

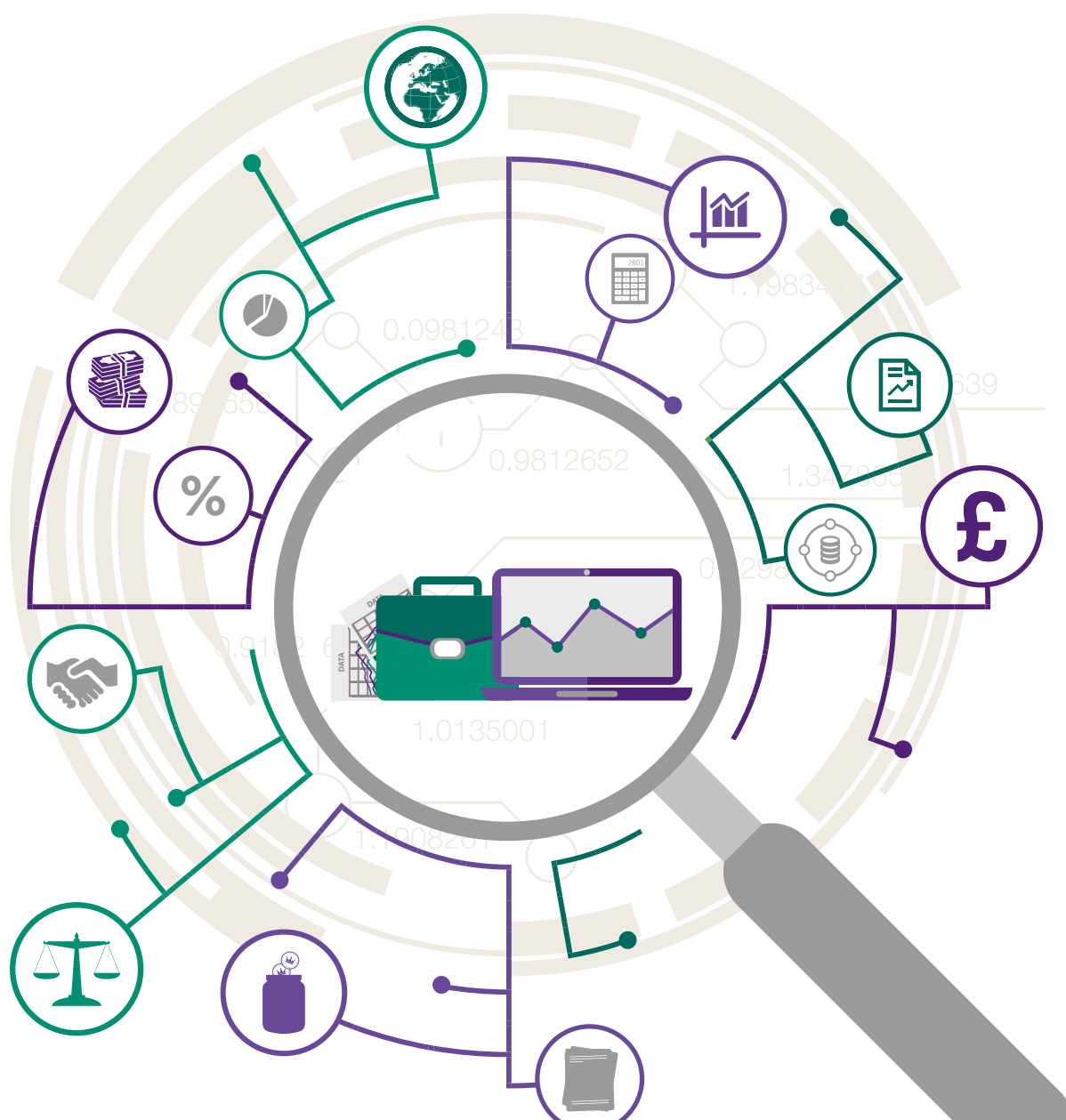


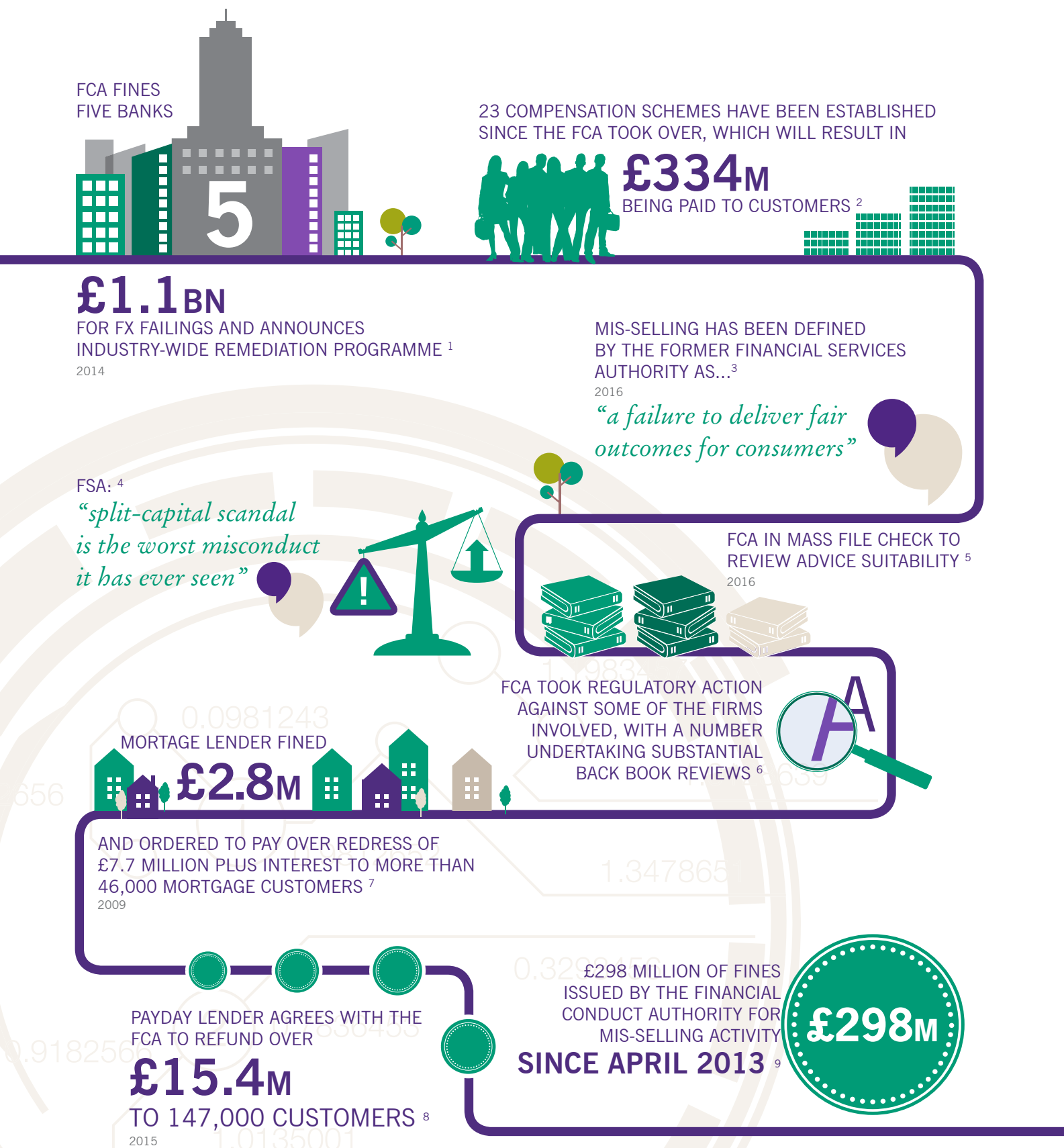
Grant Thornton

An instinct for growth™

Past business reviews and remediation exercises

Helping you make a success out of redress





¹ <https://www.fca.org.uk/news/press-releases/fca-fines-five-banks-%C2%A311-billion-fx-failings-and-announces-industry-wide>

² <https://www.ft.com/content/b59f8638-0009-11e6-ac98-3c15a1aa2e62>

³ <https://www.nao.org.uk/press-release/financial-services-mis-selling-regulation-and-redress/>

⁴ <http://www.telegraph.co.uk/finance/2885007/FSA-split-capital-scandal-is-the-worst-ever.html>

⁵ <https://www.moneymarketing.co.uk/fca-in-mass-file-check-to-review-advice-suitability/>

⁶ <https://www.fca.org.uk/publications/thematic-reviews/tr15-12-wealth-management-firms-and-private-banks-suitability>

⁷ <http://www.moneywise.co.uk/news/2009-10-29/mortgage-lender-fined-over-repossession-policy>

⁸ <https://www.fca.org.uk/news/press-releases/payday-lender-dollars-provide-%C2%A3154-million-redress-over-147000-customers>

⁹ <https://www.nao.org.uk/press-release/financial-services-mis-selling-regulation-and-redress/>

Introduction

Remediation programmes have become a prevalent feature of a regulatory regime that has placed conduct issues at its core. Regulatory demands, public scrutiny, claims management companies and political pressures have ensured that remediation programmes will continue to occupy financial institutions for the foreseeable future.

Sales practices, incentive schemes, poor conduct and culture and poor governance arrangements have all contributed to significant levels of regulatory scrutiny for regulated firms. Consequently, actions to remediate the impact of legacy practice is likely to be an enduring challenge for the foreseeable future. Furthermore, this increases the expectation on firms to undertake appropriate early warning horizon scanning activity up front to ensure that material instances of bad practice and poor conduct are proactively identified and remediated in a timely manner.

The financial services industry has had to undertake a significant number of Past Business Reviews (PBR) and subsequent remediation exercises across a range of products, such as defined benefit pension transfers, split capital trusts and mortgage endowments. More specifically, recent reviews have concentrated on pension switching, interest rate hedging products, ensuring the fair treatment of customers in arrears, payday lending and one of the largest reviews ever, Payment Protection Insurance (PPI). The knock-on effect of this has seen remediation costs spiralling, with redress and operational costs amounting to billions of pounds.

There are a number of ways in which a firm may become aware of widespread systemic FCA rule breaches, such as internal or external compliance reviews, a Skilled Person review, regulatory thematic work, internal breach reporting or complaints root cause analysis. Some of these systemic rule breaches may warrant a PBR to identify and robustly resolve any instances of customer detriment. Once identified, the FCA is likely to require a firm to undertake a wider remediation exercise to ensure any affected customers are treated fairly and receive the right outcome.

If your firm has identified potential mis-selling and is required to undertake a PBR, you must have the necessary governance arrangements and skilled resources in place to

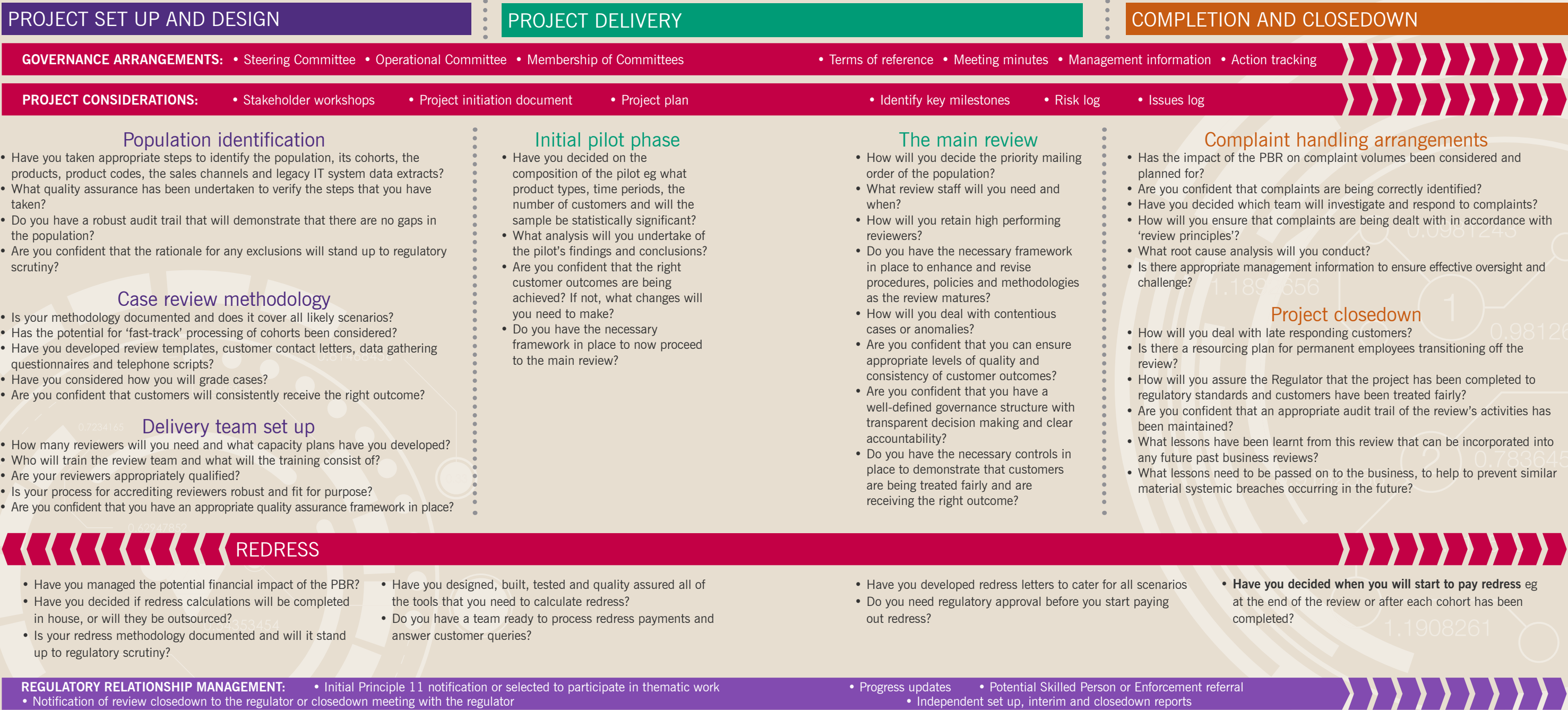
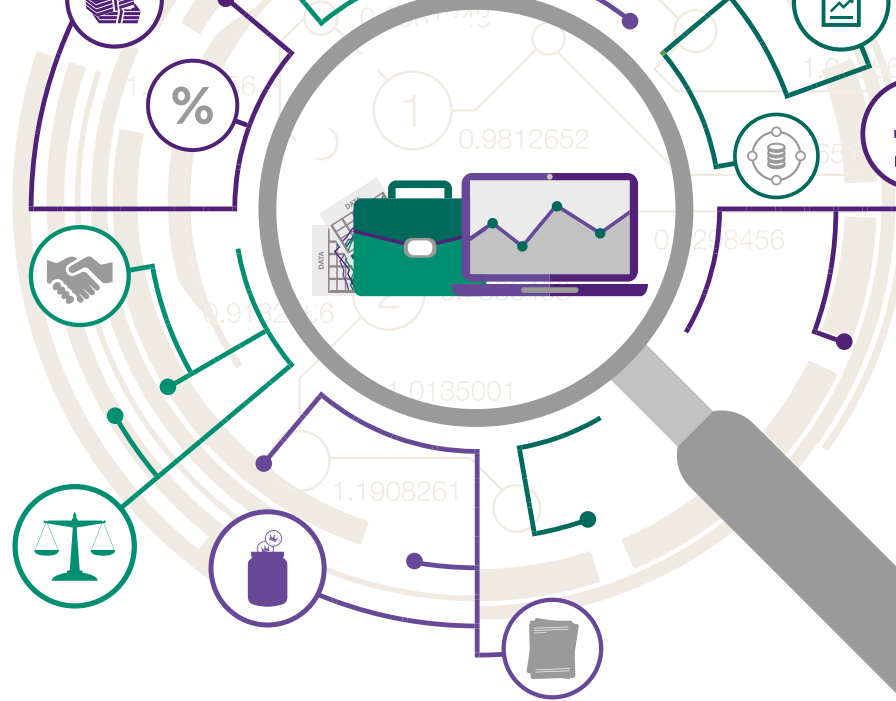
ensure that the review is promptly undertaken to robust regulatory standards.

Undertaking a PBR can be a huge task, expensive and a considerable business distraction. At Grant Thornton, our team of experienced regulatory experts, have significant experience of providing independent oversight and challenge to a firm's PBR, helping to ensure that it is delivered efficiently, to regulatory deadlines and standards and that customers are treated fairly. We have assisted firms with PBRs ranging from populations of only a few hundred customers to large scale projects that involve populations of hundreds of thousands of customers, which can take years rather than months to complete.



Past business review project lifecycle

A proposed approach setting out some of the key questions and challenges that you will need to consider to deliver a successful and cost effective past business review.



A sample of our experience

Consumer credit and mortgages

Acting as the Skilled Person in respect of a remediation project for a high-cost short-term credit provider

We were instructed by our client and approved by the regulator to assist and critically challenge the firm in relation to various aspects of its remediation exercise. The key areas of support provided were in relation to establishing the regulatory requirements which spanned across a wide time period during which different regulatory requirements and standards applied, assessing the robustness of the population identification undertaken, creating the remediation methodology, and providing assurance over the firm's redress calculations and customer contact strategy.

Banking

Designing and implementing a tax consequential loss review programme for a major high street bank in respect of mis-sold Interest Rate Hedging Products (IRHP)

We were engaged to develop and implement a programme to calculate the tax consequential losses suffered by customers in respect of mis-sold IRHP. This involved designing and building a bespoke calculation template, defining the information required from customers, agreeing standard assumptions to be applied to all cases and undertaking detailed calculations to ascertain any consequential losses.

Providing PBR suitability assurance to a large UK retail bank

We assisted a major UK high street bank in providing on-going quality assurance monitoring of its past business review of c100,000 pieces of investment advice. At the set-up of the project we designed the suitability of advice review methodology. We provided on-going advisory support in regards to the wider project, such as the governance arrangements, training of reviewers, quality assurance frameworks and the steps taken to robustly identify the review population. We also provided actuarial assistance and assurance to calculation methodologies and redress payments.

Providing regulatory and actuarial support on a range of remediation workstreams to a provider of secured and unsecured loans

We were engaged by a lender on a number of different remediation projects relating to residential mortgages, second charge loans and unsecured loans. Our regulatory and actuarial teams provided support and challenge in relation to complex account reviews, which assessed the impact of previous errors on the firm's administration systems on fees, interest, monthly instalments and litigation action taken against customers. Our actuarial experts built a number of redress tools, which were used to re-run accounts from inception to determine the impact of a variety of issues being remediated.

General insurance

Advising a mobile phone insurance claims handler throughout a customer remediation exercise

We were engaged by the firm to assist in assessing the extent to which customers who had had claims under their mobile phone insurance policies rejected had been unfairly treated. Following this work the client decided to undertake a customer contact exercise and offer redress to all customers who had suffered detriment. We were engaged to provide independent challenge, guidance and oversight of the project to provide assurance that this was being carried out robustly and effectively in line with regulatory expectations and that customers were being treated fairly.

Assistance to a healthcare provider in assessing compliance with FCA rules and planning customer remediation

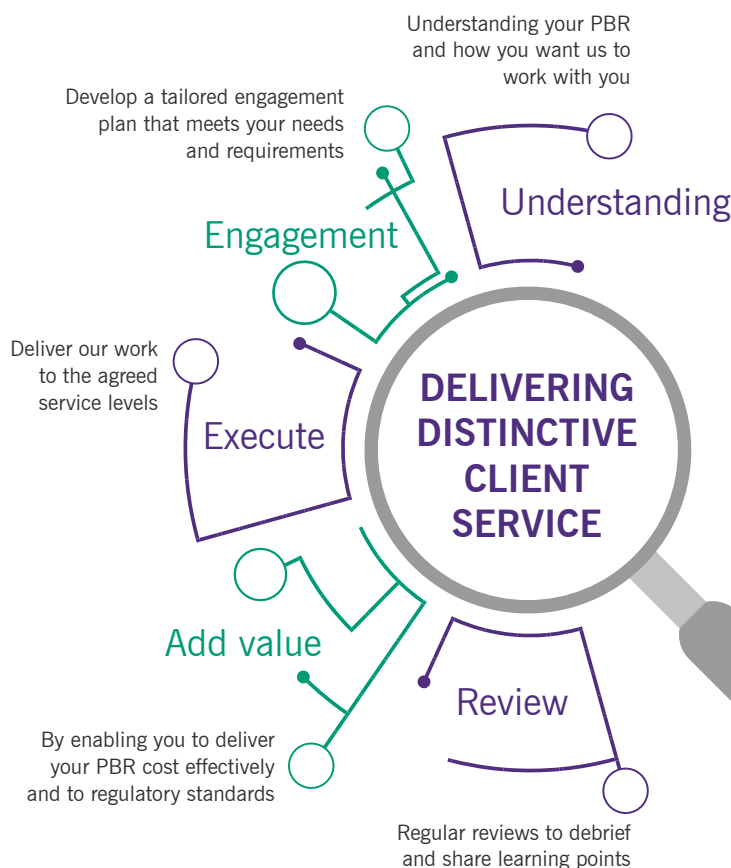
Our client was a provider of healthcare insurance products and had identified that some of its customers may not have been provided with adequate information on their insurance cover and therefore may not have had sufficient awareness of their ability to claim. We were asked to assist the client to understand the nature and scale of the issue and specifically determine what corrective action may be required. As a result, we determined that the problem was not as significant as first thought and very few customers had potentially suffered any detriment. Our client had been subjected to significant regulatory challenge on this matter and our report enabled the firm to demonstrate that there were no systemic failings.

Distinctive client service

Our clients say that we are easy to work with, we ask challenging questions, we are keen to understand their business, we have people with the right skills and experience and we tell it like it is.

We will challenge your thinking to ensure the best possible outcome. Our senior people are accessible, approachable and are involved in all the key stages of our work. Our client service teams have the power to act and make decisions quickly. We provide a co-ordinated approach and to take into account the bespoke needs of our clients.

We know that improvements to processes and products can be derived from remediation programmes, which help you to mitigate risk and drive value over the longer term.



The benefits of working with us:

- we have a strong project and programme management capability with extensive remediation experience. We will work collaboratively with you, and your teams, to deliver your remediation programme
- Grant Thornton's remediation capability extends across its Financial Services Group with experienced professionals able to assist you in areas such as Audit, Actuarial, Business Consulting, Financial Crime, Regulatory and Tax
- we have considerable practical experience of assisting a wide range of regulated firms to successfully deliver PBRs. We are able to help ensure that your PBR is delivered in a cost effective manner, minimises disruption to your business, meets regulatory requirements and achieves the right outcomes for your customers
- our opinion really counts the regulators as we are an established supplier to the FCA and the PRA. We have now acted as Skilled Person on over 100 assignments and we are regularly appointed directly by the regulators to act as experts
- once you engage with us, it is likely that the regulator will be more comfortable that the matter is being handled in a robust and timely manner. As a result the level of formal regulatory scrutiny could well reduce
- you will have access to our team of regulatory experts that includes senior personnel who are ex-regulators with experience of supervising firms, who have a practitioner's understanding of the specific challenges regulated firms face
- we will help you to avoid the common pitfalls and mistakes that firms can make, ensuring that your PBR is completed quickly, efficiently and cost effectively.

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