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Briefing Doc Compliance Failings Starling Bank



Detailed Briefing Document

Compliance Failings - Starling Bank

Date: 27 September 2024

Reference Number: 730166

Subject: Final Notice of Financial Penalty Imposed on Starling Bank Limited

Summary:

The Financial Conduct Authority (FCA) issued a Final Notice to Starling Bank Limited ("Starling") imposing a financial penalty of £28,959,426. This penalty results from Starling's breach of a Voluntary Requirement (VREQ) imposed by the FCA and violations of Principle 3 of the FCA's Principles for Businesses.

Key Findings:

- Breach of VREQ: Starling failed to properly implement and monitor its compliance with the VREQ imposed in September 2021. This VREQ restricted Starling from opening new accounts for high-risk customers until its Anti-Money Laundering (AML) controls were deemed adequate. Despite the VREQ, Starling opened 54,359 accounts for 49,183 high-risk customers.
- Systemic Weaknesses in Financial Crime Controls: The FCA found serious concerns regarding Starling's AML and financial sanctions framework. This included inadequate risk assessment, insufficient policies and procedures, ineffective transaction monitoring, and inadequate oversight of financial crime risks. These failings were exacerbated by rapid customer growth that the bank's control framework failed to keep pace with:
- "Starling underwent exponential growth between 2016 and 2023, its customer base increasing to approximately 3.6 million in 2023 while its revenue increased to £452.8 million. Its financial crime

controls, however, failed to keep pace with its growth." (Section 2.1)

- **Serious Deficiencies in Financial Sanctions Controls:** Starling's financial sanctions screening system contained a misconfiguration for over five years, severely limiting its ability to identify sanctioned individuals. This led to Starling opening and maintaining accounts for at least one Designated Person.
- **Inadequate Risk Management and Governance:** Starling failed to adequately assess and manage its financial crime risks, particularly those related to financial sanctions. There was inadequate oversight by senior management, limited independent assurance, and poor quality Management Information (MI) hampering the bank's ability to identify and address the issues.

Mitigating Factors:

The FCA considered several mitigating factors when determining the penalty:

- **Remediation Efforts:** Starling demonstrated commitment to addressing the identified failings by implementing remedial programs, enhancing its financial crime control framework, and significantly increasing its financial crime compliance resources.
- **Cooperation with Investigation:** Starling fully cooperated with the FCA's investigation, proactively providing information and accepting the findings of an independent review.

Penalty Calculation:

The FCA followed its five-step framework to determine the penalty:

1. **Disgorgement:** Starling's financial benefit from the VREQ breach was determined to be £900,000, with an additional £59,426 in interest.
2. **Seriousness of Breach:** The FCA determined the breaches to be Level 4 in seriousness due to the systemic weaknesses and significant risk of facilitating financial crime. This resulted in an

initial penalty of 15% of Starling's relevant revenue (£1,119,042,195), which was subsequently reduced to £40,000,000 for proportionality.

3. Aggravating and Mitigating Factors: The FCA considered the mitigating factors mentioned above, ultimately leaving the Step 2 figure unchanged.
4. Adjustment for Deterrence: The FCA deemed the Step 3 figure a sufficient deterrent, leading to no further adjustments.
5. Settlement Discount: Due to reaching an agreement at Stage 1, Starling received a 30% discount on the penalty.

Conclusion:

The FCA's Final Notice highlights the critical importance of maintaining robust financial crime controls, particularly for rapidly growing institutions. Starling's failings represent a serious lapse in its regulatory obligations, resulting in a substantial financial penalty. While the bank has taken steps towards remediation, it will need to demonstrate sustained commitment to enhance its control environment and ensure future compliance.

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