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SECTOR

Financial Services

DIVISION

Department for
Evaluation
Re-assessment of
interest rate derivatives
compensation

REGION

The Netherlands

APPROACH

Lavastorm
SMEs
Financial Services
Jira
SQL
Derivatives
EMEA

CASE STUDY

Voluntary compensation scheme following mis-sold derivative products to small and medium sized companies.

This case study looks at how centralized reporting can be adopted by the business. The aim of the program was to accurately establish the population of disadvantaged customers and to calculate the compensation payable to each customer.

The challenge was to collect and normalize and consolidate all current and historical data to create the "one-truth" view of the customer. The results were, and still are, subject to scrutiny by the internal auditing team within the bank, the external auditor, and by the regulator/government. It was fundamental to ensure data was right first time, to ensure all stakeholders had confidence in the data from the very first time they reviewed it.

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Introduction

Banks in the Netherlands sold derivative products to small and medium sized companies. The main selling point was that customers could hedge the risk of interest changes related to their loans, by purchasing derivatives.
However, it appears customers may not have been sufficiently advised on whether derivative products were a good fit. Secondly the banks may not have advised customers properly of how to maintain both the loan and derivatives products, and how to ensure both products are always in sync.

The Dutch regulator (the AFM) therefore decided that all Dutch banks, who sold loans and derivative products to small and medium sized companies, should calculate the disadvantage/losses experienced by each customer, and compensate customers accordingly.

This is a voluntary code, regulated by the AFM. However, the AFM reserves the right to mandate the rules to calculate the compensation levels if the AFM believes that a bank does not fulfil all its obligations. The banks are therefore keen to ensure they fully comply with the guidelines (and timescales) put in place. The client has the biggest market share of the small and medium sized businesses and sold the most derivative products.

Problem

The principal challenge was to extract all historical data, to normalize data, and to maintain the "master set of data" so that there is only "one truth" of the data. Ultimately, this "master data" was provided to the reporting team who in turn built the reporting and exporting tools to support the various other teams within the Derivative Programme, including financial advisors, financial executives, internal and external auditors.

The main business problems resolved:

- Loading of data: data was extracted from multiple data sources into one master data model so that business users could access data from one place, and trust that the data is validated and the "one-truth" and only version of the data.
- Consolidation and normalisation of data: some companies split, merged, were taken over, or went bankrupt possibly because of the miss-selling. This resulted in loans/derivatives being closed earlier, and/or exchanged for new products, adding complexity to the question whether losses were incurred, which

derivatives and loans should be considered, and ultimately who should be compensated. Also, customers received new account numbers when moving bank, adding to the challenge to obtain a single view of a customer.

- Applying business rules: some derivative products were setup in a complex way. Standard customers, with a straightforward loan and derivative products were processed using the standard processes. However, more complex customers, or customers with a more complex combination of products were processed using a bespoke process. Many business rules were used to categorise customers and/or their products and processed separately.

Solution

The Lavastorm tool was already used to consolidate data, and the data was used by a considerable group of users. However more resources were needed to satisfy all data requirements in a timely manner.

Pomerol provided a senior consultant with in-depth Lavastorm knowledge and data analytical skills. The solutions deployed were very good, however, support was required for a number of exceptional analytical challenges, in order to satisfy all internal stakeholders, and ultimately to satisfy the timescales of the Dutch regulator (AFM), on behalf of the Dutch government.

Pomerol worked on:
- The grouping of derivatives linked together, to determine whether derivatives were in or out-of-scope, and whether the customer is in or out-of-scope.
- The extraction of dossier information, the regression testing of extracted data with previously loaded data and audited data, publishing data to over 100 result database tables.
- The loading of historical statement data
- Dynamic data quality (DQ) testing. Rules were defined for single data points, but also multiple data points. Lavastorm was used to dynamically generate SQL to perform DQ testing directly on the database server.

Lavastorm provides a visual step-by-step review of every single step, allowing data to be validated each step of the transformation logic. Reviews were conducted mainly by KPMG resources as they were responsible for the execution of the derivative program.

Stakeholders aims

Reduce losses. The amount of compensation to be paid is significant but could have been considerable more if data was inaccurate, or even missing, and if calculations were not scrutinized. The customer had a good handle on the process, and ultimately satisfied the regulator and external auditors.

Result

€727m+

Total compensation paid out
(as of April 2020)

The derivative programme was successful as customers were compensated within the timescales set by the Dutch regulator. Both the regulator as the chairman also commented that Lavastorm was the right tool to use for this program, as no other tool could have given them the baseline data needed.

Over 50 auditors used the combi-XML produced from the data extracted, normalised and stored.

During the programme, over 500 users have accessed the data extracted, normalised, processed and stored, to accurate compile the dossiers required. The checks in place guaranteed that dossiers passed all data quality checks, avoiding dossiers to be returned with findings by the auditors. Ultimately this reduced the timescales of the project.

The data also allowed auditors to ask detailed questions to the project architects, who in turn would fine-tune rules used, and calculations made, increasing the accuracy of the results.

Pomerol therefore helped provide a saving over tens of millions of Euros.

Conclusion

Many companies have data in various data silos, historical data may be still present in PDF format. There is enormous value in all accessible data, and not many companies unlock this value unless mandated by regulators or governments.

This project has shown that it very useful to consolidate historical and current data to create a single view of a customer. This will allow company executives to fully understand their business models, ensures managers can pro-actively review that all product/services contracts follow

government guidelines (no chance of lawsuits) and ensures the sales/ marketing teams retain their most valued customers. It also allows companies to quickly satisfy regulators when questions are asked.

Pomerol's next steps

To work more closely with the client's data intelligence lab, and this team will deliver data for all future projects.

This project has demonstrated the value of the combination of a data extraction tool (Lavastom), a data workflow (Jira), a storage solution (SQL Server) and a reporting solution such as Qlik, Qlik Sense. The data is extracted and normalized, before processed, enhanced and maintained whilst the reporting tool brings all data to life. Version control is applied to the data for data quality and auditing purposes

We're ready to partner with your leadership team to future proof your business.

About Pomerol

We create and deliver meaningful Data-Driven Business Focused Solutions & Services. We've been operating in Data Analytics and Intelligence Reporting for over 6 years within Pomerol and our Partners have a cumulative 100 years in Global Experience. Pomerol partners with our clients to optimise the intersect between changing business demands, technological progress and sustainable business growth.

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