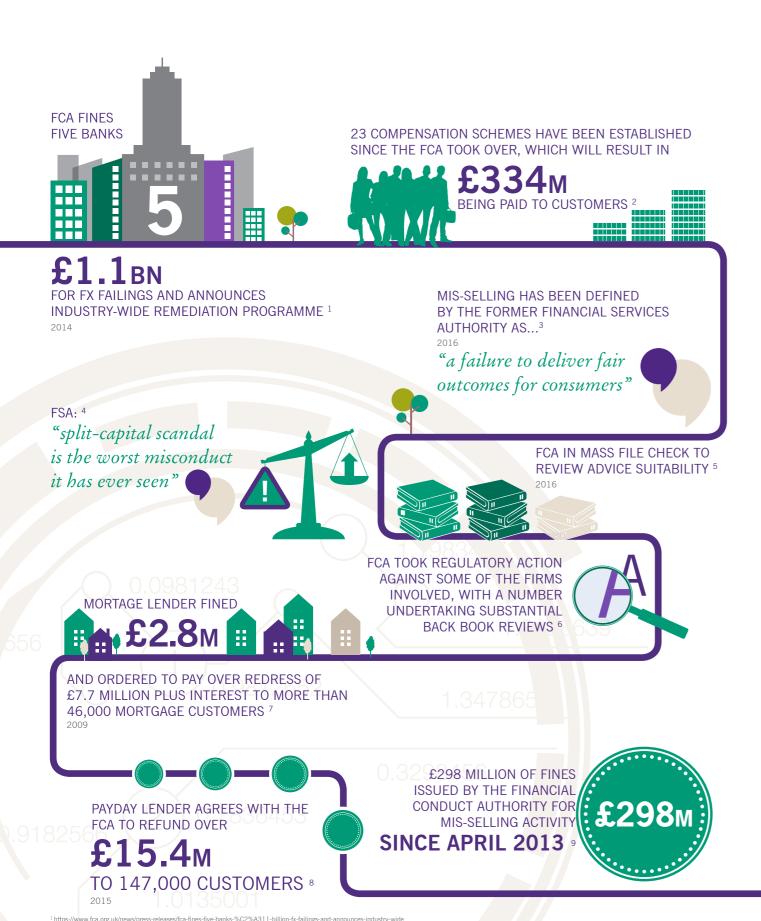


Past business reviews and remediation exercises

Helping you make a success out of 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.



02 Past Business Reviews and Remediation Exercises | January 2017

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.



PROJECT SET UP AND DESIGN

PROJECT DELIVERY

COMPLETION AND CLOSEDOWN

GOVERNANCE ARRANGEMENTS: • Steering Committee • Operational Committee • Membership of Committees

• Terms of reference • Meeting minutes • Management information • Action tracking

Risk log

PROJECT CONSIDERATIONS:

Stakeholder workshops

· Project initiation document

Project plan

· Identify key milestones

Issues log

Population identification

- Have you taken appropriate steps to identify the population, its cohorts, the products, product codes, the sales channels and legacy IT system data extracts?
- What quality assurance has been undertaken to verify the steps that you have
- Do you have a robust audit trail that will demonstrate that there are no gaps in
- Are you confident that the rationale for any exclusions will stand up to regulatory scrutiny?

Case review methodology

- Is your methodology documented and does it cover all likely scenarios?
- Has the potential for 'fast-track' processing of cohorts been considered?
- Have you developed review templates, customer contact letters, data gathering questionnaires and telephone scripts?
- Have you considered how you will grade cases?
- Are you confident that customers will consistently receive the right outcome?

Delivery team set up

- How many reviewers will you need and what capacity plans have you developed?
- Who will train the review team and what will the training consist of?
- Are your reviewers appropriately qualified?
- Is your process for accrediting reviewers robust and fit for purpose?
- Are you confident that you have an appropriate quality assurance framework in place?

Initial pilot phase

- · Have you decided on the composition of the pilot eg what product types, time periods, the number of customers and will the sample be statistically significant?
- What analysis will you undertake of the pilot's findings and conclusions?
- Are you confident that the right customer outcomes are being achieved? If not, what changes will vou need to make?
- Do you have the necessary framework in place to now proceed to the main review?

The main review

- · How will you decide the priority mailing order of the population?
- What review staff will you need and when?
- How will you retain high performing reviewers?
- Do you have the necessary framework in place to enhance and revise procedures, policies and methodologies as the review matures?
- · How will you deal with contentious cases or anomalies?
- Are you confident that you can ensure appropriate levels of quality and consistency of customer outcomes?
- Are you confident that you have a well-defined governance structure with transparent decision making and clear accountability?
- Do you have the necessary controls in place to demonstrate that customers are being treated fairly and are receiving the right outcome?

Complaint handling arrangements

- · Has the impact of the PBR on complaint volumes been considered and planned for?
- Are you confident that complaints are being correctly identified?
- Have you decided which team will investigate and respond to complaints?
- How will you ensure that complaints are being dealt with in accordance with 'review principles'?
- What root cause analysis will you conduct?
- Is there appropriate management information to ensure effective oversight and

Project closedown

- How will you deal with late responding customers?
- Is there a resourcing plan for permanent employees transitioning off the
- How will you assure the Regulator that the project has been completed to regulatory standards and customers have been treated fairly?
- · Are you confident that an appropriate audit trail of the review's activities has been maintained?
- · What lessons have been learnt from this review that can be incorporated into any future past business reviews?
- · What lessons need to be passed on to the business, to help to prevent similar material systemic breaches occurring in the future?

REDRESS

- Have you managed the potential financial impact of the PBR?
- Have you decided if redress calculations will be completed in house, or will they be outsourced?
- Is your redress methodology documented and will it stand up to regulatory scrutiny?
- · Have you designed, built, tested and quality assured all of the tools that you need to calculate redress?
- Do you have a team ready to process redress payments and answer customer queries?

- Have you developed redress letters to cater for all scenarios
- Do you need regulatory approval before you start paying out redress?
- · Have you decided when you will start to pay redress eg at the end of the review or after each cohort has been completed?

REGULATORY RELATIONSHIP MANAGEMENT: • Initial Principle 11 notification or selected to participate in thematic work · Notification of review closedown to the regulator or closedown meeting with the regulator

• Progress updates • Potential Skilled Person or Enforcement referral Independent set up, interim and closedown reports



04 Past Business Reviews and Remediation Exercises | January 2017 Past Business Reviews and Remediation Exercises | January 2017 05

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 ongoing 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

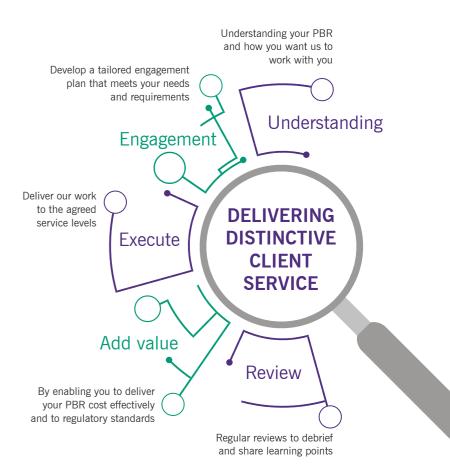
Our client was a provider of healthcare insurance products and had identified that some of its customers may not have been provided with adequate information on their insurance cover and therefore may not have had sufficient awareness of their ability to claim. We were asked to assist the client to understand 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
- 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
- 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.

0.9812652

Past Business Reviews and Remediation Exercises | January 2017 07

Contacts



Jon Sperrin
Partner
T +44 (0)20 7728 2561
E jonathan.sperrin@uk.gt.com



Alex Ellerton
Partner
T +44 (0)20 7184 4627
E alex.g.ellerton@uk.gt.com



David Morrey
Partner
T +44 (0)20 7865 2657
E david.morrey@uk.gt.com



David Royle
Partner
T +44 (0)20 7865 2834
E david.g.royle@uk.gt.com



Andrew Creamer
Associate Director
T +44 (0)20 7728 2029
E andrew.creamer@uk.gt.com



Darren Castle
Associate Director
T +44 (0)20 7728 2203
E darren.castle@uk.gt.com



Rob Arthur Associate Director T +44 (0)121 232 5310 E robert.arthur@uk.gt.com



Jonathan Houston Associate Director T +44 (0)20 7728 2227 E jonathan.houston@uk.gt.com



© 2017 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grantthornton.co.uk