MAKING THINGS RIGHT WHEN THEY GO WRONG

Overcoming rising challenges in customer remediation

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EXECUTIVE SUMMARY

Financial institutions are increasingly focused on building deeper relationships with customers and standing out among their peers by offering satisfying and differentiated customer experiences. One of the challenges that these institutions face is the need to minimize the impact from negative experiences, and to do right by impacted customers. According to a recent CFPB estimate[1], nearly 200 million people were eligible to receive consumer relief from public CFPB enforcement actions over the last 10 years, not to mention the many more who receive remediation from their financial services providers outside of public enforcement actions. It is likely not a matter of whether institutions will need to execute a customer remediation, but when.

The paper reflects our learnings and observations on addressing rising challenges in customer remediation and building a strong foundation for achieving long-term success across the following dimensions:

Defining customer impact clearly: Identifying harder-to-detect downstream impacts and compounding effects of multiple issues.

Identifying impacted customers and remediation compensation comprehensively: Considering trade-offs between a precise but potentially laborious remediation, and a generous, less precise, and expeditious remediation.

Delivering the remediation flawlessly: Addressing challenges and risks commonly observed during execution, such as inability to reach customers, customers not taking necessary actions, and breakdowns in internal and third-party processes.

Optimizing the remediation program continuously: Developing a long-term plan to mature the required capabilities via process industrialization, talent specialization, strategic communication, and continuous improvement culture.

1 People eligible for relief are defined as consumers or consumer accounts eligible to receive relief from enforcement actions. Source: www.consumerfinance.gov/enforcement/enforcement-by-the-numbers/

RISING CHALLENGES IN CUSTOMER REMEDIATION AND FOUNDATIONS FOR SUCCESS

Financial institutions are increasingly focused on building deeper relationships with customers and standing out among their peers by offering satisfying and differentiated customer experiences. One of the challenges that these institutions face is the need to minimize the impact from negative experiences, and to do right by impacted customers. According to a recent CFPB estimate, nearly 200 million people were eligible to receive consumer relief from public CFPB enforcement actions over the last 10 years, not to mention the many more who receive remediation from their financial services providers outside of public enforcement actions. It is likely not a matter of whether institutions will need to execute a customer remediation, but when.

The complex ecosystem of products, services, channels, underlying capabilities, and third parties managed by financial institutions creates inherent risk of issues leading to negative customer impacts. With a weak or stressed control environment, issues may slip through the cracks and go undetected for prolonged periods of time, resulting in negative customer impact.

As issues arise, institutions may take a variety of actions to immediately stop the ongoing negative impacts, including putting in place temporary measures while working on permanent solutions, such as inserting preventative or corrective controls, or suspending problematic processes if they are non-essential for customers. For already impacted customers, swift and comprehensive remediation is essential for making things right: to make customers whole, restore public confidence, and minimize legal and/or regulatory consequences.

Conducting customer remediations on a one-off basis and relying on individual heroics may work in some contexts, but it is not a sustainable way to do right by customers: there is too much room for leaving impacted customers behind and introducing additional errors that require re-remediation.

Industrialized capabilities are required to comprehensively define, identify, and remediate customer impacts. However, these capabilities cannot be built overnight. Faced with regulatory scrutiny and tight timelines, unprepared institutions may find themselves scrambling to simultaneously build essential capabilities while executing remediation programs, often falling short of expectations and promises.

To ensure all impacted customers are made whole, financial institutions should take a proactive approach towards developing strategies and supporting capabilities for customer remediation. More importantly, a mature customer remediation program can provide insights on gaps and blind spots in existing business processes enabling continuous improvements to help prevent negative customer impacts in the future.

The rest of the paper reflects our learnings and observations in building a strong foundation for customer remediations across four dimensions (see Exhibit 1):

Exhibit 1: Foundations for successful customer remediation programs

Defining customer impact clearly	Identifying impacted customers and remediation compensation comprehensively	Delivering the remediation flawlessly
Optimizing the remediation program continuously		

Source: Oliver Wyman analysis

DEFINING CUSTOMER IMPACT CLEARLY

Customers may be impacted in many ways, at multiple points in their journey, and by the "compounding effect" of multiple issues.

These impacts may take many forms ranging from immediately noticeable charges to subtler ones that may only be identified through targeted investigation and analysis:

Financial impact:
Monetary loss to the customers (such as over-stated charges, incorrectly imposed fees, missed-out incentives — and associated accrued interest and additional fees (such as late fees, non-sufficient funds fees)

Asset loss impact:
Wrongful disposal of customers' assets (erroneous repossession of vehicles or foreclosure of properties)

Time value impact:
Time value of the money that became unavailable to the customers due to other forms of impact

Credit reporting impact:
Negative and potentially lasting impact on customer's credit history from delinquency or default that may have been associated with other forms of impact

Tax impact:
Potential higher tax paid by the customer due to erroneously inflated balances being forgiven by the financial institutions (such as inflated debt cancellation amounts on 1099-C due to incorrect charges upstream)

To identify the full extent of remediation that may be needed, financial institutions can assess the entire customer journey and consider potential impacts beyond the most direct forms. Otherwise, potentially more severe downstream impacts may go unnoticed.

Example: A bank identifies that a recurring fee was incorrectly posted on customers' auto loan accounts. While the most direct form of impact — the over-charged fee amount — is readily defined and addressed during impact assessment, additional downstream impacts may be identified through a series of questions designed to define impact comprehensively:

- Could the incorrect recurring charges lead to additional charges? For example, did some customers have autopay enabled, which may have led to checking account overdrafts and non-sufficient funds fees?
- Could the charges contribute to customer delinquency? For example, did some customers have a recurring payment with a fixed amount, which might have led to being delinquent without noticing the incorrectly imposed charges?
- Could the charges eventually contribute to a preventable repossession? For example, how do you assess how much of the customer's delinquency was the customer's own fault vs. driven by the bank's error? And how do you analytically determine whether a delinquency episode started by the bank's error ended (or not) before a repossession took place?

In addition, when multiple issues impact a customer concurrently, their compounded impact may be greater than the sum of the isolated impacts.

Example: A bank discovers several operational issues in a decisioning process, including an incorrect algorithm and errors in the inputs used. When each issue is reviewed individually, they are not found to be severe enough to change decisions. However, when the issues are corrected for simultaneously, decisions change in some cases. The bank, recognizing this risk, proceeds with defining compounded impacts across both issues and remediates customers accordingly.

To mitigate the risks of leaving impacted customers behind, institutions should maintain clear and comprehensive methodologies that adopt a customer-centric view across the customer journey, consider a range of potential impacts, and enable detection of possible compounded impact across multiple issues.

IDENTIFYING IMPACTED CUSTOMERS AND REMEDIATION COMPENSATION COMPREHENSIVELY

With customer impact recognized and defined, the next — and typically longer — stage in the remediation journey is identifying impacted customers and determining the appropriate remediation method. Financial institutions may consider trade-offs between a precise but potentially laborious remediation covering only impacted customers, and a generous, less-precise, and expeditious remediation covering a wider set of customers.

The “archeology” needed to recreate and analyze historical data can be challenging due to complex technology, operations, and data environments, including in some cases mounting complexity from multiple acquisitions and system migrations.

Workarounds may be required when barriers emerge, such as retired tools with limited data retention, attrition of relevant subject matter experts, and inability to access critical third-party data. These efforts may be hard to justify if they cannot yield enough benefit to the customers and the business compared to more expedited approaches.

The optimal strategy for identifying impacted customers and determining remediation compensation depends on the characteristics of the expected impact, particularly regarding the frequency of the impact, as well as its severity and variance.

Exhibit 2: Considerations for impact assessment strategy

Frequency of impact	• How precise is the starting population that can be obtained with low effort — typically through simple data querying — to set aside customers that are not impacted? • Across the remaining customers in the starting population, what proportion may have been impacted? • What is the incremental effort to get to a more precise impacted population?
Severity and variance of impact	• What is the worst-case outcome of the customer impact and how likely is it to have occurred among impacted customers? • What is the range of expected outcomes across the population? • What is the incremental effort to assess exact impact at the individual customer level?

Source: Oliver Wyman analysis

For issues where the impact is of low severity and variance, but with a high frequency, a blanket remediation approach may be appropriate to streamline the execution. In this case, remediating the entire starting population with a flat amount covering the full range of impact may be the most efficient approach, considering the low incremental payout to the small un-impacted population.

Example: A bank identifies an error that results in a subset of customers not receiving a small bonus through a marketing channel. During remediation, it also becomes clear that the criteria for earning the bonus may not have been communicated clearly to customers. Instead of parsing through a large dataset to precisely identify customers who may have been trying to earn the bonus, the bank chooses to remediate all customers signed up through that channel, concluding that the payout is worthwhile given the effort saved and the reduced risk of missing out customers who may have been confused.

For issues where the starting population cannot be pared down easily and the size of impact varies significantly across customers, a more precise method may be warranted to identify impacted customers and determine a remediation approach.

Example: A lender identifies a business process error resulting in a small chance of wrongful disposal of customer assets. There are many customers who were subjected to the process, and no direct way to identify the impacted ones. While the anticipated percentage of impacted customers is small, the severity and variance of the impact would both be high — as measured by the value of the wrongfully disposed assets. The lender decides to invest in a long-term effort to precisely identify impacted customers and remediation amounts.

By making the right trade-off decisions, negative customer impacts can be effectively remediated without undue risk or loss.

DELIVERING THE REMEDIATION FLAWLESSLY

The efforts for remediation would be in vain if customers do not actually receive what they are owed, such as payout checks, account credits, and corrected credit history. The delivery approach therefore needs to address challenges and risks commonly observed during this stage, such as inability to reach customers, customers not taking necessary actions, and breakdowns in internal and third-party processes. Banks can consider a portfolio of customer assistance and quality assurance approaches to mitigate delivery risks.

Exhibit 3: Examples of remediation delivery mitigation approaches

Remediation delivery stage	Examples of delivery risk mitigation approaches
Pre-delivery	• Validation of files identifying impacted customers, remediation methods and amounts • Review of customer communications for clarity • Accommodations for limited English proficiency populations • Determining approach for customers on do-not-contact lists • Customer address scrubbing and standardization • Payment methods not limited to mailed checks • Development and frequent updates or enhancements to Q&As for customer facing staff
During delivery	• Phone lines for customers requiring help • Contact tracing and re-mailing, where warranted, for returned mail • Exception handling for unique customer situations (checks with multiple payees, estates of deceased customers) • Escalations for situations presenting high risk (complaints, discussion of legal actions) • Performance tracking vs. expectations (check delivery and cashing rates) • Consideration of incremental efforts if positive customer impact is below expectation (follow-up mailing round with premium delivery for larger checks that were uncashed upon initial delivery, tiered approach for check cashing reminder calls and notices)
Post-delivery	• Validation of actions taken and results achieved prior to remediation closure • Handling of exceptions and post-delivery customer actions (escheatment, tax reporting)

Source: Oliver Wyman analysis

OPTIMIZING THE REMEDIATION PROGRAM CONTINUOUSLY

Developing the capabilities required to consistently deliver high-quality and low-risk remediations cannot happen overnight. Financial institutions can develop a long-term plan to mature the required capabilities and set ambitions appropriate for the level of risks and opportunities they face.

Core capabilities

Process industrialization: Much of the remediation process — from commonly used analytical methodologies to remediation delivery processes— is repetitive, and would benefit from standardization through procedures, workflow tools, automation, re-usable methodologies and code libraries. With standardization, banks can improve efficiency, reduce risk, and eliminate undesirable variances across remediations.

Talent specialization: While institutions may adopt different organizational structures for remediation efforts, retaining and refining critical knowledge for key remediation activities can enable long-term success. As institutions build towards future customer excellence, they can consider establishing specialized roles in remediation and organizing regular interactions with subject matter experts to effectively leverage and retain knowledge.

Strategic communication: To ensure successful closure of remediations and reduce risk of re-opening at a future date, institutions must maintain a sufficient documentation trail for the execution process. Institutions may also expand the reporting beyond narrow views of success (such as adherence to timelines) and include multifaceted views of customer impact (such as delivery rates, check cashing rates, follow-up complaint rates). Through consistent reporting of the additional metrics, institutions can demonstrate commitment towards customer excellence, promote transparency, and boost the confidence of customers, shareholders, and regulators in remediation efforts.

Continuous improvement culture: A structured approach to performance management can enable continuous improvement in remediation execution. By analyzing performance data at a granular level (such as delivery rate by channel — regular mail vs. certified mail), banks can inform decisions around coaching and incentives, resource allocation, process enhancements, and targeted technology enablement to drive continuous improvement in successful delivery of customer remediation.

As capabilities mature, the cost and risks of remediations can be better managed, and a deeper understanding of underlying causes can enable continuous improvements to business processes.

Exhibit 4: Customer remediation maturity model

Ad-hoc	Managed	Standardized	Predictable	Optimizing
Individuals following ad-hoc processes to "get the job done" Unpredictable, reactive, and poorly controlled processes Commitments mostly satisfied with occasional failures	Managers locally enforcing partially repeatable processes and controls Localized improvements focusing on project rather than process efficiency Delays and budget overruns due to erratic nature of work	Standardized processes and controls to ensure "the right way" is followed Libraries of methodologies for remediation addressed-to-date Ad-hoc use of partial performance data to improve performance Easier recruiting and staffing thanks to standardized work	Processes defined and controlled per accepted corporate methodologies Data-driven process management to drive continuous improvements Specialized teams and targeted recruiting to mitigate uncertainties in cost and timeline	Rich performance data and analytics to systematically optimize processes Piloting innovative ideas and technologies Prevention of future issues by diagnosing and fixing underlying causes

Source: Oliver Wyman analysis

DOING IT RIGHT

Leaders who want to consistently make things right when things go wrong are encouraged to proactively build and optimize the necessary capabilities. Leaders may want to ask themselves:

- What is the expected level and nature of customer remediation given the current state of the business and control environment?
- When issues occur and remediation is warranted, will all the potential impacts be identified?
- Will all impacted customers be remediated sufficiently?
- Will all impacted customers receive the remediation they are owed?
- What are the key opportunities to improve remediation capabilities?
- How can the learnings across remediations be incorporated to enhance the processes and results?

Customer remediation is an essential component in delivering customer excellence, and leaders who can confidently answer these questions stand to gain higher levels of customer loyalty, avoid undue risks and loss, and achieve long-term success.

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