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Briefing Doc

TSB Bank plc Final Notice



Detailed Briefing Document

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Date: 9 October 2024

Executive Summary:

The Financial Conduct Authority (FCA) has imposed a £10,910,500 financial penalty on TSB Bank plc (TSB) for breaches of Principles 3 and 6 of the FCA's Principles for Businesses. These breaches relate to TSB's handling of retail customers in arrears or experiencing financial difficulties between 25 June 2014 and 1 March 2020. The failings stemmed from systemic weaknesses in TSB's collections and recoveries systems and controls, impacting 232,849 customers, including vulnerable individuals. TSB has undertaken a comprehensive remediation program, paying out £99.9 million in redress to affected customers.

Main Themes and Important Facts:

1. Systemic Failings in Collections and Recoveries:

TSB's collections and recoveries processes suffered from significant deficiencies in policies, procedures, systems, and staff training. Inadequate assessment of customer circumstances: TSB frequently failed to conduct thorough income and expenditure assessments, leading to unaffordable repayment arrangements and a failure to identify vulnerable customers.

“The tested cases evidenced a range of issues relating to TSB's assessment of customer circumstances, including: failures by TSB staff to discuss affordability with the customer in 31 cases” (Paragraph 4.49)

Inappropriate forbearance: TSB did not consistently offer appropriate forbearance options to customers in financial difficulty, sometimes pressuring them into unsustainable arrangements.

Bank errors and poor communication: System errors and communication failures led to incorrect application of payments, inappropriate charges, and prolonged arrears, causing distress and financial harm.

"Several customers received poor and inappropriate communication from TSB or otherwise experienced a wide range of errors relating to the treatment of arrears on their accounts." (Paragraph 2.6 (4))

2. Governance and Oversight Failures:

TSB's risk management framework, operating on a "three lines of defence" model, failed to adequately identify and address the issues within its collections and recoveries processes.

The first line of defence relied heavily on outcome testing results, which did not accurately reflect the extent of the problems.

Delayed action: Despite being notified in 2016 by its former parent bank, Lloyds Banking Group plc (LBG), of potential concerns in unsecured collections, TSB did not take effective action until 2020.

"TSB could have acted sooner to rectify many of these failings." (Paragraph 2.9 (3))

3. Impact on Customers:

TSB's failings resulted in unfair outcomes for many customers, including those in vulnerable circumstances.

Customers faced increased arrears, inappropriate charges, prolonged adverse effects on credit files, and significant distress due to poor communication and handling by TSB.

Vulnerable customers: TSB's failure to consistently identify and appropriately handle vulnerable customers compounded their difficulties.

"The failure to identify and flag customer vulnerability was a significant issue within the theme of assessment of customer circumstances. The Skilled Person identified multiple instances of customers disclosing matters which ought to have been treated as a potential trigger to explore vulnerability further, but which were not adequately flagged or recorded by TSB." (Paragraph 4.51)

4. Remediation and Redress:

TSB has undertaken a comprehensive remediation program, including refunding fees and charges, compensating customers for interest accrued due to errors, and implementing system and process improvements.

The total cost of the remediation program, including redress payments, has reached £105 million.

5. FCA Action:

The FCA has imposed a £10,910,500 financial penalty on TSB, reduced from £15,586,500 due to TSB's agreement to settle.

The FCA has acknowledged TSB's cooperation and remediation efforts.

Key Takeaways:

This case highlights the importance of robust systems and controls, effective governance and oversight, and adequate staff training in managing customers in financial difficulty.

Financial institutions must proactively address identified issues and ensure fair treatment of customers, particularly vulnerable individuals. The FCA's action demonstrates its commitment to protecting consumers and holding firms accountable for failings that cause customer harm.

Compliance Consultant's Comment: "Yet again we see situations where one or more focussed projects involving an independent compliance consultancy could have identified and rectified these issues far earlier and for a fraction of the cost. A project like this could well have cost less than £250,000 and saved the bank this huge fine plus remedial costs."

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 - Strategies for Vulnerable Persons & Consumer Duty
3. **Continuous Compliance Monitoring: Align with FCA's vigilant oversight.**
4. **Dynamic Regulatory Change Management: Stay at the forefront of compliance.**
5. **In-Depth Compliance Training and Education: Build a culture of compliance.**
6. **Proactive Risk Assessment & Management: Identify and curb regulatory risks, particularly in consumer credit activities.**

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