




PPI

Reaping Opportunities from the Costs



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A man in a light blue shirt and tie is smiling and looking towards a woman whose back is to the camera. They are in an office setting with a computer monitor visible in the foreground.

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The Payment Protection Insurance (PPI) mis-selling judgement has been a huge financial and reputational blow for UK banks.

Having failed in their High Court bid to overturn the Financial Services Authority's Policy Statement 10/12 on the redress of PPI complaints, the major high street banks have had to set aside billions of pounds to meet the flood of compensation claims. Alongside these remediation provisions, banks also face enormous operational costs to support the PPI recompense process.

In addition to remediation costs banks are now facing the loss of a significant source of revenue. PPI has served as a lucrative source of income for many years for the UK's banks. Filling that hole with alternative income streams is proving a major challenge.

Yet it is not all doom and gloom. For banks that adopt a proactive, strategic approach, meeting their PPI requirements offers opportunities to garner significant commercial advantages.

Compliance burden

The sums involved are substantial. The numbers tell their own story. The four major high street banks alone have already made provisions totalling £5.4 Billion to meet their compensation dues. Then there are the thousands of complaints and claims the banks have to review and process.

And it is crucial firms get remediation right. The FSA has drawn up a set of specific, and fairly onerous, requirements detailing how the banks must handle customer complaints, which includes dealing with them in no more than eight weeks. From 1 January 2012, any institution found to be non-compliant with the FSA's requirements runs the risk of incurring punitive fines.

Achieving compliance

The compliance effort demands the pursuit of two tracks:

- 1) Establishment of claims processing capabilities to deal with the huge volume of incoming complaints.
- 2) 'Root cause analysis' projects to assess whether a firm had systemic weaknesses in its sales processes, and if there is a pattern of failings in certain areas that need to be resolved. Where this is the case, banks will have to proactively contact customers who may have been mis-sold PPI.



Operational challenge

Much of the focus for banks at this stage centres on their operational capacity to handle the volume of complaints and compensation claims.

i) Claim volumes

Handling the claims case workload is a substantial operational undertaking. However, it is not simply a question of augmenting available resources. Rather, banks need to find ways to flex the capacity up and down to cope with claim volume peaks and troughs, and prevent embedding surplus fixed costs into their bottom line.

To this end, various complementary options are available:

- Recruit more staff to handle customer claims.
- Divert attention away from business-as-usual customer management to PPI complaints handling.
- Outsource to a third party.

Outsourcing

For banking organisations that opt to outsource there is also flexibility in how they leverage such solutions.

For example, banks may prefer to outsource some of their business-as-usual customer service activities to a third-party provider in order to free up in-house resources to focus on the more sensitive issue of PPI. Or they can choose to do the reverse – maintain their business-as-usual operations in-house and outsource the PPI handling.

Another option is to outsource specific elements of the PPI remediation process. That hand off could be for run-of-the-mill cases that are relatively simple to resolve, or more complex and time-consuming ones that take long and careful negotiations – for example, using the PPI compensation to pay down customers' arrears.

Communication channels

Customer claims can come from a variety of sources. The majority may still be through traditional channels, such as inbound phone calls to a bank's call centre, in person at a branch, or via post. However, increasingly customers are turning to email, text messages and social media sites as their preferred forms of communication.

In response, banks need to ensure they have the ability – either in-house or through an outsourcing partner – to interact with customers through these multiple communication channels. Furthermore, banks should consider profiling their customer base to determine whether certain customers are more receptive to working with their bank via a particular channel.

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ii) Holistic customer view

To deal more effectively with the volume of PPI claims, banks also need more efficient and robust customer identification processes. However, many organisations remain constrained by their legacy data management environments, which often comprise a medley of legacy IT systems, standards, databases, and data capture and matching routines spanning company brands and acquired businesses.

In particular a major problem facing banks is the mass of speculative mis-selling claims and complaints coming from both customers and, more often, claims management companies. These force banks to undertake significant investigative work to determine what accounts, products and policies the customer had, whether they had PPI at some stage, and whether or not the PPI has been mis-sold to them.

Much of this work involves considerable manual time and effort. The array of disparate systems within banks' operating infrastructures means complaints handling staff have to retrieve and check data from multiple sources in order to pull together a profile of the customer and verify what products they have or have had in the past.

Therefore, having an holistic view upfront of who their customers are both existing and lapsed together with their product holding history across all brands and divisions would help banks minimise the operational cost and effort involved.

Proactive approach

As well as dealing with the mass of inbound claims from customers and claims management companies, regulatory demands mean that banks will have to proactively contact and compensate their PPI policyholders.

In many cases the banks may hold incorrect or out-of-date addresses and phone numbers for those customers, especially those with no default history. Merely making an attempt to reach these customers using existing but incorrect contact details will not be enough to fulfil their compliance obligations. Instead, banks will have to cleanse, enhance and update their customer contact data. Once done though they will be in a position to reach their customers more efficiently, and thus limit the operational burden.



Strengthening customer relationships

Approaching PPI resolution in the right way, by engaging with customers in meeting their justified grievances, offers banks an opportunity to transform negative impressions into a positive experience for customers.

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Taking a proactive approach is not just a compliance necessity either. Despite the effort involved, reaching out to customers in this way can bring benefits.

Banks' initial, hard-fought opposition to PPI recompense has further tarnished their reputation with the public, reinforcing the already widespread perception that there is a divergence of interests between the banks and their customers. However, approaching PPI resolution in the right way, by engaging with customers in meeting their justified grievances, offers banks an opportunity to transform these negative impressions into a positive experience for customers, and thus help rekindle those relationships.

For inbound claims that means working to make the settlement process fast and efficient. Meanwhile, by proactively reaching out to affected customers, and being seen to 'do the right thing' by them, banks can go some way towards rebuilding the public's trust in the sector. Furthermore, banks have a chance to use these inbound and outbound conversations to discuss their customers' existing and future financial needs, and offer guidance and choices in ways to meet them.

Opportunities:

- Improve brand perception.
- Promote customer loyalty.
- Reconnect with customers, offer guidance and choices.
- Gain additional customer insight.

Leveraging social media

Banks are progressively developing their social media presence. However, they tend to be bank-originated, positive publicity tools. Going forward, firms need to moderate and manage activity on social networking sites more proactively, including utilising these communication channels to tackle sensitive issues such as PPI in a more interactive manner. For instance, banks can moderate comments made on Facebook and Twitter, address customer complaints, explain what steps they are taking to resolve the PPI issue, and provide customers with useful information (e.g. a FAQ list, contact details, etc.).

Commercial opportunities

Inevitably PPI resolution will be a substantial hit to banks' bottom lines. Nevertheless, the compensation process, if handled correctly, does present commercial opportunities.

Strategic compensation

In particular, banks should adopt a strategic approach to their compensation payments, rather than simply sending out cheques.

Prior to any payout, organisations need to ensure they have an holistic view of their customers, to assess what accounts and products each person has, where they sit in terms of lifecycle, and thus their commitments and liabilities. Armed with this information, the banks can contact each customer to have an informed discussion about how the compensation amount could be used to the client's maximum financial advantage, but in a way that keeps the monies within the firm.

For example, the money could be:

- Offset against the customer's arrears.
- Offset against a mortgage.
- Invested in an ISA where a client has an unused allowance, potentially with the bank offering a special rate as an incentive.

Having intelligent, proactive conversations may help firms to limit the financial consequences of making the compensation payments while strengthening and building those customer relationships re-establishing the legitimacy to apply a cross sell approach, which PPI did much to damage?

The future wellbeing and reputation of the industry is key to how the sector not only manages the situation but ultimately resolve it too.



Cross-selling

Conversations with clients to discuss the compensation payout options can also be used to further strengthen the customer relationship. In part it is an opportunity to continue the process of restoring confidence and rebuilding trust. In addition, discussions about a client's financial situation can serve as an entrée to investigate further cross-selling openings. All of which, properly handled, could be viewed as positive steps which may encourage consumers to approach banks directly to discuss compensation rather than responding to offers from claims management companies.

Therefore, having these types of intelligent, proactive conversations may help firms to limit the financial consequences of making the compensation payments by keeping the funds within the group, while strengthening and building those customer relationships. Whilst at the same time re-establishing the legitimacy to apply a cross sell approach, which PPI did much to damage?

Conclusion

PPI has developed into both a financial and public relations headache for the UK's banks. And for those firms that do the bare minimum to comply with their regulatory requirements it will remain that way, a negative issue that drains their coffers and damages their reputation.

Yet the picture is not all bleak. Those industry participants that embrace their responsibilities have a real opportunity to turn the situation to their strategic, commercial advantage. Approached right, banks can minimise the monetary outflow that will result from PPI resolution, while deepening and extending their relationships with customers.

This is a chance for firms to alter the public's perception of the retail banking sector, and lay the foundations for a more positive and mutually beneficial partnership with customers going forward. The future wellbeing and reputation of the industry is key to how the sector not only manages the situation but ultimately resolve it too.

To find out more about Callcredit's PPI Solutions please contact:

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Callcredit Information Group Enabling Smarter Decisions

About Callcredit Information Group

Callcredit Information Group has a leading edge approach to using consumer information in credit referencing, marketing services, interactive solutions and consultative analytics. This enables our clients to cost-effectively identify, engage and convert more new customers and optimise existing customer revenues.

Callcredit offers intelligent solutions across the customer lifecycle as follows:

- Plan
 - Acquire
 - Verify
 - Manage
 - Collect
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