

Key Principles for Conducting a Consumer First Remediation in the Financial Services Sector

Introduction

The volume of remediation activity is likely to increase from already high levels within the financial services sector. Potential mis-selling and process errors continue to arise resulting in interest overcharges. Questions of ESG and greenwashing are prevalent in the investment market, and questionable pricing strategies in the car and home insurance market are increasingly under review. Many firms are experiencing challenges with legacy systems and fixing issues of the past due to poor technology and legacy practices. In addition, we 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 concerns about the suitability of products issued at pace during the COVID-19 crisis. Downstream collections and recoveries activity could also create a bow wave of remediation activity.

Regulators in many markets including Ireland are raising their expectations of the efficacy of remediation execution. In the UK the FCA is introducing its new Consumer Duty designed to increase the level of consumer protection in the retail financial services market, signalled by the FCA as “paradigm shift in its expectations” of firms. In Ireland, consumer regulation is undergoing reform with new legislation expected in 2024.

Now more than ever, it is vital that firms ensure that they are appropriately geared up to both meet the expectations of the regulators and deliver customer centric remediation. In this paper we will set out ten key principles to deliver a customer centric remediation.

A consumer centred remediation requires deep thought about the problem and puts the interests of consumers at the heart of each stage of the remediation process. Herein we have set out ten key principles, which are adaptable, scalable, and designed to make all remediations consumer centric and deliver positive outcomes. Each of these principles are underpinned by KPMG developed propriety frameworks, methodologies and technology that can be deployed to support any restitution.

What is a consumer centred remediation?

A consumer-centred remediation is one that:

- Is fair to consumers in all circumstances
- Deeply understands the nature, extent and impact of the problem on affected consumers
- Puts the consumers at the heart of all decisions
- Makes the process easy for consumers
- Learns and adapts by identifying areas for improvement and fixing them
- Is robustly principled to provide consumers with confidence in the outcome

THE KEY PRINCIPLES

1

Return affected consumers as closely as possible to the position they would have otherwise been in had the error not occurred.

This principle should underpin key decision-making in every remediation, regardless of scale or complexity. Depending on the circumstances of the error, loss may not be apparent straight away and could extend beyond monetary impact. As such, the remedy may be monetary or may involve non-monetary elements, such as providing legal or other assistance. Those carrying out the remediation should aim to discover whether consumers have suffered loss and what remedies are appropriate. A helpful rule of thumb is to only provide outcomes that you would be comfortable justifying publicly and under the scrutiny of a regulator, oversight bodies or the media.



A root cause analysis should be undertaken to understand the error, which will allow the remediator to determine when they reasonably suspect the error first occurred. The entity should draw on information (including data) and expertise available from across the organisation to understand and resolve the problem. They need to look at which products, services, systems, processes and people are involved and affected, and identify any common, underlying trends or themes. To understand the error, entities must also understand their consumer. Entities must learn the features of their consumers, which are objective details such as age and life stage, occupation, economic position, culture, location and education. Knowing these details will help with triaging, designing the consumer journey and communication planning.

2

Understand the nature, extent and impact of the error.



3

Give consumers the benefit of the doubt and minimise the risk of under-compensation.

In some remediations, to save time, lessen program costs, remediate more efficiently or make up for absent records, entities may consider using assumptions. Assumptions should be evidence based, well documented and only be used when they are consumer benefitting. If assumptions are used for scoping or calculating loss, consumers should be given the benefit of the doubt to minimise the risk of under-compensation. A cost benefit analysis can often guide entities as to when assumptions should be used, as such an activity will make apparent that the undertaking of intensive activities may yield minimal results.



Key decisions that will affect consumer outcomes should be evidence based and appropriately justified in all circumstances. All decisions should undergo proper governance, with any key decisions made by those with the proper authority to do so. Transparency and accountability are essential to ensuring trust and consumer confidence and the remediation should be monitored at all stages to ensure satisfactory consumer outcomes and help improve future remediations. Learning and adapting to new information as it becomes available will help entities achieve good consumer outcomes.



4

Ensure that key decisions are justified and documented.

5

Apply reasonable endeavours when making remediation payments.

Payment methods that require no consumer action should be prioritised. Entities should return remediation money owed to current customers regardless of value. While it may not always be possible to remediate ex-customers, reasonable efforts should be undertaken to do so through public media statements or tracing where appropriate.



Remediations should be initiated and conducted promptly as long as there is no trade-off in quality. Delayed error identification can:

- exacerbate detriment already suffered, especially if the consumer is suffering financial hardship;
- increase the likelihood that records become lost or get destroyed;
- increase the likelihood that consumer information becomes outdated, and existing customers become ex-customers; and
- significantly increase the cost of the remediation program

When dealing with various consumer cohorts it is advised that entities work in tranches. When information is gathered for one cohort, the remediation for this group should progress while work continues on scoping other groups. In larger remediations, triage may be considered to target 'easier' groups and/or groups that may be experiencing financial difficulty first.



6

Be timely without sacrificing quality consumer outcomes.



7

Make the process easy for consumers by minimising complexity and, where possible, limiting their involvement in the process.

A remediation should be made easy for consumers by minimising the need for consumer action, remember a consumer-centred remediation journey is one that requires minimal consumer action. Remediations should also be free for all consumers, with all affected consumers automatically included in the scope of a remediation and no opt-in arrangement used. Customer journey mapping can help ensure consumers get the treatment best suited to them, but flexibility is key. The customer journey should be fault tolerant and consumers should not be disadvantaged for making a mistake. Entities should not forget the wider impact of remediation on consumers and must remember that a remediation does not happen in a vacuum. Consumers may have other things going on in their lives, and this needs to be factored into the remediation. Do not simply assume everything is okay for your consumer.

How the error is communicated to consumers must also be carefully considered to ensure effective treatment. A clear plan should be in place, with the timing and frequency of communications clearly defined and a multi-channel approach in place to cater for various consumer needs. Consumers should always be aware of what is happening and when it is happening. Any communications should be clear and transparent, with active language key in showing accountability, which in turn will help re-build consumer trust.



8

Do not profit from the misconduct or other failure.

If affected consumers are lost or uncontactable despite reasonable endeavours, entities should lodge the outstanding payments in a relevant unclaimed money pot or make a residual remediation payment to a charity or not-for-profit organisation. Entities should also be proactive in their conduct and remediation activities. Rather than waiting for increased regulation or governing / oversight bodies to mandate change via thematic review, entities should be proactively conducting remediations.



9

Ensure the remediation has adequate resourcing, governance, and accountability.

Larger entities should ensure that the people who are managing the design and conduct of remediations have appropriate training and skills to deliver fair and timely consumer outcomes. All decisions made should be guided by appropriate regulations.



10

Engage with external organisations and seek specialist skillsets.

Many remediations have complex elements, however these should not delay timely and correct consumer outcomes. To ensure that consumers remain at the forefront of remediations, entities should utilise external professional service firms with specialist remediation delivery centres. Ensuring equal outcomes is pivotal in remediation and engaging experts in these areas can help achieve this goal.



How we can support our Clients



KPMG are market leaders in Conduct Risk, Remediation and Product Assurance

How do we support our clients with Conduct & Remediation?

KPMG offers a suite of **Conduct Risk, Remediation and Product Assurance** solutions to support firms throughout the lifecycle: from identification of conduct issues, through to operational delivery and post-remediation transformation, while also offering independent review, design and implementation services.

1. Complaints & Vulnerable Customer Framework

- KPMG has mature and developed frameworks for carrying out complaints assessment, with a robust and comprehensive root-cause-analysis of complaints a key first step.
- Our vulnerable customer frameworks are industry agnostic and can be adapted to meet specific client needs.

2. Customer Journey Mapping and Assessment

- Customer journeys are mapped with full consideration given to relevant regulations, customer documentation and conduct assessment.
- Our regulatory experts assess the outputs of the mapping to ensure alignment with all relevant documentation and associated governing bodies.

3. Product Assurance

- KPMG has developed a bespoke Product Assurance Framework focused on preventative review practices supported by automated testing.
- Examples of how this may work include implementation of data controls, visual dashboards and early warning indicators.

4. Remediation

- We are home to a dedicated, industry-leading Remediation Centre of Excellence ("COE")
- The COE is a managed end-to-end remediation service solution. It covers all aspects of the remediation from stakeholder management through to customer identification, refund rectification and communication.
- The COE uses automation, advanced analytics and data tools to reduce time and resource overheads.

5. Independent Oversight & Assurance

- Our dedicated team can provide project oversight and assurance to ensure full adherence to relevant governance and regulations.
- We have extensive experience in carrying out thematic reviews in line with Central Bank of Ireland guidelines, involving design, implementation and delivery of final review.

6. Programme Management

- We have highly experienced project and programme managers, including industry specific experts who can provide programme management on large scale engagements with teams of 100+
- Our work is underpinned by Project Management tools such as PRINCE2, allowing us to support our clients in areas such as with planning, governance, budgeting and MI & reporting.

Our assets support with Conduct Risk, Remediation and Product Assurance



Established frameworks
KPMG proprietary Product Assurance, Vulnerable Customers, Complaints etc



Real time insights and data-driven **MI reporting tools**



Teams with extensive experience in the **utilities sector**



Workflow
Salesforce / MS Dynamics enabled workflows for case / customer management



Complaints management
Complaints AI – Integration of complaints back into client BAU activities



Experience with large datasets and using established tools for automation and data analysis to drive efficient and cost effective results



KPMG proprietary Redress Calculator
Data driven models to identify impacted customers and calculate refunds

Our Experience



Large Retail Bank - Remediation

15+ years experience

working on large scale remediations in Financial Institutions incl. Tracker Mortgage Examination

Identification, calculation and remediation design and oversight for

100,000s

customer accounts

who were subject to Banking errors and Regulatory breaches

KPMG worked with the client to identify impacted populations, calculate the redress, draft customer communications while providing regulatory, project management, calculation model and analytical experts to support the running of the programme.

The expert resources, project delivery and technology driven tools provided by KPMG allowed the client to complete complex remediation programmes to the satisfaction of the regulator.

Large Retail Bank – Product Assurance

KPMG provided Product Assurance Service to a large pillar bank offering to ensuring end-to-end oversight and regulatory compliance of their products.

KPMG has a core team with a track record of delivery and extensive experience of consumer focussed operating models to deliver this review. The team brought a distinctive variety of skills from product subject matter expert knowledge, conduct and risk expertise to data analytics and applied intelligence.

KPMG supported the client in assessing

140+ products

products through the bespoke Product Assurance Framework. To identify, assess and monitor product risk with methodologies utilising MI to ensure that products are fit for purpose and operating as intended.

KPMG used a specially designed data led risk assessment framework to assist in managing consumer protection risk, using quantitative data which is overlaid with qualitative key performance indicators

MiFID II Regulated Entity - Remediation

Our client discovered key weaknesses with respect to compliance with MiFID II Trade Against Advice (“TAA”) requirements.

KPMG, working as an independent reviewer, tested and verified the full population ID along with the refund calculations. This data driven approach achieved significant cost and time savings and was carried out by our dedicated team of remediation specialists

90,000+ Trades

underwent investigation to determine if impact was present.

Final resolution satisfied all regulatory obligations while also ensuring

7,500 customers

fairly treated and returned to correct position

Vulnerable Customer Review

The client was issued with a requirement from the regulator to review their vulnerable customer framework, specifically processes to handle vulnerable customers with payment difficulties and remediate any issues.

KPMG conducted a review of

153 customer journeys

from the first point of payment difficulty through to resolution.

KPMG using data analysis segmented and identified key complaints themes which were subject to detailed root-cause analysis to understand the origin of the issue and impact to the customer

The expert resources, project delivery and technology driven tools provided by KPMG allowed the client to complete data driven complaints analysis and associated remediations.

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