

Problems, Complaints and the CFPB—The Impact of Problem Prevention on the Customer Experience

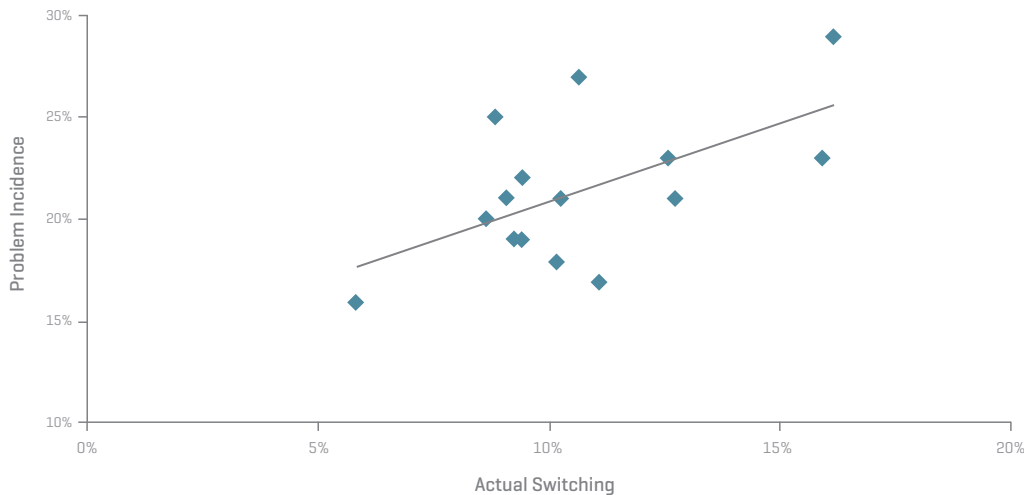
It is critical for financial institutions to prevent problems in order to improve their performance on key financial metrics, such as share of wallet and retention. In fact, problem prevention and resolution, key drivers of loyalty and advocacy

across many of the industries measured in J.D. Power studies. More specifically, within the retail banking industry, the occurrence of problems is the single largest driver of customer attrition.

“It is critical for financial institutions to prevent problems in order to improve their performance on key financial metrics, such as share of wallet and retention.”

	Insurance-Auto	Hotel	Residential Electricity	Retail Banking	Wireless Customer Care
Transparency	✓		✓✓	✓	
Ease of use	✓	✓			
Personal interaction	✓	✓✓		✓	✓
Pricing	✓✓		✓	✓	
Problem prevention	✓✓	✓	✓	✓✓	✓
Problem resolution			✓	✓✓	✓✓
Product reliability		✓	✓✓		✓
Social responsibility		✓	✓✓		
Timeliness		✓		✓	✓

LINK BETWEEN PROBLEMS AND ACTUAL SWITCHING IN RETAIL BANKING

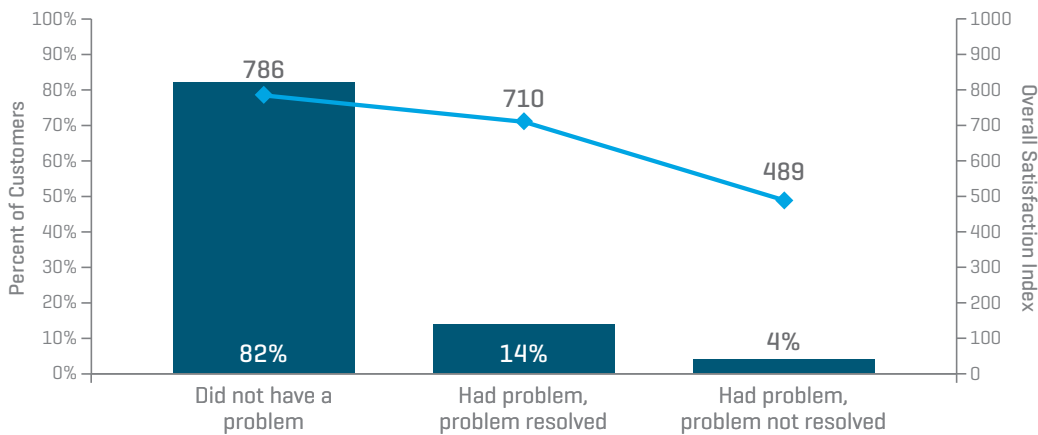


Source: J.D. Power 2012 U.S. Retail Banking Satisfaction StudySM

The ROI of Problem Prevention

Financial institutions that invest in problem prevention stand to benefit from a clear return on investment (ROI). Once a problem occurs, it is extremely difficult to restore satisfaction and loyalty metrics to pre-problem levels, even when the problem is resolved, which underscores the importance of prevention.

PROBLEM INCIDENCE AND RESOLUTION—RETAIL BANKING



% Definitely will reuse	33%	19%	6%
% Definitely/probably will switch	8%	20%	44%

Source: J.D. Power 2013 U.S. Retail Banking Satisfaction StudySM

Additionally, the incidence of problems has a direct impact on servicing costs. Based on data from the *J.D. Power 2013 Retail Banking Satisfaction Study*,SM a 5-percentage-point reduction in problems may result in considerable cost savings related to staffing and resource allocation.

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1,000,000
Customers



A 5-point reduction in problem incidence equates to 16 full-time employees for every 1,000,000 customers.

Assumptions: 97% use a non-automated channel to interact, an average CSR can handle 6.5 contacts per hour, an average work year of 1,750 hours, and average cost per full time employee is %75,000

Source: J.D. Power 2013 U.S. Retail Banking Satisfaction StudySM

Prioritizing Problem Prevention Efforts

While proactively preventing all problems from occurring is ideal, there are certain problem types that should receive higher levels of focus. Top priority should be placed on problems that are most impactful on satisfaction and loyalty, along with those that tend to be most difficult to resolve. Additionally, there are certain problem types across different business lines within the financial services industry that are more likely to be reported to the Consumer Financial Protection Bureau (CFPB). Financial institutions should also place a higher level of priority on preventing these problems from occurring.

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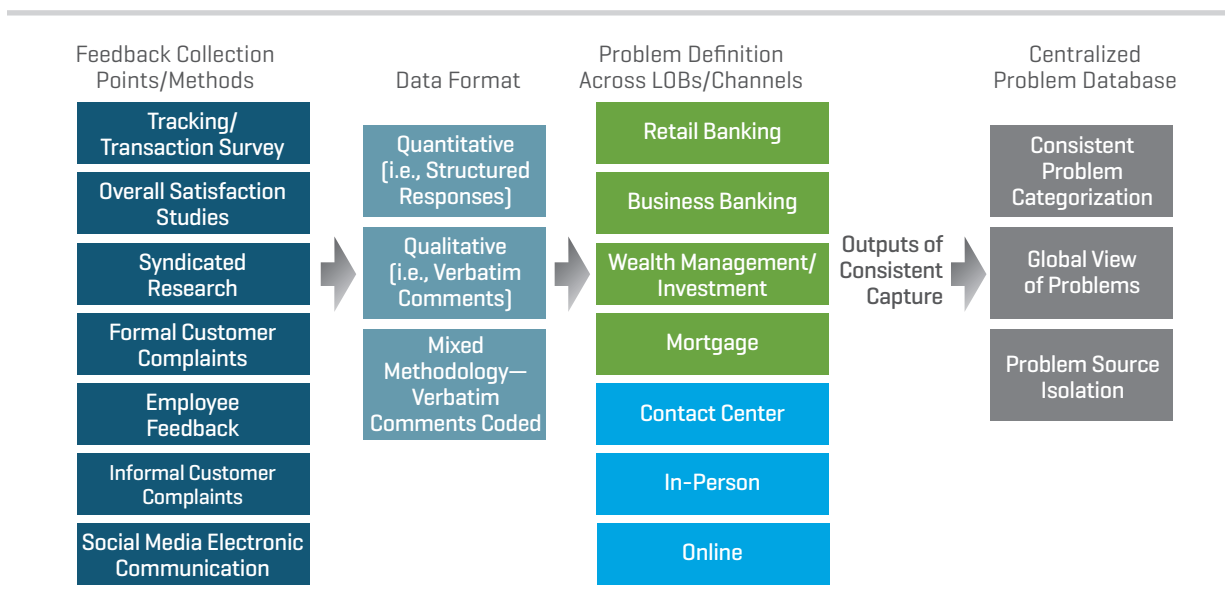
The table below identifies which problems tend to be most impactful on satisfaction, most difficult to resolve, and most likely to be reported to the CFPB. Problems with poor service and fees/service charges/rates are common themes across each business line, while funds availability (retail banking) and loan modifications (mortgage) also represent problem types that should receive priority when determining problem prevention techniques.

Business Line	High Impact Problems	Difficult to Resolve Problems	Problems Most Likely to be Reported to CFPB
Retail Banking	<ul style="list-style-type: none"> Fees/Service Charges/Rates Poor Customer Service Funds Availability 	<ul style="list-style-type: none"> Loan Application Process Poor Customer Service Product/Service Features 	<ul style="list-style-type: none"> NSF Fees Other Fees Funds Availability
Credit Card	<ul style="list-style-type: none"> Poor Customer Service/Poor Problem Resolution Late Fees/Annual Fees Interest Rate Charges/Changes 	<ul style="list-style-type: none"> Late Fees/Annual Fees Interest Rate Charges/Changes 	<ul style="list-style-type: none"> APR Issues Billing Collections Credit Reporting
Mortgage	<ul style="list-style-type: none"> Poor Customer Service Loan Modification Billing Statements/Payments 	<ul style="list-style-type: none"> Poor Customer Service Loan Modification Repayment/Foreclosure/Short Sale/Deed-in-Lieu Issues 	<ul style="list-style-type: none"> Loan Modification Collections Foreclosure

Source: J.D. Power 2012 Primary Mortgage Servicer Study,SM J.D. Power 2012 Credit Card Satisfaction Study,SM J.D. Power 2013 U.S. Retail Banking Satisfaction Study,SM Consumer Financial Protection Bureau (CFPB)

Problem Prevention Methods

One of the first steps toward improving problem prevention is a comprehensive capture of the problems being experienced by customers, which will help financial institutions understand general problem themes.



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From that point, it is critical to ensure that problem capture systems are able to provide advanced granularity, which will allow financial institutions to identify problem root causes. Through identification of problem root causes, institutions are better able to implement processes for resolution. Using the example below, it is much easier for a financial institution to develop a process for resolving a problem with unexpected monthly fees, as opposed to resolving a problem with fees.

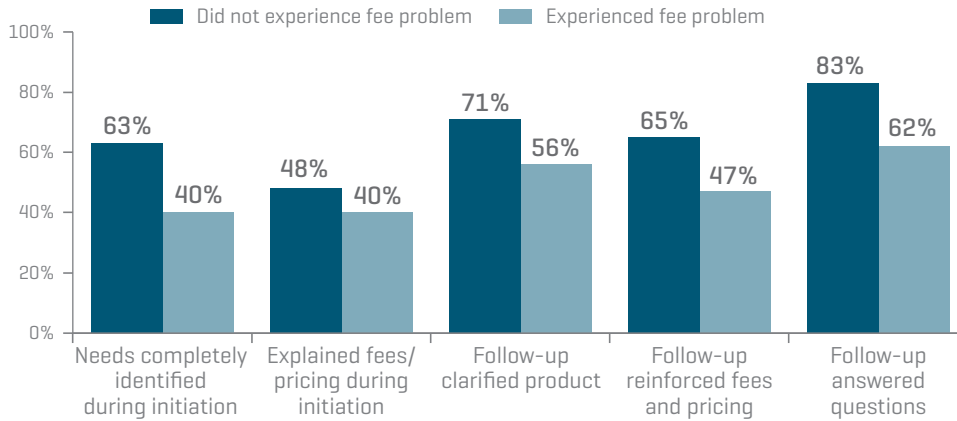
Customer Problem Comment

“I have been a customer for 10 years and came to your bank for free checking. Without telling me, you started charging a monthly fee. I am closing my account tomorrow as soon as your branch opens.”

Primary Categories		Secondary Categories		Tertiary Categories	
ATMs		Fees: ATM		Fees: Monthly—Charged in Error	
Bank Policy		Fees: Minimum Balance		Fees: Monthly—Other	
Branch		Fees: Error		Fees: Monthly—Too High	
Brand Image		Fees: Other		Fees: Monthly—Unexpected	
Customer Service		Fees: Monthly	▶	Fees: Monthly—Too Many	
Credit Card		Fees: Overdraft			
Debit/ATM Card		Fees: Service Fees			
Fees	▶				
Interest Rates					
Phone System					
Online Banking/Website					
Phone System					
Policy					

Regarding specific problem types experienced by customers, best practices for problem prevention tend to arise from analysis of data contained in J.D. Power’s suite of financial services customer satisfaction studies. For example, communication is a key best practice for preventing fee-related problems experienced by retail banking customers, and may also help prevent escrow problems among mortgage customers. In addition to communication, other best practices for problem prevention are often centered on transparency, clarity, and knowledgeable/courteous employees.

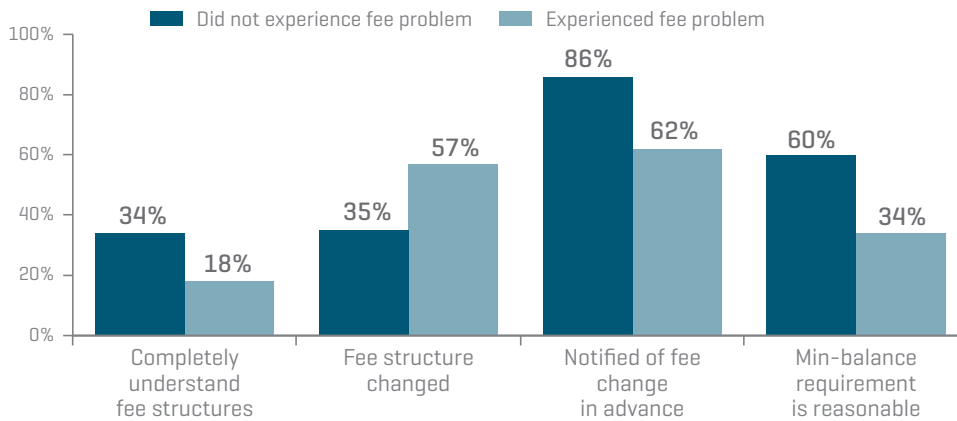
OPTIMIZING ACCOUNT INITIATION AND FOLLOW-UP PROCESSES



Note: Multiple responses allowed

Source: J.D. Power 2013 U.S. Retail Banking Satisfaction StudySM

GENERAL BEST PRACTICES



Note: Multiple responses allowed

Source: J.D. Power 2013 U.S. Retail Banking Satisfaction StudySM

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Did Not Experience Escrow Problem		Experienced Escrow Problem
7.35*	Ease of understanding escrow account analysis	6.81*
61%	Completely understand escrow calculation/application	47%
95%	Escrow analysis statement clearly communicates info.	80%
48%	Escrow payment increased in past 12 months	58%
7.20*	Effectiveness of communicating changes	6.12*
35%	Not enough information on statement	45%
6%	Prefer to receive annual statement via different method	37%

* Based on a 10-point scale
 Source: J.D. Power 2012 Primary Mortgage Servicer StudySM

“Communication is a key best practice for preventing fee-related problems experienced by retail banking customers, and may also help prevent escrow problems among mortgage customers.”

Conclusion

Problem prevention should be a primary focus of all financial institutions, and those that excel stand to benefit from improved bottom-line performance:

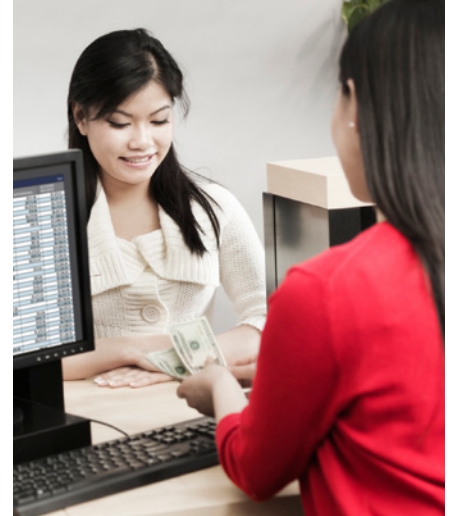
- Higher customer satisfaction leading to increased loyalty and advocacy
- Decreased attrition rates
- Decreased servicing costs

For financial institutions looking to improve their problem prevention process, there are some general best practices to consider:

- Prioritize prevention process on problem types that tend to have a high impact on satisfaction/loyalty, are difficult to resolve, or are likely to be reported to CFPB
- Initiate a system for comprehensive capture of the problems being experienced by customers
- Ensure that problem capture systems provide granularity that can help identify problem root causes
- Identify and implement common best practices for problem prevention within the organization

How J.D. Power Can Help

- Benchmark problem incidence and problem types across financial institutions via syndicated studies
- Assist in developing a system to capture and prioritize problem-related information from customers and/or employees
- Provide consulting services centered around analysis of problem capture data and implementation of corrective action procedures



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