Danish Financial Supervisory Authority

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Explanatory account submitted to the Danish FSA

Background and purpose

On 21 September 2020, the Danish Financial Supervisory Authority (the Danish FSA) issued four orders to Danske Bank A/S (the bank or Danske Bank) as a result of the bank's failure to comply with the rules on good practice and the bank's obligation to act fairly and loyally towards its customers. The orders relate to the errors identified in relation to the bank's debt collection practice. Moreover, on 26 November 2020, the Danish FSA ordered the bank to launch an impartial investigation into the bank's debt collection case in order to assess the measures taken to rectify the errors made in the bank's debt collection.

The purpose of this letter is to answer the questions posed in the Danish FSA's letter of 9 July 2021, which asks for an account of a total of three items, as summarised below:

1. The approximately 5,600 customers[1] affected by the original four root causes and subject to manual quality assurance.[2]
2. Potential interdependencies among the 27 potential additional issues, the number of fully analysed issues and the definition of a fully analysed issue.
3. The expected completion time of the outstanding analyses of the 27 potential additional issues as well as customer communications and compensation, including a schedule for the work to be done after 31 July 2021.

The bank's account in this response reflects the current status of the analysis work and the work to remediate the errors in the customer. We are determined to ensure that the errors are rectified correctly and as quickly as possible and that affected customers receive help and information on an ongoing basis. We are determined to clarify the remaining issues correctly and as quickly as possible and to provide compensation to the affected customers. We sincerely apologise for the problems that this case has caused our customers.

1. Manual quality assurance of approximately 5,600 customers

This section answers the following questions:

a. What characterises the about 5,600 customers and why is further quality assurance needed in relation to these customers?
b. What types of analysis are needed in order to perform manual quality assurance?
c. How many customer are covered by manual quality assurance, broken down by category?

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[1] This is the number of customers rather than the number of customer cases as stated in our update to the Danish FSA of 28 June 2021.
[2] As described in our update to the Danish FSA of 28 June 2021, the approximately 5,600 customers constitute the remaining 3% of customers who did not receive compensation on the basis of one of the four root causes until 1 July 2021.

a. What characterises the about 5,600 customers and why is further quality assurance needed in relation to these customers?

In connection with the work to rectify the four root causes of data errors in the bank's debt collection systems, manual quality assurance of approximately 5,600 customers is still outstanding. The complexity of these cases is such that we consider it necessary – for the purpose of ensuring that the customers receive correct compensation – to perform further manual quality assurance of the cases.

The approximately 5,600 customers for whom manual quality assurance is outstanding are characterised by one or more of the following criteria:

- The customers' case history dates back to before 2004, which means that data on these customers is not easily accessible due to no data structure across the various debt collection systems.
- The cash flows are complex – typically due to manual corrections already made as part of the standard case handling process, composition arrangements, special procedures related to recognised claims and other settlement.
- The customer's case concerns a loan that involves complex data transmission to the DCS collection system.
- Outliers have been identified in the initial balance of the customer's case, that is, the initial balance is either higher or lower than expected. The outliers are automatically identified on the basis of predefined parameters that take into account the customer's case. The identified outliers are then reviewed manually.
- Outliers have been identified in the calculated overcollection amount, which means that the result is either higher or lower than expected. The outliers are automatically identified on the basis of predefined parameters that take into account the customer's case. The identified outliers are then reviewed manually.
- The case involves several customers in respect of whom the limitation period may differ because of individual case history.
- The digital data available in the customer's case is limited, which results in less accuracy in the calculations made by the compensation models.

As a result of the above characteristics, it is often necessary to review data manually in several different systems and archives in order to verify the case history. This will enable the bank to make an accurate calculation of the compensation to be provided to the customer.

The bank's remediation work started with simple, more recent cases and concluded with older, more complex cases. Due to this nature, a large portion of these cases will require quality assurance for approximately 5,600 customers as they mainly originate from the latest calculations completed in late May and June.

As described in the bank's letter to the Danish FSA of 28 June 2021, the bank has performed manual quality assurance throughout the entire process of calculating potential overcollection. This quality assurance has been performed in the form of either

1. spot checks for cases in which digital data was available and the quality of such data was sufficient and in which the calculated overcollection amount was less than DKK 10,000. For such cases, the output of the compensation models is more accurate.
2. quality assurance of cases with lower degree of data accuracy and availability in which the overcollection amount is estimated to be above DKK 10,000. The output of the compensation models for these cases has shown to be less accurate, with potentially large deviations between the calculated and the actual overcollection amount.

The bank's priority is to ensure correct payment of compensation. On the basis of the above criteria, we have therefore selected specific cases for manual quality assurance in which there is statistically less accuracy in the calculations made by the compensation models.

   b. *What types of analysis are needed in order to perform manual quality assurance?*

The bank defines '*types of analysis yet to be performed*' as work still to be done in relation to manual quality assurance and the outcome of this work.

Manual quality assurance[3] is performed to ensure that the customer receives the compensation to which the customer is entitled, and quality assurance is carried out in continuation of the processing of a customer's case by one of the developed compensation models. A customer's case may be selected for manual quality assurance if it is associated with any of the complexities described above.

Quality assurance consists in obtaining and validating data from our various systems, reviewing cash flows, ensuring proper coverage of balance types, and validating corrections previously made.

Quality assurance is typically a manual process in which calculations are made manually. In some cases, data may be added on the basis of information available to the bank, and this allows the bank to calculate the customer's compensation solely on the basis of data. Examples of addition of data include cases in which data is derived from information contained in a letter or document from the bank's physical archives.

Quality assurance consists of the above parameters regardless of the root cause that affects the individual customer.

The outcome of manual quality assurance may be one of the following:

   1. Confirmation or adjustment of the original compensation estimated by the compensation models.
   2. Addition of data followed by a new calculation made by a compensation model or by manual calculation to determine whether overcollection has occurred and to which extent as a result of the four root causes
   3. The customer is not subject to overcollection as a result of the four root causes, and the customer is therefore not entitled to compensation.

   c. *How many customers are covered by manual quality assurance, broken down by category?*

The bank defines 'broken down by category' to mean customers registered in the individual systems, the root cause(s) affecting the individual customers, and the compensation model used for processing the individual cases.

Of the approximately 5,600 customer cases, about 4,600 (approximately 82%) are registered in DCS and about 1,000 (approximately 18%) in PF.

Customers broken down by root cause:

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[3] The manual quality assurance process described is performed at the case level, which means that the process and the outcome of the process are determined individually for each case. Since a customer may have several cases, it is important to make it clear that quality assurance is performed for all of the customer's cases.

- Affected by root cause 1 and/or 2[4]: about 4,600 cases (approximately 82%)
- Affected by root cause 3: about 900 customers (approximately 16%)
- Affected by root cause 4: about 40 customers (below 1%)
- Affected by more than one root cause: about 50 customers (below 1%)

Customers broken down by compensation model:

- Ordinary compensation model: about 1,600 customers (approximately 28%)
- Statistical model: about 2,900 customers (approximately 52%)
- Handled on the basis of business decisions[5]: about 1,100 customers (some 20%)

In the approximately 5,600 cases subject to manual quality assurance, customers will receive compensation on an ongoing basis, and we expect the process to be completed in the coming months and before the end of 2021.

2. Analysis of 27 potential additional issues

This section answers the following questions:

- a. *How many issues have currently been fully analysed?*
- b. *What is meant by 'fully analysed', including whether this should be understood to mean that the cause of the issue and the affected customers have been identified?*
- c. *How many of the 27 issues are interdependent, and how are they interdependent?*

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- a. *How many issues have currently been fully analysed?*

Of the 27 potential additional issues presently identified[6], 19[7] have currently been fully analysed. Of this number, all of the 14 original issues from appendix 2.5 as well as five of the 13 issues later identified have been fully analysed. Appendix 1 to this letter provides a status overview of each issue.

- b. *What is meant by 'fully analysed', including whether this should be understood to mean that the cause of the issue and the affected customers have been identified?*

'Fully analysed' means that we have clarified (1) whether there is an issue or not, (2) whether customers are affected and therefore should receive compensation, and (3) which customers are either affected or potentially affected so that they can be informed and subsequently receive compensation, when relevant. When an issue has been fully analysed, it is handed over to the team responsible for providing compensation to customers so that the compensation work can be initiated.

All completed analyses include the following elements:

- Identification of the cause of the issue, for example data or process errors
- Discontinuation of activities that may present or do present a risk of recurrence and continuation of the error
- Identification of customers who may be or are affected by the error
- Identification of communication needs at the customer level

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[4] The breakdown of the number of affected customers in the quality assurance process who fall under root causes one and two is shown as one because the compensation models are designed to treat these two root causes together.

[5] The business decision was defined on page 5 in the update to the Danish FSA of 28 June 2021.

[6] For more information about each individual issue, see Appendix 1: Overview of additional issues.

[7] Issues 1-14 and 15-19 have been fully analysed.

- Conclusion with regard to whether customers should receive compensation
- Conclusion with regard to proposed solutions to prevent the errors from reoccurring in the future, such as process and/or IT changes

The total of 27 additional issues relate to different elements of the collection process. For this reason, each analysis is adjusted to the issue identified in order to ensure appropriate and exhaustive identification of the issue.

c. How many of the 27 issues are interdependent, and how are they interdependent?

Danske Bank understands 'interdependencies' to mean that one or more issues have had or may have an impact on another issue, no matter whether this affects the order in which compensation is paid or the timing or it means that an issue has caused other issues to arise. The following section describes these dependencies among issues in more detail.

Order of compensation and reduction of outstanding debt

Compensation for overcollection will be paid only if the compensation to which a customer is entitled exceeds the customer's outstanding debt, if any. As a result, the final compensation to be provided to the customer will depend on the final calculation of the customer's outstanding debt, if any. The calculation of the final compensation must take into account the customer's compensation claim[8], the amount of outstanding debt to be repaid to the bank by the customer and any corrections made as a result of the original root causes and other additional issues as well as any interdependencies among issues. The final compensation to be provided to the customer cannot be calculated until these elements have been calculated.

The calculation of the final compensation to be provided to the customer takes place as the additional issues are clarified and calculated and will be performed as part of the bank's write-back process.[9] The write-back process will also determine whether any reduction of the customers' outstanding debt will be made.

As described above, the calculation order for compensation in respect of each issue affects the calculation of the correct compensation. Because eight out of 27 issues are still being analysed, the bank does currently not have a complete overview of the order in which the individual issues should be addressed. The order for compensation has yet to be determined, and this work must ensure that the bank pays the customers the correct compensation.

Impact on timing

Some customers are affected by several additional issues at the same time. This leads to a high degree of complexity in the compensation work. The individual customer's case history and the period during which the customer has been subject to debt collection must therefore be clarified individually and will affect how the final compensation is calculated and how it is ensured that the data is correct going forward.

Issues that are dependent on other issues

The bank has currently identified a number of interdependencies among the 27 issues. The final number of interdependencies is still being analysed, and the bank is aware that this affects the final compensation, as described above in the "Order of compensation and reduction of outstanding debt" section. Until 1 July 2021, Danske Bank's priority was to

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[8] The customer's claim constitutes the excess payment to which the customer is entitled including time compensation as well as payment of the customer's costs, if any, in relation to the taxation of compensation.

[9] During the write-back process, existing data relating to debt collection will be corrected and then integrated correctly into the bank's debt collection systems. The details of this process are yet to be established.

define, analyse and understand the individual issues in order to obtain an overview of their impact on customers. The final number of interdependencies has therefore yet to bet identified.

Examples of already established interdependencies are as follows:

- Issues affecting the initial balances in the debt collection systems (for example Issue 2: Reminder fees) will have had an impact on the final compensation calculated for root causes 1 and 2. Therefore, the models for root causes 1 and 2 will be re-run for customers affected by issues relating to initial balances.
- Issues affecting debt items prior to processing by the courts will have had an impact on whether the correct claims have been filed with the courts.
- Issues affecting debt items prior to the handing-over of the individual customer's case to external debt collection agencies will have had an impact on whether correct data has been transmitted.
- Issues affecting debt items will have led to incorrect information for reporting and personal data purposes. These reporting and personal data issues have been formalised as additional issues to ensure proper handling (issue 11: Tax; and issue 12: GDPR).

The bank's priority is to examine the final number of interdependencies among the issues as soon as possible, and the bank is aware of the significance of the interdependencies for correct compensation to customers. However, the period to which the issues relate and the number of issues involved lead to a high degree of complexity, which the bank is committed to understanding and solving.

3. Tasks outstanding after 31 July 2021

This section seeks to give the Danish FSA an insight into the tasks to be performed after 31 July 2021. The following questions will be answered:

a. *When does the bank expect to have completed the analysis of the remaining issues that have not yet been fully analysed?*
b. *When does the bank expect to provide information to customers affected by the issues that will not be fully analysed until after September 2021?*
c. *When does the bank expect to pay compensation to customers affected by the 27 potential additional issues?*

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a. *When does the bank expect to have completed the analysis of the remaining issues that have not yet been fully analysed?*

As described in section 2.b above, the analysis involves a number of conclusions regarding compensation and communication needs, temporary and forward-looking solutions as well as the cause of the issue. In addition, the further analysis work includes a clarification of interdependencies. For the remaining issues, the analysis of interdependencies is expected to be more complex and comprehensive than previously since several issues must be compared with each other in step with the analyses being completed. The bank's ambition is to complete the remaining eight of the 27 analyses on an ongoing basis until the first quarter of 2022. The Danish FSA should note that this is new information since the bank's latest letter dated 28 June 2021.

b. *When does the bank expect to provide information to customers affected by the issues that will not be fully analysed until after September 2021?*

The bank's priority is to complete the remaining eight analyses and to provide information to the customers that are or may be affected and to ensure that any compensation is provided as soon as possible. The bank expects to provide information about the eight additional issues in two to three bundles of letters over the rest of 2021 and until the first quarter of 2022. The Danish FSA should note that this is new information since the bank's latest letter dated 28 June 2021. This, however, may be adjusted according to when the analyses are completed and which and how many customers may be affected by the remaining additional issues.

In order to increase the customers' ability to obtain an overview and understanding of how their cases may be affected by potential additional issues, the bank wants to bundle customer communications. This is the same approach applied by Danske Bank to the original additional issues. Information has been provided to customers only in respect a limited number of additional issues. Information will be provided to customers in August and September 2021 for the remaining, fully analysed additional issues. This approach has been chosen since a large number of customers are potentially affected by several of the additional issues.

> c. *When does the bank expect to pay compensation to customers affected by the 27 potential additional issues?*

In 13 of the 19 issues fully analysed, Danske Bank has identified a need for compensation to customers, with payment of compensation in relation to issue 2 (Reminder fees) having been initiated in Denmark. Compensation in respect of the remaining eight of the 27 issues awaits the conclusions of the analyses. The bank will provide compensation to customers affected by the issues as soon as possible.

The bank is preparing a plan for compensation in respect of the additional issues. The ambition is to divide customers into groups to allow gradual compensation in relation to the additional issues by which customers are affected.

Except for issue 2: Reminder fees, the correct payment of compensation is dependent on the order in which each issue is calculated. At present, further analysis of the interdependencies among the issues is required for the bank to ensure that customers receive fair and correct compensation.

In addition, the compensation work is dependent on cooperation with and necessary clarifications from the Danish tax authorities, the Norwegian tax authorities, the Danish Court Administration, the Danish Data Protection Agency, Experian and debt collection agencies. With its current insight into the issues analysed, the bank aims for payment of compensation to identified customers for 13 out of the 19 fully analysed issues to continue in 2021 and 2022.

We are working on a detailed timetable for the outstanding compensation work after 31 June 2021 in collaboration with the impartial reviewer, and we will provide information to the Danish FSA before the end of August 2021. The timetable will include the activities that are expected to continue in 2022 so that the impartial reviewer's final type of reporting and deadlines can be determined.

We are determined to ensure that the errors are rectified and that the affected customers receive compensation and information as soon as possible. We want to get to the bottom of this case and provide compensation to customers who may have experienced consequences as a result of the case. We will continue to be open and transparent – also towards the Danish FSA and the impartial reviewer – and rectify errors previously made by our debt collection department. We will of course get back to you as soon as possible if the ongoing analysis work or external observations identify matters that change the bank's explanatory account.

We offer our sincere apologies to those affected by the case – it is our clear objective to rectify the errors as quickly as possible.

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Naturally, we are ready to assist if the Danish FSA has any further questions or queries.

Yours faithfully

Danske Bank A/S

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Frans Woelders   **Rob De Ridder**
Group COO   COO, LC&I

Appendix 1: Overview of additional issues

#	Issue name		Problem definition	Is the analysis finalized?
1	Court cases		Data flaws in DCS and PF and process errors may have impacted a number of closed and ongoing court cases involving our customers and third parties involved	Yes
2	Reminder fees Personal & Business Customers	DK	During the analysis of the debt collection case, we identified and communicated the wrongful charging of interest on reminder fees following a legislative change in 2005.	Yes
		NO	During the analysis of the debt collection case, we identified and communicated the wrongful charging of interest on reminder fees following a legislative change in 2005.	Yes
3	Offset across DB & RD		The issue relates to potential unjustified off-set between Group entities and incorrect application of limitations during the manual correction process	Yes
4	RKI: Risk Markers Practice		The issues relates to customers being registered in RKI (1) with an incorrect balance, (2) after limitation period, (3) for too long, (4) with incorrect customer data, and/or (5) multiple times with the same account Improper maintenance of manually applied risk markers modified into focus on customers with D4 credit classification affected by the four root causes.	Yes
5	Treatment of vulnerable customers		The debt collection approach towards vulnerable customers is currently under investigation to identify if sufficient considerations for situation of vulnerable customers are made in the debt collection process.	Yes
6	Interest rates applied on defaulted loans		The issue arises in a situation where a customer defaults on their loans and an incorrect interest rate is applied during the default period. Three sub-issues are investigated: a) Interest rates significantly lower than standard rates for defaulted loans; b1) Different interest rates applied to the same loan across systems and b2) Customers with interest rates above the statutory rate	Yes
7	Evaluation of Tableau data		The issue relates to if wrongful tableau data led to any customer detriment through decision making in GRDM.	Yes

#	Issue name	Problem definition	Is the analysis finalized
8	Legal fees allocated towards court cases	Preliminary investigations indicated erroneous legal fee allocation in specific examples prior to DCS. Legal practice is to allocate court awarded fees and not actual fees incurred. The portfolio before 2008 represents an issue	Yes
9	Legal fees incorrectly merged with principal	The issue relates to legal fees (in private and business cases) being wrongfully included in the principal amount	Yes
10	*Home* issue – agency fees	There has been a practice of negotiating property sale fees with all real estate agents in Denmark except for the Danske Bank Group's own real estate agency chain *home* Customers agreed to these fees in connection with the repayment of their debt	Yes
11	Inaccurate tax reporting	The issue relates to reporting of incorrect interest to the tax authorities leading to an incorrect tax relief on interest for some customers	Yes

#	Issue name		Problem definition	Is the analysis finalized?
12	GDPR		The issue relates to not having complied with certain elements of GDPR as a result of having flawed/inaccurate data in DCS and PF	Yes
13	Outsourcing to Debt Collection Agencies		The Bank outsources debt collection activities to a number of debt collection agencies which act on behalf of the Bank using the data provided by the Bank. DCA customers may be affected by potential errors in data flow between DB and DCAs.	Yes
14	Nordania Reminder Fees	DK	Charged more than 3 times reminder fee (DK). This applies to both private and corporate customers. Issue occurred 2001 for private and 2002 for corporate. Unjustified interest on Reminder Fees has been charged to customers in the Nordanias's central customer system, Leasing Core during 'soft collection' and subsequently at the third party that handles the hard collection. This applies to both private and corporate customers. Issue occurred 2005.	Yes
		NO	During the analysis of the debt collection case, we identified and communicated the wrongful charging of interest on reminder fees following a legislative change in 2005.	

#	Issue name	Problem definition	Is the analysis finalized?
15	Erroneous reporting to Central Bookkeeping	The issue relates to the financial impact on Group Danske Banks annual report	Yes
16	Mortgage Deed - System 3948	The issue relates to the mortgage deed system (Pantebrevssystemet/3948 pantebreve) and not handling limitation of debt - and are therefore not limitating/deleting/writing off fees, interests and default interests after 3 years. If debt/principal amount/the individual mortgage payment becomes 10 years old - that is not limited either. When the debt transfers to DCS, the time-barred interest and fees are merged with principal	Yes
17	Wrongful interest calculation basis and limitation date	The issue relates potential erroneous calculation of interest rates around while changing interest types and potential errors while calculating the limitation date	Yes
18	Lacking follow up on customers loans	The issue relates to lack of follow up on cases where agreed payments no longer covers the accrued interest	Yes
19	Triviality Limit	The issue relates to business procedures for handling payments that cover the last outstanding of debt	Yes
20	Misalignment between agreement document and DCS	The issue relates to misalignments between the agreement document and DCS for interest calculation basis and annual costs in percentage (ÅOP)	Ongoing
21	Additional customers in DCS	The issue relates to incorrect deletion of customers in DCS	Ongoing
22	Discrepancy on main account and agreement account – closed cases	The issue relates to discrepancy between main and agreement account	Ongoing
23	Taxation code in compositions	The issue relates to wrong taxation code reported to the Danish Tax Authorities when making a composition agreement	Ongoing

#	Issue name	Problem definition	Is the analysis finalized?
24	Lack of transparency in consequences of interest type changes	The issue relates to lack of transparency in consequence of interest type changes from statutory rate to compound rate	Ongoing
25	Interest charging on other costs associated to business cases	The issue relates to charging interest on other costs associated to business cases	Ongoing
26	Errors when reestablishing Guarantors	The issue relates to establishing guarantors in DCS and PF when a business customer defaults	Ongoing
27	Accrual of compound interest on statutory interest	The issue relates to potentially incorrect accrual of compound interest on statutory interest before 2012	Ongoing