

# **CONSUMER COMPLAINTS AND THIRD PARTIES: DETERMINANTS OF CONSUMER SATISFACTION WITH COMPLAINT RESOLUTION EFFORTS**

**Jeanne M. Hogarth, Federal Reserve Board  
Maureen English, Federal Reserve Board  
Manisha Sharma, Federal Reserve Board**

## **ABSTRACT**

This paper explores consumers' satisfaction with the complaint process, using a data set of financial service complaints lodged with a federal agency acting as a third party complaint mechanism. Contrary to previous studies, we find that 60 percent of consumers were satisfied with the complaint resolution process and of these, over half were very satisfied. Having the problem resolved in their favor, complaining directly (versus being referred), having higher levels of education, using other third parties, being willing to use the service again, and feeling that the service was responsive were associated with being very satisfied with the complaint process.

## **INTRODUCTION**

The typical advice offered to a consumer with a complaint is to first go to the seller or merchant, or to the manufacturer/provider of the good or service. If the complaint is not resolved between the consumer and the seller, the next step may be to go to a third party. In the United States, these third parties can include private or not-for-profit groups such as trade associations and industry-based consumer action panels as well as government agencies at the local, county, state, or federal level.

There is some evidence that consumers are less likely to complain to third parties (see, for example, Kolodinsky, 1993 and Tipper, 1997). The costs, in terms of time and effort to involve a third party when resolving a complaint, are higher for consumers. In fact, consumers may not even know who the appropriate third party is in a given complaint situation. For example, when complaining about a financial service, should

consumers go to their state's Attorney General, to their state's banking department, or to a federal banking regulator? The implication is that consumers who use third-party complaint mechanisms may be more tenacious and resourceful, and their problems may be more severe or complicated.

Given that it may require greater effort for a consumer to involve a third party in the complaining process, the question arises as to how satisfied consumers are with the results of these third parties. Oliver (1997) referred to this as secondary satisfaction -- that is, satisfaction with the complaining process. The purpose of this paper is to explore factors associated with consumer satisfaction with third-party complaint handling. Specifically, we explore complaints in the financial services sector where the third party is a U.S. federal agency.

## **BACKGROUND ON THE FEDERAL RESERVE COMPLAINT PROGRAM**

The Federal Reserve System (the "System") is mandated by federal law to investigate and resolve complaints lodged by consumers against state-member banks (that is, state-chartered banks that are members of the Federal Reserve System). Over the last five years, the number of consumer complaints against state member banks nearly doubled, from 1221 in 1996 to 2408 in 2000 (a 12 percent growth rate per year). During this period, the proportion of complaints about state member banks rose slightly relative to all complaints received, from 41.6 percent to 48.6 percent (see Table 1). In addition, the System receives about 2000 other inquiries and requests for information and materials annually.

Each year, the numbers and types of

---

**Table 1**  
**Top Complaints Received about State Member Banks by Product Category, 1996 to 2000**

<u>Major Category</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Credit Cards	34.7%	42.3%	55.4%	51.4%	41.4%
Checking Accounts	14.2%	11.2%	9.8%	11.2%	17.4%
Real Estate Loans	7.7%	5.4%	5.1%	6.9%	7.2%
Loan Functions	2.9%	3.2%	3.2%	2.0%	2.1%
General Functions	2.2%	2.7%	1.7%	1.6%	2.0%
Installment Loans	7.4%	4.9%	4.6%	4.8%	4.2%
Deposit Functions	4.1%	4.6%	3.5%	2.3%	3.4%
Certificates of Deposit	2.5%	2.6%	2.5%	3.7%	4.0%
Electronic Funds Transfer	2.9%	3.3%	1.6%	1.6%	2.1%
Regular Savings Accounts	3.0%	3.4%	1.7%	2.3%	2.7%
IRA/KEOGH Accounts	-	-	-	-	2.1%
Bonds	2.1%	-	1.6%	-	-
Business/Agri. Loans	2.5%	-	-	-	-
<b>Total complaints against state member banks</b>	1221	1513	1638	1977	2408
<b>Total complaints against all institutions</b>	2935	3352	3884	4693	4951
<b>State member bank complaints as a proportion of all complaints</b>	41.6%	54.1%	42.2%	42.1%	48.6%

complaints received are collected and analyzed, and trend reports that summarize complaint activity are produced. Credit cards garner the most complaints; this has been the case for years. In 2000, checking account complaints held the number two spot, and the number three slot involved real estate loans. See Table 1, which shows the top complaint categories for 1996-2000.

Complaints can be lodged with the System at its central headquarters (the Board of Governors), or with any of the twelve Federal Reserve Banks located throughout the country. Complaints are received by mail as well as by telephone. Five of the Reserve Banks have 800-numbers that consumers can use to contact the System. The System has begun to receive complaints electronically; three Reserve Banks have on-line sites for consumers to register complaints.

Once a complaint is received, it is acknowledged and investigated. By federal regulation, complaints must be acknowledged or

resolved within 15 business days. Complaints received by the Board about state-member banks are referred to the Reserve Banks for investigation. The policies and procedures for the investigation and resolution of complaints are compiled in the System's *Consumer Complaint Manual* to ensure that complaints are being handled in a timely, thorough and uniform way. After a complaint is resolved, the complainant is contacted by letter and asked to complete a consumer satisfaction questionnaire.

The Federal Reserve also has a formal referral program. When the Board or a Reserve Bank receives a written complaint against an entity regulated by another agency, it forwards the complaint to the proper agency and notifies the complainant of the referral. In the case of telephone complaints, the complainant is directed to the proper agency. In turn, other agencies refer complaints about Federal Reserve System state member banks to the Board.

### **Complaint Analysis Evaluation System and Reports**

Data about consumer complaints and information requests are entered into an on-line system that can be accessed by both Board and Reserve Bank personnel. That system--the Complaint Analysis Evaluation System and Reports or CAESAR--has been functional since 1999, although data are available electronically from the early 1990s and other data archives go back to the 1980s. CAESAR provides System personnel with a great deal of detailed and summary information. This information includes, for example, data about the number and types of complaints and inquiries received.

Each complaint and request for information is coded into CAESAR using an extensive master list of 34 product codes (for example, credit cards, checking accounts) and 311 problem codes (for example, billing error, interest rates, and fees). Coding is done both at the Board and at the Reserve Banks depending upon where the complaint is lodged. The list of codes has been developed over many years of dealing with thousands of consumer complaints. Consequently, the coding system is quite robust. As new products and services come to market, or as new concerns such as predatory lending, privacy and identity theft develop in the marketplace, new codes are added to CAESAR. This allows the Federal Reserve to keep abreast of developing trends, to respond to congressional requests for information about products or practices of concern in the financial services area, and to monitor financial institutions as needed.

### **Marketing and Outreach Efforts**

The System conducts little marketing when it comes to publicizing its complaint investigation responsibilities and procedures. The Board, however, does have a consumer education brochure and website information on "How to File a Consumer Complaint About a Bank," in both English and Spanish, explaining the

System's complaint-handling duties, how and where complaints can be filed, what kinds of complaints are investigated, and how consumers can expect to have their complaints handled. The information also includes descriptions of the consumer financial services laws that fall within the System's jurisdiction to investigate, and lists the names and addresses of the other federal agencies that handle financial services complaints, as well as the types of institutions over which they have jurisdiction. Most consumer brochures produced by the Board provide contact information, including the Board's address and website, along with the phone number for the Consumer Complaints section.

At this point, the Board does not have an 800 number in place at its central office for consumers to use to lodge complaints or inquiries, nor does the Board have a way for consumers to file a complaint on the Internet. It is likely that easier consumer access (via an 800 number and the Internet) as well as increased marketing efforts will increase complaint volume. The Board will be watching to see how the 800 numbers and the ability to complain on-line at some of the Reserve Banks affect the numbers of complaints and inquiries lodged and the levels of service provided (for example, response time, quality of responses, etc.).

### **Complaint Trends**

There has been a significant growth since 1996 in the total number of complaints received—that is, state-member bank complaints and complaints against other financial institutions. In 1996 the System (including the Board) received 2935 complaints for all institutions (state member banks and other financial institutions); in 2000 the number was 4951 (see Table 2).

Only two Reserve Banks, Richmond and Atlanta, handled nearly three out of five complaints in 2000. This very skewed distribution relates not to the geographic distribution of consumers but to the geographic, distribution of the banks that are the target of the

**Table 2**  
**System Wide Summary: State Member Bank Complaints Received by District Reserve Banks and Board, 1996 to 2000**

<u>Reserve Bank District</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Boston	26	20	10	15	9
New York	380	453	289	334	421
Philadelphia	12	10	13	26	20
Cleveland	69	65	69	99	126
Richmond	362	558	823	919	842
Atlanta	67	71	82	150	570
Chicago	136	157	110	132	148
St. Louis	13	17	33	27	28
Minneapolis	25	94	137	184	169
Kansas City	19	18	28	24	28
Dallas	8	9	19	10	6
San Francisco	93	37	25	31	33
Board*	8	4	0	26	8
<b>Total State Member Bank Complaints</b>	<b>1221</b>	<b>1513</b>	<b>1638</b>	<b>1977</b>	<b>2408</b>

\*Includes only complaints handled by the Board; other complaints received about state member banks are referred to the appropriate District Federal Reserve Bank

complaints. Nine out of ten complaints against state member banks in 2000 were handled by five Reserve Banks (New York, Richmond, Atlanta, Chicago, and Minneapolis), with some significant growth concentrated in a few Reserve Banks. The Minneapolis Federal Reserve Bank, for example, has seen its complaint volume jump from 25 state-member bank complaints in 1996 to 169 in 2000; the Atlanta Reserve Bank's complaint volume increased from 67 complaints in 1996 to 570 in 2000. The Richmond Reserve Bank, on the other hand, has always had a high volume of complaints, but it too has experienced significant growth in the last five-year period: from 362 complaints in 1996 to 842 complaints in 2000. The Chicago Federal Reserve Bank received a total of 258 complaints in 1996; their complaint numbers jumped to 465 in 2000. The Dallas Federal Reserve Bank complaint volume increased from 44 complaints in 1996 to 99 in 2000. At the Board 665 complaints were received in 1996; by 2000 the number was up to 1624.

These numbers may not seem particularly

high. But the Federal Reserve has a policy of individually investigating every complaint received and responding in writing to the consumer about its investigation findings and the complaint's resolution. This is not the case with all federal agencies, and may not be the case with some state agencies. Overall, the complaint business is a growth industry at the Federal Reserve, and growing pains are being felt as efforts are made to maintain high standards for investigation, timeliness and thoroughness.

#### **PREVIOUS WORK IN THIRD PARTY COMPLAINTS**

Early research on consumer complaining behaviors focused on exploring the determinants of who complains and who does not (Mason and Himes, 1973; Warland et al, 1975; Best and Andreasen, 1977, Pfaff and Blivice, 1977; see also overviews in Andreasen, 1988 and Singh, 1990). Most research on the typologies of consumer responses starts with Hirschman's seminal work in

1970, in which he outlined exit, voice and loyalty as the three response options open to consumers experiencing dissatisfaction. Others built upon this work, adding the concepts of public versus private action and voicing to sellers versus voicing to third parties (Best and Andreasen, 1977; Richins, 1987; Singh, 1990; Kolodinsky, 1995; Lee and Soberon-Ferrer, 1996).

More specifically, consumers who complain to third parties tend to be younger, better educated, better informed, more politically active, and have higher incomes (Warland et al, 1975; Best and Andreasen, 1977; Duhaime and Ash, 1979; Singh, 1989). Interestingly, consumers who complain seem to have higher levels of satisfaction with the products or services they deal with (Nyer, 2000).

All evidence is that complaining to third parties is a rare event for consumers. Warland et al (1975), Best and Andreasen (1977) and Kolodinsky (1993 and 1995) report between 5 percent and 7 percent of consumers with complaints utilized a third party. Lee and Soberon-Ferrer (1996) used data on persons 65 and over and found third-party complaining rates ranging from 3 percent (complaining to a federal agency) to 24 percent (complaining to the Better Business Bureau).

Singh (1989) found that consumers' use of third parties in complaint resolution was a function of their attitudes toward the product as well as their attitudes toward complaining, prior experience with third party actions, the perceived probability of success, and the perceived costs and benefits of seeking resolution. Tipper (1997) focused exclusively on third party complaints and found that the education, income, gender, knowledge of consumer rights, and attitudes toward business were associated with using third parties. The only significant factor associated with complaining to a federal agency was having a negative attitude toward business.

### **Satisfaction with Complaint Resolution Efforts**

A 1979 Technical Assistance Research

Program Institute (TARP) report indicated that 43 percent of respondents were "largely satisfied" while 54 percent were "largely dissatisfied" with the resolution of their complaints. Best and Andreasen (1977) and Gilly and Gelb (1982) indicate that the legitimacy of the complaint and the type of problem are often associated with consumers' obtaining a satisfactory response to their complaints. Problems that are more objective (breakage, mathematical error) rather than subjective in nature were more likely to be resolved to the consumers' satisfaction.

Repurchase intent and willingness to recommend a product or service to others is often used as a proxy for satisfaction with resolution efforts. Oliver (1997) reports a study by IBM that showed that customers with complaints that were resolved with "complete satisfaction" were more likely to repurchase and recommend IBM to others than those who had never experienced a problem.

Evidence on satisfaction specifically with third-party resolution efforts is sketchy at best. Best and Andreasen (1977) reported that 44 percent of consumers with service complaints were satisfied with the outcome of their complaints, 57 percent of those with complaints about infrequently purchased goods were satisfied with the outcome, and 66 percent of those with complaints about frequently purchased goods were satisfied. In contrast, only 27 percent of those using a third party were satisfied with the outcome of their complaints (21 percent reported their complaints were still pending).

Hogarth and English's 1997 descriptive study showed that 37 percent of consumers complaining to the Federal Reserve System in 1996 were satisfied with the final outcomes of their complaints and another 23 percent were "not completely" satisfied (40 percent reported that they were "not satisfied"). In this study, satisfaction was associated with income, the time it took to resolve the complaint, and whether the complaint was resolved in the consumer's favor. Those who were satisfied with the final outcome indicated that they were more likely to contact the

Federal Reserve again with another problem.

### Summary

Previous research indicates that in addition to socio-economic and demographic characteristics of the consumers, their re-use or repurchase intentions (Oliver, 1997), the nature of the product (Best and Andreasen, 1977), and the nature of the problem (Gilly and Gelb, 1982) have been associated with consumers' satisfaction with complaint resolution efforts. From a cost-benefit framework, it is likely that prior efforts also may influence consumers' satisfaction with complaint resolution.

Much of the research on third party consumer complaining behavior is now quite dated. Marketplace innovations and changes in the ways consumers interact with these third parties may make these third parties more available and accessible to consumers. If such is the case, it may be helpful to know more about the factors that affect consumers' satisfaction with third party complaint resolution efforts, with an eye toward improving responses and increasing consumer satisfaction.

### METHODOLOGY, DATA, AND ANALYSIS

#### Questionnaire Description and Data Available

The Consumer Satisfaction Questionnaire was designed to gather data considered relevant for monitoring the Federal Reserve's consumer complaint program, consistent with federal guidelines for respondent burden (the questionnaire is available at [http://www.federalreserve.gov/boarddocs/reportforms/forms/FR\\_137919991005\\_f.pdf](http://www.federalreserve.gov/boarddocs/reportforms/forms/FR_137919991005_f.pdf)). With help from consultants in the field of consumer complaining behavior, the questionnaire was substantially revised in 1999 to make it easier to use and interpret, to capture more specific data on satisfaction levels, and to collect new information, including demographic information on gender, age, household size, income, race, and education.

The questionnaire is sent out to all consumers whose complaints are shown as closed in the CAESAR System. The new form of the questionnaire was first sent out to consumers in October 1999. This study uses data from surveys sent out and returned from October 1999 through September 2000. Of the 1939 surveys sent out, 374 were completed and returned (a response rate of 19.2 percent).

Because we are able to link into the CAESAR System, our data set includes information from the Consumer Satisfaction Questionnaire plus information on the product complained about, the time it took to resolve the complaint, the source of the complaint (that is, whether the consumer complained directly to the Federal Reserve or was referred to us from another federal agency), the Reserve Bank that investigated the complaint, and whether the complaint was resolved in the consumer's favor.

The questionnaire includes a set of seven questions posed to consumers, all on a 1 to 5 scale, as to the degree of satisfaction they had with various aspects of the Federal Reserve's handling of their complaints. We used a Likert summated scale to measure overall satisfaction.

The analysis proceeds as follows: first we present a description of our sample; next we explore an ordinary least squares regression model of consumer satisfaction; finally we develop a logistic regression model of "very satisfied" consumers.

In our multivariate analyses, we explore variables related to the socio-economic and demographic characteristics of the complainants, the nature and characteristics of their complaints, their efforts prior to contacting the Federal Reserve, and measures of potential repeat use of the Federal Reserve complaint program.

### RESULTS

#### Respondents and Non-respondents

Due to incomplete responses and missing information, we could only use 368 of the 374

completed surveys in our analysis. We compared these data with the 1259 observations of non-respondents to see if there were any systematic biases that could affect our results. The variables we could compare across the two groups were gender, region (determined by the Reserve Bank region handling the complaint), source of the complaint, product complained about, whether the complaint was resolved in the consumer's favor, and the time it took to resolve the consumer's complaint (measured by the number of days the complaint was in the Federal Reserve System). Another option to test for biases would involve comparing early and late respondents, since late respondents may more closely resemble non-respondents. However, the database does not contain information on the timing of responses; thus, this comparison could not be performed.

Respondents and non-respondents were similar with respect to gender, region, source of the complaint, product complained about, and the time it took to resolve (Table 3). Overall, people in the database were more likely to be male than female (54 vs. 40 percent, respectively). Nearly three-fifths complained to a Reserve Bank in the Southeast (Richmond, Atlanta) or the Board; one-fifth complained to a Reserve Bank in the Northeast (Boston, New York, Philadelphia); and the remaining one-fifth were divided among Reserve Banks in the Midwest and West. Recall that this distribution reflects the geography of the banks, not of the consumers who are registering the complaints. Two-thirds of both the respondents and non-respondents complained directly to the Federal Reserve; others were referred by other agencies.

With respect to their complaints, about half complained about credit cards, one-fourth complained about deposit products (savings, checking, certificates of deposit), one-seventh complained about loan products (including both real estate loans and consumer loans), and the remainder complained about other bank products or services.

As might be expected, the respondents were more likely to have had their complaint resolved

in their favor (55 percent compared with 45 percent of non-respondents); that is, the consumer received a refund/credit or the bank was found to be in violation of a regulation and restitution was made. To the extent that satisfaction is correlated with complaint outcome, this difference may introduce a bias into our results.

On average, complaints were resolved in about 50 calendar days. These data were taken from the CAESAR System, and were simply the difference between the date the complaint case was opened and date it was closed. It is important to note that from the consumers' perspective, it may have seemed as if it took longer than seven weeks to close the case, especially for those whose complaints were referred from elsewhere.

**Table 3**  
**Comparison of Respondents and Non-Respondents**  
**(proportions, means, and medians)**

<u>Variable</u>	<u>Respondents</u>	<u>Non-respondents</u>
<b>N</b>	368	1259
<b>Gender</b>		
Male	54.8%	54.7%
Female	40.8	39.4
Undetermined	4.3	5.9
<b>Region</b>		
Northeast	20.9	24.2
Southeast	59.2	55.7
Midwest	10.8	8.5
West	8.9	11.6
<b>Consumer complained directly to Federal Reserve (vs. referral from other agency)</b>		
	66.8	65.5
<b>Product complained about</b>		
Credit card	51.6	46.5
Deposit product	25.0	29.0
Loan product	14.4	15.5
Other product or service	9.0	9.0
<b>Resolved in the consumer's favor</b>	54.6	45.4*
<b>Time to resolve</b>		
Mean (in days)	49.9	52.5
Median (in days)	53	52

\*Difference between respondents and non-respondents is significant at .05 or better.

**Table 4**

**Means and Proportions of Other Variables  
Used in Analysis, Respondents Only**

<u>Variable</u>	
<b>Age</b>	52
<b>Income</b>	
Mean	\$111,085
Median	\$52,500
<b>Race (1=White)</b>	68.7%
<b>Education (1=more than high school)</b>	83.2
<b>Learned about Federal Reserve complaint program via (multiple responses allowed):</b>	
Referral from other agency	43.6
Bank	13.6
Friend/relative	10.4
Lawyer	8.6
Internet/computer	8.6
Brochure/consumer resource handbook	7.0
Other, TV/media, magazines/newspapers	27.0
<b>Amount involved in complaint</b>	
Mean, including 0's	\$12,474
Non-zero mean	\$13,936
Median, including 0's	\$600
Non-zero median	\$985
<b>Degree to which (1-5 scale)</b>	
Complaint involved financial hardship	3.1
Complaint was resolved to my satisfaction	3.1
Response was clear	3.7
All issues raised in complaint were addressed	3.4
Willing to contact Federal Reserve again	3.9
Willing to refer others to Federal Reserve	3.9
<b>Satisfaction with (1-5 scale)</b>	
Assistance compared to expectations	3.6
Ease of contacting Federal Reserve	3.9
Courtesy in letters	4.3
Courtesy over phone	4.3
Time it took to resolve complaint	3.5
Thoroughness of Federal Reserve investigation	3.5
Outcome of complaint	3.3

**Table 4 (cont.)**

<u>Variable</u>	
<b>Overall satisfaction (range 0-35)</b>	22.9
0-7	7.5%
8-14	13.4
15-21	18.7
22-28	28.1
29-35	32.4
Very satisfied (score>=30)	28.6
<b>Before contacting Federal Reserve, tried to resolve problem by (multiple responses allowed)</b>	
Complaining to bank branch/office	51.5
Complaining to bank headquarters	49.9
Complaining to friends and family	30.3
Contacting local or state consumer agency	30.3
Stopping use of the service/bank	27.1
Contacting other federal agency	20.1
Contacting Better Business Bureau	16.9
Contacting lawyer	16.4
Changing banks	15.3
Contacting radio/TV/newspaper	5.3
Taking some other action	13.9
Took no other action; Federal Reserve was first	3.7

**Description of the Respondent Sample**

Overall, the respondents were older (mean age of 52, see Table 4), higher income (median income of \$52,500), and more likely to be minority (31.3 percent) than U.S. households in general. Four-fifths (83 percent) had more than a high school education.

The largest proportion of consumers, 43 percent, said they learned of the Federal Reserve's complaint program through a referral from another agency. In fact one-third (32 percent) of the respondents' complaints were referrals from other agencies. About one out of eight (13 percent) said that their banks told them about the Federal Reserve's complaint program.

The average amount involved in the complaints was \$12,474, but this mean is quite skewed; the median amount involved in the complaints was \$600 (there were eight complainants with amounts over \$100,000 that contribute to this skewness); of those reporting some non-zero amount involved in the complaint,



**Table 5**  
**OLS Regression Results on Overall Satisfaction Score**  
 (significant results shown in bold)

<u>Variable</u>	<u>Parameter Estimate</u>	<u>Probability</u>
Intercept	17.27	0.00
<b>Socio-economic characteristics</b>		
Ln Income	0.34	0.27
Education (1 = more than high school)	-1.36	0.11
<b>Demographic characteristics</b>		
Age	0.01	0.62
Gender (1 = male)	0.21	0.76
Race (1 = white)	-0.18	0.79
Region (Northeast as base)		
Midwest	1.23	0.15
Southeast	-0.19	0.85
West	2.21	0.11
<b>Characteristics of complaint</b>		
Product complained about (other as base)		
Credit card	1.66	0.21
Deposit	1.53	0.24
Loan	1.41	0.30
<b>Source of complaint (1 = direct from consumer)</b>	<b>2.30</b>	<b>0.01</b>
Amount involved in complaint	1.35 (e-6)	0.75
Time to resolve complaint (days)	0.01	0.44
Resolved in consumer's favor	-0.09	0.90
Degree of financial hardship (factor score)	0.12	0.70
<b>Prior efforts</b>		
Used other third parties (factor score)	0.13	0.68
Private actions (exit, word of mouth; factor score)	-0.15	0.65
<b>Voice to seller (factor score)</b>	<b>0.59</b>	<b>0.08</b>
<b>Potential repeat use</b>		
<b>Degree of responsiveness of Federal Reserve (factor score)</b>	<b>4.68</b>	<b>0.00</b>
<b>Repeat use/recommendation (factor score)</b>	<b>4.36</b>	<b>0.00</b>
R <sup>2</sup>		.62
N		315

55 percent reported amounts of \$1000 or less. When asked about the degree of financial hardship caused by this complaint (1 being no hardship and 5 being extreme hardship), consumers placed their hardship squarely in the middle at 3.1.

We asked a series of questions about the degree to which the Federal Reserve was

responsive and whether consumers would contact the Federal Reserve again or recommend the Federal Reserve to their friends or relatives. Most of the scores were in the mid-range, between 3 and 4 on a 5-point scale. For example, when asked about the degree to which the complaint was resolved to their satisfaction, the average was 3.1. We used factor analysis to determine if there

**Table 6**  
**Logistic Regression Results on Being "Very Satisfied"**  
**(Satisfaction score 30 or more; significant results shown in bold)**

<u>Variable</u>	<u>Parameter Estimate</u>	<u>Probability</u>	<u>Odds Ratio</u>
Intercept	-2.17	0.42	---
<b>Socio-economic characteristics</b>			
Ln Income	-0.10	0.63	0.90
<b>Education (1 = more than high school)</b>	<b>-1.33</b>	<b>0.07</b>	<b>0.26</b>
<b>Demographic characteristics</b>			
Age	-0.01	0.76	0.99
Gender (1 = male)	-0.10	0.79	0.90
Race (1 = white)	-0.10	0.82	0.91
Region (Northeast as base)			
Midwest	0.03	0.97	1.02
Southeast	-0.95	0.12	0.38
West	0.88	0.91	2.42
<b>Characteristics of complaint</b>			
Product complained about (other as base)			
Credit card	0.50	0.57	1.65
Deposit	1.19	0.15	3.30
Loan	-0.10	0.91	0.91
<b>Source of complaint (1 = direct from consumer)</b>	<b>1.43</b>	<b>0.01</b>	<b>4.18</b>
Amount involved in complaint	0.01	0.72	1.00
Time to resolve complaint (days)	0.01	0.86	1.00
<b>Resolved in consumer's favor</b>	<b>0.88</b>	<b>0.05</b>	<b>2.40</b>
Degree of financial hardship (factor score)	-0.12	0.55	0.88
<b>Prior efforts</b>			
<b>Used other third parties (factor score)</b>	<b>0.35</b>	<b>0.07</b>	<b>1.43</b>
Private actions (exit, word of mouth; factor score)	0.16	0.44	1.18
Voice to seller (factor score)	0.22	0.31	1.24
<b>Potential repeat use</b>			
<b>Degree of responsiveness of Federal Reserve (factor score)</b>	<b>2.75</b>	<b>0.01</b>	<b>15.70</b>
<b>Repeat use/recommendation (factor score)</b>	<b>3.13</b>	<b>0.01</b>	<b>22.87</b>
Log-likelihood ratio			195.95
R <sup>2</sup>			0.46
Max re-scaled R <sup>2</sup>			0.65
N			316

were common patterns among the responses, and found three factors. One factor formed around the willingness of consumers to contact the Federal Reserve again or recommend it to friends or relatives (designated repeat contact in the

models). A second factor included measures of the Federal Reserve's responsiveness (addressed all the issues in the complaint, complaint resolved to consumer's satisfaction, etc.). The third factor was the degree of financial hardship involved in

the complaint.

We also asked a series of questions relating to satisfaction with various aspects of the Federal Reserve's complaint program, again using a 5-point scale. Average satisfaction measures ranged from 3.3 (satisfaction with the outcome of the complaint) to 4.3 (courtesy of Federal Reserve staff in letters and over the phone). We used a Likert summated scale to measure overall satisfaction, with a range of 0 to 35. The mean satisfaction score was 22.9; three-fifths (60 percent) were satisfied or very satisfied (scores from 22 to 35); one third (32 percent) were very satisfied (scores from 29 to 35).

In an attempt to gather some information about complaining behavior patterns, we asked consumers what they did before they came to the Federal Reserve System; multiple responses were allowed. The largest proportions, 51 percent and 49 percent, complained to their banks or their banks' headquarters. Thirty percent said they complained to family and friends and 30 percent said they contacted a local or state consumer agency. We used factor analysis to see if there were common themes or patterns; three patterns emerged (factor scores not shown; data available from the authors). One group reported a combination of word of mouth (complaining to family and friends) and exit (changed banks or stopped using the particular service). A second group could be characterized as voicing to the seller (they complained to the bank branch or the main headquarters of their banks). The third group contacted other third parties (TV and radio consumer shows, the Better Business Bureau, a consumer protection agency, other federal regulators, or an attorney).

#### **Multivariate Results -- OLS Analysis**

Results on the ordinary least squares regression on the overall satisfaction score are presented in Table 5. Characteristics of the complaint, prior efforts, and potential repeat use of the Federal Reserve complaint program were significantly associated with the overall

satisfaction score.

Consumers who complained directly to the Federal Reserve had higher satisfaction scores than those whose complaints were referred from other agencies. This dissatisfaction concerning referred complaints may stem from the amount of time it took to resolve the complaint. Although this analysis holds the time to resolve the problem constant, it is possible that consumers include the time their complaint was "in transit" during the referral process in their mental calculus.

Consumers who had higher factor scores on voicing to the seller (complaining to the bank) had higher satisfaction scores, but the increase was only 0.5. On the other hand, consumers who scored high on willingness to have repeat contact with the Federal Reserve and those who scored high on feeling that the Federal Reserve was responsive had higher satisfaction scores; this increase was on the order of more than four points out of a possible 35.

#### **Multivariate Results -- Logit Analysis**

Because the satisfaction scores were heavily skewed toward the positive end of the scale, we decided to explore the determinants of being "very satisfied" with the Federal Reserve's complaint handling program. We defined "very satisfied" as having a score of 30 or more on the Likert summated scale. The independent variables were the same as in the OLS estimation; results are presented in Table 6. Socio-economic characteristics as well as characteristics of the complaint, prior efforts, and potential repeat use of the Federal Reserve complaint program were significantly associated with being very satisfied.

Consumers with more than a high school education were only one-fourth as likely to be very satisfied as those with a high school education or less. It may be that more highly educated people bring a different set of expectations to the complaining process and thus may be more difficult to please.

Consumers who complained directly to the Federal Reserve were four times more likely to be

very satisfied than those whose complaints were referred from other agencies. From an agency perspective, it would be interesting to know what aspects of the referral process lead to this "less than very satisfied" state; perhaps consumers feel that they are being passed off from one agency to another without much of a sympathetic ear from the government.

Consumers who had their complaints resolved in their favor were 2.4 times more likely to be very satisfied than those whose complaints were not resolved in their favor. This makes a certain amount of sense, since those whose complaints were not resolved in their favor may feel that the agency could have done more. It is important to note here that since respondents were more likely to have a favorable outcome than non-respondents, this parameter estimate may overstate the effect that complaint resolution has on satisfaction with the complaint process.

Consumers who scored high on the factor relating to "complained to third parties before coming to the Federal Reserve" were more likely to be very satisfied. Here, perhaps, is a measure of tenacity; these consumers tried a variety of routes before turning to the Federal Reserve. For these consumers, the Federal Reserve may be the last resort agency for resolving their problems. This measure may also be a proxy for total time involved in the complaint, since using another third party prior to contacting the Federal Reserve may increase the total time to resolution (keep in mind that our measure of time to resolve only counts the time the Federal Reserve System had the complaint).

Those who scored high on the repeat contact factor as well as those who scored high on the factor related to their perception of the Federal Reserve's responsiveness were more likely to be very satisfied. This is consistent with the results of other satisfaction-repeat purchase studies cited earlier.

## SUMMARY AND CONCLUSIONS

Contrary to previous studies (see Best and

Andreasen, 1977; Hogarth and English, 1997), we found that 60 percent of consumers who complained about financial services to a third party (specifically, to the Federal Reserve) were satisfied with the complaint resolution process; of these satisfied consumers, over half were very satisfied. One-fifth (21 percent) could be classified as dissatisfied.

In general, we find support for our model that satisfaction is a function of socio-economic characteristics of the consumer, characteristics of the complaint, consumers' prior efforts and consumers' potential repeat use of the third-party service.

Specifically, our data show that complaints coming directly from consumers are associated with higher levels of satisfaction. This argues that third parties should be easily available and accessible to consumers directly, rather than relying on referrals. In the case of the Federal Reserve, it may mean that the System needs to consider expanding marketing and outreach efforts in order to increase awareness of its complaint program and provide easy access to consumers with complaints.

Consumers with complaints resolved in their favor were more likely to be very satisfied. Clearly, resolution rests on the nature of the problem, and third parties may not be able to increase the rate of "resolved in the consumers' favor" through sheer force of will. However, third parties could provide consumers with a realistic set of expectations about what they can and cannot do in the problem resolution process. Perhaps by decreasing the gap between expectations and reality, third parties can improve consumers' satisfaction with their efforts.

Consumers' perception of the responsiveness of the third party was also a significant factor in their satisfaction, as was their expectation of repeat use. The message to third party complaint handlers is to maintain clear communication in a timely manner and address all aspects of the consumers' problems.

### Limitations

This study has provided some additional insights into third-party complaint resolution efforts, and addresses some of the limitations in the Hogarth and English work in 1997. While an expanded and more detailed data set has enabled a more refined look at consumers' satisfaction with third-party efforts, it is still the case that the data only apply to the financial sector and cannot be generalized to the service sector as a whole. Perhaps even more specifically, these results may be relevant only to the banking industry and to federal-level, third party complaint programs.

### Future Work

This study focused on only 12 months of data; as additional questionnaires are distributed and returned, it would be helpful to re-estimate the models with a larger data set to test the robustness of our results.

The questionnaires also provide additional data in the form of comments. Although we only send out the satisfaction questionnaire when a complaint is deemed to be "closed" because there are no further steps the Federal Reserve can take, about one out of six respondents wrote comments on their continuing efforts to resolve a problem that they feel is still "open." Reviewing and analyzing these closed-but-unresolved complaints may shed more light on issues related to consumers' satisfaction with third party complaint resolution efforts.

### REFERENCES

- Andreasen Alan R. (1988), "Consumer Complaints and Redress: What We Know and What We Don't Know" in Maynes, E. Scott *The Frontier of Research in the Consumer Interest*, Columbia, MO: American Council on Consumer Interests, 675-722.
- Best, Arthur and Alan R. Andreasen (1977), "Consumer Response to Unsatisfactory Purchases: A Survey of Perceiving Defects, Voicing Complaints, and Obtaining Redress." *Law and Society*, 11, Spring, 701-742.
- Duhaime, Carole and Stephen B. Ash (1979), "Satisfaction, Dissatisfaction, and Complaining Behavior: A Comparison of Male and Female Consumers" in Hunt, H. Keith and Ralph L. Day, *Refining Concepts of Consumer Satisfaction and Complaining Behavior*, Bloomington IN: Bureau of Business Research, 102-111.
- Gilly, Mary C. and Betsy Gelb (1982), "Post-Purchase Consumer Processes and the Complaining Consumer," *Journal of Consumer Research*, 9, 323-328.
- Hirschman, Albert O. (1970), *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States*. Cambridge, Massachusetts, Harvard University Press.
- Hogarth, Jeanne M. and English, Maureen (1997), "Consumer Satisfaction with the Complaint Resolution Efforts of a U.S. Federal Agency." *Journal of Consumer Satisfaction/ Dissatisfaction and Complaining Behavior*, 10, 51-60.
- Kolodinsky, Jane (1993), "Complaints, Redress, and Subsequent Purchases of Medical Services by Dissatisfied Consumers." *Journal of Consumer Policy*, 16, 193-214.
- Kolodinsky, Jane (1995), "Usefulness of Economics in Explaining Consumer Complaints." *Journal of Consumer Affairs*, 29, 29-54.
- Lee, Jinkook and Horacio Soberon-Ferrer (1996), "Dissatisfied Elderly Consumers: Their Behavioral Patterns and Determinants" in Hill, Ronald Paul and Charles Ray Taylor *Marketing and Public Policy Conference Proceedings*, 6, 146-153.
- Mason, Joseph B. and Samuel H. Himes (1973), "An Exploratory Behavioral Profile of Consumer Action with Selected Household Appliances." *Journal of Consumer Affairs*, 7, 121-127.
- Nyer, Prashanth U. (2000), "An Investigation into whether Complaining Can Cause Increased Consumer Satisfaction." *Journal of Consumer Marketing*, 17 (1), 9-19.
- Oliver, Richard R. (1997), *Satisfaction: A Behavioral Perspective on the Consumer*. New York: McGraw-Hill Companies, Inc.
- Pfaff, Martin and S. Blivice (1977), "Socioeconomic Correlates of Consumer and Citizen Dissatisfaction and Activism" in Day, Ralph *Consumer Satisfaction, Dissatisfaction, and Complaining Behavior*, Bloomington IN: Indiana University, 115-123.
- Richins, Marsha (1987), "A Multivariate Analysis of Responses to Dissatisfaction," *Journal of the Academy of Marketing Science*, 15 (3), Fall.
- Singh, Jagdip (1989), "Determinants of Consumers' Decisions to Seek Third Party Redress: An Empirical Study of Dissatisfied Patients," *Journal of Consumer Affairs*, 23 (2), 329-363.
- Singh, Jagdip (1990), "Identifying Consumer Dissatisfaction Response Styles: An Agenda for Future Research" *European Journal of Marketing*, 24(6), 55-72.
- Technical Assistance Research Program, Inc. (TARP) (1979),

*Consumer Complaint Handling in America: Summary of Findings and Recommendations.* Washington DC (now e-satisfy).

Tipper, Ronald H. (1997), "Characteristics of Consumers Who Seek Third Party Redress" in Carsky, Mary. *Consumer Interest Annual*, 43, 222-226.

Warland, Rex H., Robert O. Herrmann, and Jane Willits (1975), "Dissatisfied Consumers: Who Gets Upset and Who Takes Action". *Journal of Consumer Affairs*, 9, 148-163.

### ACKNOWLEDGEMENTS

We gratefully acknowledge the work of G. Christopher Lacey and Eugen Tereanu for assistance in preliminary work with these data.

### DISCLAIMER

The analysis and conclusions set forth in this paper represent the work of the authors and do not indicate concurrence of the Federal Reserve Board, the Federal Reserve Banks, or their staff.

**Send correspondence regarding this article to:**

Jeanne M. Hogarth  
Mail Stop 801  
Consumer and Community Affairs  
Federal Reserve Board  
20th and C Streets, N.W.  
Washington, DC 20551 U.S.A.