

Practical Considerations 10 Steps to Executing an Effective Redress Exercise

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Overview

A certainty in business is that things can go wrong and when customers are affected, proactive redress provides the mechanism to put things right, meet regulatory expectations and restore customer confidence in your brand.

Whilst industry wide redress exercises instigated by regulators are high profile, there are frequently smaller, firm-specific instances that don't make the headlines. A well thought out approach to delivering a redress exercise and capturing valuable learnings will help ensure the exercise is completed swiftly and without undue cost, reducing the impact to consumers and protecting hard earned reputations.

We present ten important steps for enabling an efficient redress process and explore in more detail the practical considerations under each of these 10 Steps.





Identify the harm



In many cases the harm will be obvious, however no matter the circumstances, assessment of harm must be made with regards to the relevant regulatory framework. In more complex and widespread scenarios, the regulator may set out their view of what harms have occurred and will want to see 'good customer outcomes'. When considering customer outcomes, firms should be aware of the subjectivity in interpreting rules, which may mean the Regulator's interpretation and therefore expectations are different to those arrived at by the firm.

Practical Considerations

- **Consider a broad range of sources of information**

The potential for harm may be apparent through your own complaints process or more broadly through industry wide forums or regulator commentary.

- **Act promptly on any concerns to prevent further harm to customers**

The suspension of the sale of effected products may be appropriate whilst the underlying issues are rectified.

- **Understand the scope and extent of the issues**

Input should be sought from teams firmwide including Legal, Compliance, Sales and Product Development. Assessing the potential scale of customers affected is important to ensure early and adequate mobilisation of resources as is the potential impact on reporting to stakeholders.



Understand the causes of harm



A root-cause analysis is key in understanding how the issue arose, how many customers were affected and more importantly, in determining what actions are required to ensure no additional customers are impacted by this or similar issues elsewhere in the business.

Practical Considerations

- **Determine if the cause is isolated or more widespread**

Certain deficiencies in processes may have been systematic and in place for extended periods of time, whereas others may be concentrated to shorter timeframes.

- **Determine the timeframe**

Identify when the underlying causes operated - a well-functioning complaints process may also be useful in identifying related trends and themes.

- **A 'deep-dive' exercise may be required to determine how the harm arose.**

Select a number of 'pilot cases' for detailed review to identify the key characteristics of the issue e.g. determining whether the harm was confined to a particular sales channel or more systematic due to a process or product design. Additional, less obvious harms may also come to light once the torch has been shone.



Identify the population of affected customers



Identifying all the affected customers is often not as straight forward an exercise as you might expect. If the issue affected customers over an extended time frame, there may be challenges in data discovery, which are amplified if multiple systems require accessing or system migrations have taken place in the intervening period. Additionally, the regulatory framework may require specific customer assessments, for example assessing customer sophistication, which may require data points not collected in the ordinary course of business.

Practical Considerations

- **Definition of 'in-scope' customers**

Clearly defining 'in-scope' customers is critical in quantifying those affected. Time should be taken to get this right first time – discovering a larger affected pool of customers part way through the process will affect credibility with customers and regulators and potentially result in substantial delays.

- **Identify the population**

Once the criteria for identifying in-scope customers have been established, data integration/discovery procedures can be undertaken to determine all those affected. We discuss data further in 5 below.

- **Identifying vulnerable groups**

It will be important to ascertain whether any customers are owed a greater degree of protection and/or prioritisation.



Document your redress framework and methodology



In industry wide redress exercises, it's not unusual for regulators to implement a uniform redress framework to ensure consistent treatment of customers across the industry. In firm specific instances, a redress methodology will likely need to be devised and agreed with the regulator. This should concisely document what went wrong, how many customers were affected, the outcome customers should have experienced and the methodology by which customers are to be returned to the right outcome. As noted in (1) above, care should be taken to consider the spirit of the regulations, the UK regulatory regime seeks good customer outcomes when assessed on a 'fair and reasonable' basis.

Practical Considerations

- **The subjective 'counterfactual'**

The counterfactual refers to the hypothetical 'good' economic outcome for the customer, had the harm not occurred. Determining this can be the most significant and onerous element in the framework. It is often subjective, specific to the facts and circumstances in each case and should be based on contemporaneous evidence of the sales process and the customer's needs and desires at the time.

- **Compare the difference**

Compare the counterfactual outcome to the actual economic outcome each customer experienced. This difference in economic outcome indicates the harm suffered and quantifies the extent of compensation due.

- **Alternatives to the subjective counterfactual**

As an alternative to the case-by-case counterfactual methodology, consider implementing an objective assessment methodology that that can be 'productionised'. This may be more expedient and cost effective in the long run, even though it may increase the value of customer compensation. Any assumptions or simplifications made should be agreed with regulators and must be in the favour of customers in every circumstance.

5

Extract the data



In our experience, data discovery, extraction and quality assurance is one of the most significant stumbling blocks experienced by firms. The more complex the methodology, often the greater the number of datapoints required and the more onerous and riskier the exercise becomes.

Practical Considerations

- **Involve technology teams early**

Technology teams should be involved in the process early on and as the redress methodology evolves. Doing so will allow technology teams to highlight any potential roadblocks and begin the discovery processes. Front-running e-discovery, especially if it is outside of Business-As-Usual (BAU) activities will reduce the chances of the process stalling.

- **Define the data required**

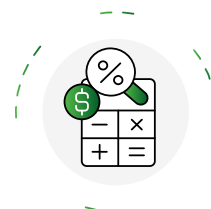
Have a very clear understanding of the datapoints required. Best practice is to produce a 'data dictionary' where each datapoint is defined, with characteristics and uses clearly articulated. This will allow technology teams to source the correct data for the requirement. We do not advise placing reliance on how data has been labelled in systems as this is often misleading.

- **Be prepared to make assumptions**

In complex scenarios, firms might encounter gaps in the data points required for assessments and computations. These gaps may require filling with assumptions which ought to be communicated to regulators and ultimately the customer to ensure transparency.

6

Construct your calculations



Converting a redress methodology into an operational process can be challenging. You may need lots of data points, complex calculations, technology infrastructure, multi-functional teams from across your organisation (possibly with external support) and even a working group on the interpretation of how the 'rubber hits the road' in applying methodologies to real cases.

Practical Considerations

- **Multifunctional teams**

Ensure you involve those who understand the products, the sales process, those who will code any calculators, as well as experts in the redress methodology.

- **Technology infrastructure**

Select suitable technologies to house data and undertake calculations, which supports transparency, expediency, and integrity. Compensation calculators should be built keeping in mind the need to allow for independent challenge and aid explanation of calculations to the regulators and ultimately customers.

- **Independent verification**

It may be advisable to engage a third party to independently verify the compensation methodology and how it has been implemented to minimise the chances of later challenges to the approach, requiring costly reassessments.



Undertake quality reviews of inputs and outcomes



As with all calculations, the quality of output is inextricably correlated with the quality of inputs. Firms should undertake due diligence on the quality of data before they are used in calculations. They should also consider processes to validate the accuracy of outputs, using KPI's, manual sample checks or in some instances a secondary 'challenger' calculation model.

Practical Considerations

- **Risk of customer challenge on data**

Firms should bear in mind the ability for customers to access their own financial information for example from product and bank account statements as well as historic contractual information, which could form the basis of challenge by them.

- **Provide clear explanations**

Customers are likely to have many questions. To avoid protracted discussions of methodologies and compensation amounts, a rigorous Q&A process should be established, with simple examples to aid customer understanding.

- **Simplifications to the methodology**

It may be expedient to implement simplifications to the methodology to avoid costly complexity. Simplifications may require fewer datapoints, aid understandability and reduce risk of miscalculation. Firms should seek to ensure any simplifications are always to the advantage of customers in all circumstances and reflect a 'fair and reasonable' approach.



Construct appropriate Management Information and KPIs



Regulators and those charged with governance will want to know how well the redress exercise is progressing not to mention how much it is costing. Defining KPIs and collecting project data from the outset will enable better project management, aid stakeholder communications and add credibility to the exercise. KPIs might include how many customers have been identified as in scope, how many have been redressed and the forecast path to redress all customers.

Practical Considerations

- **Agree reporting requirements with key stakeholders**

Depending on the size and nature of the exercise (and political pressures), regulators have been known to request weekly or monthly updates and have set target customer numbers for notifications, offers and payments.

- **Devote resources to manage the project**

A dedicated PMO team may be required to ensure the project runs to time and key milestones set internally or agreed with the regulator are met.

- **Ensure open upwards communications**

There will undoubtedly be unexpected challenges with any blockers identified early and promptly communicated to manage expectations.

9

Draft clear communications



Redress exercises may be reported in the press long before methodologies and redress amounts are determined, it is therefore important to implement a customer communications plan early on, which sets out key information and outlines the process to be followed. As the exercise progresses, updates and outcomes should be presented to customers in simple terms as customer may not fully understand the details of the exercise. Firms may also need to identify prescribed notification requirements to customers and regulators and possibly abide by certain prescribed time limits.

Practical Considerations

- **Be clear on what went wrong and how you've put it right**

Customers will need to be informed of the harm suffered, the methodology to put it right and the computation of any redress owed to them, potentially with supporting schedules. Regulators will be keen to ensure customers communications are transparent. Accordingly letters should be easy to understand and not be overly legalistic.

- **Dedicate appropriately trained resources to handle customer queries**

Be prepared for lots of customer questions. A dedicated team, appropriately trained in the methodology and to the extent possible, armed with well thought out and standardised responses will facilitate better customer outcomes.

- **Some customers may not accept your offer**

Not all customers will accept your offer, either because they don't understand how it's been determined or because they think the amount should be higher. When customers refuse to accept payment, a separate process should be devised to help resolve any dispute.

10

Embed learnings in product development and sales frameworks



Once the harm and causes of harm have been clearly identified, firms should reflect on these costly lessons and ensure learnings are embedded in their policies and procedures. Stakeholders understand mistakes happen but will seek assurances that they won't happen again.

Practical Considerations

- **Demonstrate change**

Regulators and stakeholders will be keen to see how lessons learnt have been incorporated into policies, procedures and controls to reduce the likelihood of future reoccurrence.

- **Applying the Consumer Duty**

Learnings should be reflected across the four areas of the Consumer Duty, not only for the affected product(s), but also for all products and assessing and implementing of new products.

Key Takeaways

Embarking on a redress exercise without sufficient planning and possibly in the full glare of the public can be littered with potential pitfalls. To help plan and execute a successful redress approach, it may be beneficial for firms to seek third party support to review initial findings, devise redress methodologies and in drafting communications to customers and regulators. If the subject matter is operationally or technically complex, or if resourcing the process is a constraint, advisors may also be able to assist in execution of the project and provide assurance as to the appropriateness and adequacy of the methodology used. Getting it right first time will reap rewards.

Connect with us

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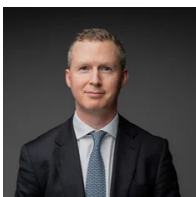
Over the last seven years with Deloitte he has leveraged his deep knowledge of financial products, financial, market and operational risk to support banking clients with fraud and conduct, capital optimisation, and operational risk matters. He has led teams on Skilled Persons engagements, delivered focused investigations for boards, advised on structured transaction risk management, and undertaken financial and capital assurance and advisory related engagements.

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