



PPI - Time for Action

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The recent announcements by the banks and the British Bankers' Association (BBA) that they will not appeal against the High Court judgement on the Payment Protection Plan (PPI) mis-selling judicial review has clearly transformed the game from debate to action.

There have been mixed responses among Financial Services firms up to this point. Some firms have been holding back on making final resolution on complaints that have been affected by the review or haven't yet undertaken root cause analysis to determine whether or not a Past Business Review (PBR) should be started. Others have begun to map their approach to conforming to the FSA's Policy Statement and addressing complaints which have been put on hold. Now it's clear what needs to be done, and firms will need to establish and implement end-to-end plans to handle the results of the decision in a way that will best protect their brand and optimise the financial outturn.

Ultimately, each Financial Services organisation needs to decide on its future strategic position in this market and its approach to tackling the remediation challenge. Additionally, organisations will have the chance to create revenue from their customer base by advising them on appropriate product loan related cover. This could actually deliver greater brand integrity, visibly treat customers more fairly, and ensure that statements on responsible lending are seen to be implemented.

At Capita, we believe that those firms who are quickest to start addressing these challenges will gain a significant competitive advantage, and that there will be a race to demonstrate positive action. In addition, there may be some scarce resources required that the faster firms will snap up, giving them a further advantage. If the organisation does not mobilise quickly, it may well lose market share to predatory organisations that use these set of circumstances as a brand reinforcement tool, that are seen to be

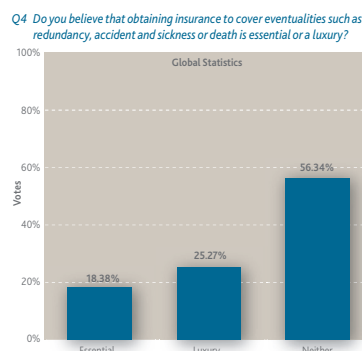
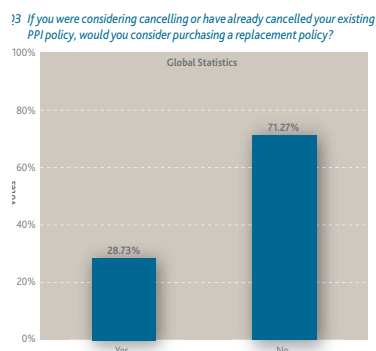
getting their house in order, and that can redeploy resources from remediation back onto Business as Usual.

Remember your Customers

The number one consideration that should pervade all activities is the relationship with your customer. This relationship needs to be considered and managed at every stage of activity with thought also given to how you want your brand to be perceived when significant customer communications begin. Once detailed communications with customers occur, whether to provide redress or to inform them of an unsuccessful review, the customer relationship will be very much at risk and retaining the customer should be a paramount consideration.

In order to treat customers fairly, firms also need to consider those customers who still have a genuine need for cover to be protected from the risk of being unable to service their debts. These customers need to be identified; whilst turning your back on a product opportunity is unlikely to cause a regulatory breach, offering an appropriate protection product in a compliant manner is a perfectly reasonable and ethical approach. Capita research conducted in November 2010 indicates a viable, albeit smaller, market for protection products of this type (see example results below in Figure 1). There is also merit in a future landscape of less delinquent debt if suitable products are distributed and thus protecting consumers from unforeseen circumstances.

Figure 1



Root Cause Analysis

The FSA has emphasised the use of root cause analysis (RCA) to identify whether a PBR is required. Access to resources with the requisite skills and knowledge will be essential in ensuring a robust output. Many firms struggle to perform effective RCA relating to complaints; PPI related RCA will be no easier. It will also be difficult for firms to translate the findings of any RCA exercise into an effective approach to any potential PBR that they are comfortable will satisfy scrutiny from both the FSA and the FOS.

The FSA has highlighted that PBRs should already have had a degree of 'consideration', but many firms have been waiting for the result of the judicial review to trigger work in this area. There may be some hope of being able to renegotiate implementation timescales but our opinion is that the FSA is unlikely to be flexible in this regard, given the delays in resolution caused to date by the judicial review. This implies that when this activity starts in anger, there will be enormous and urgent pressure for the right type of skilled resource to support internal staff.

Handling Complaints and Claims

Firms have had to ramp up capacity to handle the additional BAU complaint volumes PPI has brought but even so, current staffing levels are inadequate to cope with the demands a PBR will place on a firm. As well as resourcing, training and managing these extra resources, in some cases firms have had to go to the expensive contract market in order to ensure skilled resource is made available. This problem can only worsen if firms deem that a PBR is necessary and is a significant additional cost to have to carry, for a period of probably one to two years.

Operationally, as well as the challenge of housing additional staff, firms will have the challenge of ensuring operations, processes and technology are all operating correctly and aligned to FSA Policy Statement 10/12. It should also be born in mind that other complaints will still need to be addressed alongside any PPI handling activity, which creates additional operational tensions that will need to be managed. Experience of previous remediation exercises, for example endowment mis-selling, emphasises the importance of a project-based approach and robust and

disciplined management controls.

The approach to managing remediation activity needs to be carefully considered in order to minimise the overall redress bill for firms. Deploying flexible and scalable operational and resourcing models can help contain administration costs, which for many firms will be significant.

Claims handling and administration will still be an important PPI-related activity, whether the book is still live or the provider has chosen to cease offering a replacement product and is running off their PPI book. Decisions need to be made on how staff currently involved in PPI claims handling should be managed, especially if a firm decides toward run-off. In this scenario, the firm needs to consider if these staff can be redeployed or whether redundancy (and the associated cost) needs to be considered.

Revenue – Threat or Opportunity

PPI written premium has undergone a significant decline from a total Gross Written Premium (GWP) of £4.6 billion in 2006 to a low of £1.7 billion. Datamonitor predicts this will recover to around £2.5 billion by 2013, but the PPI sales process has altered radically, with single premium PPI sales banned and the mandating of 'stand-off periods' following provision of credit. Coupled with the uncertainties of being able to offer FSA compliant products, the decision to recover lost revenue through revised sales channels (that are also FSA compliant) challenges firms to determine an approach that allows for a balance of operational and regulatory risk versus revenue.

Where firms want to protect revenue by offering an alternative type of cover, product and process must both be compliant. Although replacement products are slowly making their way into the market with good evidence of product innovation to address failings of the PPI product, there is still hesitation from a sales processing perspective as firms contemplate the risk of another noncompliant sales process, with further liabilities.

A Strategic Solution to a Material Problem

Many firms have already assessed the financial impact the PPI issue will cause, with at least one major bank using the adjective 'material' to describe the degree of financial impact. In Capita's view, a problem of this magnitude demands a strategic response, which is summarised in Figure 2 below.

Without over-stating the use of the word 'strategy', we would counsel against looking at 'point solutions'. Rather, we would recommend the first step in moving forward with PPI would be

to look at the entirety of the situation and the firm's response, setting some strategic objectives, and operating principles.

This would provide a sound foundation upon which a formal change programme could be established, and would lead on to the development of a target operating model for the 'post PPI' operation, which would provide a blueprint for implementing whatever operational capabilities are required.

Figure 2



Call to Action

This paper has outlined some of the key challenges facing Financial Services firms as they seek to pick a route through their PPI situation. The paper also suggests a number of key success factors, including:

- Taking a strategic approach
- Running a formal change programme
- Considering the customer
- Mobilising at speed
- Having flexible resources.

The PPI challenge is not easy, but the time for action has arrived, so we would recommend the old adage that 'the best way to start is ... to start'.

How Capita can Help

Capita provides a range of services to Financial Services companies, which could be leveraged in part or in combination to shape and support their PPI approach. These services include the following:

Help shape the future PPI approach for client organisations:

- Help clients develop a strategy for PPI remediation and for PPI going forward
- Develop a future target operating model for PPI
- Manage the programme of change required to implement the strategy.

Implement and manage remediation activities:

- Undertaking PPI root cause analysis
- Set up and deliver a customer contact and remediation programme to correct the PPI problem
- Deal with BAU complaints backlog quickly

- Undertake past business reviews on identified populations
- Provide flexible resources to deal with changing business needs.

Implement and manage replacement product sales:

- Re-contact new loan customers after the seven day waiting period, with a protection offer
- Introduce a compliant future sales process
- Undertake document management providing 12 month certification
- Contact customers to ensure cover adequacy
- Provide retention services.

In addition, we can offer a number of supplementary services:

- Support existing policy distribution and maintenance
- Provide admin resources for the existing policy count, in either run off or sale
- Provide claims administration services to existing PPI back books
- Undertake an examination of existing back book complaint liability
- Undertake an examination of existing back book claims liability.

Some of Capita's key capabilities which support these services are as follows:

Help shape the future PPI approach:

- A consulting operation which includes people with considerable expertise in running diagnostic exercises, developing target operating models, and running complex change programmes in Financial Services organisations.

Remediation:

- Deep expertise in complaints and claims handling, with a specialist unit dedicated to delivering these services
- Track record of delivering right first time regulated remediation services, with no client rework experienced as a result of our advice or procedures
- Providing PPI remediation services for some Financial Services firms (details are confidential)
- Administers one of the world's largest compensation schemes: the coal health scheme involves over 762,000 claims, with liability estimated at over £7 billion, and over £3.4 billion paid out to date (£1.8 million every day)
- Extensive experience of Pensions mis-selling: administered over 525,000 claims, with liability value of over £16.2 billion, and paid out over £2.7 billion (2009 figures)
- Rapid response capability with agility to flex resources to suit demands, as evidenced by our being appointed to run recruitment, training and payroll services for 2011 Census processing
- Low cost business model not reliant on the contractor market, typically delivering efficient gains of up to 40% compared to client teams.

Replacement product sales:

- Market leading, mature BPO provider, with 10,000 staff performing sales and service processing for 23 million policies in Insurance, Life and Pensions
- Regulated by FSA due to BPO operations (unlike resource providers)
- Experience of successful FSA engagement, with strong links with FSA (including PPI policy and enforcement teams) high quality outcomes demonstrated by accuracy and customer experience
- Highly scalable and flexible solutions
- Modular or fully integrated solutions.

CAPITA

Contact Us

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