Santander UK plc.
Unity Place
200 Grafton Gate
Milton Keynes
MK9 1UP

Harriett Baldwin MP
Chair of the Treasury Committee
House of Commons
London
SW1A 0AA

18 April 2024

Dear Ms Baldwin,

Thank you once again for the opportunity to give evidence to your committee on 20 March 2024, and for your subsequent letter of 28 March. I welcomed the opportunity to answer the Committee's questions and for me to share how Santander UK is supporting its customers.

Banks such as Santander UK play a key role in supporting people across the country to achieve their financial goals, help them to borrow or manage their money, buy their own home, save for the future and start their own business. It was positive to see the important role played by banks in the UK recognised by the Committee, and through the wide-ranging and thoughtful questions members asked.

As was noted in the evidence session by the Committee, banks such as Santander UK are commercial entities that nevertheless play an important role in local communities. Santander UK must balance competing priorities and interests, from the non-negotiable costs associated with regulatory change and compliance, to the cost of maintaining our digital platforms and branches. We must also continue to provide the protections customers expect, particularly in preventing fraud, and price products in a way that lets us compete in an incredibly competitive environment. I am confident that we strike a good balance between these factors, to the benefit of our 14 million personal and commercial customers in the UK.

As you outlined in your letter, the Committee asked for further information and clarification across a range of topics. Please find specific answers to each of these questions in the appendix.

As ever, please do not hesitate to get in touch if Santander UK can be of further support to you and the Committee.

Yours sincerely,

M. Regnier

Mike Regnier
CEO Santander UK

Appendix – Responses to Treasury Committee requests for further information

1. What are the repossession rates for your mortgage book in 2022 and 2023 and what is your forecast for this year (Qq 108-110)?

Financial difficulty can be a real source of anxiety and stress for customers, and Santander UK is committed to working with customers facing financial difficulty. We employ over 600 specialists in our financial support team, including 65 dedicated to providing support to our most vulnerable customers.

Repossession remains our absolute last resort, and we endeavour to work with all customers to find an alternative solution wherever possible. As a signatory to the Mortgage Charter, where we proceed with repossession we won't do so within 12 months of the first missed mortgage payment. Our repossession volumes remain a very small proportion of our overall mortgage portfolio (under 0.1%). Santander UK has 1.2 million properties in our mortgage portfolio. In 2022 we repossessed 658 homes, and in 2023 we repossessed 330 homes.

These repossession figures were influenced by the decision to suspend litigation and repossession activity during the COVID period. We expect repossessions this year to return to the typical range we saw before the pandemic, of between 550 and 700 repossessions. We would always encourage any customer who is concerned about their financial situation to contact their bank at their earliest possible convenience, so that we can fully explore the options and support available to them.

2. Have you any reflections on the set up of the Business Banking Resolution Service (BBRS), and why it was not more successful in giving compensation to aggrieved consumers? (Qq 134-136)

Our experience with the BBRS has been limited given the low number of Santander UK customers submitting cases for consideration. Roughly 3% of the cases submitted to the BBRS since it was formed in February 2021 relate to Santander UK. We have only been engaged by the BBRS on 10 cases since the scheme was launched.

Based on this, we can only provide limited reflections on the set up of the BBRS and its subsequent effectiveness. We would note that having been established following consultation with a range of industry, SME, government and regulatory representatives, the BBRS has only received a fraction of the cases that were forecast. This is despite significant investment in the promotion of its existence and accessibility.

Given that the BBRS appears to have been set up, operated, and governed according to the stakeholders' original blueprint, it could be concluded that the limited flow of cases has been the single biggest factor affecting its level of influence. We would note that the BBRS's independent Post Implementation Reviews published on its website also act as a good evidence point for reviewing the scheme's effectiveness.

Santander

3. What are the criteria Santander use to decide when to close a bank branch (Q 152)?

We appreciate that some customers value the presence of a physical branch, alongside the other methods of contact we offer such as by phone, app or web. We invested in refurbishing 50 branches last year and are refurbishing a similar number this year.

As you would expect, we keep the services and products we offer under ongoing review to ensure we are appropriately meeting the needs of our customers, and these include our branch network. We take a range of factors into account when considering this, such as customer use and alternative face-to-face provisions in the local community. Any decision to close a branch is subject to significant due diligence, to mitigate any potential negative impact. We are also part of industry initiatives to ensure the existing provision of cash access is maintained and were founding members of the Cash Access Group. The Financial Services and Markets Act 2023 also laid out further requirements for designated firms with regards to cash access.

4. Is there scope for more effective cooperation when operating banking hubs? What are the opportunities for expanding the services currently available in banking hubs? (Q 147)

Santander UK supports innovation to better serve our customers, which is why we were a founding member of the industry group that developed the concept of shared banking hubs and supported the pilots in 2021. We also support efforts to do more to support customers within shared banking hubs, and Santander UK has already extended the services that we offer there to our customers. This includes ensuring that, where we have community bankers within a banking hub, they are trained to support customers, whether or not the customer has their own mobile or tablet device that they can use for their banking needs.

Banking hubs were originally designed to provide free cash access rather than banking services, as is reflected in legislation and FCA regulation. Whilst firms are voluntarily exploring how shared banking hubs can be expanded to include wider banking services, this is a more complex challenge than providing cash access. Every bank operates using different IT infrastructure, and both external regulation and internal policies need to be taken into account. Firms must also consider how best to serve their customers' needs, which includes the majority of customers who prefer to bank by phone, by web or on a mobile app.

Nevertheless, we believe there is some scope for banks to work together more effectively to deliver more through the shared banking hubs, and UK Finance are facilitating meetings to review what can be offered safely. As a result of these we have agreed to achieve set standards for the services offered in banking hubs by the end of the year. Santander UK is well placed to deliver these significantly ahead of schedule.

5. How much interest income has your bank earned from central bank reserves in 2023 and 2022? How do you anticipate this will change in 2024? (Q 166)

Santander UK, like our peers, is required to raise and subsequently hold high levels of liquidity to protect our customers and the stability of the wider financial system. In our case, based on the Prudential Regulation Authority's Liquidity Coverage Ratio rules and internal buffers, at any given time we are expected to have raised liquidity in order to hold the equivalent of £43 billion in liquid

Santander

assets. These assets are held in the form of cash on reserve, or in other high quality liquid assets such as government bonds.

Cash held in central bank reserves earn interest, and for Santander UK this amounted to £668 million in 2022 and £1.9 billion in 2023. The interest paid on central bank deposits plays an important role in both transmitting monetary policy and ensuring banks maintain a suitable buffer to protect consumers. For example, whilst the income from interest on central bank reserves increased by £1.2 billion between 2022 and 2023, our net interest margin (NIM) only rose from 2.06% to 2.2% in the same period. During the same time period we were able to pay our customers an additional £1.2 billion in interest on their savings, thanks to the increase in income from interest on central bank reserves.

Alongside transmitting monetary policy, interest paid on reserves reflect some of the opportunity cost of funds being held in the central bank, which could otherwise be used to offer more services to customers and better support the UK economy. We expect the interest we earn on central bank reserves in 2024 to be similar to that in 2023.

6. Can you advise us on what more you can do to close the gap between what you are offering by way of deposits, both term and instant, and the Bank rate? Could you also set out your intended policy when the Bank rate begins to fall? (Q 175)

In setting interest rates paid to customers on their deposits, or charged to customers on lending products including mortgages, we take into consideration a range of different factors - not just the Bank rate. In particular, our pricing must reflect the difference between how quickly rate changes on mortgages and savings take effect. The vast majority of our mortgage customers choose fixed term products, with the average duration of a mortgage being three years, and as a result our interest income reprices slowly. In contrast, changes to our savings pricing take effect quickly, across our savings products.

As a result, our pricing for savings must reflect the speed at which our mortgage income reprices. All pricing decisions consider the impact on our customers and subsequent interest they receive or pay, the level of investment in our services which we believe our customers value and expect, and the value we can generate for our shareholders to ensure an ongoing investment.

All pricing and rate changes are agreed at our weekly pricing forum, chaired by our CFO, where decisions are subject to robust scrutiny from across the business. Since the Bank rate started rising, we have significantly increased the amount we have paid to our savers across our range. In 2022 we paid £195 million in interest to customers on our range of savings products, but in 2023 we paid £1,399 million.

We have done this in a way that we believe is fair, adheres to the Consumer Duty, and permits us to compete for new business through flexible pricing on our on-sale rates. We continually monitor the Bank rate, our products and services to ensure we provide a competitive and appropriate offer to our customers, in line with regulatory expectations. We are confident that our products do this successfully.