28th September 2018

Rt. Hon Nicky Morgan MP
Chair, Treasury Committee
House of Commons
Committee Office
London
SW1A 0AA

Dear Ms Morgan,

Thank you for your letter dated 20th September 2018.

Before I answer the questions that you have asked, I wish to re-iterate my apology to the customers of Cashplus for the recent service incident referred to in your letter. I can confirm that the incident was resolved on 19th September 2018 and that Cashplus has already taken steps to contact all 14,375 customers who were adversely affected, to ensure that they are appropriately compensated. Cashplus has already paid more than £64,000 in compensation to customers impacted by the incident.

It may be helpful if I initially provide a brief background to the business of Cashplus in the UK financial services market.

Background

Cashplus has provided digital banking services in the UK for over 13 years. It tends to market to hard-working customers who have an average income but are overlooked by banks. Many of them are SMEs who often find getting a traditional bank account to be a difficult and onerous process. Cashplus has a culture of striving to ensure that customers are treated fairly. We engage with our customers via quarterly surveys (29 surveys since 2010), which helps us to improve our services and understand what we need to do to retain happy customers. In these survey results, there is a high degree of satisfaction with our products and services, for example as high as 80% of SMEs and 90% of consumers would recommend our products to friends or family. That is a higher customer satisfaction rating than many of the UK retail banks.

I am passionate about trying to ensure that our customers have an excellent service, and no one is more disappointed than I regarding the recent service issues and their consequences for the customers of Cashplus.

Cashplus customers

Cashplus is currently very focused on ensuring that customer detriment and/or financial loss resulting from the incident is addressed. However, please note that during the incident, at least 70% of all card authorisations were successful, and at least 78% of the online servicing interactions were provided; and, although Cashplus did not meet the required 2 hours window for payment processing, no payment was delayed (inbound or outbound) beyond the day that it was initiated. Furthermore, out of all our customers, no credit card customers were affected and, of the debit card portfolio, a total of 14,375 were inconvenienced in some way. I am not trying to justify the poor service provided to customers during the incident, but it is important to note that the incident resulted in some customers receiving intermittent service, rather than a complete system failure affecting all customers. During the whole period of the incident, from the 17th to 19th September inclusive, 95% of all transactions were processed normally.
Cashplus is currently dealing with a total of 286 expressions of dissatisfaction and 100 formal complaints during the incident period. Although we believe that any complaint is one too many, please also note that we have received numerous compliments from customers and clients on our handling of this incident.

I hope this provides better context to Cashplus, the company, the incident, and our proactive and positive approach to customers when they do not get the service which they or we expect.

Responses to your questions

What follows are answers to your specific questions, which we hope address your inquiry. We of course are available to clarify any points made here or in the overall response, at your convenience.

- When did Cashplus first become aware of the system failure; when were you personally informed of it; and when did you inform the FCA?

Problems with the Cashplus system became apparent to Cashplus at 09:03 on Monday 17th September via our incident reporting system, which included notification to myself, executive managers, and other key Cashplus staff. The problems with the system were intermittent, and therefore did not constitute a "system failure" at that point. Furthermore, on Tuesday 18th September, the system appeared to improve, although still performing at a sub-optimal level.

The system performance then degraded further on Wednesday 19th September as our third party processor (TPP) tried to resolve the problem. This resulted in extended delays to payments, but Cashplus was still able to process payments intermittently, and normal service was resumed after business hours later that evening, with all payments being processed that same day.

I was contacted by the FCA at approximately 14:00 on 19th September, at which time our Compliance team were drafting a formal notification to the FCA. That notification (pursuant to SUP 15 of the FCA Handbook) was submitted to the FCA on 19th September 2018 at approximately 17:00.

On 20th September 2018, further consideration was given as to whether the incident was a "major operational incident" within the parameters of European Banking Authority guidelines. It was concluded that, as at 19th September, it was a major incident. This was because: more than 5,000 customers were affected; service downtime was greater than 2 hours; there was a high level of escalation, and reputational impact was potentially significant. Relevant Incident reports were submitted to the FCA following this assessment, detailing the incident and providing status updates.

- For how long was Cashplus aware of the system failure before issuing its first public statement of the incident? What steps did you take to inform your customers about the incident and its impact on them?

Cashplus uses a service status page on our main product website, where customers can obtain updates publicly on the status of all our systems. The link is: www.cashplus.com/service-status, and can also be accessed easily from the main site of Cashplus.com. This service status information was available throughout the incident.

On 17th September at 10:17, we placed an "intermittent issue" notice on the status page related to the Mobile app and Online services, which was approximately 1 hour and 14 minutes after the time it was identified by our internal technology team (at 09:03). At this stage, we had not seen significant changes in customer service levels, nor an impact on the card usage. We issued an "intermittent issue" notice regarding card usage at 11:41 on 17th September.
We continued to provide regular updates during the incident until 09:52 on 20th September, when all systems were operating normally. On the 20th September, we retained a notice regarding waiting times for calls to be answered, as we were dealing with higher than normal volumes until 16:34 on Friday 21st September, when we got to a position of "no calls waiting" and ended the day (at 20:00) in a good position.

We also provided relevant updates on Twitter and Facebook during the incident, starting at 16:16 on 18th September, along with messages on our automated phone service (which played a recorded message prior to customers speaking to a service advisor).

On the 20th September, starting at 18:30, an apology letter from me was sent by email to 128,885 customers, which provided: a summary of the incident; how customers may have been affected; and actions Cashplus was, and would be, taking to address the issue.

**What services were unavailable, either wholly or partially, as a result of the failure, and how many hours in each case?**

- Batch processing of payments: all payments were completed on each day of the incident, but delays were experienced on Wednesday 19th September when payments took longer than the required 2 hour window;

- Debit card authorisations, ATM withdrawals and Post Office cash loads: these services were partially available for 15 hours and 37 minutes, with a minimum of 70% of customer transactions successfully processed during this period;

- Mobile, Online Servicing and Interactive Voice Response (IVR): these services were partially available for 15 hours and 37 minutes, with a minimum of 78% of online servicing interactions successfully processed during this period;

- Customer Service (Advisors): the debit card back office system used by customer service advisors failed for 12 hours on Wednesday 19th September and was partially available for 24 hours on Monday 17th and Tuesday 18th September. Although customers could call Cashplus, advisors could not answer some debit card queries that were part of the TPP’s system; and

- Because of high call volumes, there were periods on 19th September when some customers were not able to connect to IVR nor to an advisor (from approximately 11:30 to 18:30), which gave the impression to some customers that the Call Centre was not available. Our IVR, which can provide basic account information, did operate intermittently during this period.

  - **How many and what proportion of a) business and b) personal accounts were affected?**

A total of 14,375 customers were inconvenienced in some way. The proportion of such customers was:

a) 7,192 business customers were affected (21% of active business customers); and

b) 7,021 consumer customers were affected (9% of active consumer customers).

Please note that no credit card customers were affected, because their accounts are on a separate system.

  - **In your assessment, has the risk of fraud to customers been raised as a result of this incident? If so, what have you done to highlight this risk to customers?**

The risk of fraud to customers is not considered to have materially increased following the incident. Some customers may have been unable to report a fraud during the incident, but we are communicating with these customers to address any such issues. We are also monitoring the issue closely and, if an increased fraud risk does occur, we will ensure that the customer is quickly refunded.
Is Cashplus covered by the provisions of the Second Payment Services Directive in respect of unauthorised payments? If not, is it your policy to compensate fraud victims – including business customers – as if you were (that is, to refund unauthorised payments by the next business day)?

Yes, as an authorised Electronic Money Institution, Cashplus must comply with the Electronic Money Regulations 2011 (EMRs) and Payments Services Regulations 2017 (PSRs). This includes the requirements of section 76 of the PSRs relating to refunding unauthorised payment transactions.

- What arrangements have you put in place to compensate customers who have lost out as result of the failure? How, in particular, do you intend to deal with the consequential loss claims from business customers?

The following describes how we are compensating both business and consumer customers:

- Customers whose transactions were declined in error have been pro-actively provided with a gesture of goodwill per affected account;

- Customers whose payments have been delayed have been encouraged to contact Cashplus if they have suffered direct loss, and will be compensated accordingly;

- Customers who have tried to contact Cashplus during the incident but failed to get through (approximately 2.2k), have been proactively provided with a gesture of goodwill and will be able to claim further compensation in respect of any direct loss incurred; and

- As of today, Cashplus has paid over £64,000 in customer compensation, both proactively and in response to customers who have reported a direct loss. We will continue to address the claims of those customers impacted by the incident.

Cashplus started contacting the above customers by SMS on Tuesday 25th September 2018.

- What was the average wait time on your UK Customer Services telephone line on each day from 17 to 20 September inclusive? What proportion of calls were abandoned or disconnected over the same period?

<table>
<thead>
<tr>
<th>Date</th>
<th>Average Wait Time</th>
<th>% Abandoned</th>
</tr>
</thead>
<tbody>
<tr>
<td>17 September</td>
<td>1min 46 sec</td>
<td>10%</td>
</tr>
<tr>
<td>18 September</td>
<td>8min 33 sec</td>
<td>43%</td>
</tr>
<tr>
<td>19 September</td>
<td>11min 26 sec</td>
<td>53%</td>
</tr>
<tr>
<td>20 September</td>
<td>11min 26 sec</td>
<td>49%</td>
</tr>
</tbody>
</table>

- What was the cause of the service failure? Are you completely confident that the causes have been addressed, and that your services are now working as they should?

Cashplus utilises the services of FIS, a major third party payment processor in financial services, who has more than 20,000 clients in over 130 countries. FIS carried out planned maintenance to one of their UK data centres on Sunday 16th September, which included a database configuration change. This database supports the Cashplus debit card platform. The way this change was executed was subsequently identified as the cause of the performance problem, and was fully resolved by FIS on 19th September. All services have been working normally since. Having discussed the incident at length with FIS, Cashplus is confident the issues have been successfully addressed.

- What controls were in place to mitigate against such a failure, and why did these fail to prevent the failure?
Contractual provisions have been in place with FIS since 2009. This contract covers service level agreements (SLAs), warranties, change control process, service credit provisions and full audit rights. Regular service updates are undertaken with FIS.

FIS has confirmed that the implemented change followed their standard change control process and was deployed initially in their Disaster Recovery (DR) environment on 22nd August 2018 without any problem. When the change was deployed to their Production environment on Sunday 16th September, again, no problems were reported. Unfortunately, when services started to come under increased load during the morning of 17th September, it was at this point that performance issues were experienced and the service became intermittent.

The controls failed because insufficient load testing was carried out in the DR environment to validate the change. Furthermore, because the DR environment of FIS had been upgraded on 22nd August, there was a problem implementing DR on 17th September to restore service to normal levels. This left the only viable option as being to attempt to fix the problem in the Production environment, whilst it was being used by Cashplus customers. As a result, this extended the recovery time and resulted in variable service levels to our customers during the incident.

- **What steps will you be taking to ensure that similar system failures do not happen again?**

FIS has confirmed that the following actions will be undertaken to prevent recurrence of the incident:

- Although the database change was risk-assessed and determined to have been fully tested, it is now known that this testing was not fully effective, and also that more load testing should have taken place. Therefore, FIS will review the process controls relating to Change Management to ensure that any such risk assessments are accurately completed, qualified where appropriate, and that responses are verified;

- Reinforcement of the Change Management policy to ensure that major changes maintain a simplified back-out plan, until run against a full production workload;

- FIS has invested heavily in two new data centres, to provide increased levels of performance and resilience. Cashplus was already in the planning stage of migrating to these new data centres, and this process will be undertaken in a fully controlled and tested manner in the near future.

Cashplus recognises its regulatory obligations to manage its suppliers, and that its responsibilities to customers cannot be delegated. Our existing Supplier Management process includes regular service review meetings with FIS, and the contractual Service Level Agreements (SLAs), audit rights and service credit provisions aim to ensure that high levels of service for our customers are appropriately incentivised.

Finally, in respect of the overall strategic performance of FIS, I wish to emphasise that this type of event is very unusual, and we have had high levels of performance from FIS over many years; normally achieving 100% uptime across all FIS services measured monthly. Due to their scale and wide financial services experience, FIS continues to invest heavily in appropriate operational resilience and, therefore, we have confidence in FIS as a service provider to Cashplus.

**What discussions have you had with the FCA regarding the incident? Have the FCA appointed investigators, or indicated an intention to do so?**

Various verbal discussions and email correspondence have taken place with the FCA in the period 19-27th September 2018, in relation to the incident.
Aside from the three formal notifications provided to the FCA on 19, 20 and 24th September respectively, the FCA has been provided with regular updates by email and telephone. Such updates have included provision of an FIS Root Cause Analysis document and proposals for compensating customers who were adversely affected by the incident. We are not aware that the FCA has appointed investigators in relation to the incident, nor whether it has an intention to do so.

I trust that the above answers your questions, and please be assured that Cashplus is working hard to ensure that no repeat of the incident occurs. We welcome any feedback and, if you require further information in respect of this matter, please do not hesitate to contact me.

Yours sincerely,

Rich Wagner
Chief Executive Officer