



As customer complaints surge, a proactive approach can help financial firms keep up

Financial institutions are increasingly bearing major cost burdens associated with remediations — the act of paying customers compensation for errors or violations of consumer protection laws and regulations.

Consumer trust in financial institutions is at risk. Turbulence in the global financial system and inflationary pressures can make customers more wary of the companies with which they do business. Regulators face a barrage of consumer complaints, some of which require monetary compensation to those affected.

Regulators have seen sharp increases in consumer complaints in recent years. In 2022, the Consumer Financial Protection Bureau (CFPB) reported 1,287,300 consumer complaints, up nearly 30% year over year and up 137% since 2020. Of the complaints received last year, 819,800 were ultimately sent to companies for review and response, where 94% were closed with explanation or relief from companies.

Customer remediations can be a significant financial liability for companies. Apart from the payouts, firms shoulder significant associated labor, recordkeeping, and other expenses. In cases where remediations are involuntary, a company has to dedicate staff who — often acting on the direction of the regulator — need to review each case, validate information, deliberate, and arrange payouts. Businesses also need to follow up with the consumer to ensure they understand the company's response.

Moreover, overall complaint volumes and resulting costs are growing. According to data from the Securities and Exchange Commission Division of Enforcement, the Division filed 760 enforcement actions in 2022, a 9% increase year over year.

Total money ordered in SEC actions was \$6.4 billion in 2022, the most on record in SEC history with a 67% increase year over year. The SEC ordered \$4.1 billion in penalties in fiscal year 2022, a 187% year-over-year increase.

Companies need to devise ways to proactively review compliance with applicable laws and regulations in order to spot errors or instances of non-compliance before regulators take action. If monetary payments are owed to customers, proactive companies will make customers whole on their own accord, thereby safeguarding customer trust and minimizing reputational harm.

A COMPLEX WEB OF CONSUMER PROTECTION LAWS AND REGULATIONS

Without a proactive approach, companies face significant lurking financial risks of unforeseen requirements to engage in involuntary remediation efforts, and potentially a consumer class action seeking monetary remediation. These risks are amplified by an array of laws and regulations governing institutions' relationships with consumers.

The largest proportion of CFPB complaints that resulted in monetary relief to customers included credit cards (16%), checking or savings accounts (15%), and prepaid cards (14%). Credit card complaints, under the Fair Debt Collection Practices Act, for example, could relate to incorrect representation of debts consumers owe. With checking accounts, the most common checking or savings account complaint in 2022 related to managing the account, including reports accounts had been closed without notice or a reason.

MOVING TOWARD A PROACTIVE MODEL FOR REMEDIATIONS

In light of increased customer complaints, voluntary remediation is a proactive strategy that saves companies time and money, and cuts reputational risks with customers and regulators. Processing-related mistakes and other errors that might affect consumers are an inescapable reality in the industry. Financial institutions must take their responsibilities seriously, and move quickly to make consumers whole when they discover errors. One way to prepare is to solidify the firm's technical and business-process infrastructure.

Remediating requires customers data to be prepared, reviewed, and analyzed, often for transmission to third party vendors. Thus, to keep costs down, firms need to develop efficient ways of communicating with customers, advising them of a possible error or monetary relief that might be disbursed through remediation payment. Finally, in the funds distribution phase, institutions need to be prepared to disburse monetary relief through multiple formats, including account credits, digital disbursements and checks. For each of these phases, quality control is essential. Upon initiation of the payment, organizations need to ensure they're equipped to ensure the transactions are monitored and reach the recipient without friction.

THE ROLE OF TECHNOLOGY

The remediation process is a complex task if an institution isn't equipped with a toolset to oversee it from start to finish. It brings to the forefront questions of technology infrastructure, regulatory reporting, operational systems, risk management, and compliance.

The typical way to manage the remediation process is to use a patchwork of tools internally, along with internal checks and balances to catch errors. Remediation programs are also managed across multiple groups and divisions within a company, with varying processes and procedures. By contrast, a trusted provider that can stitch all people, technology, and data components together in a centralized way is synonymous with a robust risk-mitigation strategy.

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USING TECHNOLOGY TO STREAMLINE THE REMEDIATION PROCESS

A single, integrated technology platform for remediations can cut down on time and use of internal resources, and ensures companies can centralize the voluntary remediation function under one roof.

Broadridge's Legal Remediation Engine handles the process from the point the payment recipient has been identified to post-disbursement review and follow-up. The toolset can analyze data, perform audits and national change of address lookups for each customer, and ensure Office of Foreign Assets Control compliance before the payment is issued.

The Legal Remediation Engine also offers a secure client portal. The portal tracks the status of each remediation event in real time, keeping users updated on the progression of the work, and it provides access to client data, payment details, and reporting in one place. Instead of "rallying the troops" across various internal organizational units, a remediation technology platform can generate meaningful operational efficiencies by centralizing the function. The Broadridge Legal Remediation Engine can complete a remediation in days instead of weeks or months, even for the largest remediations. An integrated technology solution for remediations is also important for recordkeeping: it offers the opportunity to create a historical database of remediations over time, which could be useful for internal audits or regulatory compliance reviews.

The digital-first financial services consumer is more keenly aware of their rights pursuant to laws and regulations than ever before. The pace of consumer complaints — and the remediations as a result — is only likely to increase. The only way to keep costs and internal resource allocations in check is to take a proactive approach to remediation by getting ahead of customer complaints. Firms need to be capable of identifying issues before the complaint is made, and address them swiftly. A technology solution that can handle the entire remediation process from the start of payment execution to disbursement and follow-up is the ideal way to do so at scale.



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