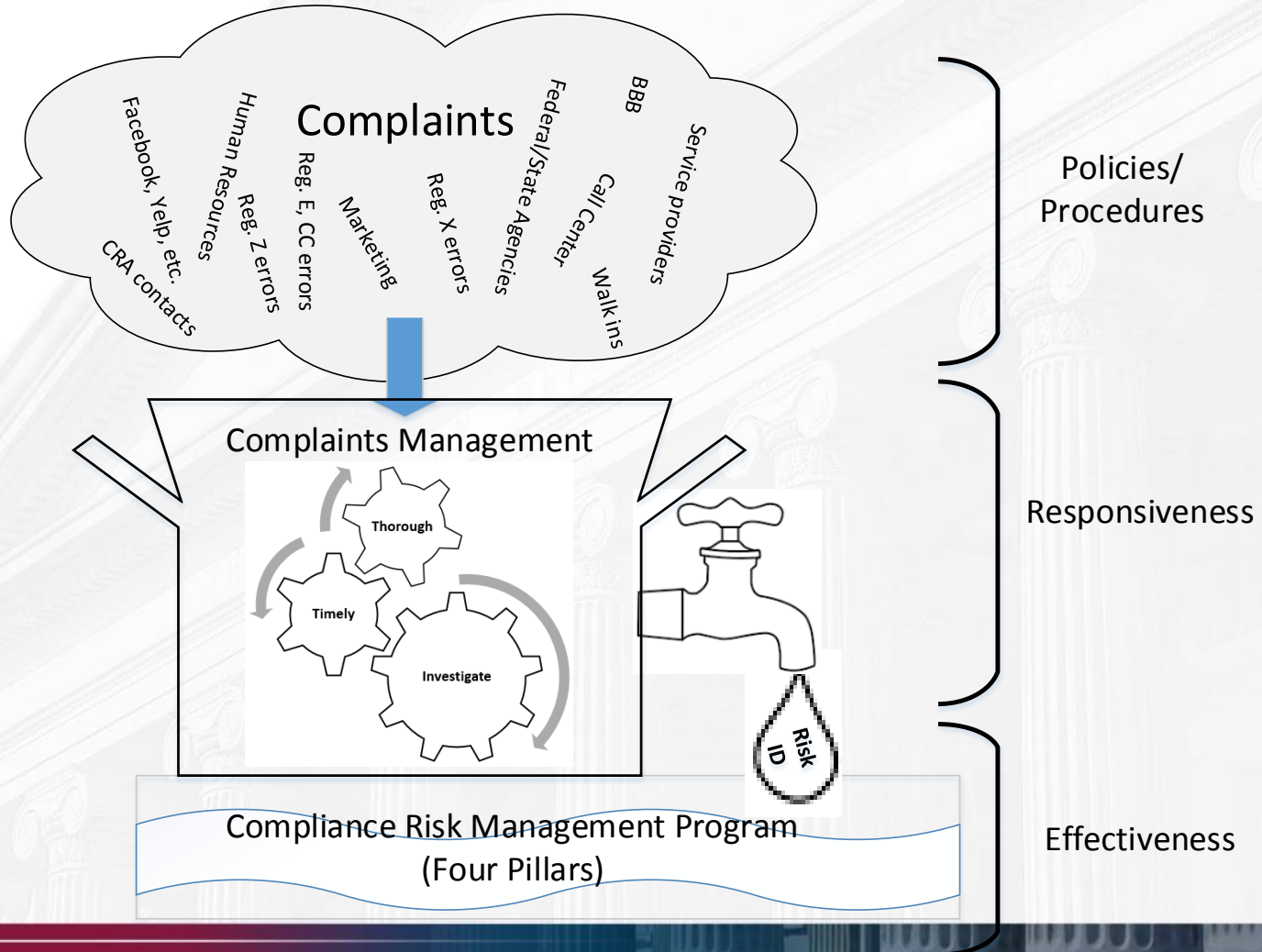
- Scoping “pertinence”– cont’d
  - Complaint issues often highly pertinent
  - Unfair or Deceptive Acts or Practices (UDAP) issues
  - Discrimination (lending and deposit) allegations
  - Federal consumer protection law violations
  - Bank errors (i.e., software and/or vendor management issues, front-line staff misinformation)
  - Community Reinvestment Act (CRA) specific comments/complaints

# Complaints as a Supervisory Tool

*(continued)*

- Uniform Interagency Consumer Compliance Rating System consideration ([CA 16-8](#))
  - Consumer complaint resolution process assessment factors
    - Responsiveness
      - Thorough
      - Prompt
    - Effectiveness
      - Monitoring
      - Risk identification/management
      - Addressing consumer harm/customer service

# Complaints in CRM

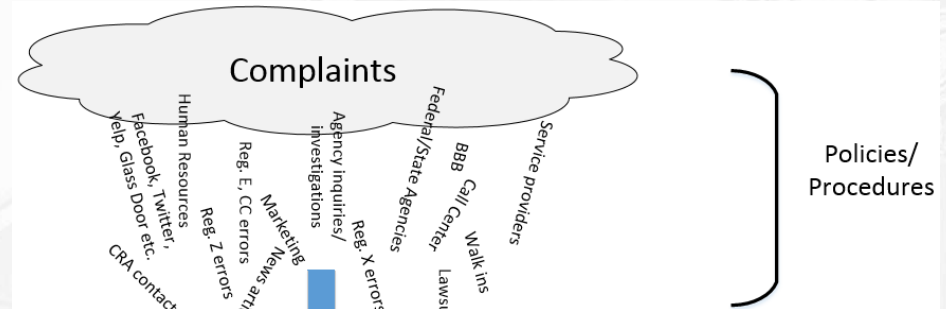


# Complaints in CRM *(continued)*

- Beneficiaries of an effective complaint management system
  - Customers
  - Institution
    - Employees
    - Organization

# Policies/Procedures

- Define
- Find
- Ensure controls  
(regulatory, internal policies)
- Train
- Document
  - Who, what, where, when
  - Later: Reason, action taken, root cause



# Policies/Procedures Considerations

- Be cautious of:
  - A complaint definition that is too narrow
  - Overly decentralized complaint intake and management
  - Policies/practices that facilitate underreporting or discouraging complaints



# Responsiveness



- Thorough
  - Proper escalation
  - All issues addressed (customer viewpoint)
    - Making customer whole
  - UDAP consideration ([CA 04-2](#))
- Prompt
  - Regulatory requirements (i.e., error resolution)
  - Internal policy compliance

# Responsiveness Considerations

- Be cautious of:
  - Issues improperly escalated or referred multiple times
  - Complaints closed without thoroughly understanding customer concerns
  - Customer promptness expectations based on complaint channel

# Program Integration

- Risk identification
  - Impact analysis
    - Monetary
    - Regulatory/Safety and Soundness
    - Reputation
  - Root cause analysis
    - Insight from Lean Six Sigma tools
      - “5 Whys”
      - Fishbone diagram



# Program Integration *(continued)*

## – Root cause analysis (cont'd)

- “5 Whys” root cause analysis example

Complaint: Teller did not tell the customer a deposit hold would be placed, resulting in overdrafts.

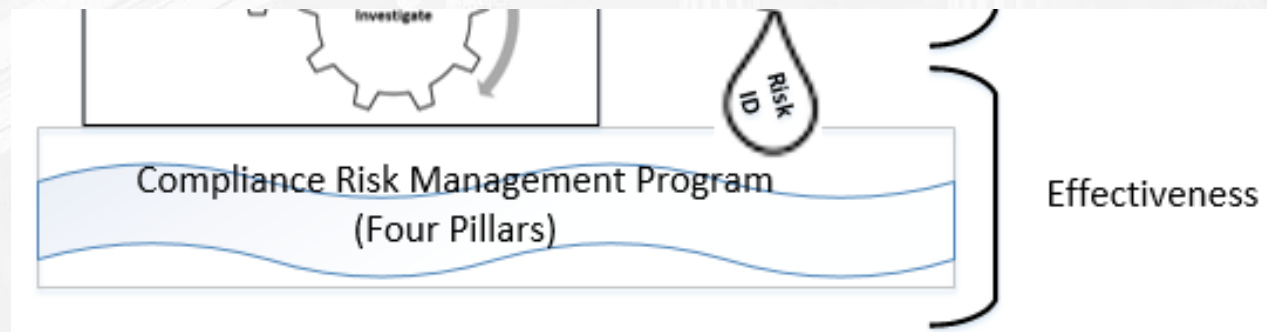
Investigation Result—

Teller did not give customer a deposit hold notice as required by Regulation CC

1. Why—Teller told not to
2. Why—Back office would send notice later
3. Why—Process change
4. Why—Operations noted high volume of teller notice errors
5. Why—Ineffective teller training and coaching
6. Why—No documentation with examples
7. Why—etc.

# Program Integration *(continued)*

- Controls, policies, and procedures
- Monitoring/MIS
  - Complaint documentation completion
  - Which complaints merit monitoring (“pertinence”)
- Oversight



# Program Integration Considerations

- Be cautious of:
  - Stopping before you understand root causes
  - Applying complaint categories that do not adequately consider actual or potential violations of law and consumer harm
  - Minimizing customer service issues
  - Ignoring “near misses”

# Summary

- Complaints provide a unique view of compliance risk and consumer harm
- The FRS complaints function is designed to detect and address customer harm and identify areas needing supervisory and regulatory focus
- Complaints should be leveraged with a complaints management process designed to enhance your bank's CRM program

# Resources

- Consumer Compliance Outlook Article, [Enhancing the Compliance Management Program with Complaint Data](#) (Second Quarter 2012)
- Outlook Live Webinar, [UDAP—Analysis, Examinations, Case Studies, and Emerging Risks](#) (March 5, 2013)
- CA Letters
  - [CA 04-2](#), Unfair or Deceptive Acts or Practices by State-Chartered Bank
  - [CA 13-19](#), Community Bank Risk-Focused Consumer Compliance Supervision Program
  - [CA 16-8](#), Uniform Interagency Consumer Compliance Rating System
- [Federal Reserve Consumer Help](#)





# Questions?