

Paul Pester
Chief Executive Officer



TSB Bank plc
20 Gresham Street
London
EC2V 7JE

Rt Hon Nicky Morgan MP
Chair
Treasury Select Committee
House of Commons
Westminster
SW1A 0AA

5th June 2018

Dear Ms Morgan,

In anticipation of TSB's evidence session at the Treasury Select Committee (TSC) on Wednesday 6th June 2018, I thought it might be helpful if I were to write to you, updating you on the current situation at the bank.

We are deeply sorry for the disruption we have caused for TSB customers and remain focused on doing whatever it takes to put things right. As a bank which built its reputation on providing outstanding service to our customers, we are deeply sorry for the disruption, inconvenience, anxiety and upset we caused our customers following our IT migration on 22nd April 2018. We remain focused on putting things right for our customers and ensuring no customer will be out of pocket as a result of our technology issues.

To date, we have received 95,613 complaints from customers as a consequence of the IT migration. These cover a variety of different issues, but 50% relate to access. We are resolving all complaints as quickly as possible for our customers and have so far resolved 24,094 or c.25% of them.

In order to put things right for the remaining customers with complaints as quickly as possible, we are recruiting over 466 additional complaints handlers and are working with Deloitte to ensure every customer receives a fair outcome.

I am also grateful to you and to members of the Committee for sharing the details of complaints you have received regarding TSB. As you know, we have resolved many of these and are continuing to try to contact those customers we have not yet been able to reach.

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In the meantime, we are continuing to proactively identify and contact vulnerable customers who we believe may have experienced issues. In order to do this, we are scanning social media, using our own data and have a team of over 140 reaching out to identified vulnerable customers to assess their situation and put things right for them if required.

We have worked with the authorities to rebuff a major fraud attack on TSB customers. Typically, criminals seize on any periods of significant change at banks to probe a firm's defences seeking signs of weakness. We planned for a quadrupling in the intensity of fraud attacks shortly after migration, and this assumption was prudent based on industry experience of significant IT changes. The disruption and confusion we caused for our customers by our migration, and the large amount of publicity this created, precipitated a phishing and fraud attack on TSB customers of unprecedented intensity.

During the first half of May one of our phishing prevention suppliers estimated that TSB accounted for around 0.5% of global phishing, more than Lloyds, Barclays or HSBC globally. Attempts to compromise customers' accounts grew from 6-7 cases per day to over 200 cases per day at the peak of the attack.

Although significantly higher than normal attack frequencies, this represents 0.004% of our customer base per day; our fraud prevention measures therefore have to be extremely precise to avoid causing more inconvenience to genuine customers than to criminals. Nonetheless, our fraud prevention systems have been – and are – operating effectively. We have been able to reduce the flow to c.30 confirmed fraud cases per day so far, and we are continuing to make progress stemming this attack.

We are refunding all TSB customers who have become a victim of fraud.

Over the period from 23rd April to 31st May approximately 2,200 TSB customers have experienced attempts to compromise their accounts; of these around 1,300 have resulted in financial loss. Although we were delayed in processing some refunds during the peak of the attack, we have caught up with this backlog and we are now consistently applying full refunds within one business day of a fraud being reported.

The actions taken to respond to this attack on our customers include increasing the size of our dedicated fraud team, where we are adding 84 more partners to our fraud operations team, which includes additional employees in our fraud telephone teams.

We also set up an additional fraud telephone line, which has helped us to answer customers reporting new frauds more quickly. The waiting time on this line is now under three minutes.

Meanwhile we have been engaging with law enforcement agencies to help pursue those who launched these attacks and committed these crimes. Together we have taken down over 362 phishing sites targeting TSB customers.

We are now working with mobile phone providers to develop a coordinated approach across the banking and telephony industries to target SIM-swapping and SMS-spoofing as well as continuing to work with partners including CrimeStoppers, Take Five and Action Fraud to make sure our customers are aware of threats.

Whilst things are still far from perfect, TSB is functioning at or close to normal for the vast majority of TSB customers. We remain frustrated that in a number of areas the service our customers are receiving is still not at the level they have come to expect from TSB or we are happy delivering. The two most significant areas are slower than expected transaction times in some of our branches and longer telephony waiting times than we are willing to tolerate.

The branch transaction speed issues are subject to ongoing work with BT and IBM. Returning to expected transaction times will require BT and IBM, working with Sabis and TSB, to resolve outstanding communications network performance issues.

The wait times in our telephone channel on Monday 4th June averaged 14 minutes: these are declining as we bring on-stream the extra call centre operators we decided to recruit on 24th April and as BT, IBM and Sabis continue to improve network performance (which affects telephone as well as branch performance). In two weeks' time we will have added and have operational an additional 290 call centre operators since migration.

That said, the bank is now working at or close to normal in many aspects. For instance;

- Last week we saw 4.1 million successful mobile app logins and 1.8 million successful web logins – both are at the level we would expect.
- First time login success rates are at “normal” levels of over 92% for the mobile app and over 97% for the website.
- 5.6 million salary, pension and benefit credits were successfully received into customers' accounts in May – and over 12.6 million direct debits were successfully paid out – both are at the level we would expect.
- Customers are making and receiving other payments in line with expectations, with around 1.4 million outbound and around 1.4 million inbound transactions being processed successfully per week.
- Success rates for customers making payments through the mobile app and website are at normal levels of 94% and 91% respectively.

- Debit and credit card transaction accept rates are at normal levels of around 94% and 96% respectively and we have continued to see over 10 million debit card transactions, representing £330 million of spend, per week.
- Over 2.8 million statements and pieces of correspondence have been sent to customers since migration.
- Customers have continued to pay-in an average of around 86,000 cheques per week and paid-out a normal level of around 113,000 per week.
- TSB ATMs continue to operate at pre-migration levels and are typically available over 95% of the time.
- All TSB branches are open as usual and have been handling about 328,000 transactions per week across the network.
- We have seen an average of around £100 million worth of mortgage applications to TSB per week in May, in line with usual.

We of course won't rest until everything is working as normal for all of our customers.

We are making progress in understanding the root cause of the problems. As I made clear at the previous TSC hearing, I fully acknowledge the responsibility I have for the decision to migrate to the new platform. TSB as a bank is responsible for its operating platform and for the service our customers receive. As part of that responsibility, it is important that we understand why these problems occurred.

The independent review we have commissioned from Slaughter & May and the joint investigation by the FCA and PRA are yet to report but we do have a clearer view of the causes of the IT problems we experienced post-migration.

From our internal investigations, it appears that the design of the platform itself is robust, but that the deployment onto the technical infrastructure has led to many of the problems we are experiencing. The coordination and testing of this was led by Sabis and its third party providers.

TSB and Sabis are therefore now shifting the focus of the internal investigation of the root cause of the problems TSB experienced post-migration towards the testing regime in Sabis and its providers. Sabadell Group supports this course of action.

We have reviewed the governance approach followed by TSB's Board to arrive at the decision to migrate and believe it was robust. In particular, we believe that the written attestations TSB received from Sabis, amongst others, regarding the effectiveness of the testing completed by it and its providers were instrumental in enabling the TSB Board to take the decision to migrate in good faith.

TSB is now discussing with the Group how TSB might “in source” its IT infrastructure from Sabis and manage it directly. Our current view is that this could provide a more reliable service to TSB customers.

Richard Meddings, Miguel Montes and I will, of course, do our best to answer any questions clarifying the above during our evidence session tomorrow.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'PMP', with a long horizontal line extending to the right.

Paul Pester
CEO, TSB Bank plc