KPMG

Rebuilding trust through Customer Remediation

Turning negative experiences into positive memories

In today's dynamic and fast-changing world, it is increasingly important to meet changing needs and expectations of customers and citizens. However, past wrongdoings can significantly harm customer experience and trust, requiring businesses and governments to offer compensation or remediation. These issues can be the result of violations of regulations or operational and IT-errors, but also in the public sector - where citizens are offered compensation for earthquake damages or the effects of crises like the recent COVID-19 pandemic.

In these situations, we see a myriad of examples of previous customer remediation cases that demonstrate a high degree of complexity in offering customers compensation and/or resolving current products or situations. Moreover, organizations continue to face other event-driven issues requiring one-off corrective actions of past wrongdoings. In trying to deal with these issues, organizations often use ad-hoc and reactive approaches, resulting in client-dissatisfaction, high costs and extended project durations. By getting customer remediation right, however, there is an opportunity to turn negative experiences into positive memories.

Content

# What is customer remediation and why does it matter?

An important and challenging puzzle

Negative customer experiences have six times greater influence on future customer behavior and year-on-year sales than positive experiences[1]. Given the potential negative impact, a fast and adequate solution for past wrongdoings is crucial for organizations to (re-)gain the trust and loyalty of their customers.

Customer remediation is an event-driven and one-off corrective measure to - for example - address past wrongdoings. Such processes have a major impact on the customer or citizen and can often be accompanied by extensive public scrutiny. The goal of customer remediation is to restore customer trust and to become future proof as failing to do so will have adverse consequences on an organization's license to operate.

Based on our cross-sector experience, businesses and governments tend to not always adequately recognize and acknowledge remediation issues. Middle management often ignores or does not sufficiently consider the first signals of discontent – such as complaints – and address these through settlement or litigation on a case-by-case basis. In the meantime, broader developments force organizations to settle customer remediation or compensation processes on a (much) wider scale, compared to an initial proactive and customer-oriented approach.

Figure 1: The importance of customer remediation
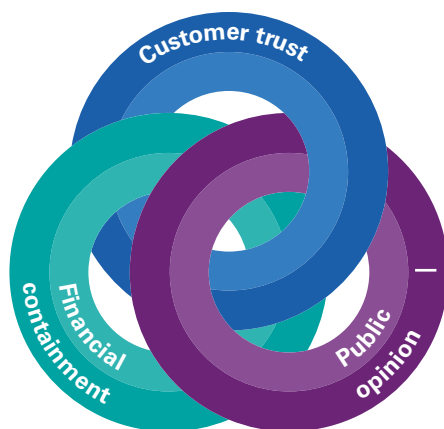
[1] Source: KPMG Nunwood

> Everybody talks about 'how are we going to regain the trust of customers?' We're not. Our challenge is how we **manage the distrust** that customers have. And that distrust is healthy. Our job is to make sure we're transparent enough, that we're clear enough, that we put the customer first sufficiently for the customer to realise it.
>
> **Anthony Thomson** Founder of Metro and Atom banks
> KPMG 30 Voices on 2030: The Future of Financial Services

Figure 2: Headlines in the media[2]

"Excessive penalty interest for early mortgage refinancing"

"Complaints institute: advisor must explicitly point out the decrease in insurance premium"

"SME entrepreneurs with an interest rate derivative receive compensation"

"Bank charges excessive interest on revolving credit and reserves millions"

"Homeowners compensated for earthquake damage"

"Online platform incorrectly charges service costs to both tenant and owner"

"Extra risks for homeowners with an interest-only mortgage"

"Compensation after exposure to harmful substances in the workplace"

"Insurer violates guidelines when compensating for excessive penalty interest"

"COVID-19 support packages for entrepreneurs with loss of turnover"

"World War II victims and relatives demand compensation"

"Unjustly cancelled benefits have major financial consequences for households"

[2] The headlines shown are anonymous examples

What are the challenges?

Organizations often opt for a "fire-fighting" approach

The media reports frequently – and quite often negatively – about major ongoing compensation cases from the government and businesses alike. Such processes often appear slow moving, taking longer than expected by consumers and the broader society. There is little understanding for the complexity in retrieving historical data, calculating compensation fees and setting up non-standard processes to adequately inform and compensate customers and citizens.

Logically, media attention is directed towards sector-wide remediation projects, such as the corrective actions and compensation in previous years for interest rate derivatives, mortgage interest rate penalties and insurance products. In practice, however, large organizations often deal with a multitude of smaller-scale (potential) remediation issues, where compensation or remediation may have to be offered to certain customer groups. The external pressure on such issues is less intense, but the practical challenges and risks are often comparable.

In our experience, ownership for resolving remediation issues is often entrusted to the respective business line in which the underlying product or service is offered. This leads to an ad-hoc "fire-fighting" approach, in which the wider organization does not benefit from lessons learned based on previous cases (elsewhere in the organization). This can be effective for smaller compensation processes, but is particularly limited if a business or government body has to deal with multiple, larger and/or more complex remediation issues.

Our experiences have taught us that organizations face the following concrete challenges:

Putting the customer or citizen first:

— It is tempting to ignore signals of possible errors or malpractice for a period of time, causing the problem to escalate over time.

— A (legal) normative framework to define possible errors or malpractice is oftentimes still being defined and can change over time. This makes it difficult to be objective and critical for organizations and to evaluate possible issues from the perspective of the customer or citizen as well as brand values.

— Processes are designed on the basis of efficiency and technical possibilities, without putting the customer or citizen (journey) at the center.

— Customers and citizens want transparency and to feel "heard" from within the organization. This requires courage on the part of businesses and governments to be open to having difficult conversations with their customers and citizens.

Effective execution:
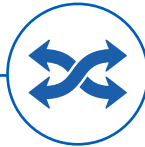
— Customer remediation requires non-standard and (sometimes) complex processes; allocating these activities to the business-as-usual (BAU) organization often leads to delays and errors.

— There may be a tendency to quickly switch to "action mode" to book progress in the short-term, which, however, can lead to a compensation scheme and/or (process) design that is difficult to set-up and execute in the longer term.

— The one-off characteristic and the importance for different departments within the organization can lead to a lack of clear mandates and efficient decision-making processes.

— Compensation processes can sometimes require specific knowledge and expertise that is not always (directly) available within the organization.

Making appropriate use of data and technology:

— A lack of historical data and documentation complicates the determination of the affected customer or citizen group and ultimately the proper compensation fee calculation.

— The suboptimal choice for or design of technology leads to errors and delays in implementation, including "remediation upon remediation"

Stakeholder management:

— A lack of proactive communication and transparency leads to an escalation of pressure and criticism from customers, citizens, media, interest groups and regulators.

What is an effective customer remediation approach?

An iterative approach to customer remediation

An effective handling of customer remediation requires an approach in which the customer journey, processes and supporting technology are modular in design. Through an iterative approach, in which processes are designed and executed in phases, a balance can be found between delivering quick results and ensuring quality. Based on our experience, such an approach consists of the following phases and practical lessons learned (see figure 3).

Signals and impact analysis

Timely and adequate recognition and follow-up of possible remediation issues is essential, but not always easy. Listening to society and actively talking to customers or citizens helps to identify signals at an early stage. Signals can also be identified on the basis of internal signals, such as findings from first- and second line monitoring and internal audit.

Businesses and governments should not ignore such signals in order to prevent escalation. Depending on the cause, a proactive approach can enable the organization to independently develop an adequate solution instead of creating one as a result of external pressures. Through impact- and scenario analyses, the scope of the (potential) problem can be further investigated to facilitate decision-making at the appropriate level within the organization.

Design
A thorough design phase is essential to prevent jumping into the "action mode" too quickly. This prevents the feasibility of an intended compensation or recovery from coming under pressure in the longer term. During this phase, evaluation criteria or a (legal) framework are defined, design principles are established and an operational model is developed to be able to initiate remediation issues.

At this point, proactive discussions with customers or citizens, market players, regulators and other stakeholders help to determine the correct structure of the arrangement. In order to safeguard a balance between speed and care, it is important to develop a uniform but flexible compensation scheme in which the customer or citizen is at the center. By designing processes from the perspective of the customer or citizen, (additional) contact moments can be created to (re)gain trust and retrieve relevant feedback.

Testing work instructions, processes and tooling in advance is an investment that pays back in full during the execution of the process. Through an iterative approach with a phased delivery of sub-processes or types of customer or product groups, design and implementation can run in parallel, allowing the process to accelerate.

Figure 3: A standardized approach for customer remediation

Continuous
- Customer centricity
- Stakeholder management
- Communications

START

Design
- Define design principles
- Define detailed evaluation criteria
- Design operating model
- Collect & clean data
- Perform tests of processes and systems

Handover to the line organization
- Prevent future remediation in regular processes
- Archive and record "lessons learned"

02

(Sub-)processes start iteratively

04

01

03

Signals & impact analysis
- Analyze signals
- Determine scope
- Define possible (re)actions
- Conduct impact analysis
- Decision-making

Execution
- Conduct Proof of Concept (PoC)
- Control activities
- Ensure operational excellence, resource management and periodic progress reporting

Execution

Clear and transparent communication is an essential factor in the implementation of customer remediation activities. In our experience, the best approach is to provide as much transparency as possible to customers, interest groups and other stakeholders. The various stakeholders must feel they are being heard. Concrete examples to achieve this include the establishment of a contact center and facilitating customer panels, giving interviews and offering openness and tours of the remediation organization. Pending on the final compensation, it is important to create transparency and understanding about the required effort and progress.

For more complex compensation processes, careful assessment and calculation simply take too much time in a context that often comes with strong emotions (i.e. the organization usually has done something wrong) and external pressure to quickly proceed to compensation. By working with advances that are based on an estimate or a calculation that has not been checked in detail, the required speed can be achieved to help (vulnerable) customers and citizens. The assessment of individual remediation cases involves collecting, analyzing and structuring (historical) data and documentation, on the basis of which calculations and remediation activities must then be carried out. This often requires specialized knowledge and skills from the employees involved, as well as some form of training and possible examination.

It is essential to set up and implement a risk control framework to identify important and relevant risks (e.g. improper use, calculation errors, etc.) and, where possible, to mitigate or explicitly accept them. The "three lines of defense" play an essential role in these compensation processes, just as they do for the everyday business as usual.

Handover to the line organization

Oftentimes customer remediation also contains an element of future damage that must be stopped or prevented, for example by no longer offering a certain product, refining of advice given or improving the monitoring of problematic cases. In order to guarantee an effective transfer to the line organization, sufficient time and attention should be devoted from the start of the approach towards lessons learned, pitfalls and success factors that can contribute to the prevention and resolution of future remediation issues. In this way, committed employees are enabled to become part of a more sustainable solution.
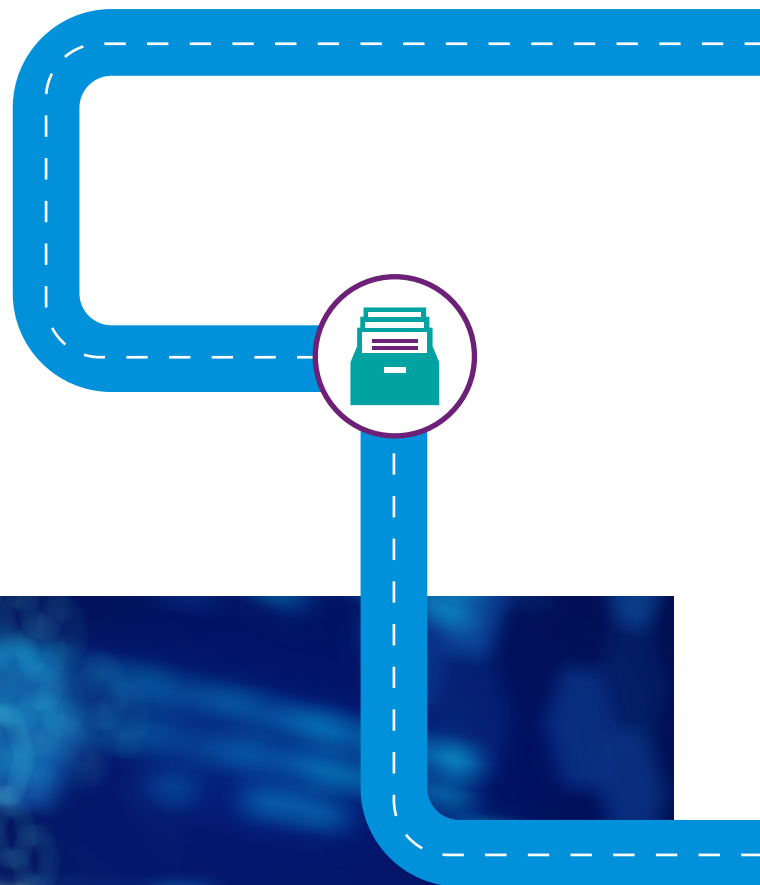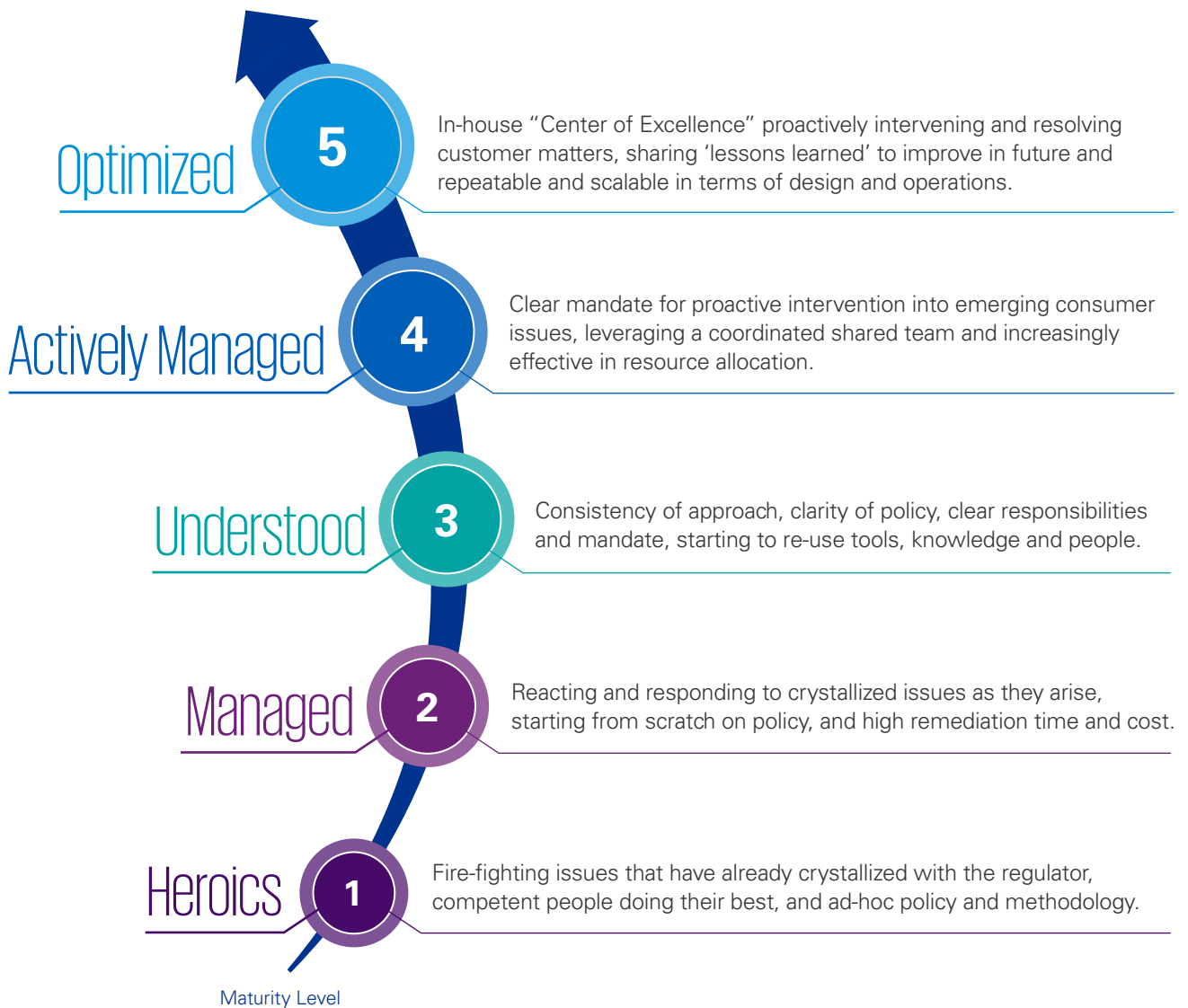
Maturity of customer remediation in the organization

When businesses and governments are dealing with multiple and/or more complex customer remediation processes, a higher maturity is required in terms of remediation-specific expertise from a people, process and tooling perspective. Figure 4 illustrates the five maturity levels that can be considered by organizations, ranging from a "fire-fighting" to "optimized" approach.

The desired degree of maturity depends on the size of the organization, the number and complexity of current and potential remediation cases. When organizations are struggling with various simultaneous and complex processes, setting a specialized team within the organization is to be considered. Our (inter)national experience in setting up a "Center of Excellence" shows that this can contribute in effectively preventing and – where necessary – carrying out remediation as well as enabling the existing management team in focusing on going-concern business priorities.

Figure 4: Maturity levels customer remediation

Optimized — **5** — In-house "Center of Excellence" proactively intervening and resolving customer matters, sharing 'lessons learned' to improve in future and repeatable and scalable in terms of design and operations.

Actively Managed — **4** — Clear mandate for proactive intervention into emerging consumer issues, leveraging a coordinated shared team and increasingly effective in resource allocation.

Understood — **3** — Consistency of approach, clarity of policy, clear responsibilities and mandate, starting to re-use tools, knowledge and people.

Managed — **2** — Reacting and responding to crystallized issues as they arise, starting from scratch on policy, and high remediation time and cost.

Heroics — **1** — Fire-fighting issues that have already crystallized with the regulator, competent people doing their best, and ad-hoc policy and methodology.

Maturity Level

How can technology contribute to speed and quality?

Technology – Enabling faster and better customer remediation

In addition to competent employees and adequate processes, technology plays an essential role in facilitating effective remediation processes. A typical compensation process requires the extraction and analysis of historical data, workflow tooling to orchestrate the assessment process, a calculation model and web portals or other means of communicating with customers. Figure 5 shows the generic technology building blocks that can be used to a greater or lesser extent in different instances. Within our standardized customer remediation approach, KPMG has solutions available for each building block that can be tailored to the requirements of an individual process in a short period of time.
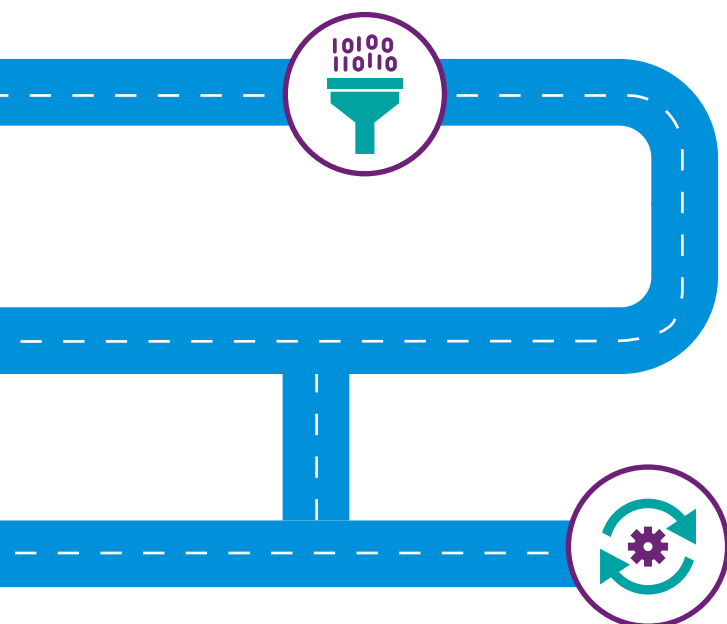
Data factory

The data factory contains all the data to carry out the compensation process and offers options for indexing and analyzing the data. The data factory can be linked to various source systems of an organization (in-flow) and workflow tooling for the compensation process (out-flow). Capabilities to analyze data are often also key in evaluating (the impact of) potential remediation issues, before deciding upon potential compensation or remediation.

Workflow tool

A powerful workflow tool is essential to maintain a grip on the (end-to-end) process. Appian is our low-code solution to tailor processes in a short time, to continuously monitor the status of individual cases and to keep a detailed audit trail at all times (see also figure 6). Appian forms the backbone for compensation processes, from which pre-configured solutions can be linked in order to be able to handle customer remediation with speed, quality and flexibility.

Calculation model

Calculation models or "advanced business rule engines", can be used for (possibly more complex) compensation calculations for remediation. These models can often also be integrated as part of a workflow tool (such as Appian).

Web portal

Web portals connect information from external environments within the workflow tool. For example, an integrated link can be made with the contact center within an organization or information can be retrieved from external sources, such as the database of the Chamber of Commerce.

Data reporting & visualization

This relates to the possibility to create dashboards so that the management of businesses or governments are equipped with insights into current progress, risks and obstacles to make adjustments and decisions as soon as possible. A well-functioning workflow tool can facilitate this need.

Figure 5: The technological building blocks for customer remediation
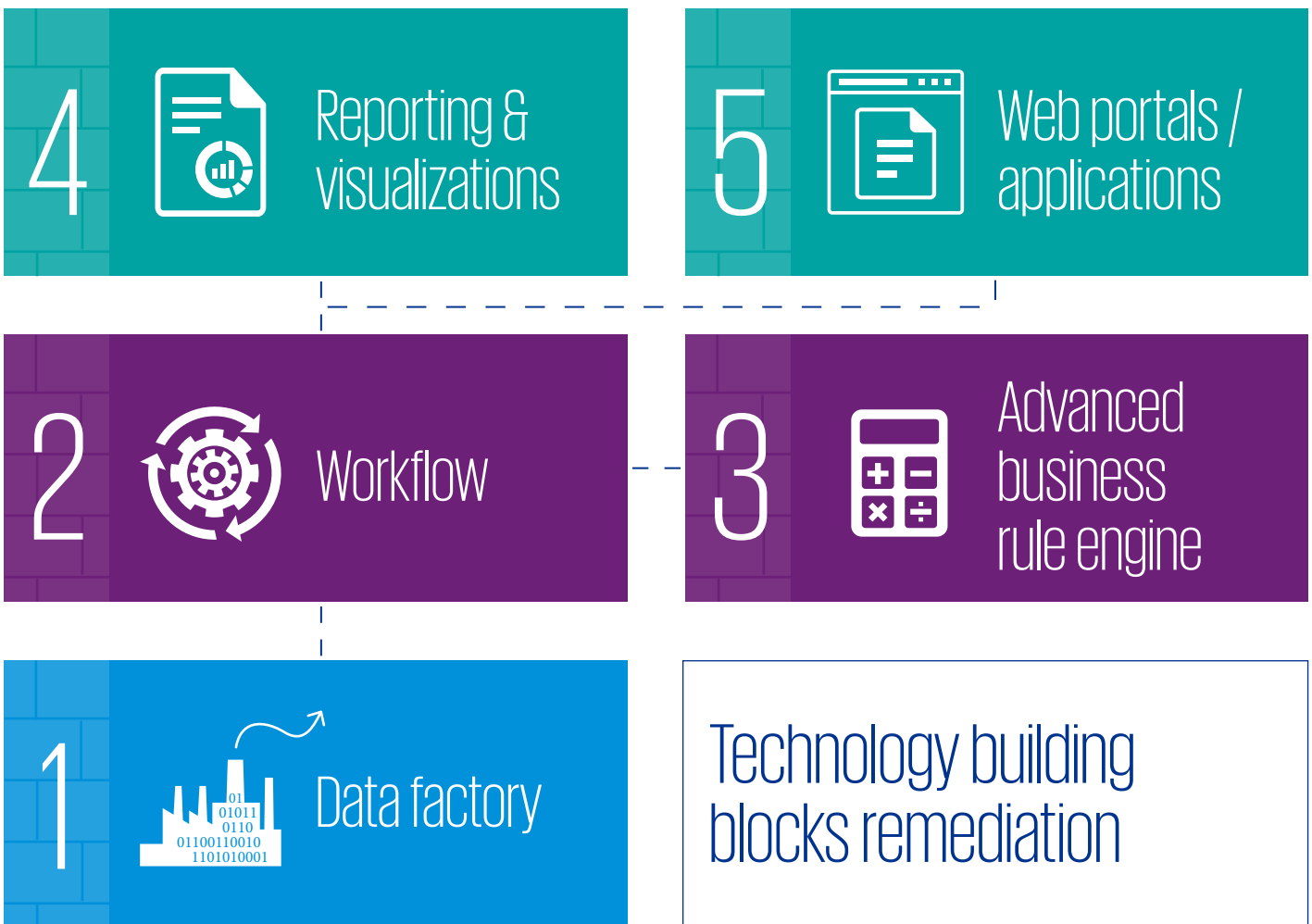
Figure 6: Standardized workflow solution in Appian

More information?

Our specialists are happy to support you.

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