

Oireachtas Finance Committee

FINAL Ulster Bank Ireland DAC Opening Statement

01 Feb 18

Chairman, members of the Committee, thank you for this opportunity to discuss the Tracker Mortgage issue with you and our progress in putting this right for our customers.

I am Paul Stanley, the Chief Financial Officer of Ulster Bank Ireland DAC and I am joined today by Elizabeth Arnett, Head of Corporate Affairs.

As the Committee is aware, we are in a close period and therefore we cannot discuss issues which may trigger discussion of financially sensitive information regarding provisions or disclosures. There may be questions that stray into this territory and I will be happy to take those questions away and come back to the Committee on those where I can. Today we are here to discuss the 'progress made regarding resolution of the Tracker Mortgage Redress issue' so let me give you an overview of that, and then we will be happy to take questions.

As you know, our Examination is ongoing and we have, as part of our Phase 2, identified just under 3,500 customers who are impacted. The impact on these customers and the length of time it is taking to pay redress and compensation is unacceptable and rightfully we are being challenged on this.

I would like to repeat the apology that Ulster Bank has already made to our customers.

When the CBI Tracker Mortgage Examination letter arrived in our bank we took a number of months to consider how to respond but by March 2016 we had begun the process of establishing our programme. In hindsight what we should have done was mobilise and have the deliberations concurrently. By doing it the other way we added three months in to our programme that we could have avoided.

The work involved in identifying impacted customers is one of the largest and most complicated projects ever undertaken by the Bank. We have over 200 people working full time on the programme. I know this is no consolation to the people who have been waiting too long for the redress and compensation to which they are entitled, but let me explain the challenge of the process in more detail.

We started with over 300,000 mortgages that were in scope of the examination.

Customer journeys were segmented into different categories, which required different levels of review. By way of example, some customers included those who drew down on a tracker rate and did not move to any other product or margin at any time, (circa 64,000 sub-accounts).

From the 300,000 mortgages, we carried out an in depth review of over 7,000 in order to determine impact. This involved the lengthy process of rebuilding customer files, locating original hard copies of documentation and putting a full journey together. This process was made difficult because we were dealing with five mortgage systems, across two banks extending for a period of over a decade and a half. There was a high degree of variety in these accounts - we found over 1,600 different journeys with some customers having up to 20 different points in that journey. (By way of example, a journey includes mortgage drawdown, product switches, any rate changes, any forbearance or special arrangements and mortgage redemption).

This process identified just under 3,500 impacted customers and is set out in our Phase 2 Report. As of Q3 2017, we have made a provision of €211m for this project, which includes administration costs.

In designing the Examination, the CBI framework requires that we look retrospectively at our loan book and apply a contractual, regulatory and customer lens to determine if there is an impact. The vast majority of the 3,500 customers were impacted due to ambiguous and potentially confusing terminology in our documentation, and as a result, these customers did not get the correct rate.

I do not wish to appear to minimise the nature of the impact but rather to give you an understanding of what we have found as a result of our work to date on the examination.

The ambiguity in the documentation we produced, presented circumstances whereby our subsequent actions disadvantaged our customers. The requirement to be clear in all communications with customers is the minimum standard that we must and do hold ourselves to. In this regard, we did not meet the standards and we failed our customers. We deeply regret this and apologise unreservedly to all impacted customers. We are putting this right, albeit at a pace which is frustratingly slow for customers and for ourselves.

In total, transparency issues like this affected approximately 88% of our 3,500. The other 12% were primarily operational errors and the absence of required warnings.

c2,500 of those impacted are still customers of Ulster Bank and we have returned these customers to their correct tracker rate. We 'stopped the harm' as quickly as we could. This happened on a phased basis mostly during the first quarter of 2017. For customers who are no longer with Ulster Bank, we are working through their remediation, with a commitment to complete this by the end of Q2 2018.

For customers who lost their home as a result of this, we have a special process in place on top of the standard remediation. For example, where we identify a customer who has lost their home as a result of the loss of a tracker rate, we communicate with them, appoint a single point of contact for them, arrange a meeting and offer an upfront initial payment of €50,000 in advance of completing the full redress and compensation process.

We commenced the process of paying redress and compensation in September and to-date have paid over 1,200 customers.

There are a number of key principles for us in this phase of the examination

It is very important for us that we put each customer back to the position they would have been in, had the error not occurred.

This involves:

- Reconstruction of each customer account using the correct interest rate;
- Quantification of amount of interest overcharged at the incorrect rate, and reversal of that overcharge;
- Calculation of the monthly repayments that should have been paid by the customer (and refund of the difference between that total and what was paid by the customer);
- Restoration of the mortgage balance to what should now be outstanding, following reversal of the interest overcharge and refund of repayments.

The letters we write to customers are designed to be a complete picture for them - in some cases up to 30 pages. They contain a full financial statement going back to the month when the impact happened and providing a month by month statement for the years that the impact happened.

Customer accounts, in calculating redress amounts require manual intervention and calculations that currently cannot be systemised because of the multiple variations that exist in each customer journey. This necessitates additional quality control and assurance checks. In calculating redress and

compensation for even straight forward cases, there are up to 120 separate data points that can move each time there is an additional payment on the account – meaning that the calculation is time sensitive. For live customers, a short period opens up each month when all of the data is collected and reviewed, the calculations are made, the calculation are checked, the letter is compiled and then checked and then issued before the next payment is made on the account and the data points have changed.

This has been slow and challenging and I would not even begin to express how difficult this has been for customers. We are focused on paying what is due to all impacted customers as quickly as possible. There is no advantage in us dragging our feet on making this right. There is certainly no advantage for our customers.

We have more than just a regulatory or contractual obligation to our customers. We believe that we have a moral obligation to be fair and to put things right as quickly as possible when we get it wrong. We also accept and acknowledge the focus of this Committee, the Minister for Finance and the CBI in this matter and holding us all to account. Ulster Bank has certainly learned lessons from this and, while we are still in the process of finalising our programme, we are applying those lessons across the Bank. Throughout this process, our people on the front line, helping customers and dealing with queries have been working tirelessly and despite how the public might feel about those of us at senior level, I'd like to draw that distinction.

To close, I'd emphasise again that we are working to finalise our numbers, and we will continue to engage with the CBI as regards our Phase 2. While we expect additional customers to be impacted, we do not expect the issues to be on the same scale. Despite this, we have failed and this has not only impacted our tracker customers but society's trust in banks and our credibility as an industry. We will continue to work hard to complete this programme, learn from this and rebuild trust in our Bank. We are serious about our commitment to our customers and we are listening and learning from this programme.

We look forward to your questions.