To restore trust, consumer protection must go beyond compliance

Failure can damage brand & shareholder value, KPMG says

Heightened regulatory zeal over consumer protection in financial services requires senior executives in banking, insurance, and investment management to re-evaluate their core strategies, says a new report from KPMG International.

Consumer protection is now a major regulatory imperative in many jurisdictions, part of the process of creating a fair market infrastructure. However, it is not fundamentally a new issue, nor is the appropriate response principally a matter of compliance, says the KPMG report, New Light on Old Truths.

"It's about taking care of customers in a way that recovers their trust, provides them with clear choices they can understand, and satisfies their needs-all while earning a profit for stakeholders," says Linda Gallagher, a principal in KPMG LLP and co-author of the report. "Failure in this important aspect of the business can destroy value in the brand and shareholder value."

The KPMG analysis underscores the need for financial institutions to manage consumer protection risk as a strategic and cultural priority.

"Compliance is not the issue," Gallagher says. "It's no longer enough to require customers to sign documents containing ‘fine print' that say they understand their rights and obligations. This is a key business issue to be considered at the board level and across all operations and functions."

The KPMG report outlines three main areas of focus for the new consumer protection standard:

- • Restoring trust-Consumers buy products and services from companies they trust, so re-establishing confidence is critical. Rebuilding consumer trust requires openly addressing problem areas and implementing effective customer value practices. An enhanced customer experience can differentiate brands, increase customer loyalty, and capture market share.

- • Increasing transparency-Making business open and transparent is central to consumer value. Banks need to go beyond disclosure to take more responsibility for improving consumer awareness and financial literacy. Financial services organizations must work to ensure consumers know their options, understand complex products and services, and are fully aware of costs and charges so they can make informed decisions.

- • Balancing safety with choice-Financial services organizations need to offer products and services that responsibly satisfy customer needs, while generating profit to the seller. Many companies are re-evaluating the structure, risk, and revenue contribution of fee-based products and services, and considering revenue replacement opportunities in product innovations. Aligning product innovation strategies with consumer needs ensures that consumers will have access to an array of products and services that benefit them and the financial institution alike.

A company that engages actively with its customers, that treats them fairly, and that provides them with products and services to meet their needs is simply pursuing competitive advantage. Those leading companies will have a focus on doing business well, understanding their customer, designing products to meet their needs appropriately, and providing those products at a reasonable price consistent with customers' risk profile and risk appetite.

"The best companies will do these things automatically, not because of consumer protection regulation but because delivering consumer value is just good business," says Gallagher. "To regard consumer protection as simply a risk or compliance issue would be a major strategic mistake."

According to the KPMG report, there are some questions to be considered before implementing a consumer protection strategy. They include:

- • Is identifying and addressing potential consumer harm a clear priority for management and the board?

- • Does the organization have a clear, consistent, widely understood mandate to identify risks that their products, services, processes, or pricing may pose to customers, and a process to assess the level of that risk?

- • Does the institution have a clear understanding of the costs of current and potential remediation activities to the organization and the impact on capital and brand perception?

- • Has the organization considered the impact of consumer harm on the business model, core processes or infrastructure?

- • Do all leadership discussions around profit enhancement strategies include the potential customer impact?

- • Does the organization have a complete view of where potential risks to consumers may arise within the business and/or throughout the lifecycle of its products and services?

- • What standards and data are used to identify, analyze and address consumer risks and potential consumer harm across every line of business?

- • Does the organization's business intelligence allow for an analysis of consumer complaints?

- • How is that information utilized to drive better business practices or product improvements?

- • How quickly and decisively does the organization identify and address consumer issues? Importantly, what changes need to be made as a result?

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