



Five design principles to foster successful remediation execution

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The remediation challenge is about to get a whole lot more challenging

Conduct Risk and associated remediation already command a significant amount of Board-level attention; two factors could drive them even higher up the agenda over the next twelve months:

1. The volume of remediation activity could increase from already high levels. Potential mis-selling issues continue to surface, with interest only mortgages and credit card customers with persistent debt now on the horizon. We also expect to see a significant volume of remediation relating to service failures, driven in part by the increasing levels of migration to a digital customer experience. And, last but far from least, concerns about the suitability of products issued at pace during the COVID-19 crisis, plus downstream collections and recoveries activity, could create a bow wave of remediation activity.

2. Regulators and government bodies in many markets are raising their expectations of the efficacy of remediation execution. In August 2020, ASIC Deputy Chair Karen Chester said in the Australian House of Representatives Standing Committee on Economics¹ that financial services companies need to do a better job of overcoming “old systems and old conduct” in terms both of timeliness of redress and of erring on the side of generosity in making customers good.

The Australian regulator has also increased the threat of enforcement action in line with its raised expectations of Financial Services companies to ensure that outcomes are fair, transparent and delivered in a timely manner. In the UK the FCA is consulting on the introduction of a new Consumer Duty designed to increase the level of consumer protection in the retail financial services market, signalling what the FCA has called a “paradigm shift in its expectations” of firms.

Now more than ever, it is vital that firms ensure that they are appropriately geared up to meet the expectations of both the regulators and their customers.

¹ 5 August 2020, House of Representatives Standing Committee on Economics public hearing

The maturity of response varies significantly across the Financial Services sector

For some companies, often those operating at relatively low scale, the response to remediation tends to be largely reactive with bespoke, temporary operations (either run within the organisation or outsourced) being mobilised each time an issue arises. KPMG professionals are increasingly seeing larger market participants view remediation as a permanent fixture given the near constant flow of Conduct issues which require rectification. They are responding by establishing internal remediation centres of excellence and/or entering into long-term partnerships with third-party suppliers. There is no 'one size fits all' solution to the challenges remediation poses, but there are common pitfalls which can be avoided and industry best practices which can be pursued.

With this in mind, KPMG professionals in Australia recently conducted a market survey, speaking to some of the leading players in the banking sector in Australia, Canada, Ireland, New Zealand, the UK and the US. The research has identified some leading approaches which the more proactive market participants are following and definition of **five design principles to foster successful remediation execution**. Each of these will be addressed in turn and brought to life with some examples taken from the banks interviewed.



Design Principle #1

Prevention is better than cure



Design Principle #2

Execute with speed, accuracy and with the customer always front-of-mind



Design Principle #3

Build flexibility and fungibility into your portfolio management model



Design Principle #4

Get data working for you, and let technology do the heavy lifting



Design Principle #5

Embed remediation into enterprise-wide culture



Design Principle #1: Prevention is better than cure

The best approach to remediation is to avoid having to do it in the first place. At its core, this entails getting the business fundamentals right from the start:

- Placing the customer at the centre of product design to ensure that the right products are offered to the right cohorts.
- Instating efficient, comprehensive and robust processes for change implementation to ensure that operations can easily be flexed to comply accurately with changing regulation.
- Ensuring customer servicing doesn't create barriers to delivering good outcomes.
- Testing to ensure communications give customers the information they need, and the information required by the regulations, at appropriate points in the customer journey.
- Making appropriate levels of investment in compliance functions and ensuring that effective checks and controls are in place.
- Upgrading technology to move away from legacy systems.
- Instilling the right behaviours in customer-facing staff and rewarding them accordingly.

However, despite the best intentions, things will on occasion go wrong, and this is where remediation prevention plays come in: identifying and resolving Conduct Risk issues early, before they become endemic, before too much damage (financial and reputational) is done and before further customers have been disadvantaged.

Data is the cornerstone of any prevention play. Leading exponents are increasingly using AI to identify anomalies in key data sets, particularly the sales and service metrics of client-facing staff. Rigorous interrogation of complaints data to identify common themes can also give early line-of-sight into emerging issues.

Once a potential Conduct issue has been identified it is important that appropriate steps are taken as quickly as possible to address it. Interventions can range from targeted actions to resolve behavioural issues for specific teams or even individuals through to comprehensive changes to product features and/or to the sales and service model. It is vital that impacted entities take an enterprise-wide approach to issue resolution: some have taken steps in one business unit only to find, in some cases years later, that the same issue has gone unchecked elsewhere in the organisation and that material damage has been done as a consequence. Once a Conduct Risk has crystallised in one part of the business, other business units should be placed on alert and should then conduct an investigation to ascertain if the same/a similar issue is prevalent in their operations. They should then confirm the outcome of their investigation to the C-suite, using data to corroborate their findings.





Design Principle #2: Execute with speed, accuracy and with the customer always front-of-mind



It will not always be possible to nip Conduct issues in the bud; in some instances, remediation is going to be required. There is a clear imperative to move quickly at this point, not least because the longer it takes to complete a remediation exercise, the higher the cost (operational costs; redress and interest payments) is likely to be. But speed of execution cannot come at the expense of accuracy; having to repeat a remediation exercise because the wrong customer outcomes have been achieved first time is the most common failing seen in remediation and can cause further significant financial and reputational damage.

The market study identified the following leading practices in remediation execution:

Early definition of the remediation delivery model

There are two main types of remediation: data-driven and detailed case driven. Determining which approach is required for a given remediation drives significant downstream decisions relating to resourcing, technology and even financial provisioning. Using experience of past remediations to make an appropriate choice of model early in the process can set a clear direction and drive accelerated mobilisation.

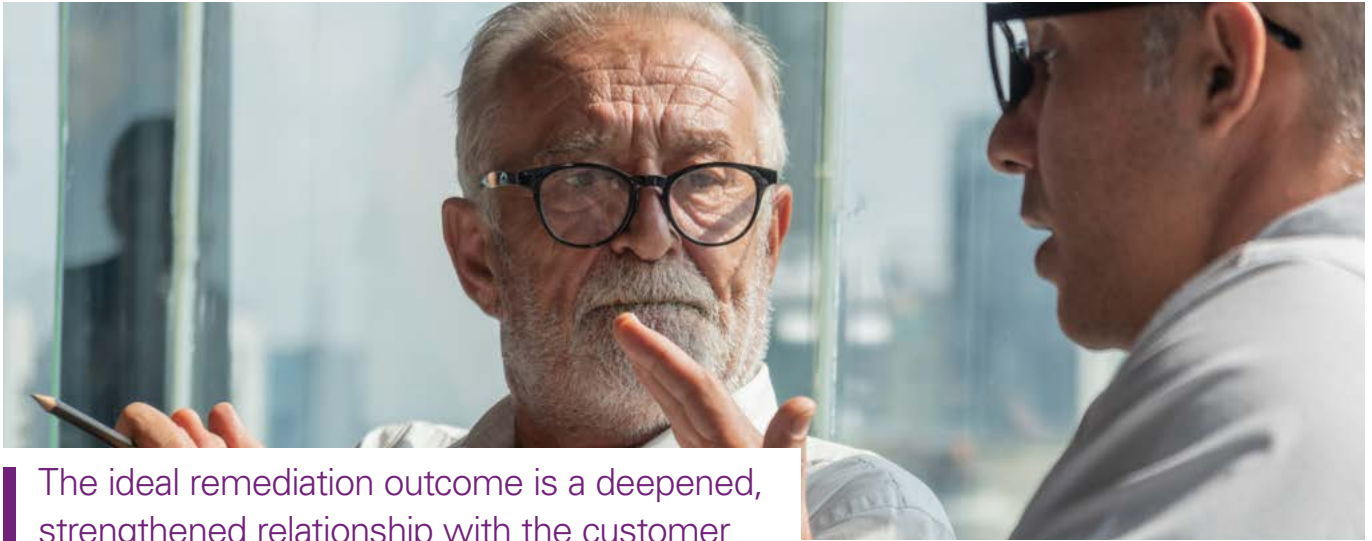
Effective and appropriate resource pooling

Having ready access to the required resource pool is critically important. If this is not in place, significant amounts of time can be lost in recruiting staff and appointing third parties. Some of the most effective market participants surveyed use centralised talent management to attract and retain remediation experts including data analysts, business analysts and PMO resources, as well as core analyst and delivery management capability.

Pragmatic use of data

Many organisations have learned the hard way that significant amounts of time can be wasted by trying to perfect qualification and quantification of a remediation issue. Entities rarely have access to sufficiently comprehensive and clean data to be able to quickly identify every single impacted customer and to forecast the financial impact of redress with one hundred percent accuracy. Some of the leading banks in Australia are increasingly shifting towards an accelerated process whereby they choose not to conduct detailed upfront investigations, but rather model the likelihood of failure and estimate that they will overpay customers by 10%. The benefits in terms of reduced remediation execution costs, minimised interest payments and enhanced customer experience are held to outweigh the benefits of undertaking a full, detailed planning process.

Other banks, notably in the UK and more recently in Australia, are introducing triage processes early in the remediation qualification process to categorise projects based on their scale and complexity, using data from prior remediations to plan durations and forecast resource requirements. This is proving to help greatly with prioritisation and efficient management of a portfolio of concurrent remediation projects.



The ideal remediation outcome is a deepened, strengthened relationship with the customer

Customer-centric design

The customer needs to be placed at the centre of every remediation exercise. Similar to complaints handling, the ideal remediation outcome is a deepened, strengthened relationship with the customer, not just the rectification of wrong doing. Crucial to ensuring customer satisfaction is getting to the right redress outcome quickly, which is where accelerated mobilisation and delivery approaches come in. Other approaches which are being successfully deployed include development of a single customer view so that individual customers who are impacted by multiple concurrent remediations can have their needs addressed in the round. Some leading banks in Australia are also using behavioural economics to determine the best way to use ethical nudges to encourage customers to respond to requests and to determine contact strategies. As an example, this approach has enabled one of the surveyed banks to identify that non-branded communications generate a 90% improvement in customer responsiveness to requests.

Accelerated delivery

The benefits of an accelerated mobilisation and a customer-centric design will likely be lost if remediation execution is not efficient. With this in mind, leading companies are increasingly using tried-and-tested tools and methodologies to ensure quicker, more consistent and more cost-efficient conduct of remediation projects. This includes using standardised processes and customer journeys, configurable redress calculators and pre-defined reporting suites using operational KPIs which have been honed over multiple remediation cycles. Leading players are also prioritising speed of payment and tracking elapsed time between the remediation decision being taken and payment being made, enhancing the customer experience and, in some instances, reducing interest payment liabilities.

Continuous improvement

Remediation operations lend themselves well to a continuous improvement model, given the regular flow of rectification projects which many banks have to execute and the repetitive nature of case review processes. In addition to re-use of proven methodologies and tools, leading organisations commonly deploy experts in Six Sigma, Kaizen and other improvement methodologies. Continuous improvement initiatives for such organisations include: establishing KPIs which align to business strategies; enhancing the control environment and root causes analysis of issues to improve controls and reduce remediation volumes; identifying and deploying incremental improvements that result in quantifiable results.

Effective tail management

Closing out the tail of a remediation can be difficult: resolving the final, challenging cases; responding to a slew of late claims; dealing with complaints and appeals. The time and effort required to complete the tail can be reduced if you can avoid the temptation to complete the most straightforward cases first and leave the hardest ones to last. The operational cost per case can increase significantly once you are into the tail of the project. Some market participants are therefore taking analytics-led approaches to identifying when the cost of reviewing cases starts to outweigh the cost of redress. If it is possible to do so whilst continuing to ensure that all customers – from the first to receive redress to the last – are treated consistently and fairly, shifting to an auto-redress model during the tail phase can be an effective approach to closing down a remediation and freeing up resource to work on other projects.



Design Principle #3: Build flexibility and fungibility into your portfolio management model



It is not uncommon for some of the larger banks to have in excess of one hundred live Conduct-led remediation projects at any given point in time. Managing such an extensive and often diverse portfolio creates significant challenges, including:

- How to ensure that sufficient skilled resource is available to meet the ebbs and flows of remediation demand without carrying excessive headcount and cost.
- How to respond to the shifting demands of various remediations at different stages of maturity (some in the ramp up phase, some in 'run' and others ramping down).
- How to retain knowledge and experience of remediation execution whilst maintaining a flexible and scalable workforce.

In essence, there are four resourcing plays which remediating entities can consider when defining their portfolio model:

- 1** Internal resources drawn from within the business unit in which the remediation issue occurred.
- 2** Internal resources located in a centralised remediation centre of excellence.
- 3** External resources deployed within the remediating entity's operation to provide supplementary skillsets and capacity.
- 4** External resources operating in an outsourced operation.



The leading players are thinking strategically about how and when to go to the external resourcing market, and how to ensure that they derive best value from doing so.

Centralisation vs. in-business unit

The market study suggested an increasing trend towards centralisation with a corresponding reduction of in-business unit activity. Centralisation creates the opportunity to build up specialist rectification capability with the same resources developing their knowledge and skills over multiple remediation projects. It also enables organisations to develop common and repeatable approaches. However, it is not without its downsides: excessive centralisation can in effect absolve the business unit of its responsibility for having caused the issue in the first place, creating a mindset that someone else will clear up the mess; the effectiveness of execution can also be impeded if the remediation function does not have access to specialist product knowledge from within the business unit. Many organisations are therefore opting for a blended approach with some remediation functions, typically those which operate in the same/a similar manner whatever the remediation may be (an example being payment of redress to customers) being conducted centrally and others which require specialist knowledge remaining the responsibility of business unit resource.

Banks are finding their own balance between centralisation and division-led approaches. The trend in the US appears to be towards relatively high levels of centralisation. Driven in part by pressure from CFPB and FINRA, centralised remediation teams have been established to act as portfolio management functions, triaging issues by engaging with the various technical functions such as legal and compliance before assigning the issue to division. Very little activity – in some cases just cohort identification, root cause analysis and remediation methodology development – is conducted by BAU teams within the divisions. One of the leading Australian banks is adopting a more blended model with a small, centralised hub which is responsible for frameworks, policy, procedures SME support and customer communication, and the actual remediation activity carried out by the divisions.

Internal vs. external/outsourced resourcing

Using external supplementary resources (either contractors, consultants or a mix of the two) is a standard approach; few if any organisations could have coped with the demands of PPI remediation, for example, without bringing in additional help. The market study indicates that the leading players are thinking strategically about how and when to go to the external resourcing market, and how to ensure that they derive best value from doing so. Key approaches include:

- Looking beyond the 'body shops' to partner with consultancy firms which can provide a broad range of resources including operational managers, technical and regulatory subject matter experts and project managers/PMO analysts with deep remediation experience.
- Reducing delivery risk by using more than one supplier for different parts of the remediation to help mitigate risk and match supplier skills to remediation needs, as well as optimising effective cost management.
- Entering into a long-term partnership with a third-party supplier effectively to outsource resolution of tail phases of remediations. This approach has the dual benefit of freeing up internal resource either to revert to business-as-usual activity or to move onto the next remediation and of creating a centre of excellence (albeit an outsourced one) in resolving challenging late cycle cases.



Design Principle #4: Get data working for you, and let technology do the heavy lifting

Remediation has traditionally been a highly manual endeavour. Relying so heavily on human effort has created a wide spectrum of problems including reduced fungibility, inconsistent case outcomes and extended delivery periods. The irony of the situation is that many entities have the data they need to instate a data-led model but lack the tools and skills required to access the data, confirm its accuracy and exploit its value. Addressing this issue can deliver significant benefits.

Leading actors in remediation are using advanced data and technology tools to optimise for cost and customer experience across remediation operations. As with prevention plays, data is the cornerstone of technology-enabled remediation delivery; after all, remediation is often a data-driven problem, so getting access to high quality, complete data sets – and doing so at optimised cost – is of critical importance. Key strategies being adopted include:

- Improving levels of integration of remediation data with core banking systems, reducing the time and effort required both to extract customer reference data from core systems at the start of the case build process and to update these systems once remediation has been completed.
- Deploying bespoke tools to cleanse customer data and to estimate values for missing fields.
- Using optical character recognition (OCR) technology to interrogate and extract data from hard copy documentation.

An effective case management system is another fundamental requirement. Customer-centric and cost-efficient processes and procedures need to be defined and articulated through a fit-for-purpose workflow that can give you the MI you need. The study highlighted the following instances of Financial Services companies deploying advanced technology to provide enhanced flexibility to case management, using high levels of automation and AI to reduce error rates and inefficiency. Key initiatives include:

- Installing standardised tooling across most if not all systems to deliver better, more consistent customer insights.
- Using machine-learning approaches to allocate cases to Analysts on an intelligent basis and using AI rather than human resources to triage cases.
- Significantly expanding quality assurance coverage (up to 100% in some cases) by adopting automated review both of letters and of voice recordings
Deploying data quality software which automatically detects errors and tracks remediation events with a full audit trail.
- Automating the drafting of templatised letters and letter issuance to customers based on triggers in the workflow.

Technology is also allowing companies to improve the customer experience and reduce the number of customer touchpoints. Opportunities being explored include:

- Verifying identity using strong customer authentication (SCA), biometrics and APIs.
- Guiding customers through the process using chatbots, virtual assistants and social media chat facilities.
- Using voice and sentiment analysis in real time to assist case handlers.

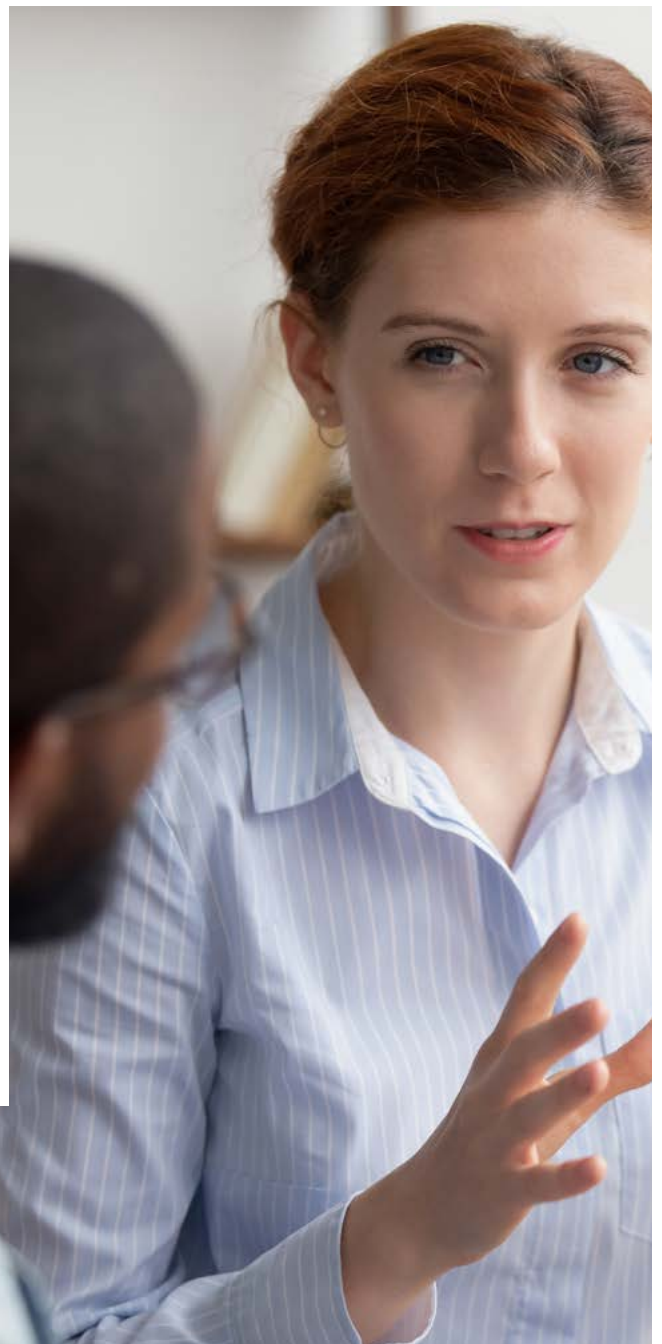


Design Principle #5: Embed remediation into enterprise-wide culture

The final design principle is arguably the most important of them all. There is little or no long-term value in remediating a given issue if you are not going to take meaningful steps to reduce the risk of a similar issue recurring. The market study suggests that the organisations which are most successful in learning from their mistakes are those which ensure that responsibility for remediation is retained by the business.

Remediation learnings should be leveraged to enhance rectification and build prevention capabilities. A specialist, centralised unit may conduct the lion's share of remediation execution activity, but the division(s) in which the issue manifested itself need to retain responsibility for its resolution. This approach is becoming particularly prevalent in Ireland where some banks have traditionally adopted a policy of 'whoever finds an issue has to fix it', even if the finder was not the originator of the problem. This created a culture of reluctance to examine Conduct Risk exposure, creating an environment in which remediation issues could develop unchecked. The market in Ireland and elsewhere is now aligning behind a 'business owned' model whereby the business:

- Provides a senior sponsor for a given remediation whose responsibility it is to report on progress at Board level.
- Bears the financial cost of redress on its own P&L.
- Conducts root cause analysis into the underlying issue, prepares a plan to address the identified underlying faults in the business model and presents this plan at Board level for approval.



How KPMG can help

KPMG firms offer a holistic remediation service, encompassing prevention plays, multiple remediation delivery models and post-remediation root cause analysis and transformation:

Prevention

Conduct risk framework reviews to provide rapid and deep insight into the effectiveness of your operating model in managing and mitigating Conduct Risk. KPMG can review how you operate through 25 discrete lenses across areas such as your governance model, your corporate culture, the behaviours of your staff, the inherent risk in your product and service suite, your external risk profile and your controls framework to provide you with actionable insights based on industry and sector comparators. This can enable you to take effective steps to address your Conduct Risk exposure and to reduce the chance of issues crystallising into remediation requirements.

Delivery

KPMG can provide a **comprehensive remediation delivery model to operate alongside your own people** and on your own systems. Where some other consultancies can only provide you with temporary analyst resources to staff remediation operations, we can provide you with:

- A 'Day One' team consisting of seasoned remediation professionals with expertise in areas such as: project management; PMO; regulation and policy; data sourcing; and technology. The team brings assets, tools and models to help accelerate remediation mobilisation and reduce the crucial time gap between identification of the underlying issue and beginning to process customer cases.
- Leading data and technology solutions in areas such as: data sourcing; case management and workflow; customer experience and communications; and redress calculation.
- High quality, experienced and effective supplementary analyst resource drawn from KPMG's Associates base.

We also offer a **full managed services outsourcing**. KPMG can quickly stand up large-scale remediation teams, often numbering more than 100 FTE, complete with experienced team leaders and subject matter experts operating both onshore and offshore.

Transformation

Business transformation is at the heart of KPMG's Management Consulting business. KPMG teams can work with you to identify root causes and create effective and implementable road maps for change. Services cover the transformation spectrum from technology solution design and build through target operating model design and into behavioural and cultural change.

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