

CLIENT SUCCESS STORY

Building a single view of a customer's derivatives portfolio to support regulatory compliance

INTRODUCTION

Since 2007, banks in the Netherlands sold interest rate derivative products to small and medium sized companies. Business customers could hedge the risk of changes to variable interest rates, applied to their loans and credits, by purchasing derivatives. In 2013 the Dutch regulator AFM identified a large number of cases of miss-selling, where these products were not suitable for the needs of the customer or where inadequate and inappropriate client advice was provided. In 2016, following the advice of the AFM, the Dutch Ministry of Finance set up a compensation framework that would ultimately be used to reassess and compensate almost 20,000 SME clients in the Netherlands.

BUSINESS PROBLEM

The main challenge was to accurately establish the population of customers in scope of the Derivatives Remediation framework (UHK) devised by the Dutch regulator, to gain an accurate view of the current and historic composition and value of the interest rate derivative portfolio and to gather all historic data required to assess and remediate issues related to the derivative products.

"Finding, interpreting and combining historic datasets spanning twenty years to support a massively complex remediation project under public scrutiny would not have been possible without the invaluable data analysis and transformation skills & tooling that was present within the Data and Reporting team of the Derivatives project, which included Henk Thomas of Peraison."

-Robin Polder, Rabobank

COMPANY HIGHLIGHTS

Technology

Lavastorm

Industry

Cosmetics

Client Function

Sales, Executive Reporting, Operations



Henk Thomas

Author,
Senior Consultant



C H A L L E N G E S

Accurately establish the population of disadvantaged customers and calculate the compensation payable to each customer required:

- Create an auditable single version of the truth for each customer.
- Sophisticated derivative products require complex business rules to price accurately, and maintenance of the relation between derivative(s) and hedged loans was not automated. Derivative products were structured, restructured, (partially) unwound and blended over time, and also the hedged loan products were restructured, paid off, or cancelled over time. It was likely that the derivate product was not always in sync with the loan product.
- Companies split, merged, were taken over, were pushed into special asset management as a result of negative market values of the derivates, or went bankrupt. This resulted in loans/derivatives closed early, and/or exchanged for new products, which added complexity to the question whether losses were incurred, which derivatives and loans should be considered, and ultimately who should be compensated.
- Loading and combining data, from disparate or historical systems, often stored in inaccessible formats.

S O L U T I O N S A N D R E S U L T S

- Customers were compensated with an acceptance rate of 94%.
- Ultimately satisfied the regulator and the Ministry of Finance.
- The amount of compensation paid was significant but could have been considerably more if data was inaccurate, or even missing, and if calculations were not scrutinized. The sum total of compensation by all banks exceeded 1.5 billion euros.

Manual preparation of each client file would have taken an enormous amount of time and resources. Automating the gathering, cleaning and combining all relevant data in structured client files allowed the team to focus on validation of all information gathered and to apply the remediation framework systematically, creating auditable results, saving millions of euros but more importantly in this politically sensitive dossier, reducing the total project duration by many months.

- Therefore, a reduction of total programme cost by tens of millions of Euros.
- Peraison provided a senior data consultant for a significant period of time to provide expertise advice on data processing, data analyses and data quality monitoring.

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