Re: TSB IT Migration

Thank-you for your letter dated 16 May on TSB’s IT migration. I do of course share your concerns about the problems faced by retail and business customers following the IT migration. Jointly with the Prudential Regulation Authority (PRA), we will undertake an investigation using our statutory powers into TSB’s IT migration. We do not normally make this information public, but given the level of public interest, I want to be clear that we will be conducting this work.

You sent us a number of questions, and I have sought to answer them all in as much detail as possible. You asked us to reply by Friday 25 May 2018. Our respective teams discussed the timing of our response and the need for us to ensure we had a full and detailed response to share with the Committee.

1. What work the FCA did before 20 April to assure itself that the IT migration had been properly planned, the new platform had been properly tested, and that effective systems and controls were in place to manage the associated risks.

The responsibility and accountability for the migration of TSB’s IT systems rests with the firm, its senior managers and its Board. The same principle applies to TSB’s approach to communication to its customers, which should be clear, fair and not misleading. The governance of the migration by TSB was critical to its success. The Senior Managers and Certification Regime (SM&CR) informs the FCA’s approach to assessing the migration, including the requirement for clear allocation of responsibility and for Senior Manager Functions (SMFs) to take reasonable steps to prevent harm to consumers and markets. We also made clear that TSB is separately regulated in the UK, and the decision to migrate could not be delegated to a third party, including a parent entity.

From TSB’s decision to migrate in March 2016, we held 38 meetings with the Firm’s Executive team, Board Members and External Auditors to understand and assess TSB’s governance and accountability for migration, including understanding the flow of information to the Board; how TSB was identifying and mitigating the risks of customer harm that could result from migration; and to ensure issues were being escalated in a timely manner.
In order to inform our understanding of TSB’s governance and accountability for the planning, testing and controls for the IT Migration, the FCA had a programme of Proactive Engagement with TSB Senior Management, which included reviewing TSB’s plan to complete pre-migration testing and the approach TSB would take to escalate identified issues to its Board.

The FCA also assessed TSB’s independent assurance activities relating to migration, focusing on Risk, Compliance and Internal Audit activities (the Audit Committee was the main Governance forum for overseeing the migration). We reviewed TSB’s Board, Audit and Risk Committee papers, and additional IT migration specific reports in order to inform our understanding of TSB’s planning, testing and controls for migration.

TSB implemented a specific decision-making process and matrix of responsibilities to oversee and manage migration. While the onus was on TSB to ensure that it had a credible plan to migrate, the FCA monitored this decision-making process closely.

Using this decision making process, which the FCA reviewed, TSB took the decision to delay migration from November 2017 to April 2018 because it assessed that there were unacceptable levels of risk to customers and its operating model, for instance because of delays in user acceptance testing. TSB’s established governance process was followed in order to reach the decision to delay.

Ahead of the eventual migration weekend, TSB used an assurance matrix of responsibilities to demonstrate readiness for migration. All 12 members of the Business Executive Committee (BEC), covering all functions, provided personal attestations of readiness to migrate, supported by Risk and Audit opinions.

The process implemented by TSB required each BEC member to identify areas of risk appropriately and to set out mitigating actions, showing the evidence supporting the decisions. Furthermore, each attestation stated that remaining issues had been assessed and accepted and that the BEC member was satisfied that the work arounds and risks were within risk appetite, met regulatory requirements, met TSB’s Enterprise Wide Risk Management Framework requirements and the work arounds enabled the Function to operate satisfactorily post-migration.

The attestations were made in mid-April to the CEO and the Board and ultimately informed the Board’s recommendation to proceed with the migration. The FCA received and reviewed these attestations and associated materials. On the basis of these attestations, the TSB CEO then sent a memo to the Board with his recommendation that TSB could proceed with the migration.

On 17 April the TSB Board created a sub-committee, with delegated authority to give “Executive Authority” to proceed with migration. On 18 April, the TSB Board met and reviewed all materials and at that point there were eight outstanding functionality issues. On 19 April, the sub-committee was advised that of the 8 issues, 6 had been resolved and for the remaining 2 issues a fix had been identified and deployed. Following this, the sub-committee confirmed that the entry criteria for migration were met and on-track, and authorisation to proceed with migration was given. The quality of this process will be an important consideration in our investigation.
2. The FCA’s assessment of the scale, cause and nature of the problems experienced by TSB customers, including delays and problems accessing telephone and branch banking services.

The problems experienced by TSB have impacted a significant proportion of its customers across its main banking channels: mobile, web, telephony and, branches and ATMs. The issues experienced were significant in scope and in scale, and the impact on customers was exacerbated because services in all channels were impacted simultaneously, increasing customer distress.

We understand that the new system was designed by TSB to provide consistent data across all channels. The anticipated benefit for customers is that TSB staff will have access to the same customer data regardless of the channel; however, it meant that when some of the problems occurred, they seem to have impacted all channels.

Some customers encountered a wide range of issues, including significant degradation of their ability to access web and mobile banking and, once they had obtained access, many customers faced significant impairment of their ability to view correct transaction data on their accounts and to make ad-hoc payments (TSB stated that Direct Debit and Standing Order payment service levels were functioning appropriately). While these challenges have reduced over the last few weeks, the FCA remains concerned about continued instability of performance.

In the first few days following migration, a specific issue relating to linked accounts caused some customers to be able to see data about other customers that they should not have been able to see. This issue potentially impacted around 400 customers, and we understand is now resolved. The firm has notified the Information Commissioner’s Office (ICO).

Customers who attempted to contact TSB by telephone also faced significant challenges including long wait times and/or forced dropping of their calls. While some of these challenges were created by the volumes of calls resulting from concerned customers and the challenges in the digital channels, there were other system and operational challenges in this channel, some of which continue. TSB’s telephony channel continues to experience network issues, and at the time of writing it remains a high priority issue for the FCA and the firm to resolve the impact it is having on customers. One significant issue in this channel relates to the interactive voice recognition system (IVR) that acts as a filter to the 40–50,000 calls TSB receives on a daily basis, and reduces pressure on calls to TSB staff. However, over 40% of calls are still abandoned or disconnected before progressing through the IVR and wait times to speak to an agent have at times been in excess of 30 minutes. TSB has specialists working with them to resolve these issues, and the FCA is closely following progress.

Customers attempting to use branches also faced challenges. Some branch systems were not performing, which created service issues and significant reported queues and distress for branch staff as well as customers. While there has been improvement, there are still operational challenges in branches.

Following the migration, there has also been an increase in customers impacted by fraud, over and above the anticipated rise in fraud estimated by TSB ahead of the migration. This is a continuing area of concern for the FCA which we cover in full in question 8.

The severity of the incident has meant that TSB has required specialist support from IBM to help restore its platforms to pre-migration levels. This intervention was welcomed by the FCA. It has also brought in a number of external consultants to bolster the teams and support the return to full operational capacity.
We continue to proactively and intensively engage with TSB to ensure that it has a full understanding of the issues it still faces and has robust plans and resources in place to address them. In particular, the FCA's priority areas are fraud, complaints and redress and telephony.

3. Whether TSB's evidence to the Committee is consistent with the FCA's understanding, and whether it omits any material details about the cause and nature of the problems, TSB's planning and testing before 20 April, and its response after that date.

The FCA has no reason at this time to believe that TSB intentionally made misleading or incorrect statements to the committee. However, we do consider that the CEO was portraying an optimistic view of the services, for example by noting that the majority of TSB customers could transact as normal. The reason for this judgement is that in conditions of highly volatile service levels, any single number is less meaningful than when a service level is stable, and in this case risked giving too positive a view. The numbers are arguable, but in my view greater caution would have made sense.

At the time, there was a lot of volatility in the service levels that TSB was able to provide to customers in the week following migration and issues in TSB branches also were more problematic than anticipated, exacerbated by poor service levels in digital services and significantly higher than expected call volumes into its call centre. We are therefore of the view that TSB's reporting to the Committee was not necessarily incorrect, but that TSB could have presented a more rounded view of customer experiences. For example, it was not until the 3 May that online services were back to near pre-migration levels.

We are also concerned that at the time of the Committee hearing, the CEO may have been in possession of an initial set of slides by IBM which provided initial views on the incident, and could therefore have shared more detail on this with the Committee. We understand that this slidedeck was made available on 29 April, although we have been informed by TSB that it had not, at that point, been discussed by the Board. This is relevant to the question the CEO gave to a question from Mr Hosie.

In response to a question from Mr Elphicke, the CEO described the SMF responsibility of Mr Montes as "consistent with an independent director". This statement is correct but it does not contain the context that as a so-called notified NED only, Mr Montes is not the holder of an SMF position.

4. The FCA's assessment of the accuracy and quality of public communications by TSB and its senior management after 20 April.

The FCA has been dissatisfied with TSB's communications with its customers and we have had concerns that TSB was not being open and transparent about the issues experienced. This was communicated in a letter we wrote to the TSB CEO. In this letter we noted that the current communications were perceived as poor, and could reduce trust in TSB and in the banking sector as a whole. For example, TSB referred to "the vast majority" of customers being able to access their online accounts, at a time when there was a successful first-time login rate of only 50% on the web channel.

We reminded TSB of the need to communicate information on the services it was (or was not) able to offer to customers, in a way that was clear, fair and not misleading. It was noted that, if communications were timely and proactive and reflected the true position of each channel, this would support customers and may improve customer trust in TSB at a challenging time.

On 25 April, as a matter of urgency, we asked TSB to provide us with a copy of its communications strategy, including communication plans for weekend service levels covering...
both telephony and branches. In view of our specific concerns, we asked that TSB consider and seek to address the following principles when developing the communications strategy:

1. "Consistent, timely and proactive messaging across communication channels including social media, traditional print and broadcast media interactions and online channels including updates on when customers can expect to receive communications;"

2. Continuous refinement of overall messages to acknowledge specific known issues and concerns and responses;

3. Honesty and clarity about what services are working (standing orders, direct debits etc) and those that are not recognising that some customers may be experiencing different levels of service;

4. Clear and regular updates about what customers can expect from each of the channels that a customer might use to interact with the bank;

5. Clarity on the practical solutions for customers in specific circumstances, for example, how they should proceed if they receive error messages or if transactions don't appear immediately on their accounts;

6. Where possible expected timeline for resolving issues to be included;

7. Messages to customers about being more alert to potentially fraudulent activity on their accounts and what steps they should take if they spot any unusual activity; and

8. The SLA and policy for dealing with complaints via the website along with clear next steps and an explanation of the information customers who suffer harm need provide to submit their complaints/claims for redress".

We continue to reiterate these principles to TSB as it shapes its customer communications.

5. The FCA's assessment of the remark by Mr Montes in evidence to the Committee on 2 May that "A project as complex as that cannot be seen as a responsibility that can be divided."

The FCA acknowledges that this type of migration would need to be run as an integrated programme. However, this does not dilute the firm and individual accountabilities for migration activity.

As the Committee are aware, in March 2016 we implemented the SM&CR, which is centred on individual accountability. The aim of SM&CR is to ensure that Senior Managers can be held accountable for conduct that falls within their area of responsibility, which is set out in their Statements of Responsibility (SoRs). Senior Manager Function (SMF) holders within TSB are therefore accountable for decisions that relate to their areas of responsibility, and ultimately the TSB CEO and Board are accountable for the decision to migrate. This accountability cannot be delegated or transferred to a third party and includes the management of all change programmes and the services supplied by third parties (including other Sabadell group entities).
SMFS within TSB provided attestations ahead of the migration, as noted in our response to question 1. This included all members of the Business Executive Committee (BEC) including the following SMFs: Head of Internal Audit, Chief Information Officer, Distribution Director, Chief Finance Function, Treasury, HR, Marketing Director, Product Director, Chief Risk Officer.

Following receipt of these attestations, the CEO (SMF1), and members of the sub-committee of the Board, Chairman (SMF9), Chair of Risk Committee (SMF10), Chair of Audit Committee (SMF11), authorised the initiation of migration.

6. The nature of the FCA’s work on TSB since 20th April, including whether it is conducting a formal investigation in relation to the IT migration.

In response to the issues experienced by TSB, the FCA initiated the Authorities Response Framework (ARF), whose members consist of the HMT, FCA and PRA ('Authorities'). The ARF is designed to ensure an effective, co-ordinated and collective response to an event that results in major operational disruption to the financial sector and/or the Authorities.

The FCA, working with the PRA set four key objectives for work on TSB in relation to IT migration; these were to ensure that:

1. TSB is being transparent and open with FCA and PRA and its Board;
2. TSB understand the problems it is currently facing;
3. TSB has a coherent plan for recovery of services including communications; and
4. TSB has the resources to execute its plan.

The FCA has continuously engaged with TSB since 20 April. This includes on-site visits to TSB’s Head Office and other TSB sites to observe progress and monitor its approach to identifying and resolving the issues, covering the four objectives stated above. We also review daily Management Information from TSB to ensure we understand the steps TSB is taking to remedy the situation, and challenge TSB where needed.

We are currently focusing on progress on four key areas:

- IT migration issues and IBM: We have been supportive of the introduction of IBM resources to help diagnose and remedy the technology issues. We are closely monitoring the fixes that TSB is implementing and ensuring that governance and oversight of these fixes ensures that these are planned, tested and implemented in a controlled manner.
- Complaints and redress: We are monitoring TSB’s complaints procedures to ensure it is dealing with complaints in a prompt and fair manner, and that it priorities the most vulnerable customers including those facing the greatest harm.
• Communications strategy: We are working with TSB to ensure that it is being open and transparent in its communications with customers and is seeking to ensure customers have appropriate information on the availability and services available.

• Fraud/Payments/PSD2 and the Current Account Switching Service: We are working with TSB to understand its approach to addressing incidents of fraud and to ensure that customers are receiving timely and appropriate remediation and support.

7. The size and role of the team from the FCA located in TSB’s head office, and how long they will remain there.

The FCA was deployed at TSB’s offices on 25 April. At any one time the on-site team consisted of up to 14 FCA and PRA supervisors, including specialists and senior advisors. Our objective was to observe TSB’s progress with the view of gaining assurances on the objectives stated above in response to question 6.

We observed existing governance structures, such as TSB’s Executive Committee meetings and the ‘war rooms’ established for each of TSB’s main channels (remediation, communications, customer impact, and IT). The on-site teams reported back to the Authorities through the ARF and governance channels in their respective bodies.

As the flow of information improved and as TSB has made progress in relation to the four key areas referenced in question 6, we have adjusted our on-site presence at TSB accordingly.

8. Whether and to what extent the risk and scale of customer fraud at TSB has changed since 20th April.

The risk and scale of customer fraud has increased since TSB migrated. We are in close contact with TSB in relation to fraud and have made it clear to TSB, with which they concur, that no customer should lose out as a result of the problems at the firm and that we expect TSB to quickly resolve any reports of fraud.

We have been clear that TSB needs to be doing everything it can to support customers who have been a victim of fraud and put them back into the position that they would have been in, if the fraud had not occurred. We are working with TSB on its remediation and refund strategy for impacted strategy by fraud. We welcome that TSB has taken steps to implement a dedicated phone line for new fraud reports to make it easier and quicker for customers to report fraud.

We have agreed with TSB that, where the FCA Contact Centre is notified by customers of fraud, if the customer consents we will pass these details on to TSB in order that it can investigate. TSB is also actively talking to the Police and other authorities to investigate the flow of money and is trying to get other banks who are recipients of fraudulent funds to look at how the funds have landed in its accounts.

9. Whether the systems TSB uses for detecting fraud, and the systems it uses to allow customers to report fraud, are working as they should, and in line with the FCA’s expectations.

Prior to migration, TSB used a number of systems to monitor and identify fraud and attempted fraud. We were not aware of any particular issues relating to their management of fraud risk that suggested they were significantly out of line with peers before migration. These systems are updated on a regular basis with new rules to improve fraud detection and prevention as fraudsters deploy new modus operandi (MO).
TSB anticipated that levels of fraud and attempted fraud would increase following migration in line with industry trends when major systems changes are introduced. They put in place additional measures, for example adding fraud awareness messages to the communications sent out as part of the system upgrade, and put in extra resource to deal with fraud incidents.

TSB have not met the requirement in the Payment Services Regulations to refund all relevant customers as soon as practicable and in any event by the end of the business day after the day which it became aware of the fraud. We have had assurances from TSB that the backlog of cases will be resolved by early June, and we will continue to closely monitor progress. TSB’s failure to meet the Payment Services Regulations will be considered as part of our close engagement with TSB on this matter.

We are receiving daily MI on fraud in TSB and will continue to review this and engage with the firm (for example through onsite visits) until we are satisfied that fraud is under control, and customers can report fraud to TSB in a reasonable timeframe.

10. Whether the FCA is content that TSB customers have been able to use the current account switching service throughout the period since 20th April and whether TSB has met the standards of switching speed and accuracy.

We are satisfied that TSB customers have been able to use the current account switching service throughout the period since IT migration. The acceptance of switching requests fell to 55% in the week immediately following migration, but recovered and exceeded 85% the following week. A total of 806 Switch Rejections were impacted by the erroneous inclusion of Standing Order information and 570 of these switches have subsequently been re-submitted by other banks and were accepted the following week. We are content that acceptance levels are now at or in some cases exceed industry averages as TSB has resolved its initial difficulties.

11. Whether the FCA is content that TSB customers have been able to switch throughout the period under question and that TSB is meeting the standards required under the Current Account Switch Guarantee.

We are satisfied that TSB customers have been able to switch throughout the period under question, albeit some customers experienced initial delays in doing so due to migration related issues. We would not normally be able to access CASS Member Performance statistics to assess performance standards before the month end, including statistics that specify the performance against the Scheme SLAs, (the data will be available from 07 June for the month of May). However we have asked TSB to provide current data and it is working with CASS to source this. We can provide a copy of this to the Committee if that would be helpful.
12. The FCA's priorities for any customer compensation and redress arrangements.

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<th>Objective</th>
<th>Priority actions</th>
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<td>Complaints</td>
<td>TSB can demonstrate fair approach to: 1. Live complaints 2. Clearing backlog</td>
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<td>Redress</td>
<td>TSB has a robust and fair customer rectification strategy</td>
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<td>Vulnerable customer treatment</td>
<td>TSB can demonstrate thorough identification of, and contact with, impacted vulnerable customers</td>
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<td>Assess: TSB's response on how it is ensuring sufficiently skilled resource is being deployed to deal with vulnerable customers</td>
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I do hope that you find this information helpful.

Yours Sincerely,
Andrew Bailey
Chief Executive
Annex 1.0

Senior Manager Functions

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<th>Senior Manager Function</th>
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<tr>
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<td>SMF24 Chief Operations Function</td>
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