

Treasury Committee

Oral evidence: Service Disruption at TSB, HC 1009

Wednesday 6 June 2018

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Members present: Nicky Morgan (Chair); Rushanara Ali; Simon Clarke; Charlie Elphicke; Stephen Hammond; Alister Jack; Alison McGovern; John Mann; Wes Streeting.

Questions 157 - 408

Witnesses

I: Andrew Bailey, Chief Executive, Financial Conduct Authority; John Sutherland, Special Adviser, Financial Conduct Authority; Sheree Howard, Special Adviser, Financial Conduct Authority.

II: Dr Paul Pester, Chief Executive, TSB; Richard Meddings, Chairman, TSB; Miguel Montes, Chief Operating Officer, Sabadell Group.



Examination of witnesses

Witnesses: Andrew Bailey, John Sutherland and Sheree Howard.

Q157 **Chair:** Good afternoon. Thank you very much to the three of you for being here for the first part of our session this afternoon. I am going to ask you all to introduce yourselves. Andrew, it would be very helpful if you could also explain—or perhaps Mr Sutherland and Ms Howard could—their involvement in this particular issue and why you have chosen them to sit alongside you this afternoon on this panel.

Andrew Bailey: Of course, yes. You know who I am. Sheree and John are both part of our team of what we call senior advisers. We have about seven or eight senior advisers in the FCA. They have long experience in the industry we regulate. It is tremendously valuable from that point of view. They are not allocated to fixed functions so they can go across all the things we do. When we have to do things like this, where we need a special operation that needs that experience, being able to use people with John and Sheree's experience is tremendously valuable—I will let them speak.

Chair: Perhaps you could introduce yourselves, yes.

Sheree Howard: I am Sheree Howard. As Mr Bailey has already explained, I have a long history of working in financial services, in both insurance and, more latterly, banking, in actuarial, financial and risk and compliance roles.

John Sutherland: I am John Sutherland. My background is in retail banking for a lot of years. A lot of the day-to-day activities that TSB does are very familiar to me in terms of work and jobs that I have done in the past.

Q158 **Chair:** Are you both working full-time now on the TSB matters?

John Sutherland: Not quite.

Sheree Howard: Not quite, no.

John Sutherland: It feels that way sometimes, but not quite.

Q159 **Chair:** I was going to ask you about that. Does the fact that you have been appointed signify that this is quite an unusual step for the FCA to take, Andrew?

Andrew Bailey: Can I just explain that they were not appointed especially for TSB?

Q160 **Chair:** Have you been appointed to work exclusively TSB for as long as it takes for matters to be sorted out?



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Andrew Bailey: We will certainly use John and Sheree's skills—and the other members of the team—for as long as it takes. It might be worth me saying that we had a full-time presence in TSB for some period of time, and John and Sheree can explain that. The PRA was also involved. It was a joint thing. We have scaled that back a bit now so that we are not on site full-time. John and Sheree can also explain that one of the things we have also done is, because there is not a single site, we covered what we regard as the key operational sites as well, to understand what was going on.

Q161 **Chair:** I am going to start by asking the questions particularly in relation to the fraud aspects of what has been going on. Colleagues will then have questions about the FCA's involvement and the role of the Senior Managers Regime as well. Andrew, you wrote in the letter to us that you get daily management information from TSB about the level of fraud and about the response times. Could you give us an update on where things stand and perhaps give us an insight about what was happening at the height of the problems? Perhaps we still are at the height of the problems.

Andrew Bailey: I can give numbers certainly up to earlier this week, and then I will get John and Sheree to give you a view of the latest trends. If you do not mind, I am going to be a little bit circumspect about what we say about fraud. I am very happy to answer questions, but we do not want to give information that fraudsters could use against the firm.

Chair: That is understood, yes.

Andrew Bailey: There have been around 10,600 incidents and that has resulted in a level of pay-out. The other thing that we should probably talk about is the way in which the cases are being handled and what backlogs are emerging. I will hand over to John and Sheree, who follow it day by day, to give you an up-to-date view, and then I am happy to come back in and give you an overview of where we think it is.

John Sutherland: The statistic that is continuing to rise is what TSB calls alerts. These are alerting them to the possibility that there is a fraud, and these then have to be investigated. What that means in practice to a customer is that some element of their banking with TSB is blocked or stopped. That is a safety-first approach. TSB is resourcing up to clear those alerts as soon as it can but they are still on an upward trend. That does not indicate so much that there is an increasing amount of fraud; it is just that it is not resourcing itself yet to clear them fast enough. That is one aspect of it.

The other thing we point to is that there is a huge variability in the ability of TSB to answer calls that are placed to fraud. There is a huge variability between one in 10 of calls being answered to practically all of them. It depends on the time of day. It depends on the day. If it is a quiet weekend or a quiet time of day, that makes a difference. That has



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also then led to some of the feedback we have seen from customers, on Twitter and the likes, about how long they have been waiting to get through.

Sheree Howard: I would support that assessment. We did note that perhaps payments were not being made within PSD2 timelines. They have got on top of that more recently, but there was a period where they were not paying within that regulatory timeline.

Q162 **Chair:** When you say “more recently”, how quickly are you talking? Do we mean the last couple of days?

Sheree Howard: We are talking about the last few days.

Q163 **Chair:** How long was the period during which they were not meeting PSD2 timelines?

Sheree Howard: I would have to revert on that.

John Sutherland: The fraud problem did not really come to the fore for the first 10 days after migration. Roughly speaking, it will be from about two weeks after migration, so the last three weeks has been an issue with fraud. They divide their fraud into what they call plastic and non-plastic, which for our purposes is a card issue, which is a PSD, and non-card, which is when people’s accounts have had the money directly taken out. That has been the problem for a lot of customers in terms of quickly understanding what has happened and getting through to TSB to explain that.

Andrew Bailey: Non-plastic has been the more—

John Sutherland: It is more expensive from TSB’s point of view because they are refunding larger amounts.

Q164 **Chair:** There are reports of people sitting there on the telephone, trying to report these things, watching their bank accounts being emptied, which I am sure will come up in the next session.

Andrew Bailey: We have heard that as well.

Q165 **Chair:** Going back to the one in 10, I am anxious to think about what the FCA requires of a bank in terms of dealing with fraud. I am assuming fraud reporting helplines are deemed to be very important and should be accessible at all times. Would you agree that if only one in 10 calls is being answered—I take the point about it perhaps being at certain times of the day or the week—that is not meeting FCA standards?

Andrew Bailey: We agree.

Q166 **Chair:** I understand there was a suggestion to implement, or there has been implemented, a dedicated phone line for new fraud. When did that become available and at whose suggestion was that line implemented?

John Sutherland: That was a TSB idea and it was two or three weeks ago.



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Sheree Howard: It was something like 22 May or 23 May. It was some time around that time.

Q167 **Chair:** How did that come about? How did we get to that point?

John Sutherland: Their idea was that customers would be able to get through to them quicker by using that line. That was the idea behind it.

Andrew Bailey: John or Sheree will correct me if I am wrong on this, but when you hear the statistics for answering, it is important to look across both because of the fact that the old one still exists.

Sheree Howard: Absolutely.

Q168 **Chair:** So people can use either line.

Andrew Bailey: Yes, because the numbers are out there. When you get statistics for answer rates, drop-off rates and so on, from our point of view we always want to look at the combination rather than one or the other.

Q169 **Chair:** That is fine. You noted in your letter that TSB had not complied with the requirement in the Payment Services Regulations to refund fraud victims "by the end of the business day following the day on which the bank became aware of the problem". What was their reason for failure and are they now meeting that standard?

Andrew Bailey: Initially they were overwhelmed.

John Sutherland: That is the short answer.

Andrew Bailey: You gave a little bit of a hint of that a few minutes ago.

Sheree Howard: Yes. From their perspective, it was an issue that they were overwhelmed and they could not cope with the volumes that they were seeing. They have now prioritised that and are back on track.

Q170 **Chair:** Was one of the delays them initiating gross negligence investigations into customers reporting fraud? The FCA rules on fraud mean that a firm may not be responsible for compensation if a customer has been grossly negligent. Were they using that as a reason not to refund people because they were saying, "We think you have been grossly negligent, so therefore we are going to take longer to look into this".

John Sutherland: No. They are refunding people. For all non-card fraud, they are refunding people. They are doing a brief investigation but the idea is they will refund people who have had their money taken away. I went to visit the fraud unit at Gloucester and that is what I was being told by the agents who were answering the phones. They were quite clear. They simply needed to have a record and talk to the customer to find out how it had happened, to try to understand that.

Q171 **Chair:** It is difficult with the number of cases, but are you aware of a



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pattern of TSB trying to argue the case with customers before they refund them?

John Sutherland: I would say no to that.

Andrew Bailey: No.

Sheree Howard: Not that we have seen, no.

Andrew Bailey: To go back to the point I made earlier, it is important that they verify it, because otherwise it is "open sesame".

Chair: I absolutely understand, yes.

Andrew Bailey: But as John and Sheree said, we have not come across any evidence of obstructive behaviour.

Q172 **Stephen Hammond:** Good afternoon. Can we just do a few fairly basic things. Can you tell the Committee when you were first told about the problems at TSB and by whom?

Andrew Bailey: The first warning that the FCA got was on the Sunday evening. I can tell you to the minute. We were notified at 8.59 on Sunday evening. As far as we know, they thought they had cut over to live the new systems at 6.00 in the evening. They first identified problems at 6.20, and our records are that we heard about it at just before 9.00 in the evening. We had the first call with them just after midnight that evening. Both we and the PRA summoned the call with the firm at about 11.30, and it was at 12.15, so it was pretty prompt in that sense.

Q173 **Stephen Hammond:** You then activated the authority's response framework.

Andrew Bailey: Yes.

Q174 **Stephen Hammond:** That was activated the following day.

Andrew Bailey: Yes.

Q175 **Stephen Hammond:** Is it the FCA that has been the lead agency on the process the whole way through?

Andrew Bailey: In the context of the Authorities' Response Framework, yes. Any of the FCA, PRA or the Treasury—occasionally it can be another authority, such as the Payments Systems Regulator—can trigger it. The authority that triggers it becomes the lead authority in handling it. The way it works is that if it hits your objectives and your statutory responsibilities first, you trigger it, so it is not unusual for us to be the triggering authority in these sorts of things because it hits our consumer responsibilities first.

Q176 **Stephen Hammond:** You triggered it and you are still the lead agency?

Andrew Bailey: Yes.



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Q177 **Stephen Hammond:** In your letter to the Chair, you set out the four key objectives for work on TSB.

Andrew Bailey: Yes.

Q178 **Stephen Hammond:** The second is about TSB understanding the problems it is currently facing.

Andrew Bailey: Yes.

Q179 **Stephen Hammond:** Could you tell the Committee whether you think it does understand the problems it is currently facing, and have the root causes of each of the IT problems been sorted out and found? Does it know what the root causes of all the problems are?

Andrew Bailey: That inevitably has evolved over time because the understanding of the problems has evolved over time, and that is somewhat relevant to a point I made elsewhere in the letter about the previous hearing.

I have had some personal experience of a situation like this at the Bank of England 15 years ago, when I became director of banking and chief cashier and I took over when the Bank of England had done something similar. I spent the next nine months heavy-lifting out of it and it is heavy-lifting.

You have a pretty good idea fairly early on but you learn a lot as you go along about the precise causes of things. John and Sheree can probably add to it because they have been closer to it than me, but I would say that understanding is still evolving. I would not regard that as particularly negligent, or at all negligent. You will learn a lot of stuff as you lift your way out of these problems.

Q180 **Stephen Hammond:** I understand that. Are you saying that it does now understand the root causes of each of the IT problems, or that it found them initially and is now finding more? Is that what evolving means?

Andrew Bailey: Faults are still emerging but the rate of emerging faults is falling off, as you would expect. I will give you my initial reactions having had this experience. We have not done the investigation so it would be wrong for me to speculate on that, but it is no surprise that testing is going to be one of the key questions. How robust and rigorous was the testing? How robust and rigorous was not just the narrow testing of things but also what we used to call, in my day, regression testing, which is testing across the whole architecture?

One of the things that we have observed happening is that they are in the business of putting fixes in. One or two of the things that have happened recently, which have had some publicity, are where they have put a fix in and then something clearly happens elsewhere in the architecture. Messages are being sent to customers that they did not expect to be sent and should not be sent. To me, that denotes the absence of robust regression testing, because these banking systems are



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connecting to a lot of outside systems, such as payment systems and messaging systems. These things that crop up, when you put a fix in, that you were not expecting get you back to the question of testing. That is another obvious first area of how well it is understood.

Q181 **Stephen Hammond:** Point 3 of the same section of your letter says that one of your objectives is to ensure that TSB has a coherent plan for recovery of services.

Andrew Bailey: Yes.

Q182 **Stephen Hammond:** Where are we in the timeline on having a coherent plan for recovery of services?

John Sutherland: What it has at the moment is a forward plan. It is a rolling fortnight forward plan for fixing faults that have been identified in the IT. We have not yet seen an overall plan that says, "Having done these things, we expect to be at the service level that we were pre-migration". I am not saying it does not have it but we have not seen it yet.

Q183 **Stephen Hammond:** You would expect to see that in the near future. Would you not have expected that to be provided for you already?

Andrew Bailey: One of the things that came up in the last hearing is that one of the reasons it had to bring IBM in pretty quickly was that it exactly did not have that plan. One of the things that IBM has been most focused on is putting that plan together. To be fair to IBM, it was a cold start for IBM, so it had to get its arms around it.

Q184 **Stephen Hammond:** Your letter also implies that the chief executive when he was at the previous hearing might have been in possession of some initial slides from IBM which he did not choose to share?

Andrew Bailey: Let me say what we know about that. We had a set of slides. I will give you the timeline as to when IBM was brought in. If the problem starts on a Sunday IBM was brought in on a Wednesday and started on Thursday. By Sunday it had produced a basic set of about six or eight slides, which was essentially a first cut of the issues. We saw those on Sunday, and that was the Sunday before you had your hearing on the Wednesday. We had seen those slides by that stage. They are not definitive but they do point to things.

The reason I raised this in the letter was I was reading your transcript and there was a question that Mr Hosie asked. He asked whether, if IBM did the analysis of the system, they assessed the data or looked at the hardware, and what they could bring in now to quickly resolve the problems. Paul Pester said that they believe the issues they are seeing are in the middleware, not in the physical infrastructure.

It is true to say that the physical infrastructure—the hardware, if you like—has not been the issue, but it goes beyond the middleware, and that



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was in the IBM report. That was the particular point that struck me when I read your transcript.

Q185 **Stephen Hammond:** I have one final question. In terms of your investigation so far, has TSB co-operated with you in a way that you would expect since the problem has been detected and ongoing? Has it always complied with your principle for business?

Andrew Bailey: Yes, it has co-operated. I do want to make this clear: it is working very hard at this. I do not want to call into question TSB's application to the problem. I have seen quite a bit of Paul Pester and Richard Meddings, and I do not want to call into question their hard work. They are in a hole and they have got to get themselves out of that hole. That is not the issue for me. The issue is, "How on earth did you get here and how are you protecting the interests of customers as is now best possible to get out of it?"

Q186 **Charlie Elphicke:** Turning to the issue of TSB's communications, the FCA's fifth principle of business is, "A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading".

Andrew Bailey: Indeed.

Q187 **Charlie Elphicke:** Can you come to a judgment, or give this Committee a view, as to whether you feel TSB has adhered to this?

Andrew Bailey: I would say this, would I not? The investigation is going to do that thoroughly.

I will say this to you: we have had some quite frank conversations both at my level, as I think you have, in your involvement, about their communications, and I did set out in a letter that we were not satisfied. My view on that is that there is an onus on over-communicating, if anything, in these situations, to explain to customers what the situation is.

That is against a background of two things that are unfortunately not unusual in these circumstances. One is a lot of uncertainty, particularly early on, about what the situation was and how it would unfold. Secondly—and this is a particular point I made in the letter—about service levels that were very volatile. When you look at the daily service levels for some of the key performance measures, they are very volatile. You have days when it is 90%; you have days when it is 30%.

My caution was that quoting averages in that situation is dangerous, because clearly there is a big skew either side. It does not give the entire picture to customers of what is going on. Customers know this because they are dealing with the problems face to face.

My view is that there should have been more communication and it needed to be more reflective of the fact that this is a very volatile and



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uncertain situation. I know—and I have seen this with other institutions—that there is a natural reluctance to communicate uncertainty and volatility. It is not easy to do that. It is difficult but it helps, because otherwise you see what we saw, which is a lot of criticism from customers.

Q188 **Charlie Elphicke:** Is there a bit of spinning going on that is not very helpful?

Andrew Bailey: I am not going to use the word “spinning”, but a more straightforward recognition of what the situation was would have been helpful, and we said this.

Q189 **Charlie Elphicke:** You describe Dr Pester’s evidence to the Committee as optimistic and not rounded, and statements in public as poor and not open and transparent. Have you ever issued a letter quite like this before?

Andrew Bailey: Fortunately, we do not have these situations too often, thank goodness. John and Sheree can answer this because they have seen it close up, but of course it is true that there are some parts of the bank service that cut over without problems, that have functioned and customers have not seen the problem, and it is fair enough to point that out. There is a danger of over-emphasis of that, which gets away from the fact that there are obviously parts of the service that were very troubled. You can perhaps add some flavour to this.

John Sutherland: Yes, exactly. They have had a fairly torrid time with the branch network in terms of the systems not always working, which has generated slower transactions for the customers in the branches. Even in the last few days they have had very, very busy branches, because the systems have not been available. It has been quite clear that those systems problems still exist. What you have been told is absolutely right in terms of what is working. It is the bits that are not working that we are not hearing so much about.

Q190 **Charlie Elphicke:** On 25 April the FCA wrote to Paul Pester and set out its expectations for how TSB should improve its communications to its customers. Were the expectations set out in your letter reflected in Dr Pester’s evidence to the Committee on 2 May?

Andrew Bailey: I still think it should have been a more thorough and balanced communication situation. That is the thrust of my letter. I know they are under a lot of pressure. It is a very difficult situation to be in but my bias would always be, “Look, tell it as it and communicate extensively”.

Q191 **Charlie Elphicke:** That is understood. Your letter sets out eight principles that TSB should consider in its communications with customers. My question to you is: does TSB continue to fall short on that or has it now got it right?



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Andrew Bailey: It has improved considerably. We have not been seeing the days of the rather generalised and rather rosy statements so often. It goes back to John's point about branches. There are a lot of things going wrong in branches because they have not been able to put fixes in to the systems in branches yet. These are quite basic and important things, such as whether the system is connecting to the cheque reader or the cash dispenser inside the branch and so on. These things still need fixing and it is going to take some time, going back to my point about heavy-lifting.

Q192 **Charlie Elphicke:** I was reading an article in the *Times* this morning; it was a comment piece by Katherine Griffiths, the banking editor. In her final paragraph she said, "This is all a test of the Senior Managers Regime". Given what has happened, do you think that people will look at whether the SMR is a paper tiger or something to be taken seriously, judging by what the FCA does in this case?

Andrew Bailey: In every case that we have, the SMR is important. It is important. Let me be clear why. It is very important because what we also have here, as came up in your previous hearing, is a relationship with an outsourced provider, which happens to be part of their parent organisation. This is Sabis, the IT subsidiary of Sabadell. That is important because it introduces governance relationships and service relationships.

The reason I say this in the context of the SMR is to be clear about something—and this applies whether the outsourcer is in your group or is a third party. You can outsource work—that goes on all over the place and we do it at the FCA—but you cannot outsource responsibility. That is absolutely core to this. The SMR very helpfully crystallises that directly, because it is the concept of responsibility and therefore accountability that comes through that. That accountability and responsibility does rest with the management of TSB and its senior management.

Q193 **Charlie Elphicke:** Finally, do you accept that people will see this as a key test for the SMR and whether, a bit like the SEC in America, it is something to be seen as, "If you do not stand up to it, you will have the book thrown at you"?

Andrew Bailey: Yes, in the sense that the investigation will have to centre around the application of the SMR because that is an important part of the judgment we will have to reach. All I would avoid is that leading to pre-assessments and pre-judgments on, therefore, what the conclusions are and what the punishments are. We set this out in our mission very clearly: we investigate and then we determine what should happen.

Q194 **Wes Streeting:** That leads me very neatly on to the questions that I wanted to ask, which were exactly around the role of senior managers and, in particular, the relationship with Sabadell. When Paul Pester wrote to the Chair on 27 April, he stated that the IT issues at TSB occurred as a



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result of migration to “a new platform built for TSB by our parent company, Sabadell, and operated by Sabadell’s technology subsidiary, Sabis”. Who in practice controlled the timing, decision-making and risk management of the IT migration?

Andrew Bailey: That would be a major part of the subject of the investigation. I set out in the letter what we observed: the fact that there were attestations made by the senior management of TSB that the system was ready to go live, and that it was made by each senior manager of TSB in respect of their responsibilities. That is important because that aligns up to the Senior Managers Regime. That would be a major subject of the investigation because what must be important, as I said earlier, was that Sabis was the developer and supplier of the service and it was utilising Sabadell’s platform, but the responsibility rests with the management of TSB.

Q195 **Wes Streeting:** I appreciate what you say about the investigation, but is this an issue that you are concerned about? It seems that TSB management, under the Senior Managers Regime, were accountable for the IT migration but, in practice, control rested with Sabadell? I noted that, in the interview he gave on 26 April, Paul Pester, when asked about the IT system, said, “All I can do is tell customers what my IT provider tells me”, adding that, “I have taken control”. Those are quite concerning statements, are they not?

Andrew Bailey: You are putting your finger on it. We have to be clear what control means. This is absolutely fundamental. Going back again to the processes that we would observe, we have to be clear what TSB management required and understood to be the case in terms of testing. All these system changes go through what often gets called UAT, which is user acceptance testing. That, of necessity, must be carried out by the users, i.e. TSB and their staff, so they are a fundamental part of that process. You are right to point to this word, “control”, because it is absolutely fundamental. This cannot be a black box in which something is delivered and, “I do not know quite what is in it but we will know the answer when we switch it on”.

Q196 **Wes Streeting:** Yes, indeed. Dr Pester’s update to the Chair of 5 June states that the TSB Board relied on written assurances from Sabis that parts of the new IT system for which it was responsible had been comprehensively tested. Do you think that written assurances from a third party supplier are sufficient to manage the risks arising from such a major project?

Andrew Bailey: I would want to see the evidence of that. Let me also go back to this point about user acceptance testing. You cannot do that process without involving the users, because you do not know whether it is going to work in your setting.

Q197 **Wes Streeting:** I am interested in the independence. Would you normally expect a bank to independently assure itself that proper testing



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had been conducted? If I have commissioned you to do some work for me, it is very unlikely you are going to come back to me and tell me what a terrible job you have done. I am putting it very crudely but there has got to be some assurance, right?

Andrew Bailey: You are absolutely right. As well as the user acceptance testing I would want a process of assurance over the testing. You can do that in a number of ways. You can hire firms that specialise in this sort of thing. You can use, for instance, your own internal audit department if you think you have the skills in that area to do it. There are a number of ways you can do it and you can do combinations of all of them, but you are absolutely right to point out that assurance has to happen one way or another, and it has to be robust. It is very hard. We have to get to the bottom of what has gone on because these attestations were made.

Q198 **Wes Streeting:** Given that Pester said that these assurances were instrumental in making the decision to migrate, I definitely think that this is the part of the governance of the project that you really need to dig into.

Andrew Bailey: What we cannot have is this descending into finger-pointing. That is the clear thing.

Q199 **Wes Streeting:** No, indeed. Finally, I wanted to pick up on the process by which each of the 12 members of TSB's business executive committee provided personal attestations of readiness to migrate supported by risk and audit opinions. These attestations set out risks and issues and any workarounds. To your knowledge, were these attestations provided without fear or favour?

Andrew Bailey: At this stage we cannot answer that question definitively until we have done the investigation. It is obviously a key question; you are right to point that out. By saying that, I am not prejudging this either way. That is something that has to be got to the bottom of. I would simply come back to this point that they should, by necessity, have involved a line of sight through their own acceptance testing.

Q200 **Mr Jack:** Can we turn to switching? I am conscious of the time so I am going to try to rattle through this quite quickly. In some cases when customers have asked to switch away from TSB, the bank has written to the councils, the utility providers and others and informed them that they died. You will be aware of this.

Andrew Bailey: I am aware of this.

Q201 **Mr Jack:** What does the FCA expect TSB to do in those circumstances?

Andrew Bailey: John and Sheree are much closer to this, but that is another example of putting a fix in to solve a problem but then some other part of the system is sending out some letter and you think, "How on earth did that happen?" I do not think they did it intentionally. Let



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me get that clear. That is an example where you say, "How did that happen?"

Q202 **Mr Jack:** They clearly sent an automated letter to their direct debit providers, I am guessing, for that to happen.

Andrew Bailey: Yes, absolutely. You have been closer to this than I have. Do you want to say something?

Sheree Howard: From the perspective of the CASS process, yes, it has gone through a number of issues and they are looking at it still. They have an area of looking at the end-to-end process based on current information. Exactly how that issue arose I could not comment. I am not aware.

Q203 **Mr Jack:** Does it undermine confidence in the CASS system—the Current Account Switch Service?

Andrew Bailey: It is another example of undermining confidence in the processes. You are right to say that, as the FCA, we do not want to see this happen for a system that has been brought in and it is a key point of our objective because it enables competition.

Q204 **Mr Jack:** Does it undermine potential competition benefits if people are then reluctant to switch away because they read stories about what has happened to others, and they have been in the newspapers?

Andrew Bailey: One of the questions we will be looking at when a slightly longer period of time has passed is, although I do not have a number in my head as to what I would expect the level of switching to be, whether the level of switching that turns out to have happened suggests either that it has been happening effectively or that it has not been happening effectively? That is a hard judgment to make in some ways. I have seen one or two other institutions that have got into of trouble. Ten years ago we were having floods of customers leaving. These days they do not switch as much.

Q205 **Mr Jack:** But is that because the system does not work so well? It is not the seven-day simple service we all thought it was.

Andrew Bailey: This will be a good test of it. We have not had many tests of the system so far. Again I will want to see evidence of whether customers have found it easy, difficult and whether they know about it, frankly, as well.

Q206 **Mr Jack:** Are you confident no other banks similarly write to other direct debit providers, the utility companies, the local authorities and say, "This person has died"?

Andrew Bailey: I think we would know about it.

Q207 **Mr Jack:** You are quite confident that has not happened

Andrew Bailey: I think we would know about that.



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Mr Jack: I am putting it out there for anyone who has experienced it to come forward and tell us.

John Sutherland: I think this has been a fault unrelated to CASS but was linked to it.

Q208 **Mr Jack:** You think it was in the TSB software?

John Sutherland: Absolutely. It is a TSB issue.

Andrew Bailey: It is back to this end-to-end testing. Because the banks, as I said earlier, are connected to many outside systems, you have to do the full end-to-end test in a full test-bed to say, "If I put that fix in, is it going to cause other things to happen?"

Q209 **Rushanara Ali:** The focus of my questions is mainly about compensation. TSB has appointed Deloitte to devise a scheme for compensating customers. Are you satisfied with the progress that has been made?

Andrew Bailey: We have had quite a few discussions with them about it. We are pleased that they are bringing outside resources in because it goes back to the conversation we were having earlier about TSB being overwhelmed. Bringing in outside resources is helpful. It does not have the resources to do all these things in the situation that it is in. We are pleased that it is doing that. We have observed what Deloitte has been doing. It is taking it seriously but we want to see it get up and running.

Sheree Howard: Deloitte is in the process of recruiting a significant volume of staff to deal with the complaints. We have not yet seen an end-to-end execution plan.

Q210 **Rushanara Ali:** When do you expect to see it?

Sheree Howard: Hopefully not too far from now. We are in discussions about it.

Q211 **Rushanara Ali:** Will it be in the next week, or month?

John Sutherland: I have in my head that it is within the next week. We are getting to that stage, yes.

Q212 **Rushanara Ali:** Great. How long, in these sorts of circumstances, would you expect it to take for a compensation system to be established? What is the timeframe within which people can seek compensation?

Sheree Howard: They have already started to resolve and settle complaints. They will then be checked against that strategy that is finally agreed, to make sure that everyone is compensated fairly.

Q213 **Rushanara Ali:** Sure, but what would the FCA expect to be reasonable for those things to be settled?

Andrew Bailey: It should happen quickly because it is not complex in that sense. It is clear what has happened. I doubt many of the



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complaints are going to be stunningly complex in that sense, because the timeline is quite short in terms of when things went wrong.

Q214 **Rushanara Ali:** In your letter you set out the principles for TSB's approach to complaints and redress. Can you say a bit more about how you will expect those principles to be adhered to in the compensation arrangements?

Andrew Bailey: First of all, we would expect them to be embedded in there. We will do our own testing and observation to ensure that they are and want to see how the scheme is operating. We have not yet taken a view on exactly how we would do that. We have got the team that we can put on site to do that, and in many ways that is a much quicker way for us of doing it than, for instance, commissioning something outside. The problem with commissioning something like a section 166 is it will take us some time to commission it. My natural reaction is: we have a team; we will go in.

Q215 **Rushanara Ali:** On the Chair's questions about fraud, in response to her letter the numbers we were given goes up to 31 May, which was 2,200, and then there is a breakdown of that number. Do you have any numbers since then of any further complaints and how many others have complained about fraud?

Andrew Bailey: Since 31 May?

Sheree Howard: Complaints about fraud—

Q216 **Rushanara Ali:** Are they giving you a regular update? They are not giving you a regular update week-by-week.

Sheree Howard: I have the overall number of complaints but not the specific split out of fraud numbers.

Q217 **Rushanara Ali:** Is it the same as 31 May, or have you got some more recent numbers?

Sheree Howard: I do not have more recent numbers than that.

Andrew Bailey: Our total number is 93,700.

Q218 **Rushanara Ali:** This is in relation to fraud. I just wondered if there were more additions since that date. In the compensation scheme established by TSB, I understand that technically it is voluntary. What will you do to make sure that the design or operation of the scheme is appropriate and properly done?

Andrew Bailey: It is voluntary for TSB to do it but these people would be within the scope of the Financial Ombudsman, so they have that right.

Q219 **Rushanara Ali:** Okay, but we know from our work with the Financial Ombudsman that there are major issues. They have a lot of pressure on them. How confident are you that if there are lots of complaints going to the Financial Ombudsman's Service they can cope with the pressure,



given the pressures on them? There is an issue about public confidence.

Andrew Bailey: Indeed. We would want to observe the uphold rates. What ends up with FOS depends upon the TSB uphold rates. The higher the uphold rate the lower the number of complaints that could go on to FOS. We will be in conversation with FOS about the potential for complaints to come from TSB. I would hope in this case—more than “hope”; I would expect—that TSB would set up a robust process because, again, this is not something where there is a huge amount of uncertainty around what happened. There was no uncertainty around what happened.

Q220 **Rushanara Ali:** You would expect TSB to proactively identify those who were affected and ensure that they are seeking and they are getting the redress that they are entitled to.

Andrew Bailey: I would expect them to publicise it very widely to their customers, yes.

Q221 **Rushanara Ali:** I am asking about direct contact rather than publicising.

Andrew Bailey: We will have a discussion with them about how exactly they intend to get in touch.

Q222 **Rushanara Ali:** If they have contact details, emails and telephone numbers, why can they not do that when they put customers at such huge inconvenience and in some cases destroyed lives?

Andrew Bailey: Those are perfectly fair points and that will be part of the plan we will expect to see.

Q223 **Rushanara Ali:** That is what people would expect. In terms of the compensation, would you be setting out what the minimum level of compensation that customers should expect should be, rather than it being on a case-by-case basis? Do you have any expectations of being able to say they should be setting out a minimum level?

Andrew Bailey: We will want to see how they are setting it up and calibrating it. I am not sure we would have a fixed minimum level.

Q224 **Rushanara Ali:** I am not saying you should set it, but would you, in these circumstances, expect them to set out that there is a minimum standard and a minimum level of compensation for the inconvenience that they face?

Andrew Bailey: There should be a minimum standard below which compensation applies. We will want to look at how they then calibrate the compensation thereafter.

Q225 **Rushanara Ali:** You would not be asking them to set out the minimum amount of compensation people who have been affected should be expecting. You would not set that expectation.



Andrew Bailey: People are affected in different ways, depending on which bit of their service is affected. Their services have not been affected evenly by any means. This is one of the underlying issues here. I do not think there is a standard rate for it in that sense.

Q226 **Rushanara Ali:** I am not suggesting a standard rate. Sometimes people get the fob off, which is, “We will deal with it on a case-by-case basis”. They might put in a lot of time, effort and sometimes money, and not get anywhere, or they might be sent off to the FOS and it is a hiding to nothing and we cannot have that. It is important that the rules are laid down by the FCA and you will appreciate, Mr Bailey, given the evidence we have received in the past in relation to small businesses and the GRG scandal—even those who put hundreds of thousands of pounds of their own money into lawsuits got treated appallingly by that bank, and the FCA fell short—that therefore the public will not have confidence in these issues being dealt with adequately, unless you lay down the law and you set out what your expectations are.

Andrew Bailey: Can I give you another example?

Rushanara Ali: Do you understand that the evidence that—

Andrew Bailey: I understand the point you are making. The example that is much nearer to this in terms of the processes would be PPI, where we have been very clear with the banks and we have followed very closely what we tend to call the uphold rates and the way in which banks have handled cases. It is a big part of the work that we have done to establish the end of the PPI process. Yes, those cases do end up with the ombudsman if the uphold goes onwards. We have been very closely involved, so I can assure you, yes, we do get involved. GRG is very different in that respect because of the nature of the regulatory perimeter.

Q227 **Rushanara Ali:** With respect, the public do not really see it like that. The public hear evidence, as has happened in this Committee, about the way people have been treated. These are not individual customers. They were small businesses with money, in some cases, where they put money into cases and they could not take on their bank successfully, and the FCA fell short. That is how the public will have seen the evidence and, therefore, there is a public sense that the FCA is not fast enough at dealing with the concerns of consumers. We need reassurance that in this case that will happen and you will be breathing down the necks of TSB to ensure that happens, because that is not the public’s experience.

Andrew Bailey: I would hope you would agree about how much we have been involved in TSB up to now; we continue to intend to be involved in TSB. I would go back to PPI because it is a closer analogy.

Q228 **Rushanara Ali:** I am talking about something different, which is the most recent evidence that we have had about the way small businesses had been treated is the GRG case—appalling cases.



Andrew Bailey: Yes.

Q229 **Rushanara Ali:** You will appreciate that that is what the public will remember. They will remember the fiasco of years and years of this going on with the FCA, frankly, not rising up to the challenge and dealing with their needs quickly enough. Therefore, when something like this happens, where hundreds of thousands of customers are affected—and there is a further case from last weekend in relation to Visa—the FCA is falling short in standing up for consumers. That is the challenge. What I am asking is that, from the outset, you, using your powers, lay down exactly what your expectations are and ensure that they deal with this in a timely manner so that people do not have to continue to suffer.

Andrew Bailey: I understand that.

Rushanara Ali: I am just looking for reassurance.

Andrew Bailey: I hope you have got some reassurance by the degree of involvement we have had in this situation up to now, and that we intend to go on having it. We took a very quick decision to put a team on site because it was the only way we could get a close line of sight on it, which we needed to have. We followed this very closely. I hope you got that impression from the letter I wrote.

Q230 **Rushanara Ali:** I hope so. I have one final point, which is in relation to late payments in wage bills for those that were affected. Will they be included in the compensation process?

Andrew Bailey: I would expect that to be so, yes.

Q231 **John Mann:** Blimey, Mr Bailey; you have changed your tune from your pre-appointment hearing in front of this Committee. Originally you were going to be robust then, and now you have told us there will be no finger-pointing, so we will not know who is responsible. You will look at how they calibrate compensation. Everyone can go to the Financial Ombudsman Service. You seem to suggest that it was an option whether you sent a team into TSB.

The last time we had this kind of IT meltdown was the Co-Op Bank. It was a different scenario but the Co-Op Bank basically collapsed. How many other banks are at similar risk to TSB, with antiquated IT systems that might not match up, or are they now the isolated example?

Andrew Bailey: Can I first of all disagree with something you have just said? I did not say there should be no finger-pointing. I said there should be no finger-pointing between the parties involved, i.e. TSB and Sabadell and Sabis. That is what I was saying. We will not tolerate that.

John Mann: That is much better.

Andrew Bailey: Sorry. I thought I was pretty clear on that but, if not, you have my assurance that that is the case. That is what I was saying. Our investigation will be our investigation. Please do not think that we



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are aiming off on this one. I have not changed my tune in that respect at all.

In terms of IT systems, there are major IT changes going on most weekends in the banking system, particularly at the moment, because what has gone on during the course of this year has been the changes to implement ringfencing that have been very big in the major banks—much bigger than in the TSB case.

It is a question that you should probably ask them to get a clear line of sight on this, but what is particular about this one is that it is a complete re-platforming of the banking system. They were previously on the Lloyds banking system, as you may remember. This was to come off the Lloyds banking system and go on to Sabadell's. It is not the big bank but it is a much bigger piece of work in terms of scope. That does not happen very often. A lot of the big things that go on are reconfiguring of existing systems. It is the case that most institutions are operating on systems that they have evolved over the years rather than completely ripped out and put new ones in. That does not happen too often.

Q232 **John Mann:** Are there other banks that are at equivalent risk of this kind of problem?

Andrew Bailey: In the sense that this is a project that has gone badly wrong and mistakes have been made, I can answer that in two ways. First, you would hope not but you can never rule out that it would happen. You cannot rule out that it would happen.

Q233 **John Mann:** What are you going to do to find out whether there are?

Andrew Bailey: We do a lot of work on operational resilience.

Q234 **John Mann:** You missed this one.

Andrew Bailey: That is interesting because that comes back to some of the discussion we were having earlier, about the question of attestations, what we were told and what TSB management were told. There is a lot still to learn about this one, I would say. Quite honestly, you can ask it from our point of view and it is a fair enough question to ask: what would it take us to observe this in ways that the management of TSB could not or did not observe, and what level of involvement and intrusion would it have involved for us to do that?

I am not suggesting we go there, because that would be a very different system of regulation of any country that I know has. That question is relevant. It is also relevant and something we discuss a lot, including with the other authorities, in terms of how we manage operational incidents. Ms Ali raised the Visa incident. It was a shorter incident with less of an impact. You have written to us and you have written to the chief executive of Visa. That is very good. You should do that. Again, we were involved in that last Friday evening through the weekend. We are closely involved in those incidents. That, as I understand it, was a



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hardware failure. We seek to learn from all these incidents but none of us can give you an assurance that these things will never happen again.

Q235 **John Mann:** I would not expect you to be able to give that assurance, but it is about the systems that are in place for mitigating it. Every day we are moving more and more to online banking and away from branches. The TSB branches and their staff appear to have performed heroically.

Andrew Bailey: Indeed.

Q236 **John Mann:** Thank goodness there were some left. It may well have kept the bank alive, if it survives this, because they kept branches that people go into and staff that people could talk to and sort out it. The trend is, by the day, online. It might be your operation—the people or the scale of it—is not big enough or good enough to get in and see, in terms of how we regulate the system. If you are running a system, which would be logical to me, that is reliant on effective information from the banks to you, to allow you to do your job properly, and something huge, with catastrophic consequences, goes wrong, somebody has to be held properly to account.

Andrew Bailey: Yes.

Q237 **John Mann:** I have not noted, in the years I have been on the Treasury Committee, many heads rolling. Even when they are, it is the odd head rolling when there has been a major problem in a bank. If you are not going to be the ones held to account as the regulator, because you are doing your jobs properly, in the right way with the right powers given, then someone is going to have to hold the bank fully to account, not just in saying, “Here is what went wrong”, in detail, which you need to do rightly, but there need to be consequences to it. In this situation, who should that be?

Andrew Bailey: That is why we are going to have the investigation. That is the purpose of the investigation. We have the powers under the Senior Managers Regime to do that now. As you know and as we have discussed many times, it has responsibility at its heart, which is right. That will happen. Meanwhile, going back to the beginning, the most important thing to do at the moment is to dig the way out of the hole, frankly.

Q238 **John Mann:** Absolutely. In terms of the lessons for the future, you have the powers under the Senior Managers Regime.

Andrew Bailey: We do.

Q239 **John Mann:** Will you, if you deem it appropriate, be using the full range of those powers in this situation, or indeed in theoretical other comparable situations? Are you going to use the powers given, or will we be at hearings in the future in which you are saying, “Here are the detailed reports we have got. Let’s all move on”?



Andrew Bailey: No, we will use the powers.

John Mann: Good.

Chair: Thank you very much indeed for your evidence this afternoon. That will be very helpful for the next session. We will see you next week anyway. There will be further questions on this in due course. I look forward to it. Thank you very much.

Examination of Witnesses

Witnesses: Dr Paul Pester, Richard Meddings and Miguel Montes.

Q240 **Chair:** Thank you very much for coming back before the Committee again. We have a series of questions for you on events since your last appearance and what the latest is in terms of the issues following your IT migration. You have had the opportunity to watch the FCA session that has just taken place as well.

I wanted to start with the issues around fraud, which a number of customers have obviously been suffering. I have some fairly straightforward direct questions. I will direct them mainly at Paul Pester, but if the others would like to intervene or have anything to add then please feel free to do so. Mr Pester, just to start, would you agree that the problems that TSB has experienced in the last few weeks have created the conditions for a spate of fraudulent activity for your customers?

Dr Pester: Yes. I am deeply sorry to say that the issues we created as a consequence of migration were an opportunity that was exploited by criminals to target TSB customers. It is a very sad fact that whenever banks go through changes, fraudsters tend to target customers. In particular, we saw a very, very aggressive attack on TSB about a week after migration.

Q241 **Chair:** It is true, is it not, that if a customer suspects they have been a victim of fraud, they have to call the dedicated fraud line?

Dr Pester: Yes.

Q242 **Chair:** It is no use them going online or into a branch or calling the general enquiry line to get that fraud issue resolved, is it?

Dr Pester: No.

Q243 **Chair:** The fraud line is also the route to them getting compensation.

Dr Pester: Yes, it is. Just to correct that, they can of course go to the branch and report the fraud should they choose to. They can go to any channel of TSB and report the fraud should they choose to, but there is a dedicated line that we have installed for fraud.



Q244 **Chair:** What would happen if somebody sends an email via their online banking or goes to a branch and says, "I want to report a fraud"? What is the next step?

Dr Pester: If they went to a branch then the branch would contact our fraud team and would register the fraud. If the customer went to the telephony centre then we would do the same thing.

Q245 **Chair:** Ultimately it all ends up at the fraud line.

Dr Pester: Yes, it all ends up with a fraud team, yes.

Q246 **Chair:** Is it a fraud team or the fraud line?

Dr Pester: I am sorry. I do not want to seem to be being awkward in the way I am answering the question. There can be different ways that that fraud team can be approached. They can come through the branch team or they can come through our own telephony line but they end up at the same place.

Q247 **Chair:** But they are all going to end up at the same place.

Dr Pester: Yes, essentially.

Q248 **Chair:** The fraud line is a core part of what TSB offers, is it not?

Dr Pester: Yes.

Q249 **Chair:** And when it is broken the bank is effectively broken too, because it cannot prevent frauds from taking place or compensate customers who have suffered.

Dr Pester: It can still prevent fraud from taking place because the system that prevents fraud from taking place is the system that tracks transactions, looks for patterns in transactions, looks for unusual movements in money, looks for a range of activities that lead to TSB putting blocks on accounts if we believe that there is a risk that that account could be subject to fraud. We have automated systems, and normally, for the sort of fraud we are discussing today, we would see 10 or so attacks a day. If we see many, many more than the automated systems will kick in and arrest these. There are other ways than just reporting of fraud from a customer, but a customer reporting fraud is very important, of course.

Q250 **Chair:** From a customer's perspective, the ability to have the confidence to know, when they spot something potentially fraudulent on their account, they have someone that is going to take action and look into that is important. That system has not been working as it should for the last few weeks, has it?

Dr Pester: When we were subject to this attack, to give you a sense of the scale, the volume of the attacks went to approximately 70 times the normal level of attacks we would see. As Andrew Bailey said to you earlier, that overwhelmed TSB. Using the same number for customers to report fraud quickly turned out to be an unsuitable way. I asked the



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team to put in a separate line to report new frauds. I was, like you, distressed to see reports of customers trying to get through to us, seeing money moving out of their account. Fraud is a horrible, horrible experience for our customers. Fraud genuinely is the last thing we want our customers to go through. Even if we refund the money, the experience of having been defrauded lasts a long time. It is a horrible experience.

I asked the team to put a new line in which gave priority to those customers reporting fraud. That line has consistently been being answered very quickly. At the moment it is about a two to three-minute wait time to answer those calls. We were overwhelmed. We saw 70 times uplift in the volume of attacks and then we responded by putting in new ways for customers to get to us. I apologise profusely to those customers that have been subject to fraud.

Q251 Chair: How was it that putting in another line was going to help? Presumably you had to then staff up that additional line. You effectively have two fraud teams now answering different lines.

Dr Pester: It is still the same fraud team. If a customer comes to the normal TSB number, they can press one of the digits on the automated system and immediately come through to the fraud line. We then took some of our operators off of our standard banking telephone line and added them to the fraud line. We had already recruited more partners to work on the fraud line. The combination of a specific number to enable customers to report a new fraud and adding more partners would enable us to respond to those frauds much more quickly.

Q252 Chair: Let us talk about how long it has taken people to wait to get through on that fraud line. The advice is, "Get in touch straightaway. We will take immediate action to secure your account". How long have people waited on average over recent weeks to report online banking fraud?

Dr Pester: Recently since the new line has come in it is a very short waiting time. It is a priority line and, therefore, it is a matter of minutes that customers are waiting to get through to us. I should add that at the same time as putting that line in, we tightened up our fraud defences. I know Andrew Bailey at the FCA did not want to talk in too much detail about the exact operational detail of the frauds. Each fraud has a slightly different approach. This particular fraud enabled us to change our defences and reduce the amount of fraud. We saw the volume go from 70 times the normal level down to two or three times the normal level quite quickly. A combination of the falling volumes of fraud and our new telephony line means that we are answering those fraud enquiries very quickly now.

Q253 Chair: I asked you about recent weeks. I am sure you will be aware of the number of customers who would not agree with several minutes before a call is answered or dealt with for something as serious as fraud.



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People are talking about waiting on your line for hours.

Dr Pester: That was the case before we put the new line in. I apologise profusely for that. It is a completely unacceptable thing. Putting a new line in was the best way to get to a position where we could respond to that. We did not anticipate that volume of fraud attacks. To go up 70 times, as I put in my letter to you of yesterday evening, is an unprecedented attack across UK banking from organised crime. As you know, we are working with a range of Government agencies to attempt to track down the perpetrators of this.

Q254 **Chair:** Except it cannot be completely unprecedented because you say in your letter, "We planned for a quadrupling in the intensity of fraud attacks shortly after migration and this assumption was prudent", but obviously it turned out to be bigger. In your planning you would have anticipated a migration of this size would lead to an increase in fraudulent activity.

Dr Pester: Absolutely. It is a sad fact that whenever there is a change that happens in a bank, as Andrew Bailey said himself in his letter to you, the uncertainty is used and exploited by criminals. We had recruited more people. We had prepared our defences. On the day after we migrated we had our fraud teams on high alert, ready to deal with exactly this sort of issue. When the fraud attack did come, it was 70 times the level we were expecting, not the four times level that was typical for this sort of migration.

Q255 **Chair:** Going back to the customer waiting hours on the phone, what is the longest you know of a customer waiting on the phone?

Dr Pester: Like you, I have been shocked to read of customers waiting for five hours, for seven hours or for nine hours on the phone. I apologise unreservedly. It is one of the reasons why immediately when I started seeing those reports I talked to the team and said, "We have to fix this problem. We are not willing to have customers sit there and see their savings being taken from their bank, see their life savings in some instances being taken from them. We have to resolve this". Putting a new line in to enable customers to get to us quickly was something that was very important to us.

Q256 **Chair:** In your evidence when you came before us before, you talked about people waiting three minutes on the fraud line. Which fraud line was that and why did that not take account of the volatility? We heard before about the volatility in call-handling at different times of the day.

Dr Pester: When we came to see you earlier, we had not been subject to the fraud attack. The fraud attack started commencing on the first bank holiday in May, peaked by about 15 May and then came under control for us towards the end of May. When we came to see you first, which was right at the beginning of May, we were not subject to a high level of fraud attack. We were at the level we had expected or planned for.



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Q257 **Chair:** When you gave evidence on 2 May and I asked you whether your fraud reporting lines had been hit in their response times by the IT problems and you responded that they had not and you were not aware of long times to access your fraud services, would you deem your evidence to be correct or incorrect at that point?

Dr Pester: That was the true statement of the situation at that time. If you would have asked us, as I said, at the time of the first bank holiday in May or soon after that, then I would have absolutely said to you that our fraud line was overwhelmed, which is why we made the change to the system.

Q258 **Chair:** On the day you gave evidence, average waiting times were five times longer than normal and a third of calls were being abandoned compared to 3% to 4% before the migration.

Dr Pester: Is this the fraud line you are talking about?

Q259 **Chair:** Yes, I am talking about fraud. Average waiting times were five times longer than normal and a third of calls were being abandoned. That does not sit very well, does it, with saying, "I am not aware of long times to access our fraud services"?

Dr Pester: When I came before you, I was not aware of long times to access our fraud services. I do not know whether the data you are looking at is data that we sent to you subsequently and that I did not have access to then. I am very, very sorry if in any way I appear to have been un-forthright in evidence. I gave you everything I had at the time.

Q260 **Chair:** I am going to come on and talk about a particular case in a moment, but in your letter to me of yesterday you talk about how, in the period of 23 April to 31 May, approximately 2,200 TSB customers experienced attempts to compromise their accounts. Of these, around 1,300 have resulted in financial loss. When we asked the FCA that question, they talked about 10,600 incidents. I am sure that both figures are correct, but for some customers this is not happening just once; this is happening several times.

In terms of the questions that Mr Elphicke asked earlier about communications, is it not typical of TSB and the way they have handled this whole incident that every time you are asked a question about this you try to be clever with the numbers. It would have been more honest just to say there were 10,600 incidents, because it does not matter how many customers. Each incident is completely devastating.

Dr Pester: I am very, very sorry if it appears as if we are not being truthful and direct with you. It is not intentional and it is not the case. The two numbers you refer to are two very separate, very distinct and very different numbers. The number that the FCA referred to were the number of alerts that we put on accounts. Alerts are generated by automated software tracking transaction patterns and looking at transaction patterns and pointing out patterns that appear to be unusual. Those alerts then trigger a text message that is sent to a customer to ask



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them whether this was a valid transaction or not; if they do not respond, we will block the accounts until we are able to speak to the customer. The 10,000 number is alerts that were generated. The 2,200 number that I mentioned to you in my letter is the number of customers who have had attempts at defrauding them. It is different from the alerts number.

Q261 **Chair:** The 2,200 is attempts at defrauding. How many fraud incidents, where people have had money taken out of their bank account, have taken place?

Dr Pester: In my letter to you yesterday evening, I explained that 1,300 have resulted in financial loss. We have of course refunded every one of those customers.

Q262 **Chair:** That is different. "Financial loss" is not clear.

Dr Pester: Sorry, that is what I mean. To answer your question, they have had money taken out of their account. 1,300 people had money taken out of their account by fraudsters. I am sorry. I said "have resulted in financial loss to the customer". I mean they have had money taken out of their account.

Q263 **Chair:** I think you could be clearer. We are going to talk about the case of Mr Catherall, who you have been alerted to. He is a self-employed print-maker who paid some funds into his account between 3 May to 14 May. He wanted to access the money on 15 May and could not log on to internet banking. Meanwhile telephone banking had problems verifying his identity because of the security questions and things not matching. On 16 May, while he is on the phone to TSB, he gets a call on his mobile from someone purporting to be from business banking offering him help to access the accounts. TSB staff advise him to take the call, and he is so desperate that that is exactly what he does. Later he suspects he might have been defrauded because he cannot clear security, he cannot confirm whether the call was genuine, what his balance was or if money had been transferred out. Basically he and his wife were begging for assistance.

After hours on the phone he eventually speaks to the fraud team and is finally told that £24,550 has been taken from his account. He is told by TSB staff they do not know how long it will be before he gets his money back, not even whether it is days, weeks or months, because there is a "backlog of fraud cases".

On 17 May he goes into a branch and speaks to the manager, who is extremely helpful. He rang the fraud line from his office. Three hours and 20 minutes later he is still on hold. Eventually the staff member at the branch rings at 6.12 to say he now has to go home having been on hold for a total of five hours with no response. The manager said he had had customers in for days trying to do the same and had been on hold for hours at a time.



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Then the customer, Mr Catherall, received subsequent fraudulent emails and calls and attempts to report this new information to TSB but he could not get through.

On 21 May he goes to his ATM, checks his account and finds that £24,500 is back in his account, but he is unable to check exactly why and whether that is a real number and what the reliability of that is. The next day he goes in and takes everything out of his account. I suspect, as I said to you before, he is one of many switchers.

Yesterday he receives a letter from TSB, which accepts his description of events. It says, "TSB are not at fault in regards to the activity carried out on your account". He has been offered £192 in compensation, of which £42 is for the cost of phone calls. It states that restrictions on the account cannot be lifted until he speaks to the fraud department. It does not say what those restrictions are, and he is obviously worried about the flag on his credit file. It offers that he should phone the fraud department, offering him £18 to cover the cost of him waiting on the phone to do so. So they obviously anticipate that there are going to be more delays if they are offering money up front.

The letter states that TSB would review other financial losses, but only if Mr Catherall can find evidence that these were "a direct result of the restrictions we have imposed on your account". Mr Catherall does not know what those restrictions are.

You wrote in your letter to me yesterday that you would "ensure every customer receives a fair outcome". Is that a fair outcome?

Dr Pester: The details you are giving me are deeply distressing to hear for Mr Catherall. It is true for any customer that goes through fraudulent activity. I deeply apologise for this. It is very distressing. As you quite rightly say, Mr Catherall was refunded on 21 May. The reason there are blocks on his account is to protect him against further fraud.

We will look at this case. I would love to take the details from you and, as we have with other cases you provided to us, address it. I can only apologise to Mr Catherall. Unfortunately, he was caught up in that attack that we received. I can only apologise. We have refunded him in full and I would like to take his case further.

Q264 **Chair:** Mr Meddings, you told the Committee last time that the way compensation would work is that it would not purely be a financial calculation. It would take into account factors such as stress and emotional distress more than inconvenience. Do you think that Mr Catherall's offer made by TSB takes those things into account?

Richard Meddings: Clearly not. I have heard your account of what has happened to this customer, for which I am deeply sorry. When we met, I said I believe these fraud issues are absolutely horrid. Imagine what it



must be like to go through that. It is not even just the money going; it is the stress that goes with all that and the consequences.

Chair: That is the whole point, is it not?

Richard Meddings: That is why I answered as I did. The first important thing to say is that the bank is working very, very hard to compensate any of our customers who are defrauded. In Mr Catherall's case, it is important to recognise that we have refunded him in full and to make the point, to reinforce what Paul said, about the block on his account. The block on his account is to protect Mr Catherall, because there is some vulnerability to his account that some fraudster has managed to get hold of, so the block has remained.

In terms of whether the payments offered to him are sufficient for stress and inconvenience, it is very difficult to comment. They do not sound necessarily to be a correct calculation, to my mind, given the stress he has been under, with £24,500 as the amount that was taken and the hours taken either with our branch manager waiting on the phone or himself on the phone. For every minute waiting, that does not sound like a correct calculation, but we are attempting to set a framework of compensation that takes into account stress and inconvenience, and then, much more difficult than that, what we call consequential loss. There will be a number of cases where there is consequential loss that we need to consider.

Q265 **Chair:** Personally, I do not think £192 in compensation is nearly sufficient, given that some of that is for the cost of phone calls. The more important point—and this is where TSB is tone-deaf on these sorts of issues—is the tone of the letter, in which it is all about the customer having to prove that they did not do anything, when you know very well that the IT migration, which you and your board signed off on, has led to people suffering these devastating consequences.

Richard Meddings: I want to make sure we are very comfortable with the tone of the letter. I absolutely get it. I get your point. One of the really important features about the way the bank is managing this issue—attempting to manage this issue—is I think it is quite often the case in the industry where fraudsters raid accounts that the banks will attribute negligence or liability to customers and say, "You were negligent. You provided your memorable data and therefore got defrauded". We are not doing that. We are, in these instances, compensating in full without any desire or attempt to attribute liability to the customers. We are compensating in full any customer of TSB who has been defrauded.

Why is that? It is because we recognise that the uncertainties—the significant uncertainties—that have attached to the migration have caused and created a context on which fraudsters and criminal organisations can feed. We absolutely recognise that.

Q266 **Chair:** I want to move on, because I want to bring in other colleagues. I



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would just say that on 2 May, when you gave evidence, or the day before you gave evidence last time, the official Twitter account for TSB said, "Our fraud lines are currently experiencing a higher volume of calls than usual". If the Twitter account knew that, Mr Pester, why did you not know that?

Dr Pester: I am very sorry if I appeared to give any impression that I was not across the numbers last time. To the best of my knowledge, the number I gave you in good faith was the number I had with me at the time.

Q267 **Chair:** I am going to bring Alison in in a moment, but there are people who have written truly horrendous stories online about their experiences. Does TSB deserve its new nickname of the Truly Shambolic Bank?

Dr Pester: This whole situation of the migration as TSB has been a terrible situation for TSB customers. The migration, the subsequent fraud attack and the fact that even when we send letters to customers we have managed to put more letters in a single envelope have all collectively created a terrible time for TSB customers. I apologise unreservedly for that.

All I can do is to work flat-out with the teams we have to bring more resources into the business to fix these problems for customers for our customers as quickly as we can and to bring TSB back to a level of service that our customers accept. I deeply apologise again for those issues—those cumulative-effect issues—that we have seen across the business.

Q268 **Alison McGovern:** I hear your apology, Mr Pester, but I want to ask one question arising from the Chair's questions, before I ask some specific questions about the treatment of customers, because I am concerned about this. The last time you came before this Committee either you knew about the scale of the issues on the fraud line, which had led to all of these delays and people sitting on the telephone line for hours and hours on end, and did not tell us the full picture, or you did not know there was a serious problem with your bank's fraud line for which you personally are accountable. Which is it?

Dr Pester: I told you the information I had available at the time. My understanding of the reporting of new frauds was that the wait time was the number I gave you.

Q269 **Alison McGovern:** So it is the latter.

Dr Pester: Yes. Clearly I gave you the wrong information, for which I apologise.

Q270 **Alison McGovern:** There was a serious problem with your bank's fraud line, the fraud line for which you are accountable, which guarantees the security of your bank, for which you are accountable, and you did not know about it.



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Dr Pester: Yes.

Q271 **Alison McGovern:** Okay. I wanted it to be clear. The Payment Services Regulations require banks to refund customers if there are unauthorised payments from their accounts by the end of the business day following the day on which it became aware of the problem. Has TSB complied at all times with this part of the PSR since the migration?

Dr Pester: Again, we apologise to our customers where we have not done that.

Alison McGovern: A simple “yes” or “no” will suffice.

Dr Pester: We have not done that. The FCA explained that in their letter and we have explained that now we are making those payments back within time.

Q272 **Alison McGovern:** So you have not complied.

Dr Pester: No, we have not.

Q273 **Alison McGovern:** It is important that the consumer’s voice is heard in this session. I am sure you would agree with that, given what you have said. I was lucky, on Sunday 3 May, to listen to the Radio 5 Live discussion, and I heard David talk about his experience. He found it impossible to get through to TSB. He had a significant balance in his account, nearly £80,000, that he was expecting. The balance when he was finally able to log on was £43,000, and he spent the whole day in a branch where staff were on the phone for five hours. What would you say to David in that situation? He has had a horrific experience, has he not?

Dr Pester: I apologise profusely for the delays and distress that this has caused. I know this might sound strange, but I genuinely believe there is no one who feels more for TSB customers than me. I have spent eight years of my life trying to establish TSB. It is heart-breaking to hear these stories, so I deeply apologise to him.

Q274 **Alison McGovern:** Given that, Dr Pester, just looking at your Twitter feed, on 26 April you tweeted that you wanted “to reassure our customers that no one will be left out of pocket”—this was before David’s experience—and, “If you’re still experiencing issues please contact us via our website”. When you tweeted that, did you expect that people like David would be able to resolve their issues without five hours sat in a TSB branch?

Dr Pester: There is no customer who will be left out of pocket as a consequence.

Q275 **Alison McGovern:** That is not my question, Dr Pester. Why did you tweet that statement and then allow people such as David to get in the situation he was in?



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Dr Pester: I am sorry for David and I am sorry for all of the customers who have experienced fraud. As I tried to explain, we were subject to an unprecedented fraud attack. When the fraud levels climb to 70 times, a business can only respond at a certain speed. We have tried to respond at the fastest possible rate. We got the whole attack under control very quickly but, unfortunately, there were customers—and we have explained the 1,300 who have seen money taken from their account—for whom this was a terrible experience. I am not trying to defend TSB. I am not trying to defend my position. I am trying to ensure that every customer receives the payments they are due.

Q276 **Alison McGovern:** Sarah was also on that 5 Live phone-in and she talked about her experience. She was always really careful with her data. She never answered any unsolicited emails or texts from the bank that she was not aware of. She complied with all of the phishing stuff and she was told, as you have said, when she tried to get through having experienced a serious fraud, that you had had this unprecedented amount of fraud. She was told, time and again, that someone would get back in touch with her and they never did. In the end, it took six days for her to resolve the issue, not 24 hours.

Dr Pester, you came to this Committee and gave us unreliable information and you tweeted on 26 April that everything would be dealt with via the website, as clearly did not happen in Sarah's case. How can people like Sarah possibly trust what you are saying now?

Dr Pester: I am very sorry if the last time I appeared here I gave the impression that I was somehow downplaying the scale of the issues that TSB is suffering and were created in the industry. That is not the case and there is no excuse for that. What I can say is what I have tried to explain to the Chair of the Committee. That is that, in the early days after migration, the fraud levels were not exceptionally high. They grew at the start of May very quickly, to 70 times the expected volume, so when I came to the Committee last time and when I tweeted on 26 May, we were in a different position than we were in mid-May, when we were the subject of an attack.

Q277 **Alison McGovern:** It is a simple question, Dr Pester: why did you not tell the public what you have just told us? Twitter works 24/7; why did you not tweet again? That was the last time you tweeted.

Dr Pester: We told the public through our websites. I am sorry if you think I am not telling our customers, but the best way to tell our customers is through our website. We changed the front page of our website on Thursday 26 April, and the front page of that website has a fraud warning, a Take Five warning, which is an industry-agreed warning on fraud and customers protecting themselves. Secondly, it has information updated twice a day on wait times on our call centre and access to our digital channels. We tried to change the way we communicate. We felt the easiest way to communicate was through our



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website and putting that real time on our website, rather than me tweeting.

Q278 **Alison McGovern:** You tweeted on 26 April and just left it there. That is essentially what you are saying: "Look at our website".

Dr Pester: We have done a lot more than that. I have put apology letters in national newspapers. We have funded, with Action Fraud, a nationwide anti-fraud advertising campaign. We have worked with the police. We are working with the telephony and banking industries, for the first time ever getting the telephony and banking industries to work together to remove this sort of fraud. We are trying our damndest to fix this for our customers.

Q279 **Alison McGovern:** We will come back to the same issues, but I just wanted to ask you a couple of very brief questions. Since the IT migration, in how many cases where there has been an investigation into potential gross negligence has that investigation led to a delay in compensation?

Dr Pester: As our chairman has said, we are not challenging customers or investigating customers for gross negligence, specifically because we believe we created the uncertainty and we believe we therefore put customers at risk.

Alison McGovern: The answer to that is zero.

Dr Pester: To the best of my knowledge, the answer to that is zero. If it turns out that we are challenging some, I will find out, but, to the best of my knowledge as I sit here today, the answer is zero.

Q280 **Alison McGovern:** Will you check that information and write to the Committee?

Dr Pester: Of course I will, yes.

Q281 **Alison McGovern:** Finally, given what we have heard and you have admitted your non-compliance with the Payment Services Regulations, which senior manager is ultimately responsible for compliance with those PSRs?

Dr Pester: That is a good question. I would need to check my team, but it would come through operations.

Q282 **Alison McGovern:** You do not know who is responsible for that.

Dr Pester: It comes through my chief operating officer.

Q283 **Charlie Elphicke:** Dr Pester, you received a letter from the FCA on 25 April about your communications with customers. That letter reminded you of the importance of ensuring that TSB's communications were clear, fair, not misleading, and reflected the true position of your services. Do you accept that you fell short on that?



Dr Pester: I apologise if we fell short on any of our communications.

Q284 **Charlie Elphicke:** Do you accept that you misled customers and maybe misled this Committee?

Dr Pester: No, I do not accept that I have intentionally misled this Committee. As the FCA said in the letter to the Chair of the Committee, there is no evidence that I have misled or TSB has misled the Committee. However, the letter you are referring to on 25 April asked TSB to change the way it was communicating and to improve our communications. We did improve our communications. That was on a Wednesday; we improved our communications on a Thursday. Actually, we had a telephone call with the FCA on that Thursday evening, in which they said to us they thought our communications were excellent and we were doing everything we should do. It was very specific to that period of time.

Q285 **Charlie Elphicke:** Andrew Bailey wrote to the Chairman of this Committee on 30 May, and his letter states that your use of figures “risks giving too positive a view”, that you were portraying an “optimistic view of your services” and you “could have presented a more rounded view of the customer experiences”. I would say that Mr Bailey went even further just earlier. Do you accept that he wrote in this way and that he feels that you have not been frank?

Dr Pester: As I say, Andrew Bailey also says in his letter that he has no reason to believe that TSB has intentionally made misleading or incorrect statements to the Committee. I apologise profusely if you think I have been misleading to the Committee. That is not my intention. I have given you every piece of information in good faith.

Q286 **Charlie Elphicke:** Andrew Bailey also says it is characteristic of what we are seeing as your MO in this matter, which is that you say that you know it is all terrible but it is not that bad really. We heard Andrew Bailey say earlier there are 10,600 fraud incidents, then you say there are only 2,200 and, on one measure, there are only 1,300. To be even more helpful, you say the attack frequencies on phishing are just 0.004% of your customer base per day, to make it seem really insignificant.

Dr Pester: That is not my intent.

Q287 **Charlie Elphicke:** This kind of spinning infuriates everyone, most of all your customers. Do you accept that people feel they are being misled?

Dr Pester: That is not my intent. My intent in giving you the information is to give you a full picture of the situation at TSB. There were 10,000 events, 2,200 attacks on customers and 1,300 customers who have seen financial loss. I am deeply apologetic if you believe that I am, in some way, trying to spin the information. In providing to the Chair the letter we provided yesterday evening, the intent was to try to produce all the information we could for you.

Q288 **Charlie Elphicke:** Then you say, “While things are far from perfect, TSB



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is functioning at close to normal for the vast majority of our customers". Then you like to quote averages. Just earlier, Andrew Bailey said that this whole behaviour of yours of quoting averages is again misleading. Do you accept what he said earlier?

Dr Pester: My understanding is that Andrew Bailey was referring to the first week post migration, when service levels varied significantly. The information that we sent to the Chair, following your information request, showed that the performance of the business has been relatively stable. I am sorry if I am seen to be unhelpful; I honestly am not trying to be unhelpful, but I have to tell you the facts as they are and as I understand them.

Q289 **Charlie Elphicke:** Turning back to that letter then, you say first-time log-in success rates are at normal levels of over 92% for the mobile app and over 97% for the website. Presumably those are average figures.

Dr Pester: Yes, those are taken all through the day of how many people attempt to log on and are successful first time, through the day.

Q290 **Charlie Elphicke:** Andrew Bailey says you have this habit of quoting average figures and he warns you to be careful about doing that, but here you are just yesterday. This letter was sent yesterday, so it was not sent ages ago. That "this was a long time ago" excuse does not work. You sent this to the Committee yesterday. Can you understand why we are quite cross that you seem to present information in a way that the average person would find misleading?

Dr Pester: I am sorry; I do not understand your question. If there are 1,000 attempts to log on and 970 of them are successful through the day, that is what this number represents. I do not know how else you would like to see the information. If you could tell us or explain to me how I could do it, I would love to do that for you.

Q291 **Charlie Elphicke:** Let us move on. You wrote a letter to the Chairman on 27 April and you said, "On Wednesday 25 April, I appointed IBM to lead a full review". Then you wrote on 11 May to the Committee, "IBM has been appointed to help TSB resolve the issues, not to perform a review". Did their function change or did you present the Committee with an inaccurate picture?

Dr Pester: We have asked IBM to fulfil three roles with us and my loose use of wording refers to the three roles we have asked them to fulfil. We have asked them to help us identify the problems, to fix those problems for our customers, then perform a review to help us understand how this could have occurred. The third piece of work we have not yet started. We are focused on fixing the problems. I am sorry if my loose use of wording has clearly referred to those components that IBM is working with us on.

Q292 **Charlie Elphicke:** It is not the only occasion of loose use of wording, is it? You were asked about IBM's work and findings, and you say it is all to



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do with some middleware. Then we discover that Andrew Bailey says that that was misleading as well and it was wider than middleware. More than that, it seems that you knew this from the IBM slides that you had in your possession three days before you came to this Committee. How do you explain that?

Dr Pester: I am very happy to give you the IBM findings. They are not findings; it is entitled "early findings and observations". If I may read it to you, it says, "Most of the observed problems are related to the custom and package applications, middleware services and the network, rather than the underlying infrastructure". Most of the observed patterns are due to the applications, middleware and network, rather than the underlying infrastructure. I tried to explain that when I was here for my first evidence session. Again, I do not want to be seen to be hiding anything from this Committee. You are more than welcome to have this IBM report.

Q293 **Charlie Elphicke:** Will you send the entire slide pack to the Committee right away?

Dr Pester: Of course, whenever you would like.

Q294 **Charlie Elphicke:** We would like it now. The Chair might want to ask you further questions about it.

Moving on to the letter that Andrew Bailey sent to the Committee on 30 May 2018, I asked him earlier if he had ever sent such a letter before and he said no. Frankly, it is a damning letter. He has never written such a letter before and yet, in yesterday's letter that you sent to the Committee, you are still trying to explain things away. Do you accept that you ought to be taking more personal responsibility for this?

Dr Pester: I am taking complete and utter responsibility for this. As I tried to explain to the Committee last time, I take responsibility for the issues we have seen at TSB, the impact on our customers and the impact on the wider industry, for which I apologise profusely. All I can do is focus on fixing these problems for TSB and for its customers.

Q295 **Charlie Elphicke:** Do you accept that your customers feel misled by your communications—not just let down but misled—and that the way you have communicated to this Committee, many Members feel, is frankly misleading? It is not on to mislead this Committee or mislead Parliament. Do you accept that you should take responsibility for that?

Dr Pester: I am deeply sorry if you feel that I have misled the Committee. There is nothing that I have said that has not been said in good faith. Everything I have said to you I have said in good faith. Everything I have said to you I believe to be full and complete, and every piece of information I have provided to you is the best information I had available at the time.

Q296 **Chair:** I am going to bring John in in a moment, but just on this point, in a letter to all MPs on 25 April, you wrote, "Everything is running smoothly



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for the vast majority of our 5 million customers". As we have heard, there was then a comment on Twitter. In a press statement issued on the same day, TSB wrote, "Internet banking is currently operating at around 50% capacity". Andrew Bailey's letter, as you have seen, specifically cites the use of that phrase "the vast majority" as an example of poor communication that "could reduce trust in TSB and the banking sector as a whole". Do you regret using that phrase in the letter to MPs, and do you disagree with the regulator that that is an example of poor communication that risks reducing trust in TSB and the sector?

Dr Pester: I apologise unreservedly if we misled or if I misled anybody. The reason we wrote that letter and used that phrase was to try to explain that standing orders, direct debits, debit card payments, credit card payments and all of those key parts of the banking engine, which are so important to the vast majority of customers, were working well. As we said, we had very serious problems with customer access and the ability of customers to log on, manage and see their accounts. We tried to explain that, while the underlying engine of the bank was working, we were having access problems. That was the intent in my letter. That was my intent in the interviews that I did with the BBC, ITV and Sky on 24 and 25 April. That was what we understood was the case at the time.

Q297 **Chair:** Speaking about direct debit, I had an email just today from somebody who is a tax consultant and one of his clients banks with TSB. He had £800 taken out of his bank account with the local water company. When she queried that with them, they admitted their mistake and said she should approach her bank and invoke the direct debit guarantee. She duly contacted TSB, which said that most things are now fixed, but one of the things not fixed was the direct debit guarantee. This is within the last week.

Dr Pester: That is new news to me. If I can take that case, I would be very keen to try to resolve this for a customer. I am not aware of this being a problem for us.

Q298 **Chair:** Talking about "the vast majority", percentages or everything else is exactly what Charlie Elphicke is getting at. The FCA's fifth principle of business is "A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading". Do you think you lived up to that?

Dr Pester: We have attempted to communicate as clearly as we can. I apologise if we are not communicating. With the FCA's advice, we changed our website, as I described earlier, and through that website we describe each of our services. I am not aware of any issues in direct debits, but I will take that away and resolve it with this customer.

Q299 **John Mann:** Can I just ask how one of my constituents could receive bank details of someone who lives 50 miles away?



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Dr Pester: I apologise if we have done that or if that has happened but, if you could explain the situation, I would be very happy to deal with the customer.

John Mann: I am just asking how it could happen.

Dr Pester: The straight answer that is I do not know. It should not happen, of course.

Q300 **John Mann:** Is it a one-off?

Dr Pester: I do not know the circumstances to which you are referring. I am very sorry; I would love to answer your question but I cannot.

Q301 **John Mann:** One of your customers got someone else's bank details and you are not aware of that being a problem.

Dr Pester: To state the obvious, it is not something that we would do intentionally. If that has happened, I would like to speak to you and speak to the customer, and resolve the issue with the customer. I cannot tell you how it happened.

Q302 **John Mann:** Mr Meddings, how can one of my constituents get someone else's bank data, someone who lives very many miles away? How can that happen?

Richard Meddings: I do not know without you giving me the specifics, quite clearly. If you quote that an individual constituent has received the wrong bank details, I cannot answer if it is anonymous. I am very happy, with Paul, to take that away and deal with it.

Q303 **John Mann:** How can the man in Wales who wrote to me yesterday, who has never been a TSB customer, get the bank details of one of your customers sent to him at his home?

Richard Meddings: Again, I cannot deal with that unless you give me the specific circumstances. I do not know those circumstances.

Q304 **John Mann:** You are saying that the bank is not aware of this as an ongoing problem.

Richard Meddings: No, it is not.

Dr Pester: The set of circumstances you are describing is not something we are aware of.

Q305 **John Mann:** You are not aware of it. My constituent wrote to you a week ago. He has heard nothing back at all. You are saying you are not aware of people getting communications in other people's names to their home addresses. You are not aware of that. That is, if I may say, quite astonishing.

Richard Meddings: If you would give us his name, we would be able to check those details and come back to you.



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Q306 **John Mann:** You already have that. That will be redone, but I am struggling on this. You are not even aware of the problem. Really, I have not been so taken aback in this Committee before. You are not aware of that being a problem. Let me just pick up another small issue, Mr Meddings, which I raised with you last time, about Laura McHale and her wedding. You said to me that you would be compensating based on “stress and emotional distress”. I am just wondering how much you have paid her in compensation.

Richard Meddings: I am aware that we have paid Ms McHale money. I do not have in my head what the amount was, but I am aware that we have paid her compensation.

Q307 **John Mann:** What sort of figure do you think would be appropriate for someone whose wedding has been—I use the polite word—messed around?

Richard Meddings: I do not have the specific details of how it was messed around.

Q308 **John Mann:** I gave them to you last time. You messed around her wedding and put a lot of stress on her. I raised it with you last time, and I just wonder what kind of figure you thought was appropriate.

Richard Meddings: I cannot give you an answer to that today.

Q309 **John Mann:** To quote you, you said that the amount would be calculated based on “stress and emotional distress”.

Richard Meddings: I hope that is how it has been done. I am aware that she has received compensation, but I do not have in my head what the amount is.

Q310 **John Mann:** It is £100. In the last half hour, Toni-Marie Becher who has a wedding on Saturday has the same problem—her wedding and honeymoon being damaged by you. You paid £100.

Richard Meddings: I apologise to Ms McHale.

Q311 **John Mann:** It is £1 per apology. It is £1 per apology this afternoon that you are managing. Mr Montes, when I asked you last time how long it would take to sort this problem out, you said it would be the next day or so. Why are you still in your job? You said it would be a day or so and we are two months on.

Miguel Montes: I am so sorry to say that—

Q312 **John Mann:** Everyone is sorry; I am asking why you are still in your job.

Miguel Montes: I will tell you that, additionally to being truly sorry for the damage that we have inflicted on customers, I am so sorry for being mistaken myself in my expectations, at this point in time. For sure, I was answering your fair question, because my first answer was that we were not sure about the delay, but I answered with my best expectations, at



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this point in time, and in very good faith. The teams were telling us, at this point in time, that they were close to the defects that were blocking most of the access to the digital channels, as they were. Unfortunately, they were not all the problems that were created and we have seen on the systems. We are here because we have not yet seen that all problems have been solved.

Q313 **John Mann:** How embarrassed are you that the good reputation of your organisation has now been sullied by people who do not know that customers like my constituent have been sent other people's bank information? A man in Wales, who has never been a customer, has been sent somebody else's information.

Miguel Montes: You and this Committee can be sure that we are very embarrassed.

Q314 **John Mann:** You are very embarrassed. How embarrassed are you about the level of compensation for someone whose wedding has been badly affected?

Miguel Montes: I am afraid that I have no competence to answer this question.

Q315 **John Mann:** Do you have any confidence in working with people where they do not even bother compensating someone when it is raised in a parliamentary Committee? Is that good for your brand reputation?

Miguel Montes: I am afraid that I did not catch your point, but our brand reputation has been really damaged. TSB is built to serve customers and has failed to do so during this last period of time. We are fully committed, and we have seen the teams working night and day to solve this. We have progressed but not enough. We will do. For sure, for the damage, at the board level we have been ensuring our customers, Paul and his team have been clear, that we will do whatever it takes to compensate the customers appropriately. I cannot comment on the case that you have raised.

Q316 **John Mann:** I raised it with you here last time. £100 for someone's wedding. If it was my daughter I would not be too happy with you. I will tell you that. Mr Meddings, you have a senior position given by Government, as I pointed out to you last time. Your reputation is on the line as well. Where is this going to end? How long is this going to take?

Richard Meddings: We are working vigilantly and with huge effort to remediate the challenges the bank is facing. Andrew Bailey used the phrase in the earlier meeting about digging ourselves out of a hole and clearly we are doing that. We recognise that, predominantly in telephony, or the call centre or phone lines, we still have real challenges. On occasion, the branches are also under pressure because certain machines are not operating at their full functionality.

Q317 **John Mann:** The branches are bailing you out at the moment, are they



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not?

Richard Meddings: I heard your earlier comment, and I—

Q318 **John Mann:** I am sure your call centre staff are getting plenty of difficult calls as well. They require a lot of credit from us all. You have put them in a difficult position, have you not?

Richard Meddings: If I may say, thank you for that prompt. It is an important prompt to pay a tribute to our staff, because they have borne the brunt of a very difficult set of circumstances.

Q319 **John Mann:** How many heads are going to roll? You are in charge; how many heads are going to roll?

Richard Meddings: It is very important not to prejudge it. As you know, we have appointed Slaughter and May to do an independent review. As I said to you when I came before you before, it is going to be an independent review. It is going to be thorough. We will publish it. We will only redact information of a commercial information. We would not want competitors to have information about coding and so on, but we will publish that report and take action on the basis of its findings. If I am found to be culpable, the actions will attach to me.

Q320 **John Mann:** You will go, I am sure, therefore. This is my final question. You have broken the law on data protection. You are in breach of the law. You are paying pitiful, embarrassing, cringe-worthy levels of compensation, beyond the credulity of anyone, in my estimation, which I find deeply disturbing because it suggests something fundamentally wrong at the heart of the leadership team. You pay yourselves massive amounts of money, defining yourselves as leaders. Can we be certain that some heads are going to roll?

Richard Meddings: As I have said, we are not going to prejudge. It would be wrong to prejudge. Clearly, and as I have just said, depending on what the investigation shows us about what has gone wrong here, we will take action.

Q321 **John Mann:** Will you fall on your sword before you are pushed, any of you? Dr Pester, are you going to fall on your sword before you are pushed?

Dr Pester: My focus is absolutely on fixing this for our customers. I am passionate about TSB, our partners and our customers. I do not think anyone else would be as committed as I am to fixing these problems.

John Mann: No one else is paid as well as you are to try to fix them.

Dr Pester: When we get to the end of this situation with the independent report, we will take whatever action is necessary.

Q322 **John Mann:** I am just asking about leadership within the bank. None of you has fallen on your sword yet. None of you is sacking anybody else. You are not paying compensation. You do not seem to be aware you



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have broken the criminal law of data protection in the last week. This is the second time; I do not know how many times you are going to come in front of this Committee, with due respect to the Chair. It is not up to me. Perhaps we will have different people next time. Where is the leadership? That is my question.

Richard Meddings: It is a very important reflection. It goes back to the Slaughter and May review. My reflection has always been that individuals choose to get into particular seats. They are senior seats that carry responsibility with them. We have chosen, in our careers, to sit in these seats and with those seats come responsibility and accountability. As I said earlier, I am not going to prejudge the Slaughter and May review and I do not think you want us to. It is important that we establish what went wrong here. We will disclose it and then we will act on it. As I said, where there is culpability we will act on it. That is the right approach: if you get into a senior seat, it carries responsibility and accountability. If something has gone wrong, for which you are a clear contributor, the consequences should follow.

Q323 **John Mann:** Will you relook at your wedding compensation?

Richard Meddings: All I knew coming in here is that I believed we had satisfied her with compensation. We have taken from you—and thank you for providing to us—the number of cases where people, constituents and others, have approached you. We have attempted to resolve and have resolved the vast majority of those. With regard to that particular case, my understanding was that we had satisfied her with compensation. We have already dealt with 25% of the compensation claims and complaints that we have had.

John Mann: I was going to finish, but this point is quite fundamental. I will not stretch into the questions on switching, but I would like to. This is the point of people accepting compensation. Come on; people are under huge distress and you demand, “Sign here for a bit of compensation”. That is not appropriate, good leadership. That is you trying to wriggle out of your obligations. That happens far too much, and you are doing it methodically as a bank. People want to get on; they are sick of you so they want to get on. You have a duty, a moral and ethical duty, if you have messed up someone’s life like this, to provide them with some reasonable redress. It is called decency. It is also slightly better for your brand and your reputation, and not doing it is significantly worse. That is my point.

Chair: We all entirely agree with that and people watching would agree with that. The point is, yet again, you are being very particular about the words you are using. A complaint being resolved is not necessarily resolved to the satisfaction or the happiness of the customer, because you are also doing thousands of switching requests, which we are going to come on to in a moment. People are so relieved to have finally got to the end of this and have money back in their bank account that, frankly, they will probably accept almost anything that they are offered in order



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to have little to do with you in the future. That is the truth of the matter. On that note, we will turn to switching.

Q324 **Mr Jack:** Did you watch the evidence that Andrew Bailey gave? Were you in another room watching the evidence?

Dr Pester: Yes, we did see that.

Q325 **Mr Jack:** You will be aware that I raised switching with him and that I pointed out, in some cases, when customers have asked to switch away from TSB, the bank had written to the councils, the utility providers and other organisations to inform them that they had died, and they had not, obviously. The FCA made it clear to us that that was a software issue, but I would like to know how many people have been affected by that.

Dr Pester: To the best of my knowledge, 370 people have been affected by this. I would not describe it as a software issue; I would describe it as a failing in our service to those customers. It is deeply distressing to receive a letter from a utility company saying this.

Q326 **Mr Jack:** I understand it is distressing, but was it caused by your software? It was not someone at the bank being malevolent, was it?

Dr Pester: No, it was caused by an error in our software. Obviously there are two reasons for cancelling a direct debit. We are told of a customer who is deceased and we then tell the direct debit originators, or we are told a customer wants to switch. Clearly there was an error in the software on these cases, for which we apologise unreservedly.

Q327 **Mr Jack:** Had it happened before?

Dr Pester: Not that I am aware of, no. There was one particular change that was put into the system that led to this issue. I am not aware of it happening before.

Mr Jack: Coincidentally, this happened at the same time as the meltdown.

Dr Pester: The new system generates the switching letters. It fixes into that new system that we have moved on to, which would have led to this problem.

Q328 **Mr Jack:** Here comes the killer question: what compensation has been offered to those people?

Dr Pester: We are speaking to the banks those customers have moved to and, through those banks, are trying to contact the customers to offer them compensation. We want to talk to the customers. I am not aware of the exact figure we are discussing with those customers, but we are approaching those customers and apologising, most importantly. In my experience, customers first want an apology and admission of fault, and that is clearly our fault. Second, we discuss with them an appropriate level of compensation.



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Q329 **Mr Jack:** Just to be clear, you are contacting them or you have contacted the 370.

Dr Pester: We are contacting them through the banks they have switched to or are switching to, and working with the banks to make sure we can contact those customers.

Q330 **Mr Jack:** You are planning to offer them compensation, but you cannot put a figure on it.

Dr Pester: We are apologising and offering them compensation.

Q331 **Mr Jack:** Apologising is fine; they will take that as the minimum they expect. How much will you give them?

Dr Pester: I do not have the figure with me. I am not aware of the exact figure.

Q332 **Mr Jack:** It has not been discussed internally.

Dr Pester: No, it has not been discussed with me internally.

Q333 **Mr Jack:** Mistakes have been made with regard to the death messages going out. Has TSB helped those consumers to unwind the mess that they may be experiencing with the local authority or the utility providers? Have you put a team together to clear the mess up?

Dr Pester: Yes, we are rectifying the issue and the problem with the originators, with the electricity or gas companies, and correcting the error that we caused.

Q334 **Mr Jack:** In your recent evidence to the Committee, you suggest that, between 23 April and 2 May, 2,835 people had switched away from TSB. Does that include those who appear to have stopped using their accounts?

Dr Pester: No, the specific question I was asked was around customers who had gone through the CASS system. The answer I gave was specifically around the CASS system.

Q335 **Mr Jack:** Those are only people who use the CASS system, so how many have switched since 2 May?

Dr Pester: In total, we are now at a point of 12,500 switchers approximately. I told you two thousand and something before and there is an extra 10,000. The total number now is about 12,500.

Mr Jack: There have been another 10,000 since 2 May.

Dr Pester: Yes, it is about 2,000 a week. Depending on the day of the week, it is 400 to 500 a day. Some days are busier than others.

Q336 **Mr Jack:** Has that slowed down or is that carrying on at the same pace?

Dr Pester: It depends mostly on whether competitors are running switching campaigns to incentivise customers to switch. If we see



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competitors running campaigns, we see more customers switching, but there is no dramatic change in the way in which we have seen those numbers switching. We have seen more switchers-out when competitors run campaigns offering £100 or £125 to switch.

Q337 Mr Jack: Are you offering compensation to those who have switched? A lot of them are obviously switching because they were unhappy with the IT problems and what they experienced. Are you offering compensation to the now north of 12,000 who have moved banks?

Dr Pester: If there has been a problem with that customer, we are of course offering them compensation, as part of compensating all customers. It is important to realise that customers switch banks for many reasons and the volumes of switching we are seeing are not materially different than we saw before the issues we had.

Q338 Mr Jack: Have you sought to find out if they switched because they had a problem?

Dr Pester: We are not speaking to every one of our switching customers asking why they are switching.

Q339 Charlie Elphicke: This is just a very short supplementary. A fellow parliamentarian who is here today, Martin Vickers, has not been able to access his account for six weeks, so these problems are very much going on. Just to pick up the compensation issue that Mr Mann and Mr Jack raised, the kinds of compensations that you are paying out are extraordinarily small. Customers will then ask the question: what if Slaughter and May provides judgment, Mr Meddings, or the FCA provides judgment? People will want to know if people will be made to walk the gangplank with a golden parachute. You will not give much compensation to your customers, but you will give lots of compensation to yourselves should that be the end result. What assurance, Mr Meddings, can you give to this Committee and to your customers, who are very irate, that that will not happen?

Richard Meddings: As I said, we will look at the conclusions of the Slaughter and May investigation. It will determine where there is culpability and we will take the necessary action, but it depends on what the outcome is, does it not? Where we see the fault lying, we will act against it. If it is individuals, we will act against those individuals, but it depends on the nature of the fault.

Q340 Charlie Elphicke: That is a slightly dissembling answer. I think you ought to be clear. Can you assure this Committee that, if there is culpability on the part of the executives who then part company as a result, they will not end up with some massive golden parachute compensation?

Richard Meddings: If they are found to have behaved in a way that is grossly negligent or negligent, that will be taken into account in the terms of their departure. Quite clearly that is the case.



Q341 **Rushanara Ali:** Good afternoon. I want to start with the numbers you have given. You mentioned in your letter to the Chair that you have dealt with 24,094 complaints and that is out of 95,063. That is not really a significant number when you think about the context of everything we have heard and the distress that people are facing. In another letter, you mentioned that you had deployed additional resources since this problem arose—1,930, with some breakdowns of that number. Given that you have not been able to satisfactorily deal with the numbers of complaints as well as the compensation issue, do you think you should be adding more resources to the organisation to quickly address this problem? This is clearly going to continue to do you reputational damage.

Dr Pester: We want to address the complaints issues as quickly as we possibly can.

Q342 **Rushanara Ali:** My question is: are you going to increase the number of people who are dealing with these cases satisfactorily, or are you going to just stick with the numbers you have here?

Dr Pester: We have added an extra 466 complaint-handlers. That is on the objective of handling these complaints as quickly as we possibly can.

Rushanara Ali: With this extra resource deployment, it has taken you this long to deal with only 25%.

Dr Pester: These resources only became available to the bank over the last week.

Q343 **Rushanara Ali:** Do you mean the 1,930?

Dr Pester: The 466 additional complaint-handlers.

Q344 **Rushanara Ali:** My point is that, given the additional deployment of resources, including the recent addition, you are still only managing to deal with 25% of the complaints. You have just under 75,000 left, and you may have more complaints coming. This is going to take some time unless you scale up the resource allocation to deal with this problem, is it not?

Dr Pester: We dealt with the 24,000 before bringing the 466 extra complaint-handlers to TSB. We dealt with those with our existing resource. By bringing in the extra complaint-handlers, our aspiration is to close this down as quickly as possible.

Q345 **Rushanara Ali:** How long will it take to deal with the other 75% with the extra resources?

Dr Pester: I do not have a firm number in my head.

Q346 **Rushanara Ali:** That is what people will be looking for. Can you give an estimate?

Dr Pester: We attempt to deal with every complaint within eight weeks from the receipt of the complaint to the resolution of the complaint. This



level of resource is designed to enable us to deal with them at least within that eight-week period from receiving a complaint.

Q347 **Rushanara Ali:** Even though your organisation has created the problems, you expect people to wait eight weeks. I know that is the FCA expectation, but you are not prepared to provide additional resources, if necessary. I am looking for a guarantee. Perhaps this is a question for Mr Meddings and Mr Montes. Are you prepared to put on extra staff, on top of those who are there already, to make this go away as quickly as possible, so that customers do not have to continue to suffer?

Richard Meddings: The answer to that is absolutely yes. We are adding resource as fast as it is practicable to do that. Paul has just now referenced the 466 additional complaint-handlers coming on board. If you look, in addition to that, at the number of additional people we have taken into our call centres or into our branches, either by redeployment or hiring new staff, you clearly cannot just put someone in a seat. They have to be trained on the system and trained into the role and the products. We are bringing on resources as fast as it is practical to do that. The commitment we are giving is that we will continue to do that.

Rushanara Ali: You will continue to do this.

Richard Meddings: Yes, we will continue to do that.

Q348 **Rushanara Ali:** In terms of resources, there are no numbers. I have just had a quick look through the document you passed us and there are no numbers, in terms of how much you are allocating to rectifying this problem. What is the TSB annual profit and what is the overall Sabadell annual profit for 2017?

Dr Pester: For TSB I would have to check the exact figure, but it is of the order of £200 million.

Richard Meddings: It has about £1.1 billion of revenues and just under £900 million of costs in the normal run rate.

Dr Pester: It is of the order of £200 million.

Rushanara Ali: It is about £200 million.

Dr Pester: It is approximately, but I will come back to you with the exact figure.

Q349 **Rushanara Ali:** What is it for Sabadell?

Miguel Montes: The consolidated figure for Sabadell Group last year was about €800 million.

Q350 **Rushanara Ali:** That is €800 million of profit, so money should not be an object, should it?

Dr Pester: Money is not an object in putting resource in place to resolve this problem.



Q351 **Rushanara Ali:** Money should not be an object when treating customers who deserve compensation to address this matter, should it?

Dr Pester: Of course it should not. Money is not an object in resolving these issues for our customers.

Q352 **Rushanara Ali:** In that case, could you please explain how much you, as a board, have allocated and have earmarked for rectifying these problems and complaints and, second, for compensation? If you have not, can you give us an undertaking that you will write to tell us how much you will provide, in addition to the resources you have deployed already for staffing, in order to sort this out? Who would like to start?

Dr Pester: We are not limiting any sort of budget or allocation. We will pay what is required.

Q353 **Rushanara Ali:** I am sorry, but you have spent all afternoon evading questions and not giving satisfactory responses to people's misery, which has been caused by your failures. What I am asking is for some facts. Mr Meddings, can you start by explaining how much you and your board will allocate, in addition to what you have done, to sort this problem out?

Richard Meddings: Let me give you some year-to-date costs, if that would help you, rather than trying to get some estimates going forward. Just to reassert what Paul has just said, we will set an appropriate compensation framework.

Rushanara Ali: We know about the framework.

Richard Meddings: I will answer your question. Depending on where the particular customer's complaint arises, they will be paid out against that framework. To date, the bank has rightly cancelled overdraft fees and other charges, which has been £29 million. In addition to that, we have compensated people who have suffered fraud without any attribution of liability to those customers at all, and that is about £11.2 million. If we look at where that is going to be in terms of backlog not yet paid, it probably comes close to £20 million in total for year-to-date fraud costs. You have £50 million that has gone to customers in the year to date, in fee waivers, compensation and/or fraud refund.

If you want the rest of the cost number in addition to the incremental resources that the group has been bringing on, whether it is paying double overtime or additional resources—the 1,900 people you talked about or the additional expert support, whether it is IBM, Deloitte or others—it is around another £20 million. Year to date it is about £70 million.

Q354 **Rushanara Ali:** Is it all coming out of the TSB budget? Mr Montes, is Sabadell contributing to that?

Miguel Montes: TSB figures are consolidated in Sabadell Group, so whatever TSB is spending is also reflected in the expenditure of the whole Sabadell Group. Let me add to your previous question. If we identify



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any additional resource, we will bring that in to solve the problem quicker.

Q355 **Rushanara Ali:** I have some additional questions relating to mortgages. There were a number of mortgage-holders who were not given other products to switch to, so they were moved to products that were much more expensive. Can anyone shed some light on what is happening for those who have mortgages with TSB and the circumstances they have experienced in the light of this? They have moved to standard variable, trapped in a standard variable rate.

Dr Pester: Normally when a customer comes to the end of their mortgage deal—it may be a two-year fixed rate—we will offer them the ability to transfer on to our new best available rate.

Rushanara Ali: Yes, I am aware of that.

Dr Pester: That capability has not been working, so we have explained to customers that we will compensate them for the period of time that they are on the standard variable rate. As soon as we are able to put them on to our best available product, we will move them to our best available product.

Q356 **Rushanara Ali:** What about opportunity cost? What about the fact that they have not been able to shop around in that time.

Dr Pester: They can shop around. There is nothing to stop the customer shopping around.

Q357 **Rushanara Ali:** There is not, so they can switch. They can leave.

Dr Pester: Of course they can.

Q358 **Rushanara Ali:** They will not have the problems that have been described earlier about switching from one bank to another.

Dr Pester: As the FCA said in the letter, we have had no problems with customers switching from TSB and there are no problems with them switching mortgages.

Q359 **Rushanara Ali:** You will compensate them.

Dr Pester: Yes, exactly, we have offered to do that.

Q360 **Rushanara Ali:** You realise that switching to a variable rate can be very expensive. Waiting eight weeks can be pretty serious and it needs to be dealt with quickly.

I have one more question. Can I get some factuals? Perhaps you can come back with anything you want to add to it. You may have already addressed this, so apologies if you have. How many people so far, out of the number of people who have faced problems and need to be compensated, have had compensation?



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Dr Pester: Out of the 95,600 complaints, we have paid 24,094. Is that the question you were asking?

Rushanara Ali: You have compensated 24,000.

Dr Pester: Yes, that is correct. If the customer is not happy with that compensation, as Mr Mann is suggesting, the customer can and should come back to us and talk to us.

Q361 **Rushanara Ali:** How many customers have come back and said they are not happy?

Dr Pester: I am not aware of this figure at this stage, but I will provide it to you.

Q362 **Rushanara Ali:** Could you provide that figure to us, please? You have just had one, two if we include the £100 that was offered to Mr Mann's constituent. What is the average level of compensation that you provide? Do you give people a minimum guarantee of what they should expect, because people will be making a calculation about whether they should bother with you for compensation, if they have to spend many more hours and days pursuing compensation?

Dr Pester: It is very easy to register a complaint with TSB. A customer goes to the website. They fill in the form. That is all they have to do, and we will deal with it.

Q363 **Rushanara Ali:** If you end up with £100 for the experience that my colleague has had and his constituent has had, where their wedding has practically been ruined, it is not simple. It is not straightforward. Your response suggests that you have not really been absorbing and taking on board the sorts of life-changing effects that these sorts of treatments have generated. With respect, I do not accept your point that it is straightforward. I would like some guarantees that there will be a minimum level of compensation, so you will set out to customers what they should expect, so that they can make a judgment about whether they should bother with you or just walk. That is what you would do if you were a customer of your own bank, would you not, Dr Pester? Would you not, Mr Meddings and Mr Montes? Would you not do that?

Dr Pester: I am a customer of my own bank.

Q364 **Rushanara Ali:** You are, but have you had your wedding ruined?

Dr Pester: Of course I have not. I have been lucky enough not to have suffered that.

Q365 **Rushanara Ali:** That is the point. The point is, if you had been treated like this, you would walk. We are trying to establish whether there is clarity around compensation. Can you give a guarantee of the minimum amount and information about what people should expect and what amounts they should expect, against different kinds of distress that might have been caused? You have used the word "distress" a lot today. Could



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you explain that because, frankly, if you are a customer and you do not have clarity, you cannot make judgment calls about whether you should bother? Would you be able to do that?

Dr Pester: If I can write to you with those figures and provide them to you, I would be very happy to do that.

Q366 **Wes Streeting:** First, I find the idea that any of this is simple and easy to get through, particularly to the three of you, as just not plausible. John Mann highlighted a number of examples of people's data falling into the wrong hands, and this was greeted by you as if it was a revelation. The clerks of the Treasury Committee, in preparing us for this session, were able to find on Twitter, a public forum, examples of your customers complaining about receiving multiple letters in the same envelopes addressed to different people, people receiving letters for someone else in a different part of the country and exactly the sorts of case studies that have been raised. If the clerks to the Treasury Committee could find this to prepare us for this session, why are you not prepared not to answer our questions and make sure that your customers are not being defrauded in the way that they are?

Dr Pester: We are aware. I explained to the Chair that I apologised. I am aware that, in sending complaint letter acknowledgements to customers, we have had instances where we have put multiple letters in the same envelope. I apologised for that and I do apologise for that. I understand how distressing it is. What we have offered to those customers is additional fraud protection through an organisation called Callcredit, which provides additional security checks and additional fraud checks on the web and the dark web. Those instances are something we apologise for deeply. I was not aware that that was the incident that Mr Mann was talking about.

Q367 **Wes Streeting:** No, I think he was referring to something else. I am just giving examples that we seem better prepared for this session than you and we are not running your bank. Forgive me if I missed this statistic before, but how many customers have already left your bank as a result of all this?

Dr Pester: We have had approximately 12,500 customers switch away from TSB. To answer your question as truthfully and honestly and openly as I can, I cannot tell you the causes of why those customers have switched.

Q368 **Wes Streeting:** I think we can guess, so do not worry about that. On to the issue of staffing, you talked about recruitment. How many additional staff are you recruiting, and in what parts of the business, to manage this problem?

Dr Pester: We have recruited approximately 2,200 across the whole business.

Q369 **Wes Streeting:** Are they concentrated in particular areas or is this



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across the board?

Dr Pester: They are concentrated in those areas serving customers. They are concentrated in our telephony centres. They are concentrated in our fraud operations team and they are concentrated in our branches.

Q370 **Wes Streeting:** Phones, fraud and branches are the key areas. We have had reports of staff working very long hours. Obviously they are under huge amounts of stress. Are you paying your staff full overtime?

Dr Pester: Yes, of course. Let me say, first of all, that we are very thankful for the staff doing a fantastic job. All the partners at TSB are outstanding. We are paying twice our overtime rate. We normally pay 1.5 times normal rate; we are paying twice normal rate. I am thankful, as I said to all my staff. I spoke to them at 9.00 this morning. I am thankful for the immense efforts that they continue to make to correct these issues for our TSB customers.

Q371 **Wes Streeting:** Particularly your staff in branches may well be saving your bacon, on so many fronts. I am glad we finally got that acknowledgement on the record here in Parliament too. It seems to me that you are investing a significant amount in additional overtime that would not normally be paid, whether it is to people who would not normally be eligible or twice the amount, as you have just said, to incentivise overtime and to compensate staff for the stress they are under in an appropriate way. You are recruiting significant numbers of staff into key areas of the business. The question arises: why were key parts of your business not adequately resourced in the first place to mitigate the problems that have arisen since?

Dr Pester: We increased resourcing across the whole business before the migration. We added approximately 40% to our telephony centre, but I will give you the exact figure. We expected extra resource to be required. What we did not expect is the degree of the issues that we have experienced. We would never have migrated if we had any sense that these were the sorts of problems we were going to suffer as a consequence.

Q372 **Wes Streeting:** How much additional resource did you put into fraud prevention?

Dr Pester: I would like to get back to you with those figures. I do not have them with me.

Q373 **Wes Streeting:** I think you should, because you acknowledged at the beginning that every bank is the target of fraud during IT migration. You described this as a particularly aggressive attack, saying the volume went to about 70 times normal. Now you have got it down to two to three times the normal rate of fraud. Those were the figures you gave us.

Dr Pester: We assumed it would be four times.

Q374 **Wes Streeting:** We will want to be very clear about what you have done



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to mitigate in advance, let alone where we have got to now.

On the question of your preparedness for a failure of this kind, in 2016, TSB made arrangements that allowed it to defer payments to Sabadell for the IT migration until the migration was completed. Can you describe why those payment-by-results-style arrangements were put in place?

Dr Pester: Sorry, you are going to have to repeat the question.

Wes Streeting: I believe this is from your annual report: "During 2016, TSB Bank plc and its ultimate parent company, Banco Sabadell, confirmed a set of arrangements between themselves which restricts the aggregate financial exposure of the IT migration programme to TSB Bank plc to a maximum of £15 million. As a consequence, at 31 December 2017, the bank deferred £124.5 million—in 2016 it was £37 million—of IT migration programme costs incurred to date, as a prepayment of charges for services from the Sabadell Group company that will crystallise on completion of the migration from the existing Lloyds Banking Group platform". I am just wondering why that arrangement was put in place.

Dr Pester: The reason for putting that arrangement in place was to protect TSB from any overrun of the costs of migration. If there was any overrun in the costs of migration, we would offset that against fees we would pay Sabadell for delivering the platform.

Q375 **Wes Streeting:** Will you be paying Sabadell, given what has happened?

Dr Pester: That is something that is for all of Sabadell, Sabis and TSB, as we explained in the letter to the Chairman. We are investigating the root cause of this problem. When we get to the bottom of that, the appropriate payments will be made.

Q376 **Wes Streeting:** Do these arrangements that I have described form part of Slaughter and May's work?

Richard Meddings: Slaughter and May's work is looking, first of all, at how the migration decision was made, the governance, who made the decisions and on what information. Then it is looking at how the bank has managed the issues that have arisen through that migration. For a period after the migration, how well did TSB actually manage the issues?

Q377 **Wes Streeting:** Let me finish by addressing this issue that I think is central to the work of the FCA, which is around control. Who was really in charge during this process? It is a very simple question, actually: who was actually running this programme?

Dr Pester: The process for migration, the responsibility and the decision to migrate sat with the TSB board.

Q378 **Wes Streeting:** Timing, decision-making and risk management—were they all in practice controlled by TSB?

Dr Pester: Ultimately, yes, although of course we used a range of suppliers to help us opine on whether we were in a position to migrate.



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As Andrew Bailey from the FCA described, we had various suppliers that provided assurances to TSB that various actions had taken place to enable us to migrate, but the decision to migrate was the decision of the TSB board.

Q379 Wes Streeting: Why did you say, at an interview of 26 April, when asked about the IT system and the previous statement you had made about it being up and running, "All I can do is tell customers what my IT provider tells me"? Then you added, "I have taken control". That implies you did not have control in the first place, does it not?

Dr Pester: The first question you asked was about the decision to migrate. Imagine moving from one house to another house. That is the decision to move. Who then manages that house for you? We were essentially renting that from Sabis. Sabis owns the physical infrastructure and we paid Sabis £110 million a year to run the infrastructure, through a team that Sabis controls. By appointing IBM, we have put IBM sitting on top of that team to help us prioritise the fixes and to bring the fixes to the platform, under my control and under TSB's control. I hope that answers your question.

Q380 Wes Streeting: No, it does not entirely. I wonder how, at key moments of looking at decision-making, not just taking the decision to migrate but managing the process of migration itself, you were assuring yourselves that your customers would be safe.

Dr Pester: We ran a very robust process. It was nearly a three-year timeline to agree the migration event itself. The migration event itself took place over a weekend. We were confident of the approach we took to that and the assurances we had in making that happen. That is different from running the platform once our customers and data were on the platform.

Q381 Wes Streeting: My question comes back to this phrase you used, "I have taken control".

Dr Pester: I agree with that phrase. The control that I took was, instead of asking Sabis to make changes to the platform and to fix issues in the platform, we appointed IBM to help us identify the issues, prioritise the issues and then instruct Sabis to make the changes. I have brought the management of the platform closer to TSB and into TSB.

Q382 Wes Streeting: Surely you must concede that, until that point, you could not obtain any assurance on the information that is being supplied to you by Sabis. In spite of being accountable for the running of the bank, for the protection of your customers and safeguarding their interests, you were not, at least until that point, in control as you should have been.

Dr Pester: We were in control through an outsource agreement with Sabis.



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Q383 **Wes Streeting:** Sorry, you cannot just outsource your responsibilities under the Senior Managers Regime to a third party. You do not just outsource your responsibility to protect your bank and its customers.

Dr Pester: Of course I take responsibility. I outsourced the management of the platform to Sabis. To be crystal-clear, I am responsible for TSB and for TSB's customers, but we use many suppliers from cleaning our offices to printing letters for us to running our IT. I am responsible for all of those, but they are provided by separate organisations to TSB. It is very common with all organisations.

Q384 **Wes Streeting:** If you are accountable, given the extent of the fraud, the failure to mitigate, not having adequate knowledge of the facts and the range of issues experienced by your customers when we last met and even today, and given the issues that arise from the lack of control of this process that we have just touched on, why are you still here?

Dr Pester: I deeply regret the problems we have caused customers, of course, but I believe I am the right person to fix this problem for our customers. I have immense passion for TSB's customers, for TSB's partners and for fixing this for TSB. I will not rest until this is fixed. We have worked day and night since this issue arose on 23 April and we will continue to do so until we fix this problem for our customers. It is heart-breaking to see—

Q385 **Wes Streeting:** We have heard it is heart-breaking. I think you have set a new record for apologies to a parliamentary Select Committee. We know all of that. The question is about, even since we last from you, how we could possibly have confidence in your ability to turn this situation around. How could your board have confidence in your ability to turn this around? How could your customers have confidence in your ability to turn this around?

Dr Pester: No one is more committed than me to making this work. The commitment of our partners across TSB, the commitment of my executive team, the support of the board, the support of Sabadell and Sabis are all focused on fixing this for our customers.

Q386 **Wes Streeting:** Finally, Mr Montes, you have been very quiet during the course of this afternoon. So many of these issues arise from the problems of your company and its failure to deliver. Do you think you should be paid a penny by TSB for this abject failure and the total misery that has been inflicted upon TSB's customers?

Miguel Montes: As I have already said, we are quite conscious of the damage that has been produced for the customers of TSB. We know that most of this damage has come from the bad functioning of the system after the migration. We know as well how hard we have committed all resources to work for a solution. Until now, we have only done that. There has not been any kind of discussion about payments or any kind of discussion about financial flows, and there is not going to be until the solution is finished.



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What I can say is that, at this point in time, we know that the system is able to equip the bank and give the bank continuity for operations. It has not been the kind of system that we expect TSB to be enjoying after the migration from Lloyds, but it is our commitment to help TSB finally to have the system that the customers' services require. We are convinced that this is going to be the case very soon.

Wes Streeting: Finally I would just observe that, even this afternoon, when a member of my office phoned your fraud line, they were greeted with an automated message, "We're sorry it's taking longer than usual to put you through to an adviser". That pretty much sums up the situation.

Q387 **Chair:** There are a few more questions that colleagues want to ask, but following on from that, Mr Montes, TSB was very keen that you should be here this afternoon. Why is that?

Miguel Montes: I am a member of the board of TSB. I am also the chief operating officer of Sabadell. I am fully committed to what has to be done by TSB, at this point in time, to solve the problems that the customers are experiencing.

Q388 **Chair:** How involved are you on a day-to-day basis? How much time are you spending in the United Kingdom at the moment? When did you last visit Bristol?

Miguel Montes: I am here on a weekly basis.

Q389 **Chair:** Are you here for one day?

Miguel Montes: I am here for one to two days, normally one night, because I am also fully devoted to the place where the technical teams are located in the surroundings of Barcelona.

Q390 **Chair:** Have you visited Bristol?

Miguel Montes: I did for the migration weekend. I have not been back to Bristol because, when I am here, I spent my days at Gresham Street and here in London. I engage daily in the goal calls and the telephony calls that we hold on a daily basis to follow up on the evolution of things.

Q391 **Chair:** This hearing is generating a lot of interest from outside, so there are some additional points that are worth asking. The first is that Mr Elphicke mentioned one of the Members of Parliament. Members of Parliament should not get any better service from dealing with TSB than anybody else, but he has asked to point out that his letter to you, Dr Pester, remains unanswered after six weeks.

To follow up on Mr Streeting's point, there have been people trying to call your fraud line this afternoon. One has waited 15 minutes and given up. One has waited 27 minutes and given up. Mr Meddings, when is the Slaughter and May report going to be published?

Richard Meddings: I cannot give you a definitive date, except to say it has already made significant progress in terms of having accessed and



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read the key documents around the migration decision. They have now given a very significant document request to the bank, and we are gathering that information for them and providing it to them. They have not started the interview process yet; that is partly because they are agreeing protocols with the FCA about the interview process. The FCA and the PRA are going to have their own inquiry. I would hope it is a matter of several weeks, a few months, but not longer than that.

Q392 **Chair:** Will it be finished before people start going away on summer holidays?

Richard Meddings: I do not think it will be before the summer holidays. I know they understand the importance of it, given the judgments that will need to be made as a result of their work. I have asked them to deliver a report as fast as possible, but they have not given me a deadline date yet. It partly depends on the interview protocols that, as I mentioned earlier, they have to agree with the FCA and PRA.

Q393 **Chair:** Thank you for the IBM slides, Dr Pester. Are we able to publish them as a Committee?

Dr Pester: Could I please reflect on that, because it may have commercially sensitive information? I would need to check with IBM as well.

Q394 **Chair:** Without going into the details, there is a slide at the end that talks of "immediate actions aimed at improving client experience". These slides are dated 29 April. There is a timeline about when these things are going to happen at the side. Are you able to say whether these things have happened?

Dr Pester: From my plan, my understanding is that the majority have either happened very quickly or were deemed not to be necessary. I would be very happy to write to you with an update on every one of those.

Q395 **Chair:** That would be very helpful. Something else that has also been pointed out to me is that IBM, in their slide entitled "early findings and observations", says, "In a similar situation when they partner with a financial organisation to migrate to a new core banking platform, multiple trial migrations are conducted, rolled back and then remediated prior to launch. The production launch was done over a longer period, initially open to programme members only, then staff, then targeted customer groups, before full launch to new customers and subsequent migration". That did not happen here.

Dr Pester: Here, as we discussed with IBM following those comments, we launched mortgages on to the platform first and then we opened up the platform for TSB employees. We ran a series of movements on to the platform first. It is worth a conversation with IBM. The third piece of work we asked them to do was to look at the cause of this, whether it



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would have made sense to do more or less or whether there is an opinion on that.

Q396 **Chair:** I want to ask you about a couple of other things. Some of the fraud has been conducted using SIM cards. Are you in contact with the relevant mobile phone companies?

Dr Pester: Yes, we are. We have attempted to create a cross-industry approach and understanding with mobile phone companies to avoid customers being exposed to this sort of fraud. We think it is very beneficial for the banks and telephony companies to work together.

Q397 **Chair:** What is your ongoing relationship/investigation with BT? What is the latest on that?

Dr Pester: We spoke to BT. We contacted the group CEO of BT. We have the global head of services, because BT designed the communications infrastructure that is part of our network and our infrastructure, and they manage that for Sabis. They are a key supplier. As Miguel mentioned earlier, we have daily telephone calls with the BT team, the IBM team, the Sabis team and TSB, so they are very heavily involved.

Richard Meddings: They have come twice to the main board of TSB to talk about the issues.

Q398 **Chair:** There are obviously still issues in branches. In the letter to me, Dr Pester, you said, "The bank is now working at or close to normal in many aspects". Clearly many customers and others watching this will fundamentally disagree with that statement. In relation to branches, how are they operating and how much overtime are your staff having to do?

Dr Pester: I cannot give you the exact figure on overtime, but we are opening for normal hours. As I explained in my letter, the list of things that are operating as normal does not include branches. Branch transactions are taking longer than we would like, and we are working with IBM, BT and Sabis to resolve those issues.

Q399 **Chair:** The branches are not operating normally.

Dr Pester: No, they are not. As I explained here, there are two significant areas of slower-than-expected transaction times, with our branches and our telephony times being longer than we would be willing to tolerate.

Q400 **Chair:** There is also an issue with credit cards and people not being able to see historic statements.

Dr Pester: I understand that has been fixed or is being fixed, but I will confirm that to you.

Chair: I understand it has not been fixed.

Q401 **John Mann:** I have a request. Dr Pester, you led for Lloyds Bank Project



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Verde. In fact, this Committee had an inquiry into Project Verde. You basically decided who would win the bids for the Lloyds branches that the European Commission required to be sold.

Dr Pester: Can I stop you? I did not have an opinion on who would win the bids. My responsibility was as the CEO of the Verde project to build the bank. Lloyds was choosing who to sell the bank to, so it was not my responsibility. It was the responsibility of António Horta and Antonio Lorenzo.

Q402 **John Mann:** What happened was that plan B had to be enacted, which was that TSB got the branches. I have noted that, at the time that decision was being made, a huge amount of emphasis was put on—and I am quoting here from 2013—“the segregated IT system” as the basis for this decision. That was a press release that is in the public domain. That and other documents about that IT system led to the decision. Of course, it was controversial at the time. There was an alternate bid that had gone in before the court pulled out, from Lord Levene and others, which was the subject of our inquiry at the time. The repeated concentration on the IT systems was clearly very important, hence the press releases. Those documents relating to that—those press releases and there will be more than that—would be very useful for the Committee if we could have them.

Dr Pester: They would be the ownership of Lloyds Banking Group, because Lloyds Banking Group was designing the structure. The segregation of the IT that you are describing is the segregation of Lloyds Banking Group’s IT platform. I stand to be corrected.

Q403 **John Mann:** No, it was not. That is not what the press release was about in 2013. It was not about the segregation of Lloyds at all. It was about TSB and the new operation, very precisely, because it then referred to the Lloyds IT system itself as the foundation on which that could then sit. Are there any documents or press releases that are in your ownership—and I would imagine you would have kept press releases from that time—of this nature? We can find them elsewhere.

Richard Meddings: I am sure there are press releases we can give you.

John Mann: Any documents like that would be useful, because it was notable to me that IT was featuring so prominently in them.

Dr Pester: Yes, I will of course.

Q404 **Mr Jack:** Approximately 12,500 customers switched away since 23 April. Do you know how many have switched to TSB, Dr Pester?

Dr Pester: We have not been attracting new customers to our current account business. However, we have been, on average, seeing a very low volume of around 600 a week moving their banking to TSB. I can correct those figures for you of course. We are receiving approximately £100 million of mortgage applications per week.



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Mr Jack: For your bank and for your staff, and particularly for your customers and consumers, I have a request for you. It goes back to RBS, which we have spent a bit of time with in this Committee. One of their three principles, ironically, is to do the right thing. In terms of compensation and looking after their customers, they have singularly failed to do the right thing. You have an opportunity now to do the right thing and change the face of banking, and I would ask you to do that.

Q405 **Charlie Elphicke:** I have a couple of questions. First, how many customers were there at separation in 2012 and how many are there now?

Dr Pester: I will have to come back to you with the exact figures, but I can tell you approximately. In 2012, there would have been—I may get these numbers wrong—around 4.2 million. Let me come back to you. It is well above where we started in 2012-13. On average, we have had around 100 customers a day moving their bank account to TSB, and the customer base is well in excess of 5 million.

Q406 **Charlie Elphicke:** Could you write to the Committee and chart it by each year?

Dr Pester: We will take you through that and also perhaps, if it would be helpful, the size of the balance sheet. As customers have moved their mortgages to TSB, our total lending has grown from about £18 billion to £30 billion.

Q407 **Charlie Elphicke:** Mr Meddings, you have mentioned Slaughter and May various times. First, can you briefly describe the scope of their instructions? Would you be prepared to copy the instruction letter to Slaughter and May to this Committee, so we can have a good understanding of what exactly their engagement is?

Richard Meddings: I am sure we can provide the terms of reference. I would need to check that, but I cannot see why we would not be able to provide that. Again, as I think I said slightly earlier, the reason it is a law firm, in spite of the fact that the investigation would clearly need to understand technology issues, is that part of the terms is about the governance around the decision made to migrate. That will attach to board processes, committee processes, responsibilities and down to SMR. The first main part of it will be about the migration decision itself and then, as I said a few minutes ago, the second main part will be, since the migration and the issues that have emerged, how well TSB has managed those, put resources at them, prioritised the right issues and so on.

Q408 **Charlie Elphicke:** Will it look at the culpability of individuals, the relationship with the Spanish bank and potential issues around shadow directorship?

Richard Meddings: It is certainly going to understand and look at the inter-relationship between TSB and Sabis. Clearly we are both sister subsidiaries within the Sabadell Group. To the extent that the



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investigation needs to go up through the Sabadell Group, I am sure the Sabadell Group will enable that. It is predominantly looking, first of all, at TSB and then its relationship with Sabis, as the third-party platform supplier.

Chair: Thank you for being here this afternoon. Unfortunately, this saga goes on for many of your customers. The FCA's letter to me, dated 30 May, says, "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". I do not think people on this Committee can remember seeing such a letter from the FCA.

This afternoon, you have confirmed that the IT migration has led to customers being fraudulently deprived of their money, which is a devastating experience; life experiences, such as weddings and house purchases, as we explored previously, have been ruined by what has happened. The stress has been immeasurable. The compensation offered is clearly absolutely inadequate, and the problems continue. There are two major areas, as you have said, Dr Pester: banking and telephony. I would argue there are other areas as well that are still not working. This cannot be something that you want, I am sure. It is not something that any bank would want to offer to its customers. Ultimately, it is not only damaging to TSB—as I say, you have unfortunately earned the epithet Truly Shambolic Bank—but also to other banks in the sector, to online banking and to other services.

Although we are grateful to you for your time this afternoon and for the way in which you have answered the questions, and we do not doubt the commitment and hard work that is going on at all levels of your organisation—it took you an hour and a half to thank your staff for everything that they had done publicly, before the Committee this afternoon, Dr Pester—I suspect that we will be asking you to come back again. We will be keeping a very close eye on what is going on to put all of this right. I am going to ask for the public gallery to be cleared now and we are going to meet again in private session, but thank you for your time this afternoon.