



UK LENDERS NEED AN EFFECTIVE WAY TO DEAL WITH HIGH VOLUME PAYMENT PROTECTION INSURANCE (PPI) REMEDIATION

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I. Introduction

The recent High Court ruling in favour of the FSA's PPI policy document 10.12 has caused many firms in the financial services sector to stop and consider the implications of what this ruling will mean for UK lenders facing PPI compensation claims, and also how it will affect their responsibility to shareholders.

The FSA had earlier estimated that around 3 million people could be eligible for PPI refunds, worth a total of £4.5bn. Lloyds Banking Group alone has already increased the amount it put aside to pay victims of PPI mis-selling to £3.2bn.¹

Lloyds, however, reportedly held around a third of the PPI market, followed by Royal Bank of Scotland with 18%. As such, the size of Lloyds's provision suggests that the total PPI bill may now actually be closer to £10bn.² Even this staggering figure may be just the tip of the iceberg, however, as customers will most likely seek compensation on PPI policies dating back many years, which will raise these figures even higher into the millions. After all, selling PPI has been a thriving business for years, with an estimated 20 million policies in force and annual gross premiums in excess of £5 billion.³

As such, banks are already facing a daily barrage of new PPI cases, leading to an increased burden on their customer care resources. Unfortunately, the problem is set to grow even further as banks are tasked with reviewing (and taking remedial action) on millions of additional cases. Meanwhile, the FSA has stepped in to say that firms have a duty to assess every complaint relating to PPI before deferring any cases.⁴

In fact, the FSA has now published a detailed policy statement confirming its package of measures to protect consumers with regard to PPI, including the requirement that firms must evidence their

approach to proactively contact any customers who may be affected. As a result, the cost to lenders of implementing these processes is likely to go far beyond the money set aside to handle the compensations themselves. In the meantime, however, firms need to begin preparations for the implementation of their PPI Remediation Projects within the current framework and address any existing complaints quickly and efficiently.

For all of these reasons, UK lenders are facing a major PPI crisis. Banks will therefore need to implement robust processes to identify any clients affected by PPI mis-selling, and must also start remedial action as quickly as possible in order to avoid a costly backlog of cases and to develop a proactive customer contact strategy as required by the FSA.

Persistent rumblings within the industry suggest that the situation will actually come to a head sooner rather than later when the FSA issues its official timelines for banks to present their proactive (and robust) remedial plans.

Although these new dates are expected to be in line with the FSA's Policy Statement 10/12 released last summer, it nonetheless means that the clock has already started ticking very loudly.

With this considerable pressure mounting, the current PPI debacle leaves lenders facing the key issue of not if, but how they will process these claims in a way that satisfies the FSA as well as their own shareholders.

1 <http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/8500401/Barclays-follows-Lloyds-in-dropping-PPI-legal-fight.html>

2 <http://www.guardian.co.uk/business/2011/may/05/how-ppi-scandal-unfolded>

3 http://www.citizensadvice.org.uk/index/policy/policy_publications/er_credit_debt/protection_racket.htm

4 <http://www.moneymarketing.co.uk/protection/banks-have-to-review-every-ppi-complaint/1029900.article>

II. PPI: where did it all go wrong?

PPI policies have been sold alongside mortgages, loans and credit cards since the 1990's as a way of repaying people's borrowings if their income fell as the result of ill health or redundancy. Complaints about the mis-selling of PPI soon dominated the work being conducted by the Financial Ombudsman Service and in the second half of 2010 accounted for more than half of all new cases referred to the service.⁵

Critics claimed that the banking industry began aggressively selling PPI to customers after realising that the policies were highly profitable, but Citizens Advice identified four particular areas⁶ where PPI raised concerns:

- It was expensive, with premiums often adding 20% to the cost of a loan, and in some cases over 50%.
- It was ineffective, since it was structured in a way that would limit the chances of a payout to someone who was genuinely ill.
- It was mis-sold, since it was often provided without the customer's knowledge, sold as 'essential', and/or sold to people that would never be able to claim, such as the self-employed.
- It was inefficient, with complicated claims procedures and/or claimants facing long delays before receiving payment.

The FSA began imposing fines for PPI mis-selling in 2006, starting with a £56,000 penalty for the Regency Mortgage Corporation. According to the FSA, Regency had sold PPI to 'right-to-buy' mortgage customers who would not have been able to claim, or who already held insurance. Many more fines followed, with Liverpool Victoria Banking Services fined £860,000 in 2008 for adding PPI to many customers' loans without their knowledge. In addition, Alliance & Leicester was fined £7m, with the FSA ruling that its staff had been trained to 'put pressure on customers' who questioned the inclusion of PPI in their quotation.⁷

To date, there have been more than 1.5 million complaints made about PPI since the Financial Services Authority (FSA) took over regulation of it in 2005. On average, firms have rejected around 60% of the complaints made to them, but some banks have rejected almost all of them. However, the vast majority of complaints referred to the Financial Ombudsman Service (the Ombudsman) are found in the consumer's favour.⁸

According to a recent article in the Guardian newspaper, the total bill for PPI compensation claims could soon reach £10bn

⁵ <http://www.guardian.co.uk/money/2011/feb/28/ppi-mis-selling-financial-ombudsman>

⁶ http://www.citizensadvice.org.uk/index/policy/policy_publications/er_credit_debt/protection_racket.htm

⁷ <http://www.guardian.co.uk/business/2011/may/05/how-ppi-scandal-unfolded>

⁸ <http://www.fsa.gov.uk/pages/Library/Communication/PR/2011/039.shtml>

III. Lenders face a major battle

The FSA handbook requires firms handling complaints to issue a written response within eight weeks of the complaint being made, with either a final decision or a written explanation of why a final decision cannot be provided. In the case of the latter, firms have to make customers aware of their right to take their complaint to the Financial Ombudsman Service ⁹.

Successful PPI compensation claims can be based on many different factors, such as proving that the customer was out of work when the policy was initiated and/or that the customer felt pressured into purchasing the policy. As such, the FSA has stated that it expects to receive 2.75 million complaints related to the mis-selling of PPI over the next five years ¹⁰.

Already, the FSA has demonstrated its lack of patience with firms that have frozen PPI claims, with a strongly worded press release and stark instructions that all claims must now be dealt with. The regulator warned that it did not sanction any postponement with regard to dealing with PPI complaints, and that enforcement action may follow if banks refuse to deal with complaints. Ultimately, the FSA could even withdraw banks' licenses to conduct business in certain areas ¹¹.

The FSA has warned that enforcement action may follow if banks refuse to deal with complaints effectively

IV. Dealing with PPI compensation claims effectively

For the lenders caught up in the PPI crisis, there are a number of complex logistical challenges and potential risk implications in carrying out such a major corrective action programme:

- Organisations must prove readiness of a redress procedure for case/claim process immediately.
- Identify, approach and proactively communicate with potentially hundreds of thousands of customers through a number of different communication channels, quickly.
- Process, reject or correct similar amounts of cases/claims requiring possibly millions of individual actions to arrange, manage and fulfil.
- Comply with the principles of Treating Customers Fairly (TCF) in every activity and at every stage, capturing every contact and recording the detail of every conversation.
- Retain every piece of communication or correspondence (post, email, hardcopy forms and so on) and be able to produce it if needed.
- Prove compliance to the action by providing reporting returns with the accuracy, clarity and the transparency demanded by the FSA.

As the FSA has already laid down the guidelines for compensation, firms are left with just one option for reducing the expense of these processes: lowering their labour and FSO costs.

One of the UK's leading banks started using a solution provided by Charter UK to identify and process PPI mis-selling cases and immediately reduced their labour costs by nearly 50 per cent. As a result, the lender in question was able to save over £4m a year.

These savings were achieved through the automation of case creation as well as a sophisticated case management system. With this approach, all contact letters could be scheduled to meet the FSA's guidelines and printed in batches to standard templates. As a result, the amount of employee actions per case was reduced significantly, thereby increasing the amount of cases that could be processed per day without increasing the lender's employee head count.

Charter UK is already working with several UK banks to help them manage and increase the case per employee ratio. While each solution is different and tailored to meet each lender's own unique circumstances, all of the banks concerned have seen significant savings and efficiency gains while at the same time ensuring that each case is handled in accordance with the FSA's guidelines.

For this reason, Charter UK has been implementing its tried-and-tested PPI Remediation Solution, known as Charter Continuum, to support a comprehensive programme of proactive PPI remediation, ensuring that financial firms can implement the provisions of the FSA PPI policy statement (PS10/12) and the FSA DISP Handbook (particularly DISP App 3: Handling Payment Protection Insurance complaints) as required.

By combining its proven Financial Services complaint management platform with its vast experience of working on PPI claims, its strategic alliances with PPI specific partners, several key early adopting customers and its auditors and partners, Charter UK is working with some of the UK's best known financial services organisations as they prepare to execute their large scale customer contact and PPI remediation programmes.

The FSA has stated that it expects to receive 2.75 million complaints related to the mis-selling of PPI over the next five years

9 <http://www.moneymarketing.co.uk/protection/banks-have-to-review-every-ppi-complaint/1029900.article>

10 <http://www.ppiclaimsuk.co.uk/blog/discovering-missold-ppi/>

11 http://www.thisismoney.co.uk/credit-and-loans/ppi-mis-selling/article.html?in_article_id=531056&in_page_id=506&expand=true

V. Charter Continuum takes the pain out of PPI Remediation Projects

Charter Continuum specifically addresses the PPI claims crisis that UK lenders are now facing. The product's ability to automate a large proportion of the workload as well as streamlining Claims Management Company engagement allows a lean approach to this process, and has already proven to return significant savings in time and the physical resources required to execute a large-scale PPI remediation programme.

Immediately deployable by SaaS, or deployed within the lender's own IT infrastructure, Charter Continuum requires the minimum of technical resources and offers a simple interface that is clean, easy to use and fast. Running as a standalone system, Charter Continuum will manage all of the bank's PPI cases without interfering with its existing complaint management system or CRM applications.

The Charter Continuum system can import customer records and either bulk process claims or allocate claims to individual case handlers to review prior to processing, and can therefore save significant amounts of time and resource whilst also ensuring that every case is processed and that nothing is missed.

Built-in customisable workflows (which can be pre-set in accordance with the FSA's PPI guidelines) automate the majority of the remedial process, and the stored audit trail is fully reportable for Management Information as well as for reporting to the FSA and Financial Ombudsman Service (FOS).

For all of these reasons, it now takes less than one day to produce a complaint report for the FSA, since Charter Continuum can immediately collate and summarise each case submission for the FOS. The fully integrated solution, which has already been successfully deployed in several UK banks, calculates PPI redress and automates data transfer to cheque runs and/or account crediting systems in order to create an efficient end-to-end solution. In addition, all completed case records, complete with all correspondence, are exported back to the lender's primary CRM application for future reference, thereby ensuring no duplication of effort or loss of information.

As such, the implementation of the Charter Continuum PPI solution can enable financial firms to reduce their manual overheads by a significant factor whilst considerably increasing the number of cases processed through to outcome each day.

To date, there have already been more than 1.5 million complaints made about PPI, according to the FSA

VI. Case Study: a leading UK bank saves £millions on its PPI Remediation Project

A leading retail bank in the UK was facing more than 200,000 potential PPI Remediation claims, which they had placed in 'pending' status whilst awaiting the development of a suitable process for dealing with them in the most effective manner.

The bank quickly reached the conclusion that the workload and time required to process 200,000 cases far exceeded the capabilities of its existing complaints department. An outsourced project team was therefore brought in to provide the staffing, and Charter UK worked with the bank to create an effective, compliant solution for processing the PPI Remediation cases.

Charter UK's stand alone package was able to automate and streamline the process of handling thousands of complaints following a single workflow. As such, within just a few weeks, the bank had a solution that would provide it with an end-to-end effective process.

The new system was able to create new cases and claims for the affected consumer automatically, individually or in large batches, whilst applying the correct service level timescales, tasks, actions and priorities. As a result, the burden of responsibility on the agents was reduced, and they were therefore able to concentrate on customer service and claims processing.

As a result, the bank saved an estimated £4 million on the processing of 200,000 PPI Remediation claims. The success of this project was a direct result of the bank's decision to use an effective automated solution, with clear and compliant processes, along with its own skilled agents and management to produce a swift and accurate claim resolution programme.

With its current PPI Remediation projects, Charter UK has delivered a number of proven ROI metrics, including:

- A 30-50% reduction in resource overhead associated with manual claim processing.
- Elimination of risk and financial penalties associated with non-compliance to FSA regulation.
- Identification of internal service improvement programs from superior Management Information (MI) and Revenue Cycle Applications (RCA).
- A step change in complaint handling capability, consistency in quality and standards and other factors relating to customer satisfaction and advocacy.

VII. Conclusions

The volume of transactions generated by the upcoming PPI Remediation Programmes will clearly be substantial, and will require a significant commitment to resources and effort. The problem has now grown to a point where a manual approach is inconceivable, given the sheer quantity of temporary case handling staff required and the prohibitive cost that this approach would incur, especially in light of the FSA's recent demand for a more proactive approach with regard to customer contact and settlement.

The idea of simply absorbing such a large-scale Remediation Programme into a lender's day-to-day operations is equally unattractive, since an additional workload burden of this magnitude would completely overwhelm even the largest organisations' complaints handling function, alter roles and responsibilities, change defined processes and systems, disrupt operations and dilute the service quality for customers needing assistance in other areas.

It is these bigger risks to the customer experience (and the danger of simply creating even more FSA service compliance issues elsewhere in the organisation) that have convinced most large financial organisations to take the only viable option left, and to implement a PPI Remediation Programme that will supplement their daily operations with PPI-focused operational case handling capabilities.



CONTACT US

CHARTER UK 2 CHURCH STREET WALTON-ON-THAMES SURREY KT12 2QS UNITED KINGDOM
TEL: +44(0)1932 250000 FAX: +44(0)1932 250001
EMAIL: INFO@CHARTER-UK.COM WEBSITE: WWW.CHARTER-UK.COM