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FAQs

Compliance Failings

Starling Bank



FAQ: Compliance Failings - Starling Bank

1. What were the main findings of the Financial Conduct Authority's (FCA) investigation into Starling Bank?

The FCA's investigation revealed that Starling Bank had inadequate systems and controls in place to mitigate financial crime risks, particularly relating to financial sanctions and high-risk customer onboarding. This resulted in breaches of the Voluntary Requirement (VREQ) imposed by the FCA in 2021 and Principle 3 of the FCA's Principles for Businesses.

Specifically, the investigation found:

- **Breach of the VREQ:** Starling opened 54,359 accounts for high or higher-risk customers, contravening the VREQ which restricted the onboarding of such customers.
- **Financial Sanctions Control Failures:** Significant deficiencies were found in Starling's financial sanctions systems and controls, including inadequate risk assessment, outdated policies and procedures, insufficient testing, and a lack of adequate screening of customers and payments against sanctions lists.

2. What was the VREQ and why was it imposed on Starling Bank?

The VREQ, or Voluntary Requirement, was imposed by the FCA on Starling Bank in September 2021 as a result of concerns identified during a review of the bank's financial crime controls. The VREQ aimed to prevent Starling from onboarding new high-risk customers or opening new accounts for existing high-risk customers until the bank had significantly improved its AML control framework. This was considered necessary due to the bank's rapid growth and concerns that its financial crime controls had not kept pace.

3. What were the specific failings in Starling Bank's financial sanctions controls?

Starling Bank's financial sanctions controls were found to have several failings, including:

- **Inadequate Risk Assessment:** The bank did not adequately assess its financial sanctions risk and failed to consider several high-risk factors.
- **Outdated Policies and Procedures:** Existing policies and procedures were not fit for purpose and lacked clarity on staff responsibilities and reporting requirements.
- **Insufficient Testing:** Starling did not adequately test the configuration of its customer and payment screening systems, increasing the risk of sanctions breaches going undetected.
- **Lack of Monitoring:** There was no system in place to monitor alert volumes and trends, hindering the bank's ability to assess the effectiveness of its sanctions screening.
- **Inadequate Screening:** For a significant period, Starling's screening system only checked customers against a limited portion of the UK sanctions list, meaning numerous individuals subject to sanctions could have opened or maintained accounts.

4. What was the nature of the misconfiguration in Starling Bank's customer screening system?

From 20 July 2017 to 30 January 2023, a misconfiguration in Starling Bank's automated customer screening system meant it only screened customers against a small subset of the UK sanctions list. This subset only included individuals with UK citizenship or residency, meaning a vast number of Designated Persons on the complete list were not flagged by the system. This significantly increased the risk of individuals under financial sanctions opening and using accounts with Starling Bank.

5. How did Starling Bank remediate its financial crime control failings?

In response to the FCA's findings, Starling Bank implemented a range of remedial actions to strengthen its financial crime controls, including:

- Enhancing controls for monitoring and overseeing compliance with the VREQ.
- Implementing a new payment screening solution.
- Improving the testing and calibration of its screening systems.
- Updating its financial sanctions policies and procedures.
- Conducting a retrospective review of its customer base and payments dating back to 2017.
- Significantly increasing resources dedicated to financial crime compliance.

6. What was the FCA's rationale for imposing a financial penalty?

The FCA imposed a financial penalty on Starling Bank for contravening the VREQ and breaching Principle 3 of the FCA's Principles for Businesses. The FCA considered these breaches to demonstrate serious and systemic weaknesses in Starling's systems and controls for mitigating financial crime risks, particularly relating to financial sanctions. The penalty was intended to be a deterrent to both Starling and other firms from committing similar breaches.

7. Did Starling Bank cooperate with the FCA's investigation?

Yes, Starling Bank cooperated fully with the FCA's investigation. The bank proactively shared information, provided presentations to the FCA, and accepted the findings of an independent review commissioned at the FCA's request. Starling Bank also admitted to the failings identified in the review and committed to implementing necessary changes to prevent future breaches.

8. What is the financial penalty imposed on Starling Bank?

The FCA imposed a financial penalty of £28,959,426 on Starling Bank. This amount reflects a 30% reduction from the initial penalty amount, granted because Starling Bank agreed to resolve the matter with the FCA at an early stage.

For less than £100,000 we could have (and actually have) created a full risk framework for the small bank.

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