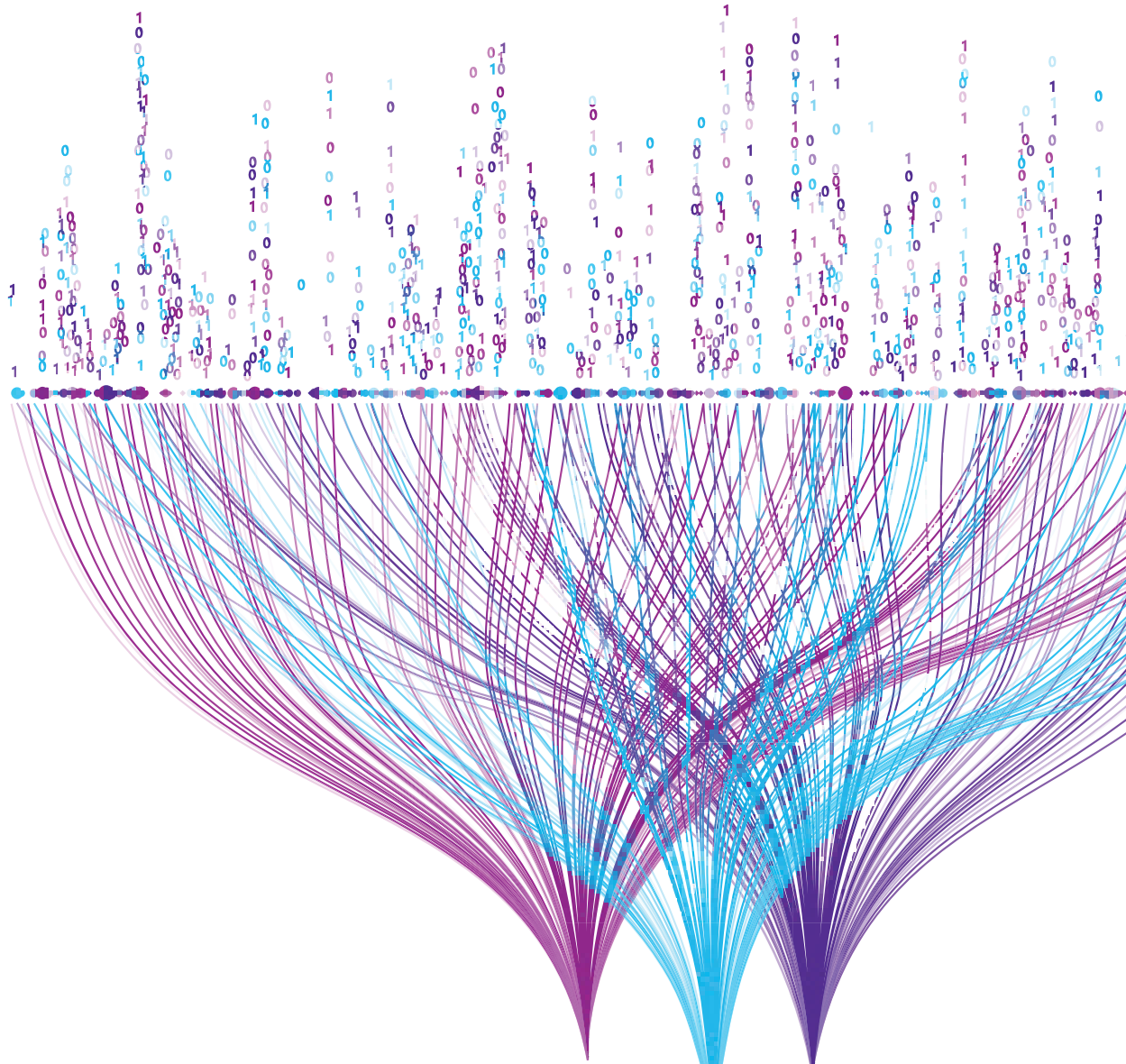




# Safety in Numbers

**Are your banking and lending systems fit for purpose?**



**Recent events in the Irish banking sector have highlighted challenges faced by lenders and credit servicers in relation to the treatment of customers. These challenges are amplified when there is a lack of familiarity with regulatory requirements, and potential pitfalls can become reportable errors if left unaddressed.**

At KPMG we have extensive experience, technology accelerators and solutions to help provide you with confidence that your mortgage and loan book calculations are fit for purpose.

## Why You Need to Take Action

Lenders and Credit Servicing Firms are included within the CBI's regulatory remit and are subject to CBI sanctions for prescribed contraventions, which can include a **penalty of €10m or up to 10% turnover**. Furthermore, the Individual and Senior Executive Accountability Regimes (IAR/SEAR) place additional responsibility on financial institutions.

The financial cost of remediating customers where an error is identified can be substantial, particularly where an issue has existed for a number of years. In 2019 the CBI reported that **€74 million was returned to consumers** as a result of errors, most of which related to the banking sector. Such errors also have a negative impact on an entity's reputation, both with consumers and with the regulator.

### Common Pitfalls



#### Interest Calculations

The method of calculating interest (e.g. 30/360 vs actual/actual) can be prone to misinterpretation or error. Are you confident that your interest calculation basis is aligned to your terms and conditions, for each of your products?



#### Arrears Management

Recent CBI engagements related to the "auto-capitalisation" of arrears have demonstrated that certain practices with respect to arrears management are not always in the best interests of the customer. Are your repayment calculations in line with good practice as set down by the regulator?



#### Changes in repayment arrangements

How are prepayments managed and how do they affect the term and repayment profile of loans? Could customers be disadvantaged by changes to payment dates or arrangements?



#### Communications

Are your communications to customers in relation to their Cost of Credit or APRC providing the correct information and are these regularly checked when system updates occur?



#### Fees

How does your mortgage system treat fees and costs being applied to customers' accounts, and is there full transparency with customers in relation to circumstances in which fees are charged? Are you operating in line with regulatory expectations? Are you charging additional interest on these costs?



#### Customers in Difficulty

Are you confident that you can successfully identify vulnerable customers? And are you satisfied with your Complaints process?



#### Forbearance

Are your forbearance solutions implemented correctly and are the right cut-over procedures in place to deal with accrued interest and timing?



#### Customer Credit Ratings

Are you confident that you are correctly reporting customer credit scores to credit referencing agencies such as the ICB and CCR?

## How KPMG Can Help

KPMG's Risk Consulting team has extensive experience assessing loans and loan products as part of system migration strategies, loan sale portfolio analysis, restitution projects, internal audits and regulatory compliance reviews. We understand the market including how Terms and Conditions, regulatory requirements, customer actions and decisions can drive change and complexity.



### Case Study

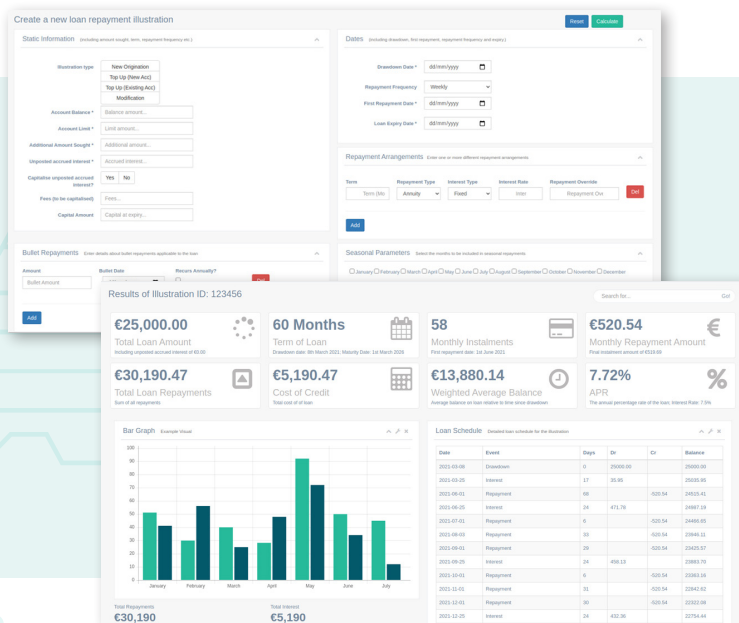
We recently assisted a Credit Servicer in undertaking a post-acquisition operational review, identifying certain high risk areas below:

- Have opening accrual positions been migrated correctly? Have customers been penalised due to a change in interest capitalisation dates, payment dates or capitalisation events?
- Have temporary arrangements such as interest only or fixed payment arrangements been migrated accurately to ensure that they will cease at the correct time?
- Will customer-driven events such as prepayments be treated in line with customers' expectations?
- Is the interest accrual basis (day-basis, frequency of capitalisation, payment date, arrears management) consistent with the customer's Terms and Conditions?

**Benefits realised:** Following our review our client had a clear roadmap of changes required to its systems and confidence that customer accounts were updated correctly.

## Introducing KORl...

KORl (KPMG Online Repayment Illustrator) is a module of our technology-led solution that can assist you in ensuring that your systems are fit for purpose. As a repayment illustrator, KORl can replicate the workings of your lending system and perform calculations required to determine loan repayment, Cost of Credit and APR / APRC while also carrying out scenario analysis (e.g. to ensure that forbearance solutions are best suited to the needs of your customers). Additionally, KORl can streamline batch processing whether it be for assurance, change testing or remediation.



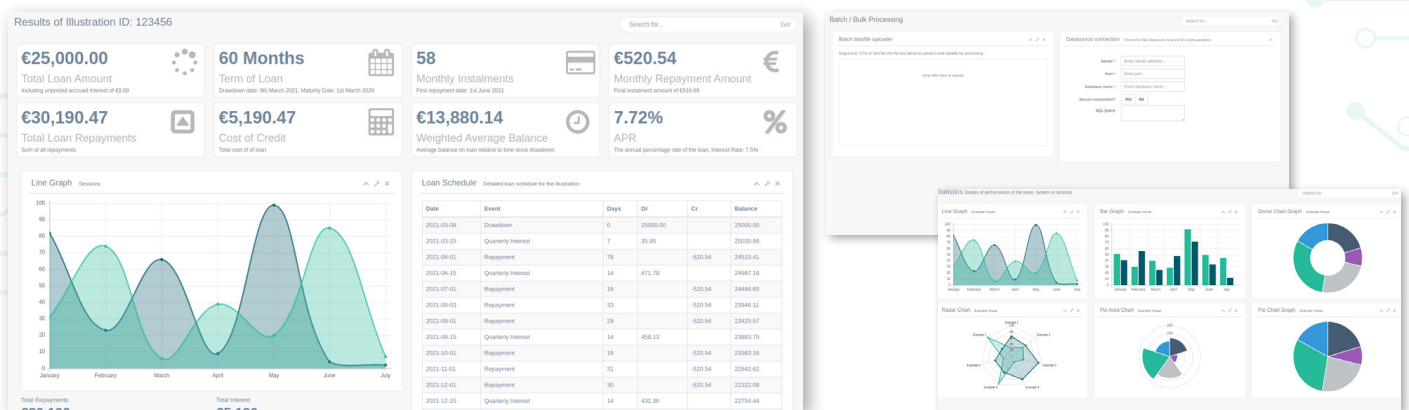
## About KORl

- ✓ Web application built in Django web framework;
- ✓ Powerful calculation backend using Python for fast, efficient processing of datasets, large or small;
- ✓ Rich interactive user experience deploying JavaScript libraries to create a responsive environment;
- ✓ Detailed audit trails with database connectivity to multiple enterprise level platforms;
- ✓ KORl is built to manage batch or bulk processing as seamlessly as calculating for one instance; and
- ✓ Dynamic, customisable and can be tailored to suit specific needs.

## Best in Class

Leveraging best in class modelling techniques and moving your repayment illustration models away from cumbersome spreadsheets that place the burden of end user computing on your team, KORl can transform operations, accuracy and efficiency in your front and back offices.

Equally KORl can be a powerful tool in the arsenal of your assurance or remediation functions by automating calculations and testing the outputs of your teams, systems or processes.



## Use Cases for KORl:

- ✓ Front office illustrations;
- ✓ Back office administration;
- ✓ Forbearance scenario analysis;
- ✓ Batch or bulk operations;
- ✓ Ongoing assurance activity; and
- ✓ Data-led remediation.

## Advantages of KORl:

- ✓ Easy deployment across your organisation;
- ✓ Tackles spreadsheet proliferation;
- ✓ Updates without worrying about user adoption;
- ✓ Improves compliance with Model Risk Management;
- ✓ Minimal training with intuitive user interface; and
- ✓ Reduces end user computing.



## Our End-to-End Solution

We have developed a suite of best in class calculation models and a **technology-led solution** to help give you confidence that your credit products are operating in line with regulatory and contractual requirements:



### Data Gathering & Analysis

- Data validation and identification of anomalies using **dedicated KPMG tool**;
- Data migration assessment;
- Teams skilled in data analytics to review outputs.



### Technology & Calculation Models

- Use of our tools and calculation models, including KORI, to automate and gain efficiencies in the review of account-related calculations;
- Model analysis using our **in-house model review tool** for cases where you have built your own model and require validation/oversight;
- Provision of expertise and oversight in using these tools and interpreting the results.



### Process & Control Framework

- Identification of key risk areas, such as regulatory updates or arrears management, where you may benefit from enhanced processes and controls;
- Develop and validate **automated or manual workarounds** where functionality differences exist;
- Build a robust **Risk and Control Framework** so that you can manage your processes and controls efficiently.



### Output

- Where any issues or inconsistencies are identified in the application of various calculations, we can work with you to resolve these and ensure they won't reoccur;
- We will assist you in defining critical functional specifications to enable ongoing maintenance and support of your loan portfolio;
- You will have comfort that your loan portfolio is functioning as expected and calculations are in line with regulatory requirements.

## Benefits of our Solution

- ✓ Use of our existing tools and expertise so that reviews can be carried out efficiently and accurately.
- ✓ Assurance that you are in compliance with all applicable regulations and underlying contracts.
- ✓ Confidence that you have received complete and accurate data following a portfolio purchase.
- ✓ Standardised processes to help you manage model risk and gain assurance over your calculations.
- ✓ Identification of any areas of weakness in your processes and controls.
- ✓ Comfort that you are taking proactive steps to avoid any potential future customer detriment.

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