



EMBRACING TECHNOLOGY IN FINANCIAL SERVICES

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SEASON 2, EPISODE 4 TRANSCRIPT

How to accelerate remediation – why it's time to open a second runway at five times the speed

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GUEST: San Retna, Managing Director, Financial Services Productivity Lead, Accenture Australia and New Zealand, and Peter Beardshaw, Managing Director, Risk and Regulatory Lead United Kingdom, Accenture

Tim: Join me for a full international perspective on trust and remediation in financial services with our experts San Retna, originally from the US, and UK based Peter Beardshaw.

Presenter: Welcome to Embracing Technology in Financial Services, a podcast brought to you by Accenture where leading experts share insights on business issues facing Australia's financial services industry and beyond. Now here's your host, Tim Broome.

Tim: It's my pleasure to be joined today by San Retna, who is the managing director in financial services and leads the productivity practice, and Peter Beardshaw, risk and regulatory lead for the UK business. Peter, you've come all the way over from the UK. Why here?

Peter: Well, San invited me over to come and share some of the experiences from the UK on remediation with the big four banks here. And so, I've been going around spending time with them, hearing what's on their minds, and it's an interesting perspective that I think we'll explore.

Tim: First trip to Australia?

Peter: This is the second time that I've been here and obviously I've returned.

Tim: Brilliant. And San, Australia home?

San: Australia's home now. I've been here about nine years. Came across from the Silicon Valley.

Tim: And what we doing over there?



San: A bunch of things. I was one of the CIOs for Safeway stores, which is kind of similar to the Woollies, and before that I worked as an executive in an insurance company.

Tim: Oh wow. And now, Australia's home?

San: Now, Australia is home.

Tim: Look topic for today, rebuilding trust in the banking industry in Australia. It's been probably a period of severe upheaval in the industry over here. The Royal commission has, you know, it's caused the end of several CEOs and the whole industry is looking back in on itself. And you know, if you look into the customer base, trust is now the number one concern that they've got. So, San, reflecting on your times overseas and coming over here, how do you see the challenges that we've got here against what you've seen overseas?

San: I think the challenges here feel like we're just at the start of a very long tail. Just looking across what happened in the US and Peter will talk to Europe. What I fundamentally see right now is, it's like a patient and the patient is in the intensive care unit and we've got to get those checks back and make the customer whole first. Then we've got to get to actually proactive preventative medicine. So, uncovering unknown unknowns, because we only know what we know.

Tim: Yep. Yep.

San: And the final step, once we can mature through that is really to get to the point where we are future proofing. How do we avoid these things? And there's a progression and it's going to take a lot of work for us to get there.

Tim: Yeah, certainly there's a long way for us to go, but reflecting on that, Peter, the UK has been through a similar process that Australia is now going through. So, what were the learnings from what happened there that we can then pick up for over here?

Peter: I think there's a number of dimensions to that. I mean the first one is that it really does last a lot longer than you think it should. So, the whole aspect of remediating customers and it maybe being a 12 to 18-month exercise, is just not born out true of the UK. It was five or six years, the provisions just for something called PPI, was 40 billion sterling in the UK. And that is a really significant drain both on the profits of the banking industry, but also, you've got 40 billion that's going back to customers that needed remediating in the first place.

Tim: And Peter, what's PPI?

Peter: Payment Protection Insurance.

Tim: Could you just give us a bit more on what PPI was?

Peter: Sure. So, PPI was where an insurance add on was put on customers' accounts for a mortgage or a loan, without them necessarily understanding, needing or agreeing to it. And it was essentially just trying to, the banks were trying to protect against someone losing their job and therefore this insurance would pay out if they lost their job. And that was something that was considered to be done as a blanket across the industry. And you were told you couldn't have a loan unless you had it, regardless of your own circumstances.

Tim: Okay. And so, I'm assuming that it wasn't actually required?

Peter: In hindsight, it was considered to... It should have been selectively applied.

Tim: Okay. And how did they deal in the UK with these issues? I mean you've said five years plus. Was it throwing people at a problem? Was it just trying to operate in the BAU [business as usual] mode just with more people or did the thinking change? How did things evolve?

Peter: So, things definitely evolved. It started off with throwing people at the problem and therefore was a really strong relationship between the number of heads and the effort. But also, what really happened in the UK was PPI was just the start. There were many, many other examples that advice that had been given that was sort of on the edge of being self-fulfilling and then right through to computer systems being wrongly coded to giving the wrong calculations for various different payments or interest calculations. And there was a full spectrum in between. And one organisation might have up to 500 different remediations for different products at any one time. So, what started as being an investigation into one, suddenly became a big prevalence across the whole of the industry.

Tim: Okay. And what was the regulator position? Did the regulator say to organisations, "go and solve your problems?" Or did it say, "here's how you're going to resolve these issues?"

Peter: So, the regulator has always been quite careful about being prescriptive, but they were certainly very clear on what they wanted the outcome to be. And they would put... They would often do thematic reviews as well to try and uncover issues. And they even did their own mystery shopping to try to uncover malpractice.

Tim: And San, how do you see things different over here?

San: It kind of becomes pervasive. If you think about product remediation in a sense, it's usually an incorrect rate where that'd be a system error, a human error, etc. Or it is a misapplication of a fee. I had a credit card fee, which was an annual rate, but it kept going. I should have been given a reprieve at some point. Or it's the duration at which I applied those rates and fees, right? And today what I see is, because of the time horizon perspective, I think there is a perspective that this might be another 18 to 24 months, as an example. I'm gearing up to that purpose, so I can put a lot of bodies and I think I can get through the volume. And I strongly share Peter's view that I think it's going to be much longer. We're talking three, maybe seven years. So, what we've tried to do is to say, wait a minute, what are we actually doing now? It looks like pervasively in the market with scaling on tech. Sorry, scaling on FTE [full time equivalent].

Tim: Yep.

San: And what we believe, and we've thought about it a lot and invested ahead of the curve, is to scale on tech. And what do we mean by tech? It's important to clarify. We believe in using analytics, advanced analytics, machine learning and natural language processing. We can actually accelerate, and we are accelerating for our clients across locally. Things that are taking 15 to 20 months to get the check out to the customer, to come in at three to six months. And you get a cost reduction of about 60 percent in that scenario because you're getting the cheque out faster. Also, the provisions that you're setting up, we're trying to get a better accuracy of the unknown unknowns. So, we are mining other data sets where the customer has signalled to you, through complaints or call logs or branch interactions. If you bring that in, you're actually getting early warning signals.

Tim: Yeah, I mean we talking about enriching that data set and looking for patterns, or looking for anomalies, that give you a signal that there's something you should be looking at here, that otherwise you might completely ignore, or not necessarily ignore so much as you just don't even see it.

San: Correct. And by mining that other sets of data, you can actually put up a business case that says, "we see a larger volume coming." And you can forecast to say, although we haven't captured it as a remediation incident yet, the customer signalling early, you can extrapolate to say that's going to happen in another 12 to 24 months.

Tim: Yep. And I think it's also about, in using the data and putting structure and a level of technology around that process, you can capture what's happening when. You're able to go back to anybody who wants to give an audit and you can be very clear on, this is exactly what happened. This is who was paid, when they were paid, where they are in a process. You're not fishing around Excel spreadsheets trying to find who said what, when.

San: It's a very important point because I think there's a little bit of a shift, we have to make in our minds to accept that that tech is going to give us a fidelity, equal to, if not better. And what we're seeing is that the quality scores are improving from anywhere between 30 to 50 percent as you do your quality control along the way, relative to a legacy method. So that's an important piece, because what the last thing we want to do is to remediate a remediation.

Tim: Yep. And be there not necessarily forever, but what possibly feels like forever, looking back at the same problem, that's changed slightly.

San: Correct. And I think this played itself out in the hearings in Canberra a couple of weeks ago, where the banking executives or the CEOs were asked, "how much provisions have you set aside and how much have you paid into your customers?" And the average was looking somewhere around 10 percent over the last two years. So, there is a focus to get it faster, get it out there, make the customer whole as soon as possible.

Tim: Peter, we've talked about the challenge, we've talked about the different thinking, what are the components of the overall process? How do you go from, I can see that there's... we have products, we've got customers, there are transactions? How do I connect all of that together as effectively as possible to get to the answer?

Peter: I think when we talk about that, we also just look at some of the points San made. Which is, without investing in a decent data store that brings together all of the customers and the products that they've got and be able to link through to the transactions and history they've got, it's very difficult to actually interact in a meaningful way with your customer. And what we found in the UK is that there's quite a lot of brand degradation through poor customer interaction on something that should actually be a positive. And so, your point about sequencing these things together is actually quite important, so the data first of all.

The second thing is then the analytics that allows you to piece it together because some customers were receiving five or six letters from different parts of the organisation. Many are group wide with different brands, and they'd get letters with different formats in different time frames and get confused. And then they would then want to ring up a call centre to try and get some clarity, and the call centre has got a certain script to do with one of these items, and therefore then confuses the customer more. And then we then got an even less happy customer at the end of the day.

Peter: So, the need to have clarity over what that single source of the truth of your customer. And notoriously, we know that banks struggle with piecing together all that heritage data regardless of whether the customer may well not be with them any longer or is deceased or similar. And therefore, to interact with those customers you need to then have that correct analytics and then be able to then fairly rapidly get your messaging out the door, and also, importantly, the payments.

Tim: I think it's very important that you hit on the contact centre and, different parts of a business that often operates in a segmented fashion, but the need for those to be connected together. The customer experience from our building trust. If somebody calls a contact centre and they don't know that a customer's going through the process, it's quite possible that they'll try and be selling new products.

Peter: Correct.

Tim: So, I think we're now seeing the importance of using that data. We're moving into that position of marketing, getting down to the level of, "what's the right product for this person in this point in time?" Well, we now need to add on, well there's, there's another layer of data that says what is actually going on with the customer's experience with this organisation at this point in time? Don't try and sell them this product. You need to talk to them about the process that they're going through that you now understand. And, we're not there yet. There's challenges. You mentioned challenges around data, you mentioned challenge around organisational structure, but this whole remediation process goes right across an organisation and we need to get there very, very quickly now. You know, we've not got time to think about what the future might look like. It needs to be now.

Peter: That's right, because there are other things that they move on as well. So in the UK one of the things we're looking at quite carefully given the digital revolution is data ethics. And data ethics is all about understanding the providence of the data that might go into a model that is making a decision around, say lending, and around the suitability of that product for that customer. And if is based on data coming into AI models that are then doing calculations and then applying some sort of bias that we're unaware of, you then start to have a new conduct issue, which could lead to new remediation. So when I look at where the UK has got to from that perspective, and I now look at where the current local market is in responding, then really do need to solve for those issues we've just been discussing, to be able to then rapidly move into protecting the new so that the whole cycle doesn't start again.

Tim: So, you mentioned AI use of models from the perspective of, "how can I find out what's the best thing for this customer?" Are you seeing in the UK a little bit of a reticence to go too far with that yet? Until we've fixed the past and got that in a good position, should we be jumping too far into the future? Or is it no, they've actually, it's been adopted, they're kind of trying to do it all together?

Peter: There is a real desire to move at a pace with the use of AI in the UK market. And that is particularly been driven by the neobanks and challenger banks that have used this with their greenfield sites and set up early. And therefore, the traditional banks are feeling the need to really move at pace on that, otherwise they're going to fall behind. What's I think relevant as well is that the regulator is holding the banks very accountable for the quality of those models and also the providence of the data that feeds them.

Tim: Okay. San, with regards to the regulator, how are we seeing the regulator behave towards the banks here as different from what might've been the case overseas?



San: I think the regulators, you know... coming out of the Royal Commission, I think the key message was that the regulator needed to have more enforcement teeth and that they had to sometimes take the cases to litigation versus settling. And I think this has set off a precedent where the regulator is trying to, in my view, put the institutions on notice, to say the bar has gone up significantly and so the tolerance levels have gone down. So, what might've been acceptable 18 months ago, is no longer acceptable.

Tim: In terms of the approach to treatment of customers, are you seeing the regulator putting pressure on how, or just fine, you can do whatever you need to do, but here's the outcome we're after?

San: Yeah, I think it's kind of a two-speed thing. What they're trying to do is first to say, the velocity of making the customer whole, is not what is adequate. We're kind of hearing that through the politicians as well as through the regulators sounding a few things out. The second piece I think is, to what Peter was talking about, is in a period where you have a deficit of trust, the way you do remediation might actually be eroding trust. Exactly to a customer receiving three letters when they have six products and going, wait a minute, I've got, you know, I'm going to call in and what are you doing here? So, what we are suggesting is that using this AI power, because you can accelerate it, right? You can also throttle it. You have these release mechanisms. So you say, "I'm looking forward for the next 12 months, and I know I'm making Mary whole here on this product, let me go and check if Mary's other products, if there are anomalies in there." So, you're pivoting from a product centric construct to a truly customer centric construct.

Tim: Is that not creating a massive spider's web? Like if I look at a customer, and then I'm going to look at that product for that customer, okay, actually, but then that creates...

San: Yeah, I mean what ends up happening is that you actually looking at it for all the incidents that you have. So, think about fees, rates, over that period, right? So, I might not catch all six but I'm trying to catch as many as I can.

Tim: All right, makes sense. Peter, if you have the opportunity to be speaking more broadly with people on this, what's the type of questions that you'd like to explore?

Peter: I'd like to know, what's the point of inflection that will make them think, yes, I should be moving from a very heavy people-based response to remediation, to embracing some of the new tech?

Tim: Okay. And San?

San: I think what I'd really be interested in, in addition to what Peter said, was, how are they going about trying to explain to the most senior, including the board, about what their fidelity is and what the throughput is and what they think the whole scale is? Because in order to answer the FTE [full time equivalent] question, and where the tech can play, you kind of have to answer how are you articulating how big this problem is.

Tim: They're fantastic thoughts. For those listening, we'd love for you to get back to us, explore this further with us because it's a really interesting topic and it's only going to keep getting bigger. Peter, thanks for coming all the way over here to speak to us, it's been a real pleasure.

Peter: Thank you Tim.



Tim: And San, I will see you in the corridors as ever.

San: Thank you, Tim.

Tim: So if there's any more, anybody would like to understand about the outcomes of the Royal commission and the remediation that's following on from that, please feel free to reach out to myself, Tim Broome or San Retna or Peter Beardshaw. You can reach all of us on LinkedIn and we'd love to speak to you and continue the conversation. Thank you very much. Goodbye.

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