Six Remediation Planning Building Blocks for Financial Institutions

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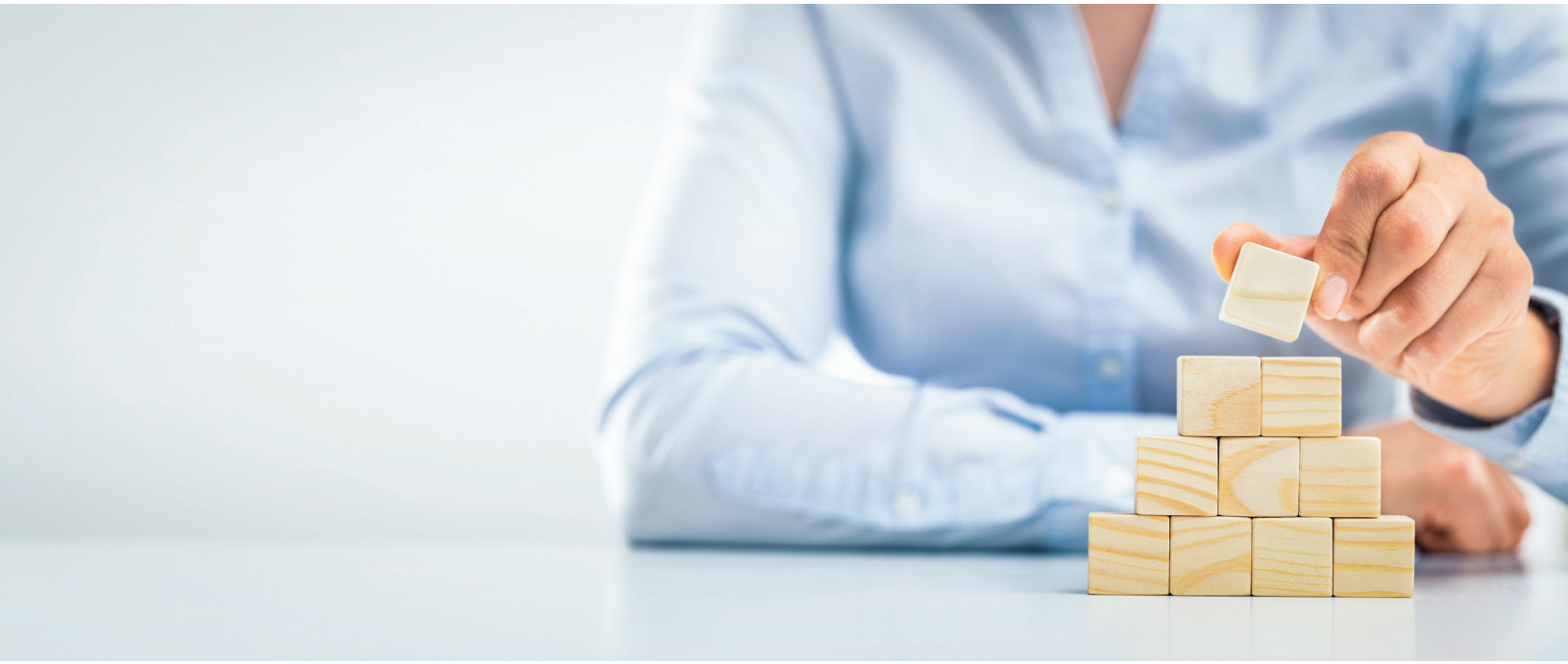

The financial services industry continues to navigate through the uncertainty stemming from concerns about growing recession risks and a complicated global economic outlook.

Many regulators have increased oversight and some have had to change policies to account for current economic conditions, including temporarily pausing repayment obligations. Financial institutions are more regularly dealing with voluntary remediations and public consent order activity due to the extra scrutiny and changing policies. Best practices are therefore evolving in this space, focusing on more streamlined and efficient options for organizations to remain compliant with all applicable regulations and maintain successful distribution to current and past clients.

ISSUE SPOTTING

Early issue discovery leads to faster identification of affected parties, shortens the containment period, and allows organizations to carry out self-identified remediation plans. Regular auditing, sample testing, and evaluations will oftentimes enable teams to detect issues before a regulator initiates an investigation. To remain compliant, financial organizations should develop these proactive habits that allow for more robust and effective remediation efforts. Even if an inquiry has already begun, having protocols in place that support issue spotting will expedite collaborative resolutions before a regulatory body.

Whether going off a consent order or implementing a voluntary remediation program, it is important to have workflows in place that drive quick and impactful resolutions. The goal is to get as many affected parties paid in the most efficient manner, so organizations do not waste valuable resources and daily operations remain intact. Remediations can range from simple to complex, so it is crucial to have a flexible plan to reference when starting the process. A partner with deep experience in this space can be a huge asset to promptly and effectively carrying out remediation, restitution, and distribution plans that are the industry standard.

PROACTIVE PLANNING

Here are six factors that financial institutions should consider in advance of remediation. Being proactive enables an organization to effectively meet remediation, restitution, and distribution goals.

1. DIGITAL PAYMENTS:

Historically, paper checks were the only method used to effectuate settlement payments or restitution on closed accounts. Digital payments offer an alternative that is becoming more routine and revolutionizing the payment process. Digital payment platforms can be offered via a website or mobile app enabling recipients with a choice on how to receive settlement payments – from direct deposit to digital gift cards. While in some instances paper checks still make sense, in many a digital payment option will prove beneficial and practical. Remediation teams should be thinking through the value of partnering with a provider that can offer this option, so the payment process is already established prior to restitution.

2. DELIVERY MECHANISMS:

Turning to alternative delivery options has proven to increase notice and check cashing rates. Previously, organizations were only delivering notices and payments through first class mail. Utilizing an automated solution expands capabilities and allows teams to handle higher volumes more quickly and efficiently. Several carriers offer automated service with tracking, including FedEx, UPS, and USPS. Key benefits include scalability options, accelerated cashing rate, cost-effectiveness, and reduction in post-distribution expenses.

3. COMPLAINTS:

Having established controls and processes for complaint management is critical. The team may encounter situations involving supervisory inquiries, client complaints, lawsuit threats, or media coverage. Thinking through how each situation will be managed and which types of issues would invoke a complaint will help resolve and streamline these complaints down the road. For example, a key step is labeling complaints that should be fast-tracked or require involvement with other departments such as legal, communications, or human resources. Also, determine when a third-party partner will be involved with complaint management. This helps to implement oversight practices, clearly delineate response roles, and create workflows that allow information to safely flow between each party.

4. TAX REPORTING:

There are many instances when a restitution payment and proactive mediation costs could be subject to tax reporting requirements – and often are viewed differently by government enforcers. Having internal counsel or an external partner in place to answer questions about tax treatment will help eliminate delays during the remediation process. Understanding when a payment will be considered income, withholding issues, and when to issue tax information returns often offers distinct tax advantages for the entity writing the check.

5. BANKRUPTCY:

Undocumented procedures often make internal bankruptcy processing assessments difficult for financial institutions. This is a common issue that emerges with financial remediations, so it is important to have a plan in place on how to manage accounts included in a bankruptcy case. Having internal or external experts to offer advice will be beneficial. when considering how to treat different types of bankruptcies, administrative noticing and payment requirements, including who to send payments to, Trustee or borrower, and ways to reduce risk related to double payment.

6. CLAIMS:

While the ideal remediation would only involve cutting a check to effectuate restitution, matters involving consequential harm may also result in claim-based remediation. Necessary non-monetary restitution could include credit monitoring or loan modification. This can be a complex and layered process, so it is crucial to have a separate plan in place accounting for claim-based remediation. Having an expert think through matters such as, what extra documentation will be necessary, legal hold applicability, release language, and the appeals process is imperative. Aligning expectations with legal and outside partners beforehand will help to expedite resolution and avoid serious roadblocks.

CONCLUSION

Each remediation involves several factors, some of which may not have been discussed here, depending on the unique factors of a case or investigation. This is why it is important for financial institutions to outline flexible directives for their remediation team. Having a proactive approach eliminates rushed thinking in real-time when stress can be high and deadlines loom. Planning during calm improves efficiency and effectiveness, leading to a quicker and more cost-benefit resolution.