KPMG
cutting through complexity

KPMG LLP (U.S.)

Consumer protection: From compliance to core corporate strategy

The high cost of remediation:

- U.S.: $25B on residential mortgage lending[1]
- U.S.: $520M on overdraft fees[2]
- U.K.: £5.9B for mis-selling payment protection insurance settlements[3]

In the aftermath of the financial crisis, numerous nations around the globe now recognize that addressing consumer risk and ensuring consumer protection are critical in rebuilding trust in the world's financial services sector. The G20's commitment to the Organisation for Economic Co-operation and Development's (OECD) consumer protection principles, the establishment of the Consumer Financial Protection Bureau (CFPB) in the United States, the Financial Conduct Authority in the United Kingdom, and the increasing focus on consumer protection in developing European legislation all reflect the regulatory drivers which necessitate business transformation in the field of consumer protection. All segments, from retail banking, to commercial and wholesale banking, to investment banking and insurance are, or will be, affected.

Consumer protection has far-reaching implications for most of an organization's activities—from how it develops products and their terms, to how it interacts with customers throughout the sales and product life cycle. Consumer protection concerns could also affect the markets in which the organization operates—their geographical distribution, their customer base, and the products offered. Regulation designed to protect consumers could encourage (or force) organizations to exit certain markets or fundamentally restructure their activities or their organizations.

In some countries, where regulation is less of a driver for change, organizations are recognizing nonetheless that consumer protection is important purely from a business perspective and can help them improve customer experience and satisfaction as well as stand out from their competitors.

Whatever the impetus, the result is that consumer protection should now be counted among an institution's top strategic and cultural drivers—a business issue to be considered at the board level and across all operations and functions. An institution's future success may well depend on how effectively it can meet the challenge of enhancing consumer protection.

The U.S. perspective: A new federal regulator

The Consumer Financial Protection Bureau: Extensive powers and an aggressive agenda

Established by the Dodd-Frank Act in 2010, the CFPB is beginning to exert its muscle. The appointment of Richard Cordray as director in January 2012 means that it can now pursue its reform agenda.

Defining consumer risk

The CFPB has explicitly defined "risk to consumer" as "the potential for consumers to suffer economic loss or other legally-cognizable injury as a result of a violation of Federal consumer financial law."

A challenging framework

The requirement to assess the consumer risks of a line of business or of an entire entity is anticipated to challenge even the most experienced institutions. They will need to demonstrate that they effectively identify and manage the potential risks to consumers that may arise through the life cycle of products, services, and supporting infrastructure.

Nonbanks that provide financial services or products—such as payday lenders, mortgage servicers, and private student loan operators—have generally hitherto operated outside of federal oversight. They could be significantly impacted by the CFPB's supervision framework as they will now be regulated and monitored against the same requirements and expectations that banks have traditionally experienced.

A new focus on business strategy

The CFPB's formal process and methodology for risk assessment is designed to review business strategies and how they impact consumer protection. As a key input to its determination of scope and examination schedules, the CFPB aims to determine the level of risk to consumers based on the inherent risk in a particular line of business or an entity as a whole, and the quality of controls implemented by the entity to manage and mitigate those risks. Initially, the CFPB will require that organizations conduct their own assessment of consumer risk.

From compliance to business transformation

In considering consumer protection risk, organizations should be asking themselves a number of questions in order to identify potential benefits as well as drivers for change:

Anticipate intensified regulatory pressure and risks	Do we have a complete view of where consumer risk arises within our business? How have we assessed those risks? Where are the hot spots? Have we mitigated those risks to an acceptable level?
Guide your product innovation and marketing tactics	How can we demonstrate that our services are designed and marketed based on the financial needs of consumers? How do we incorporate the voice of our consumers into potential products and business improvements?
Reduce cost of customer remediation	How quickly and decisively do we identify and address consumer issues?
Impact fee revenue from core and ancillary products and services	Do we need to exit certain markets or products because of inherent consumer risk? Are there new markets or products we should be considering?
Enhance your merger and acquisition (M&A) due diligence	Are the consumer risks inherent within a potential target within our own tolerances?
Optimize the uses of your consumer data	What data do we have that flags potential consumer protection issues? What actions do we take based on that data?
Control inherent risks across the business, including those posed by affiliates and third parties	Do we monitor potential risk to consumers throughout the life cycle of our financial products and services? What standards do we use to monitor and address common consumer risks across all our lines of business?
Drive prioritization for operations and technology	Have we considered the consumer protection impact of changes to our core processes or technology?
Protect your reputation	How do we unequivocally demonstrate that consumer protection is a top priority?
Build brand loyalty	Is customer satisfaction alone enough to build loyalty?

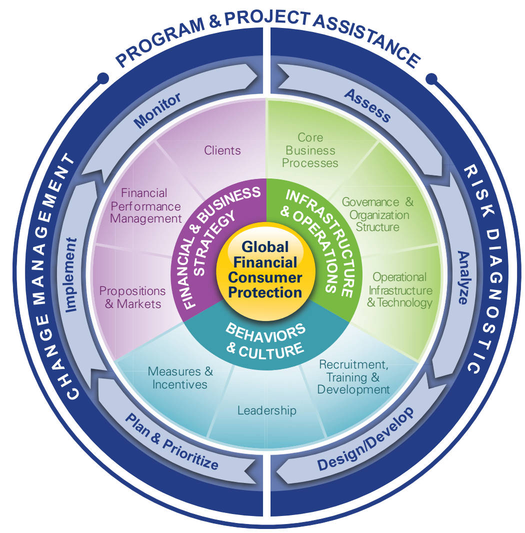
What changes do we need to make?

In order to address these consumer protection imperatives across the business, KPMG's approach considers an organization's activities in the following key areas:

Financial & Business Strategy
- Products and markets
- Financial performance management
- Customer base

Infrastructure & Operations
- Core business processes
- Governance, control, and reporting
- Infrastructure, data, and technology

Behaviors & Culture
- Staffing, training, and development
- Leadership and corporate culture
- Incentives and compensation



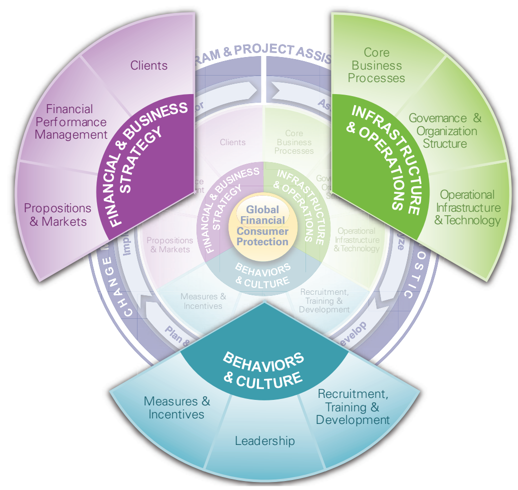
Source: KPMG International, 2012

KPMG's approach to consumer protection

Consumer Protection Risk Diagnostic

KPMG's Consumer Protection Risk Diagnostic is a practical methodology to assess consumer risk across the whole business. It helps to identify potential changes to business models and operations to help mitigate those risks and enhance business performance.

The results of the diagnostic can then be incorporated into a change program to implement the enhancements identified and prioritized.



Source: KPMG International, 2012

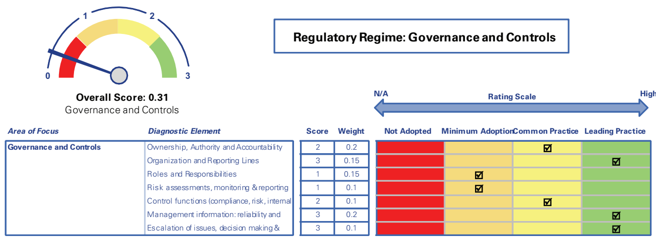
Our approach

Our framework and methodology incorporates a Consumer Risk Diagnostic Tool which can be tailored to the requirements of particular regulators (such as the CFPB or the Financial Services Authority (FSA)/Financial Conduct Authority (FCA)). The approach can be applied at various levels—enterprise, line of business, functional, and/or product level—and tailored based on current or forthcoming regulatory requirements and expectations.

KPMG's global consumer protection framework has been translated into our Consumer Risk Diagnostic Tool which facilitates consistent methodology and presentation of findings for clients. The illustration on the right is an examples of the diagnostic categories and evaluation criteria. Illustrations of various example reports are shown on the next page.

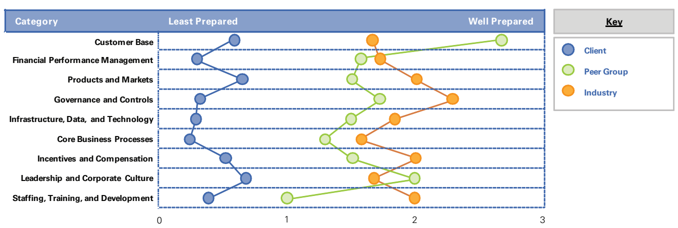
Source: KPMG International, 2012

Each diagnostic element is individually scored and weighted



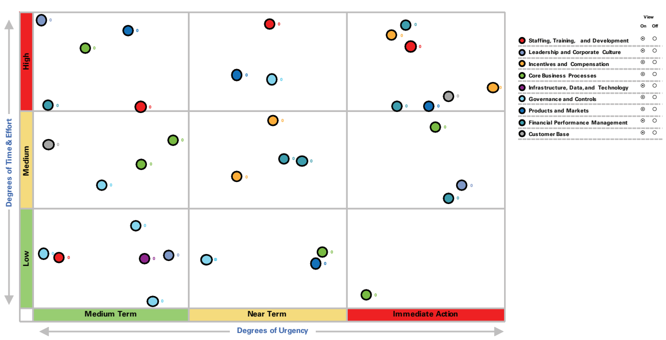
Source: KPMG International, 2012

Clients can be benchmarked against peers and industry standards



Source: KPMG International, 2012

Prioritization heat map of diagnostic elements



Source: KPMG International, 2012

Why KPMG?

Broad experience

For decades, our Financial Services practice has delivered consumer protection methodologies in a wide range of scale and complexity all around the world. We stay on top of new and emerging regulatory issues, practices, and strategic responses. We understand that consumer protection is a critical business issue and approach it from that perspective.

Consistent global approach

We have a well-articulated, common global framework, methodology, and toolkit informed by years of real-world experience. We operate internationally to help clients implement a consistent approach to common regulatory risk issues and to leverage global leading practices for their operations anywhere in the world.

In-depth regulatory knowledge

From the rules of the road to key relationships in the sector, we know regulatory. We can make introductions and help you understand what to expect today and tomorrow, matching our global perspective with local jurisdiction knowledge.

Diverse skills and collaboration

Our teaming approach assembles product, operations, and technology skill sets for every engagement, as appropriate. Our emphasis on collaboration and knowledge transfer helps ensure that methodologies meet client needs today and that clients are empowered for the future.

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[1] "Consent Judgment in Mortgage Settlement," *The Wall Street Journal*, March 12, 2012

[2] JP Morgan settles overdraft fee case for $110 million," *Reuters*, U.S. Edition, February 7, 2012, accessed on April 3, 2012 (http://www.reuters.com/article/2012/02/07/us-jpmorgan- overdraft-settlement-idUSTRE8161CR20120207)

[3] "Santander profits hit by PPI mis-selling costs," *BBC News*, July 27, 2011, accessed on April 3, 2012 (http://www.bbc.co.uk/news/business-14307628)