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**FINAL NOTICE**

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**To:** Santander UK plc  
**FRN:** 106054  
**Address:** 2 Triton Square, Regent's Place, London NW1 3AN  
**Date:** 19 December 2018

**1. ACTION**

- 1.1. For the reasons given in this Final Notice, the Financial Conduct Authority ("the Authority") hereby imposes, pursuant to section 206 of the Financial Services and Markets Act 2000 ("the Act"), a financial penalty of **£32,817,800** on Santander UK plc ("Santander").
- 1.2. Santander agreed to settle at an early stage of the Authority's investigation. Santander therefore qualified for a 30% (Stage 1) discount under the Authority's executive settlement procedures. Were it not for this discount, the Authority would have imposed a financial penalty of £46,882,500 on Santander.

**2. SUMMARY OF REASONS**

- 2.1. It is a fundamental guiding principle of the UK's financial services industry that regulated firms treat their customers fairly. In this case, Santander failed to do so.
- 2.2. The obligations of a bank in respect of a customer's accounts and investments are not terminated by the customer's death. A bank is required to have an effective process for dealing with a deceased customer's accounts and investments from notification of death to the transfer of funds to those who are entitled to receive

them (“the probate and bereavement process”). There were serious failings in Santander’s probate and bereavement process and as a result it was flawed.

- 2.3. The Authority imposes this penalty on Santander for the serious failings in its probate and bereavement process. Santander breached Principle 3 (management and control), Principle 6 (customers’ interests) and Principle 11 (relations with regulators) of the Authority’s Principles for Businesses (“the Principles”).
- 2.4. The Authority accepts that the development of effective probate and bereavement processes has been and continues to be an industry-wide challenge. It is not disputed that Santander made considerable efforts to improve its overall probate and bereavement process. However, in respect of the matters which are at the heart of this Notice, it is clear that Santander’s conduct fell short of the regulatory requirements.
- 2.5. Santander breached Principle 3 between 1 January 2013 and 11 July 2016 by failing to take reasonable care to organise and control its probate and bereavement process responsibly and effectively, with adequate risk management systems. Its systems and controls were inadequate which reduced its ability to effectively transfer the funds it held which formed part of a deceased customer’s estate to those who were entitled to them.
- 2.6. Santander’s probate and bereavement process contained weaknesses which:
  - (1) reduced its ability to effectively identify all the funds it held which formed part of a deceased customer’s estate (see paragraphs 4.64 to 4.66);
  - (2) resulted in it failing to effectively follow-up on communications with deceased customer representatives which increased the likelihood of probate and bereavement cases not being closed (see paragraphs 4.56 to 4.57); and
  - (3) led to it ineffectively monitoring open probate and bereavement cases to allow it to determine whether cases had progressed to closure (see paragraphs 4.59 to 4.62).
- 2.7. The two main practical consequences of this for those Santander customers that were affected and those who represented them on their death were that the probate and bereavement process:

- (1) would commence, but would stall and remain incomplete, meaning that funds would not be transferred to those who were entitled to them despite Santander being informed that a customer had died; or
  - (2) would commence and appear to complete, but certain funds belonging to deceased customers would not be identified and transferred to those who were entitled to them who were unaware of their existence.
- 2.8. The deceased customer accounts issue had the potential to affect every deceased customer of Santander. Of these, 40,428 customers were directly affected with funds totalling over £183m not being transferred by Santander when they should have been. The funds of 36,059 of those customers were dealt with within Santander's principal remediation exercise (Project Panther – see paragraphs 4.35 to 4.37). This represents 3.9% of the total number of Santander customers who died during the period from 1 January 1980 until 31 December 2014 with an account or product that was within the scope of the exercise.
- 2.9. Santander breached Principle 6 between 1 January 2013 and 11 July 2016 by failing to ensure that its probate and bereavement process paid due regard to the interests of its customers and those who represented them on their death and treated them fairly.
- 2.10. Staff dealing with probate and bereavement cases at Santander had to follow a probate and bereavement process that was flawed and which they often found difficult to complete and which, due to the weaknesses described at paragraphs 2.6 and 2.7, resulted in Santander not transferring the funds of 40,428 deceased customers. The process was detrimental to customers and their beneficiaries and next of kin because in a significant number of cases it failed to achieve what was intended – the timely transfer of funds from deceased customer accounts to those who were entitled to receive them.
- 2.11. Santander also failed to address the issues within the probate and bereavement process in a timely way once it became aware of them. It took too long to accurately identify the number of deceased customer accounts potentially affected, to make effective changes to its process, and to begin the task of transferring the affected funds to beneficiaries. Santander staff should have prioritised these issues and ensured they were resolved a lot sooner than they were. There was also an

initial failure to escalate the issue to senior management and the Board meaning they were unaware of a serious matter that affected customers.

2.12. In cases of bereavement there is often a potentially vulnerable consumer. This vulnerability may take one of two forms:

- (1) representatives of deceased customers may have been relatives or friends of the deceased. Following such a bereavement, they may feel overwhelmed by a probate and bereavement process and require careful treatment by the bank staff and process they engage with; and
- (2) representatives of deceased customers may not be aware of all of the deceased customer's accounts held by the bank and will be reliant on the accuracy of the process used by the bank to identify details of the extent and value of these accounts.

Santander failed to make adequate allowance for the potential vulnerability of consumers in its probate and bereavement process.

2.13. Whilst the commencement date of the relevant period for the Principle 3 and Principle 6 breaches is 1 January 2013, the weaknesses in Santander's probate and bereavement process predate this. The flaws in the process existed before this time and affected Santander's ability to close accounts of deceased customers, including legacy accounts from Abbey, Alliance & Leicester and Bradford & Bingley, with recorded dates of death as early as 1980.

2.14. Santander breached Principle 11 between 26 November 2013 (or reasonably soon thereafter) and 1 May 2015 by failing to disclose to the Authority information relating to the deceased customer accounts issue of which the Authority would have reasonably expected notice. Santander was selective in the information it provided to the Authority and its conduct fell below the standards of openness and cooperation expected of a firm.

2.15. By 26 November 2013, Santander had information which indicated that it may have continued to have a large number of open banking and savings accounts with aged Deceased Indicators. At this point, Santander knew, or ought to have known, that it potentially had a serious issue within its probate and bereavement process and it should have made clear notification of this to the Authority.

2.16. Santander did not make clear to the Authority that deceased customer accounts were thought to be affected by the deceased customer accounts issue or the number of accounts and the amount of funds that were potentially affected at any time before 1 May 2015. From October 2013, Santander carried out the following activities, but failed to mention any details of them to the Authority:

- (1) it repeatedly tried to determine the extent of the issue and the number of customers potentially affected;
- (2) it formally reported and escalated the issue internally as a material risk event;
- (3) it introduced a new policy designed to address serious control gaps in the probate and bereavement process; and
- (4) it began a remediation exercise to contact representatives and transfer funds to the beneficiaries of deceased customers.

2.17. Between September 2014 and February 2015, Santander met with the Authority regularly to discuss a similar issue concerning open deceased customer investment holdings within its separate investment business. It did not use these opportunities to make clear to the Authority that a wider, more serious, issue existed within the banking and savings business. Santander staff made only a high-level reference to a bank-wide review of deceased customer holdings in November 2014 and the Authority only discovered the nature and extent of the issue on 1 May 2015. This information was only received after the Authority identified a reference to the issue in a Santander committee paper and made a direct enquiry of Santander. Such conduct is unacceptable.

2.18. Santander made a series of fundamental misjudgements when it came to its consideration of what information should be provided to the Authority and when. Santander showed a clear misunderstanding of the requirements of Principle 11 and its conduct was far below the standards of openness and cooperation expected of a firm.

2.19. The Authority expects to be informed of the existence and extent of serious issues as soon as regulated firms become aware of them or reasonably soon thereafter. In this case, Santander categorically failed to meet the Authority's expectations.

- 2.20. Had the Authority been notified of the issue with open deceased customer accounts within the banking and savings business on 26 November 2013, or reasonably soon thereafter, it would have ensured that Santander addressed it with appropriate speed and resource. As it was, Santander tackled the issue at its own pace without the scrutiny of the Authority. It is the Authority's view that this added to the delay in Santander addressing the issues and transferring funds to their rightful owners.
- 2.21. The Authority has taken into account the nature and extent of cooperation provided by Santander during the course of the Authority's investigation. Santander displayed good cooperation with the Authority throughout the investigation, provided the Authority with a copy of a report by its legal adviser into the matters referred to in this Notice, and made available notes of the interviews with Santander staff that the legal adviser carried out. Santander has also undertaken the remedial action described in paragraphs 4.35 to 4.38 and has committed significant resource to improving the controls relating to its probate and bereavement process. The Authority acknowledges the work already undertaken by Santander in this regard.

### **3. DEFINITIONS**

- 3.1. The definitions below are used in this Notice:

"the Act" means the Financial Services and Markets Act 2000;

"the Authority" means the body corporate known as the Financial Conduct Authority;

"Banking and Savings Forum" means an informal forum within Santander's banking and savings business used by the bank to discuss cross-functional matters, including the deceased customer accounts issue to which staff made occasional reports between late 2013 and early 2015;

"BIF" means the Bereavement Instruction Form completed by representatives of the deceased which provided details of the representative and their instructions as to what to do with the assets of the deceased;

"CoE" means the centralised team of Santander known, until January 2016, as the Probate Centre of Excellence, after which it was known as the Bereavement Centre of Excellence;

“Complex Case” means a probate and bereavement case which had to be processed by CoE staff and: (i) involved banking and savings cases with a value over £25,000; (ii) where a grant of representation was provided or being obtained, regardless of value; or (iii) any cases which involved other Santander products such as investments, bonds and ISAs, regardless of value;

“the deceased customer accounts issue” means the issue at Santander where it identified that there were open customer accounts with aged Deceased Indicators within the banking and savings business;

“Deceased Holdings Policy” means the policy control document introduced by Santander in July 2015 to set out the approach to be taken when contact with a representative of the deceased had stopped;

“Deceased Indicator” means a block placed upon the accounts of a deceased customer once proof of death has been established, designed to prevent activity on those accounts;

“DEPP” means the Authority’s Decision Procedure and Penalties manual;

“grant of representation” means a legal document obtained from a court which establishes that an individual is authorised to deal with a deceased customer’s estate;

“MI” means management information;

“the Principle 3 and Principle 6 relevant period” means the period between 1 January 2013 and 11 July 2016;

“the Principle 11 relevant period” means the period between 26 November 2013 and 1 May 2015;

“the Principles” means the Authority’s Principles for Businesses;

“the probate and bereavement process” means the process within a bank for dealing with a deceased customer’s accounts and investments from notification of death to the transfer of funds to those who are entitled to them;

“Project Panther” means the principal Santander remediation exercise to transfer funds affected by the deceased customer accounts issue to customer representatives, beneficiaries or next of kin;

“the Root Cause Analysis” means the report produced by Santander in October 2015 looking at the causes of the problems within Santander’s probate and bereavement process;

“Santander” means Santander UK plc;

“Simple Case” means a probate and bereavement case processed by Santander branch staff: (i) which involved banking and savings accounts; (ii) where the value of the accounts was £25,000 or below; (iii) where a grant of representation was not being obtained; (iv) where all of the deceased customer’s accounts were in credit; and (v) where proof of death was from the United Kingdom;

“Simplification” means the exercise Santander carried out in late 2012 and 2013 to reduce the number of different types of banking and savings accounts it offered to customers; and

“the Tribunal” means the Upper Tribunal (Tax and Chancery Chamber).

#### **4. FACTS AND MATTERS**

4.1. A chronological timeline of key facts and events is at Annex B to this Notice.

##### **Santander**

4.2. Santander is authorised by the Authority and is part of Banco Santander SA. Its origins can be linked back to the acquisitions of Abbey in 2004 and Alliance & Leicester in 2008 and the purchase of the retail deposits and branch network of Bradford & Bingley in 2008. Abbey changed its name to Santander on 11 January 2010 and in May of the same year the Alliance & Leicester business was transferred (and its customers migrated) to Santander and the acquired businesses were subsequently rebranded as Santander. Santander has approximately 14 million customers in the UK.

##### **The probate and bereavement process**

- 4.3. Between 1980 and the end of 2014, approximately 1.2m Santander customers died (including customers that were previously with Abbey, Alliance & Leicester and Bradford & Bingley). When a customer dies a representative of that customer must engage with the probate and bereavement process in order to establish that they have valid legal authority to administer and close the deceased's accounts and distribute funds to the beneficiaries. In respect of Santander's probate and bereavement process specifically, when a customer dies a representative of the deceased can notify Santander of the death by going into a Santander branch and informing staff directly, by telephone, or by writing to a centralised probate and bereavement team known as the CoE.
- 4.4. Until April 2016 (see paragraph 4.11), branch staff were required to process and close probate and bereavement cases where a representative of the deceased notified a branch and: (i) they involved banking and savings accounts (excluding bonds and ISAs); (ii) the total value of the deceased customer's accounts was £25,000 or below; (iii) a grant of representation did not exist and was not being obtained; (iv) all of the deceased customer's accounts were in credit; and (v) proof of death was from the United Kingdom. Probate and bereavement cases of this type were known as Simple Cases.
- 4.5. In addition to Simple Cases, there were the following types of cases: (i) banking and savings cases with a total value over £25,000; (ii) cases where, regardless of value, a grant of representation was provided or being obtained; or (iii) any cases which involved other Santander products such as investments, bonds and ISAs, regardless of value, which were dealt with by the CoE. These were known as Complex Cases. Branch staff who received notification of any case which fitted the criteria for Complex Cases were required to forward them to the CoE for action and closure.
- 4.6. When notified of a customer's death, branch and CoE staff were required to place an alert on the customer's record held on Santander's IT system. The alert recorded that the customer was deceased and included, amongst other things, the name of the representative who had notified Santander of the death and their relationship to the deceased. The representative was then required to provide Santander with proof of the customer's death and, in certain circumstances, a grant of representation.

- 4.7. When proof of death had been provided, a block called a Deceased Indicator was placed on the customer's record. This was intended to block the deceased customer's accounts, by cancelling cards, mandates and overdrafts, pending the closure of the accounts. Once valid proof of death and grant of representation (if required) were provided, the procedure for closing accounts and investments, and returning the balances to representatives and/or beneficiaries and next of kin, could then commence. However, if proof of a customer's death was not provided, the probate and bereavement process would stop and no further steps would be taken by Santander to process the case until proof of death was provided by the representative. In these cases, a Deceased Indicator would not be placed on the customer's record, but the alert would remain in place for at least six years after which it would expire.
- 4.8. Once a Deceased Indicator had been placed on the IT system, staff were required to search for other accounts held by the deceased. They were also required to ask the representatives of the deceased if they were aware of any other Santander accounts/investments held by the deceased and to record details of these. If it was a Simple Case and the account was held solely by the deceased, the customer representative was asked to complete a BIF and branch staff would then close the deceased's account. If a grant of representation was required, but not produced, the probate and bereavement process would stop (pending provision of the grant of representation by the customer representative) even if proof of death had been provided.
- 4.9. To hand-off a Complex Case to the CoE, branch staff were required, amongst other things, to: (i) if applicable, transfer all joint accounts into the surviving account holder's name; (ii) keep certified copies of all identity and proof of death documents received; and (iii) have the representative of the deceased complete the BIF and then send it by post to the CoE.
- 4.10. Once branch staff completed the hand-off of a Complex Case, the CoE took over the case and would: (i) close banking and savings accounts; and (ii) refer non-banking and savings products to the relevant product areas of the bank who would then contact representatives to arrange closure. If a BIF was missing, CoE staff were required to seek a copy from the relevant branch. If a BIF was incomplete or incorrect, CoE staff were required, from 2012, to contact the representative of the deceased for more information and to follow-up after 40 days if the information

remained outstanding. If a BIF was not then received or corrected, the probate and bereavement process would stop and accounts and investments would remain open pending action by the customer representative.

- 4.11. In the years prior to 2016, Santander had taken a range of steps to improve its probate and bereavement process. During March and April 2016, Santander made further changes to its probate and bereavement process. From 11 April 2016, branch staff had no practical role in the process and all cases, Simple and Complex, were processed by the CoE. If, after 11 April 2016, a representative came into a branch to notify staff of a customer's death, the branch would telephone a dedicated CoE team called Bereavement Assist who would liaise with the representative. The CoE would then liaise with the customer representative and carry out all the administrative steps required to close the case.

### **Identification of the deceased customer accounts issue**

#### Simplification exercise

- 4.12. Santander undertook an unrelated exercise known as Simplification in which Santander sought to reduce the number of types of banking and savings accounts it offered to customers. Santander identified a category of customers who had open savings accounts, but who also had a Deceased Indicator raised against them on the IT system.
- 4.13. Santander's initial focus was on completing the Simplification exercise and it did not immediately commence work to better understand the potential wider implications of the population of deceased customer accounts identified as part of the exercise.

#### First indication there may be an issue

- 4.14. In July 2013, Santander estimated there were at least 7,176 open accounts with a Deceased Indicator. This was based on a limited review of a number of accounts which could not be dealt with as part of the Simplification exercise as it was believed that the account holders had died. By August 2013, it was estimated that of the 7,176 accounts, approximately: (i) 4,400 had a balance of less than £100 (3,500 of which had a balance of less than £10); (ii) 700 had a balance of between £100 and £500; (iii) 400 had a balance of between £500 and £1,000; and (iv) 1,700 had

a balance of greater than £1000. In addition, 85% of the account holders (i.e. 6,125) were recorded as having died in 2012 or earlier.

Identification of the deceased customer accounts issue

- 4.15. On 31 October 2013, Santander's estimate of the number of open deceased customer accounts increased significantly. An exercise had been started to assess the number of accounts with a Deceased Indicator predating 2013. This identified 56,016 accounts with an estimated combined asset value of £117m. Amongst the accounts identified were ones with significant balances. The overall amount of potentially affected deceased customer funds was described by staff in an internal email as "*somewhat eye watering*", although further analysis of the figures was being carried out.
- 4.16. In November 2013, Santander identified the deceased customer accounts issue. This was not identified by controls within the probate and bereavement process, but as a result of the Simplification exercise.
- 4.17. On 20 November 2013, the deceased customer accounts issue was reported to a local management forum, and on 26 November 2013 it was reported to a management committee, as part of updates on the progress of the Simplification exercise. The estimated number of potentially affected accounts increased to 76,702 as further potentially affected banking customers were identified (i.e. the 56,015 savings customers referred to at paragraph 4.15 (this figure, for reasons unknown, decreased from 56,016) and an additional 20,687 banking customers) and the combined value of potentially affected assets was estimated at £131m. The longest period in which the accounts had remained open post-death was reported as being 16 years for a savings customer and 21 years for a banking customer. In the paper for the committee it was noted that: "*Although identified issue was identified through Simplification it is a Bank wide risk – further root cause and impact analysis currently ongoing*".
- 4.18. Neither the forum nor the management committee to which the matter was reported in November 2013 assumed responsibility for the deceased customer accounts issue, nor did they require any action to be taken to address it.

- 4.19. It was also noted at this time in internal correspondence at Santander that there was a control gap in the probate and bereavement process in relation to chasing a customer representative for a closure instruction post-notification of death.
- 4.20. In January 2014, the minutes of the management committee meeting of 26 November 2013 (see paragraph 4.17) were provided to the Authority as part of the routine provision of minutes. Within the minutes was the following update on the Simplification exercise:

*"[a member of Santander staff] presented the ... Update, highlighting key issues. He explained that the post launch monitoring of the Product Simplification exercise had indicated that the deceased population included 65k more customers than originally identified. A root cause and impact analysis was now being undertaken on this."*

Knowledge of a similar issue within the investment business of a Santander affiliate

- 4.21. In December 2013, senior management within Santander, including within the banking and savings business, were made aware of an issue with open deceased customer investment holdings within the separate investment business of a Santander affiliate. The investment business had identified that it held open investment holdings for customers that Santander had recorded a Deceased Indicator against and who had settled and closed banking and savings accounts. The issue was identified by the investment business as affecting 1,577 investment customers holding investment products with an estimated combined asset value of £30.5m. Senior management within Santander, including within the banking and savings business, were also informed that the investment business had commenced a risk event escalation process in relation to the issue. This was a means of formally escalating key risks to senior management within the affiliate's investment business.
- 4.22. The deceased customer accounts issue was not progressed through Santander's formal event escalation process at this time despite the fact that: (i) the investment business had done so in respect of its issue with open deceased customer investment holdings; and (ii) the estimated number of potentially affected banking and savings accounts was almost 50 times greater than the number of customers estimated to be potentially affected by the issue identified within the investment business (and over four times greater in estimated potential value). The formal

process by which risks were reported and escalated in Santander was the same as that within the investment business. Santander staff in the banking and savings business did, however, on 4 January 2014, add the issue within the investment business to an action-tracker used by the Banking and Savings Forum, to which the banking and savings business would later provide occasional updates on the deceased customer accounts issue. Staff in the banking and savings business did not, however, at this time add the more significant deceased customer accounts issue to the same action tracker (or to any other action tracker).

- 4.23. Despite staff acknowledging that the deceased customer accounts issue was a “*Bank wide risk*” (see paragraph 4.17) and the potentially high number of affected customers and assets, the issue was not escalated within Santander until November 2014 (see paragraph 4.29). At the end of 2013, the matter was not on the agenda of any senior management committee, there was no formal reporting requirement, and no individual was given responsibility to scope, understand and fix the problems. The failure to formally escalate the deceased customer accounts issue within the banking and savings business prevented it from receiving proper attention and scrutiny from senior management and committees within the bank.

Further work to understand the nature and scale of the issue

- 4.24. A paper was produced in January 2014 which sought to better understand the nature of the deceased customer accounts issue. The paper expanded on the information reported to the local management forum and management committee in November 2013 (see paragraph 4.17), but used the same estimates of the number of potentially affected deceased customer accounts as were provided to those earlier meetings. The paper concluded with a number of recommendations to improve the probate and bereavement process, including:

- (1) implementing a proactive chasing policy;
- (2) developing a segmented approach to deal with the backlog of deceased customer assets which had not been transferred to beneficiaries; and
- (3) introducing a robust control process to ensure the deceased customer accounts issue did not reoccur.

- 4.25. A small number of junior staff then worked sporadically on the response to the deceased customer accounts issue throughout the rest of 2014. Work did not actually begin until late March 2014 and after that progress was slow, resources were limited and it was unclear who was responsible for carrying out the work. In September 2014, the deceased customer accounts issue was described by members of staff as “a ticking time bomb” which required action as soon as possible.
- 4.26. By October 2014, Santander had only advanced as far as setting out a high-level 14-page proposal for tackling the deceased customer accounts issue. Further work had been done to identify the number of accounts potentially affected, which had increased to an estimate of 280,000 potentially affected accounts with assets valued at £1.28bn. These increased figures were later shown to be erroneous (see paragraph 4.31).
- 4.27. The high-level proposal of October 2014 was discussed by the Banking and Savings Forum on 8 October 2014. The Forum concluded that two of the considerations presented (i.e. a control to ensure probate and bereavement cases were closed and an approach to returning the affected funds to beneficiaries) needed to be “fleshed out”. These two considerations had initially been raised in the paper produced in January 2014 (see paragraph 4.24). The proposal from October 2014 also suggested that Santander should carry out a review of the existing probate and bereavement process to address the concerns with it – something that had not yet happened in the context of the deceased customer accounts issue (see paragraphs 4.40 and 4.43 for details of when this did occur).
- 4.28. By October 2014, little practical progress had been made to identify and address the control weaknesses within the probate and bereavement process that may have contributed to the deceased customer accounts issue and no steps had been taken to transfer funds to those who were entitled to them. There was an absence of formal project management and governance and no senior individual or decision-making forum had responsibility for the issues and the resolution of them. This was 11 months after Santander first became aware of the significant potential scale of the problem in November 2013.

#### **Commencing the risk event escalation process**

- 4.29. In October 2014, the Banking and Savings Forum considered for the first time whether the deceased customer accounts issue was sufficiently serious for Santander to commence the formal risk event escalation process. The conclusion of staff was that it met all the threshold conditions required for an issue to be reported and escalated within Santander as a material risk (the highest level of risk reporting within Santander). The issue was then formally reported and escalated within Santander on 10 November 2014. It is not clear why the issue was not reported and escalated as a material risk before this point given that the required threshold conditions were present as far back as 31 October 2013 when the estimate of potentially affected deceased customer numbers significantly increased (see paragraph 4.15). If the material event escalation process had commenced earlier, the deceased customer accounts issue would have been brought to the attention of Santander senior management and committees sooner.
- 4.30. The internal reporting and escalation of the deceased customer accounts issue as a material risk resulted in little immediate practical change to how Santander responded to it. The material risk event escalation report was distributed to a number of Santander senior managers who had previously been unaware of the issue. It was also noted by a number of forums and committees (including management risk committees) for the first time. However, no significant changes were made to how the response was organised and governed. The Santander Board Risk Committee was not informed of the issue until October 2015, almost a year after the material risk event escalation. The policy for reporting material risks did not require reporting to the Board.
- 4.31. The material risk event escalation report used the October 2014 figures of potentially affected customers and accounts (280,000 potentially affected customers and £1.28bn of potentially affected assets) as described above at paragraph 4.26. These figures were inaccurate and they were revised, downwards, in November 2014 to 63,000 potentially affected accounts with total estimated assets of £311m.

#### **The Deceased Holdings Policy**

- 4.32. The proposal that went before the Banking and Savings Forum in October 2014 (see paragraphs 4.27 to 4.28) went back before the same forum in December 2014. The Forum agreed that a new policy should be implemented to ensure that

deceased customer assets would be either transferred or closed by Santander after it had been informed of a customer's death (this became the Deceased Holdings Policy) and that a remediation exercise should be carried out to trace customer representatives and obtain information/instructions required to close accounts and transfer funds (which became known as Project Panther).

- 4.33. The drafting of the Deceased Holdings Policy was completed in late January 2015, after which it had to be approved by stakeholders within the business. The policy was just six pages long and it sought to ensure that Santander took a series of proactive steps to seek missing information from the representatives of deceased customers after which Santander would transfer the deceased customers' funds to beneficiaries or those who were entitled to them.
- 4.34. The introduction of the Deceased Holdings Policy was delayed by Santander failing to take any steps in advance to secure and allocate funding for its implementation and it was not communicated and rolled-out across Santander until July 2015. The need for the Deceased Holdings Policy, as a solution for one of the factors that had contributed to the deceased customer accounts issue, was first identified in November 2013 (see paragraph 4.19) and it took Santander over 14 months to draft the policy and a further six months to implement it.

#### **Remediation exercises**

- 4.35. The principal remediation exercise, known as Project Panther, took longer to commence. It was not until the end of February 2015 that Santander appointed an individual to lead a team to work on scoping, organising and implementing Project Panther. The stated purpose of Project Panther was to return funds to customer representatives from accounts with a Deceased Indicator. A Project Panther Steering Committee was set up which reported to senior management committees within Santander and met for the first time on 25 March 2015. The Steering Committee then had to carry out more work on the data to confirm the scope of the exercise to ensure Santander had accurately assessed the number and extent of potentially affected deceased customer accounts. The establishment of the Project Panther Steering Committee was the first time Santander applied coherent strategic planning and governance to any aspect of the work required to deal with the deceased customer accounts issue.

- 4.36. Santander did not secure funding for the implementation of Project Panther until April 2015 and drafting of terms of reference did not begin until late May 2015. An external tracing agent to locate representatives of the deceased was not selected until August 2015 and the policies governing the process were not signed-off until September 2015. The first phase of the exercise, a pilot to renew contact with approximately 2,433 customer representatives, did not begin until October 2015. It was only in that month that Santander managed to confirm the data it was using to scope Project Panther was accurate. This was two years after Santander became aware of the significant scale of the deceased customer accounts issue.
- 4.37. Project Panther has now been substantially completed. It covers accounts of customers who died during the period from 1 January 1980 until 31 December 2014. The total number of customers originally included within its scope was broad at 42,807 with assets valued at over £337m. As the exercise progressed, it was found that funds belonging to some deceased customers had already been transferred or were in the process of being handled through Santander's existing probate and bereavement process. The number of deceased customers whose assets will be dealt with through the exercise is now estimated to be 36,059 with assets valued at over £160m. This represents 3.9% of the total number of Santander customers who died during the period from 1 January 1980 until 31 December 2014 with an account or product that was within the scope of those considered by Project Panther.
- 4.38. Santander has commenced four other remediation exercises to supplement Project Panther. These exercises combined, which focus on non-banking and savings accounts and accounts where some of the data held by Santander may be incorrect, apply to 4,369 deceased customers with assets of over £23m. The exercises are ongoing but the majority of accounts within scope have already progressed through them.

#### **Other work to address the deceased customer accounts issue**

##### Governance

- 4.39. Despite creating a Steering Committee for Project Panther, Santander did not then put in place similar governance and project management structures to oversee the additional work required to assess and improve the wider probate and bereavement process and address the factors which contributed to the deceased customer

accounts issue. Governance and project management was not put in place until September 2015 (see paragraph 4.41).

- 4.40. It appears to have been the scrutiny of the Authority, from July 2015 onwards, which prompted Santander to accelerate the implementation of the steps required to properly address the failings within the probate and bereavement process which contributed to the deceased customer accounts issue. Prior to this, as described at paragraph 4.28, Santander's attempt to address this issue had been slow to develop, disjointed and lacked formal oversight. It was only after July 2015 that senior management within Santander, including executives, became directly involved in the work, having previously been unaware of the slow progress made and the work still required to be completed, and ensured that the necessary review was carried out and effective work to improve the process and address the issues began. Once senior management within Santander, including executives, became aware of the slow progress that had been made before this time they ensured the pace of work increased significantly. One of the first key steps taken was to review and map the end-to-end probate and bereavement process from the perspective of a representative of the deceased. This was completed in mid-October 2015.

#### Probate and Bereavement Steering Committee

- 4.41. In September 2015, the Probate and Bereavement Steering Committee was established to oversee and govern all aspects of the deceased customer accounts issue, including Project Panther and its Steering Committee. The Probate and Bereavement Steering Committee was led by an Executive Committee member and reported to the Executive Committee and Executive Risk Committee. This was the first time Santander had an individual and a forum responsible for overseeing all the work that was taking place in relation to the probate and bereavement process and the deceased customer accounts issue. Prior to August 2015, no senior manager had direct oversight and responsibility for the work that was being conducted. Each strand of work had existed independently of the other and no person or forum was tasked with considering how each stream aligned with the others.
- 4.42. The absence of individual and committee ownership and responsibility for the deceased customer accounts issue before August/September 2015 contributed to

the delay in Santander reviewing the probate and bereavement process and working on its improvement.

#### Root Cause Analysis

4.43. After a request made at the Project Panther Steering Committee in August 2015, the Root Cause Analysis was completed by a team within Santander in mid-October 2015. The aim of this work was: (i) to understand why, despite being notified of death, a large number of Santander customer accounts remained open; and (ii) how to fix the process to prevent failings reoccurring.

4.44. It concluded that there were five causes of the deceased customer accounts issue:

- (1) the absence of a policy in branch, and deficiencies in the policy at the CoE, to follow-up with representatives of the deceased when communications had stopped;
- (2) some customers had more than one account profile on the IT system and not all profiles were identified, meaning some accounts could be missed and not dealt with;
- (3) inconsistent compliance with the probate and bereavement process by branch staff;
- (4) where the value of accounts was low, customer representatives were still required to go through numerous steps required by the probate and bereavement process, including the completion of the BIF, and as a result some representatives may not have engaged with the process; and
- (5) hand-offs between different business areas (e.g. between branches and the CoE, or the CoE and other specialist product areas) not being actioned or received.

4.45. This work was the first time Santander had carried out an effective review to understand what and where the problems were within its probate and bereavement process which had contributed to the deceased customer accounts issue.

#### Internal Audit review

- 4.46. In November 2015, Santander's Internal Audit function produced the outcome of a review it had carried out on the deceased customer accounts issue and the probate and bereavement process. Internal Audit had been tasked to assess the management of probate and bereavement cases and the plans in place to identify and remediate the root causes of the deceased customer accounts issue.
- 4.47. Internal Audit determined that the probate and bereavement process control framework was weak and required improvement. It also was critical of how the probate and bereavement process was aligned to product lines rather than the end-to-end customer journey. Instead, in the event of a Complex Case, to complete the probate and bereavement process a case involving products across a range of business lines would be passed to different product areas where a separate process would be followed to identify and close accounts and transfer holdings.
- 4.48. Internal Audit identified a number of weaknesses in the control framework around the probate and bereavement process and root causes of the deceased customer accounts issue. In summary, these were:
- (1) differing legacy systems (i.e. systems used by the banks rebranded as Santander from 2010) and disconnected procedures across products and channels led to deceased customer funds not always being identified and released to the representatives of the deceased on a timely basis, if at all;
  - (2) an absence of MI to monitor the end-to-end progress of a probate and bereavement case;
  - (3) weaknesses within the branch network – a failure of staff to follow process, weak controls, and historically poor quality control checks;
  - (4) hand-offs between business areas taking place without any follow-up, leading to cases remaining open or only partially completed;
  - (5) certain business areas processing cases directly and not informing other areas of Santander that customers had died; and
  - (6) weak controls to validate the completeness and accuracy of customer data.

- 4.49. Internal Audit concluded that the programme for improving the weaknesses in the probate and bereavement process which gave rise to the deceased customer accounts issue required immediate enhancement.
- 4.50. Internal Audit was also critical of how the population requiring remediation was identified, stating that it was unable to conclude that the Project Panther population was appropriately defined and quantified at the time of review.
- 4.51. Internal Audit considered the historic lack of visibility the deceased customer accounts issue had at a senior management level and the absence of a committee with responsibility for probate and bereavement cases as contributing to the problem.
- 4.52. Internal Audit then tasked Santander with responding to 16 recommendations and provided it with implementation dates for when work should be completed.

Good, Better, Best project

- 4.53. Following the establishment of governance committees in respect of probate and bereavement (see paragraph 4.41), in late 2015/early 2016, Santander began a major project designed to fundamentally overhaul and improve its probate and bereavement process and address some of the weaknesses which gave rise to the deceased customer accounts issue. This project was split into three phases known as Good, Better and Best, the first two phases of which are complete. As part of the Good phase, which concluded at the end of June 2016, Santander introduced the following major changes to the probate and bereavement process:
- (1) branch staff no longer processed probate and bereavement cases – all cases were dealt with by the CoE (from April 2016);
  - (2) a case-tracker (which initially had limited scope as it could not track cases that had been handed-off); and
  - (3) enhanced and more expansive MI.
- 4.54. On 11 July 2016, Internal Audit confirmed that it considered all the action points from its review to have been addressed. Further enhancements to the probate and bereavement process followed under the Better and Best phases of the project.

### **Key probate and bereavement process weaknesses**

- 4.55. As a result of the work that was conducted in the latter half of 2015 and early 2016 (as discussed at paragraphs 4.39 to 4.54), Santander identified a number of key weaknesses in the probate and bereavement process which contributed to the deceased customer accounts issue.

#### Deficiencies in the process to follow-up with representatives of the deceased

- 4.56. For Simple Cases, there was no policy, process or requirement at Santander for branch staff to request missing information from representatives of the deceased once a Deceased Indicator had been placed on a customer's record. This increased the likelihood of communications stalling in relation to accounts where information was missing, which in turn would increase the likelihood of those accounts remaining open.
- 4.57. For Complex Cases, there was, from 2012, a requirement for CoE staff to request missing information from representatives of the deceased and a reminder would be sent after 40 days if the information was still missing. If the information was not then provided, the case would not progress unless and until the representative got back in contact with Santander. This led to an increased risk that certain accounts and investments would remain open within Santander.
- 4.58. These weaknesses in the follow-up process were resolved by the implementation of the Deceased Holdings Policy in July 2015 (see paragraph 4.34).

#### Inability to track the progress of cases

- 4.59. Santander did not have a system in place which allowed it to effectively track and monitor the progress of a probate and bereavement case across the end-to-end process. As a result, it did not know when a case had successfully progressed through the process or when a case remained open and unresolved with Santander not transferring the deceased customer's funds.
- 4.60. Whilst Santander did have some MI relating to aspects of the probate and bereavement process, it did not produce MI which could identify probate and bereavement cases which had, for whatever reason, stopped progressing within the system. For example, MI did not allow those carrying out quality control checks to understand how long a probate and bereavement case had been in progress and

whether this went beyond the time it was expected for a case to complete. The lack of effective MI meant that Santander was unable to identify cases where it was awaiting outstanding information from representatives of the deceased, or the time which had elapsed since the last communication.

- 4.61. In addition, without an effective case-tracker and MI, the way in which Santander dealt with Complex Cases, by handing-off the case between product areas for each asset to be closed separately (e.g. an investment had to be closed by the investment team, a mortgage by the mortgage team – see paragraphs 4.10 and 4.47) increased the risk of cases not progressing to closure as Santander was sometimes unable to detect instances where hand-off was not properly carried out.
- 4.62. An example of this issue was flagged by Santander in the Root Cause Analysis. It was a Complex Case where the deceased customer held both a current account and a mortgage account. The case was sent by the CoE to the mortgage team to close the mortgage holding but was not then referred back to the CoE to allow it to pay out the credit balance remaining on the current account. The case was then treated as a drop-off case (i.e. one where information was still required) and no further action was taken. The deceased customer's funds subsequently remained in an open Santander current account which was not then closed.
- 4.63. As part of the Good, Better, Best project, in 2016 and 2017, Santander enhanced its existing MI capabilities by: (i) introducing an effective case-tracker that could follow an individual case through the probate and bereavement process; and (ii) building and launching a new dashboard system with key metrics to monitor the end-to-end customer journey.

Inability to identify all accounts and investments held by deceased customers

- 4.64. A customer could have more than one profile on the IT system used by Santander and staff were not always able to identify all of a deceased customer's accounts and investments held under duplicate profiles. The risk of duplicate profiles is generally an issue in the UK where there is no unique identifier for people (for example in some countries each person has their own national identification number). Accordingly, it can sometimes be more difficult for bank staff to identify duplicate profiles.

- 4.65. At Santander specifically, in order to address this risk, staff were required to widen search parameters in order to try to identify duplicate customer profiles with the same or similar identifiers. However, this process did not always work successfully as sometimes duplicate profiles were missed. A case highlighting this issue was referred to in the Root Cause Analysis. It was a Simple Case, where the deceased customer had two profiles. A second profile had been created due to the use of a default, incorrect, date of birth. The accounts listed for one profile were closed upon notification of the customer's death, but an account listed against the other profile was kept open. The account contained £13,000 and was not closed and funds were not transferred to the next of kin/beneficiaries.
- 4.66. In addition, Santander branch staff would often fail to follow the flawed probate and bereavement process that was in place, which they often found difficult to complete, resulting in accounts and investments which should have been identified by that process still being missed. This issue was exacerbated by weak, limited and ultimately ineffective controls to monitor compliance with the process.
- 4.67. The above issues, whilst present in the probate and bereavement process for some considerable time, were not recognised by Santander because risks associated with the process were not being identified and addressed.
- 4.68. Much of the work of the Good, Better, Best project, described at paragraph 4.53, was aimed at eliminating these issues from the probate and bereavement process.

### **Information provided by Santander to the Authority**

#### Notification of the deceased customer accounts issue

- 4.69. As stated at paragraph 4.16, Santander first became aware of the deceased customer accounts issue within its banking and savings business in November 2013. At this time, it had estimated that the issue potentially affected 76,702 accounts and assets of £131m and on 26 November 2013 it reported the issue to a management committee.
- 4.70. In January 2014, the Authority received a copy of the minutes of the management committee meeting of 26 November 2013. The text of the minutes is set out at paragraph 4.20. Whilst the minutes stated that the: "*deceased population included 65k more customers than originally identified. A root cause and impact analysis*

*was now being undertaken on this*", there was no context provided to assist the Authority in understanding what was discussed at the meeting and the minutes did not make reference to the presence of aged Deceased Indicators, whether any funds were potentially affected, or which accounts or products may have been affected.

- 4.71. Santander staff informed the Authority on 7 November 2014 that there was a *"bank-wide project on deceased customer holdings"* and that it was *"currently doing a read across exercise to see if any other customers/product areas are impacted"* by the issues found in the investment business (see paragraph 4.21). At this time, Santander had estimated that the deceased customer accounts issue potentially affected a large number of accounts, that a control needed to be introduced to help stop the problem and that escalation of the issue to the most senior figures in the bank was required – see paragraph 4.83.
- 4.72. On 20 February 2015, as part of the routine provision of meeting records, Santander provided the Authority with a Santander committee meeting minute of 10 February 2015 which made reference to the: *"Deceased Holdings Project ..., including the volume of customers impacted, together with next steps, advising that the cases would be dealt with on a case by case basis"*. The Authority requested further information about this on 21 April 2015, being unaware of the work that was taking place. Santander responded on 1 May 2015, notifying the Authority for the first time about the nature and extent of the deceased customer accounts issue.

The Authority's interest in the similar issue affecting investment holdings within the investment business

- 4.73. The Authority became aware of the issue with open deceased customer investment holdings within the separate investment business in July 2014 (see paragraph 4.21). On 30 July 2014, a staff member from the Authority made clear in an email to the investment business that: *"Ideally, and please note going forward, I would like to have been made aware of an issue of this type separately and in advance of receiving the risk report"*. The Authority's interest in the issue within the investment business was conveyed to Santander staff who were aware of the deceased customer accounts issue and who later engaged with the Authority to discuss probate and bereavement matters.

- 4.74. A series of meetings between the Authority and Santander then followed. These took place on 22 September 2014, 7 November 2014, 12 December 2014 and 26 February 2015 and are discussed in more detail below.
- 4.75. During the period in which these meetings took place, Santander did not inform the Authority about the nature of the deceased customer accounts issue or of the number of accounts and the amount of funds that were potentially affected.

#### Meeting of 22 September 2014

- 4.76. A meeting was arranged for 22 September 2014 between the Authority, Santander and representatives from Santander's affiliate investment business to discuss the issue within the investment business. Whilst there was some discussion of Santander's probate and bereavement issues generally at the meeting, no reference was made to the deceased customer accounts issue.
- 4.77. At the time of the meeting, Santander estimated it had over 76,000 accounts potentially affected by the deceased customer accounts issue. Although Santander staff who had been made aware of this (but who were not directly handling the issue) were present at the meeting with the Authority, they did not make any reference to the deceased customer accounts issue at the meeting.
- 4.78. This was a missed opportunity for Santander to notify the Authority of the deceased customer accounts issue.

#### Banking and Savings Forum meeting of 8 October 2014

- 4.79. As stated at paragraph 4.27, the Banking and Savings Forum met within Santander on 8 October 2014. In the proposal paper put to the Forum, it was noted that: "*as a similar [tracing and notifying of beneficiaries] exercise has already been undertaken for [the investment business] and reported to the FCA, regulatory disclosure may be required on the issue uncovered on Retail accounts*". The Forum was asked to agree a strategy for FCA reporting at the meeting. The Forum decided that Santander should first finalise a control to stop the issue continuing (described in the minutes as "*turning tap off*") before "*FCA update*".

#### Meeting of 7 November 2014

4.80. A telephone conference was then organised between the Authority and Santander to take place on 7 November 2014 to discuss the issue within the investment business. In advance of this, Santander staff discussed how the meeting would be an opportunity for Santander to notify the Authority of the deceased customer accounts issue. One of the individuals who attended the meeting (who was also at the 22 September meeting) stated in an email on 29 October 2014:

*"We have to give the FCA a picture of where we [are] – there is no option to hold off until a further future point. We need as a minimum to say that there are wider implications but we are scoping/sizing etc."*

4.81. Ahead of the meeting, there was a concern amongst Santander staff about the accuracy of the data regarding the number of potentially affected accounts. It was decided by Santander staff that the information about the deceased customer accounts issue to be provided to the Authority would be high-level and the Authority would not be informed of the number of accounts and amounts of funds potentially affected.

4.82. A paper was produced for the telephone conference with the Authority on 7 November 2014. The primary purpose of the paper was to provide the Authority with an update about the issue within the investment business, including details of potentially affected holdings, root cause analysis and steps being taken to transfer funds. The paper indicated that the work relating to the investment issue was taking place at the same time and interacted with a "*bank-wide project on deceased customer holdings*" and a "*wider bank project*" and stated that this work would include a review of forms used in the probate and bereavement process "*to help improve the customer experience*". In the context of the root cause analysis that the investment business was carrying out to understand why the issue had occurred in its business, reference was made to the top two causes of the issue, one of which was a breakdown in communication between the banking and savings business and the investment business.

4.83. At the meeting on 7 November 2014, Santander staff made reference to work that was being carried out in the bank to understand if improvements needed to be made to the probate and bereavement process as it was thought communication issues between the banking and savings and investment businesses may have been a root cause of the issue within the investment business. The work would also look

to determine if the potential communication issues in the banking and savings business may have affected any other customers or products. In this context reference was made to a “*bank wide piece*” being undertaken to ensure the correct “*read across*” for the entire bank population. The Authority requested that Santander staff provide a detailed update on this work in the first quarter of 2015 and this was an action point taken away by the bank. This work was referred to as the “*bank wide piece*”.

- 4.84. Santander staff at the meeting on 7 November 2014 did not provide a clear picture to the Authority about whether Santander thought any accounts within its banking and savings business were potentially affected by the deceased customer accounts issue (although it appears that some of those attending considered that they had). It was not mentioned to the Authority that at the date of the meeting Santander: (i) was starting work on drafting the Deceased Holdings Policy; (ii) was in the process of escalating the deceased customer accounts issue as a material risk event within the bank; and (iii) had identified what it thought were 280,000 potentially affected accounts with an outstanding savings liability of £1.28bn.

#### Information provided by Santander to its senior management

- 4.85. Following the meeting of 7 November 2014, and the commencement of the risk event escalation process on 10 November 2014 (see paragraph 4.29), and into early 2015, a number of governance committees and members of senior management, including executives, were informed by Santander staff that the Authority had been notified of the deceased customer accounts issue. The Authority does not accept that notification of the issue was made at the meeting on 7 November 2014 (or at any time before 1 May 2015), but it appears that those receiving such information were led to believe it was by the nature of the reports they were receiving.

#### Meeting of 12 December 2014

- 4.86. The Authority met with Santander again, on 12 December 2014, to discuss the issue within the investment business. No reference was made at the meeting to the deceased customer accounts issue. The Authority subsequently requested further information on 12 different points relating to the issue within the investment business. Despite being aware of the level of scrutiny the Authority was applying to an issue similar to the deceased customer accounts issue, Santander did not

provide the Authority with any clear indication that it was dealing with the deceased customer accounts issue and no information relating to the number of accounts and the amount of funds that were potentially affected was provided (which at this point Santander thought was approximately 63,000 accounts with assets totalling £311m, having revised the previous estimate).

#### Meeting of 26 February 2015

- 4.87. A further meeting between Santander and the Authority was set up for 26 February 2015. It was arranged to allow discussion about changes Santander was considering making to the probate and bereavement process, that the Authority had just become aware of, and to also allow Santander to provide the update on the bank wide piece it had agreed to make to the Authority at the meeting on 7 November 2014.
- 4.88. Shortly before the meeting on 26 February 2015, discussions were again held by Santander staff to decide what they should or should not say to the Authority about the deceased customer accounts issue. It was acknowledged by Santander staff during these discussions that the Authority had not been given any information about the size or scale of the deceased customer accounts issue or of Santander's decision to commence an exercise to trace beneficiaries/next of kin to transfer funds to them (i.e. what became Project Panther).
- 4.89. It was decided by Santander staff not to make any proactive reference to the deceased customer accounts issue but, if the Authority asked questions about the bank wide piece, staff would respond by requesting a separate meeting and would then discuss it and the deceased customer accounts issue.
- 4.90. The Authority met with Santander as arranged on 26 February 2015. The Authority did not enquire about the bank wide review but did ask Santander staff whether any new investment cases had been identified. Santander staff stated that the only cases it was dealing with were the investment business cases affecting 1,577 customers. The question was answered in the context of the issue within the investment business and no information was provided regarding the deceased customer accounts issue despite members of staff who were actively engaged in that work being present.

4.91. The Santander staff at the meeting on 26 February 2015 did not provide the Authority with any clear indication that it was dealing with the deceased customer accounts issue or of the number of accounts and the amount of funds that were potentially affected (at that point in time Santander estimated that there were approximately 63,000 potentially affected accounts – as stated at paragraph 4.31). Santander staff also made no reference to the fact that the bank was in the process of beginning the Project Panther remediation exercise.

#### Notification to the Authority

4.92. Santander did not notify the Authority whether any deceased customer accounts were affected and, if so, the amount of funds that were potentially affected, until it was specifically questioned by the Authority about the issue in April 2015. This notification, provided by Santander on 1 May 2015, was only given because the Authority asked Santander on 21 April 2015 what the reference to the “*Deceased Holdings Project*” was in a committee paper (see paragraph 4.72). At the point of notification, Santander estimated that there were 66,199 accounts or products potentially affected by the issue, with a total balance which needed to be transferred of approximately £343m.

4.93. Once the Authority was properly apprised of the deceased customer accounts issue at Santander, it required regular updates from Santander about the work that it was doing to address it. The Authority expressed concern with Santander about the lack of progress that had been made to resolve the issue and about the way in which it had been escalated within the bank. The pace of Santander’s response to the issue and the resources allocated to fixing it increased significantly once the Authority became aware of and involved with the matter and after Santander senior management, including executives, became directly involved.

## **5. FAILINGS**

5.1. The statutory and regulatory provisions relevant to this Final Notice are referred to in Annex A.

5.2. Based on the facts and matters described above, the Authority concludes that Santander has breached Principles 3, 6 and 11.

### **Principle 3**

5.3. Santander breached Principle 3 (management and control) by failing to take reasonable care to ensure that it had effective systems and controls in place within its probate and bereavement process. This created weaknesses in its ability to transfer funds which formed part of the deceased customer's estate to those who were entitled to them. It also increased the risk that deceased customer accounts may not be identified. In particular, Santander did not:

- (1) implement an effective policy, until July 2015, which was capable of:
  - a. obtaining the information required from a representative of a deceased customer in circumstances where communication had stopped, which increased the likelihood of probate and bereavement cases not being closed;
  - b. setting out how a deceased customer's accounts and investments would be dealt with in circumstances where Santander was unable to obtain the required information from a representative of the deceased;
- (2) ensure that its branch staff consistently followed the probate and bereavement process, which led to accounts being missed, especially if deceased customers had more than one profile on the bank's IT system, and there were limited effective controls within the branch network to identify when staff were failing to follow the correct process; and
- (3) have adequate controls which enabled it to identify risks within its probate and bereavement process. In particular, it did not have:
  - a. a case-tracker in place to enable it to record the progress of a case through its probate and bereavement process, thereby resulting in it having limited means by which to identify cases which did not complete the process;
  - b. MI which was able to identify probate and bereavement cases which had stopped progressing within the system; and
  - c. an adequate level of governance, which led to an absence of responsibility for the probate and bereavement process within Santander.

- 5.4. These failings in respect of Santander's probate and bereavement process contributed to the bank continuing to keep open the accounts and investments of 40,428 deceased customers with funds worth over £183m. In some cases, these funds were held for many years contributing to those who were entitled to them being deprived of the use of them for a considerable amount of time.

### **Principle 6**

- 5.5. Santander breached Principle 6 (customers' interests) by:

- (1) having in place a probate and bereavement process that failed to treat customers and those who represented them on their death fairly. In particular:
  - a. the flaws in the probate and bereavement process described in the Principle 3 breach, above, resulted in delays in over £183m belonging to 40,428 deceased customer estates being transferred to beneficiaries;
  - b. due to flaws in the probate and bereavement process described in the Principle 3 breach, above, Santander was too often unable to determine the full extent of a deceased customer's estate which was held by Santander;
  - c. Santander took no effective steps to keep track of the end-to-end progress of probate and bereavement cases and was unaware of the number of cases which did not complete;
  - d. Santander did not take effective steps to have its branch staff consistently follow the process that was in place, or to make that process less difficult for staff to complete, which increased the likelihood of cases not completing; and
- (2) failing to respond to the deceased customer accounts issue in the appropriate manner. In particular, following the indication of a potential issue in July 2013, Santander:
  - a. was extremely slow to respond and failed to act quickly enough to scope, resource, escalate, govern and organise its response;

- b. did not begin to develop a policy until the end of 2014 to ensure it took effective steps to obtain outstanding information from representatives of the deceased in circumstances where communication had stopped and the policy was not operational until July 2015; and
- c. took too long to commence the remediation exercises to transfer funds from the affected accounts to beneficiaries.

### **Principle 11**

5.6. Santander breached Principle 11 (relations with regulators) by:

- (1) failing to notify the Authority of the deceased customer accounts issue on 26 November 2013, or reasonably soon thereafter, when it first became aware that a large number of accounts and funds may have been affected. It did not clearly inform the Authority of the nature of the issue or of the number of accounts and the amount of funds that were potentially affected until 1 May 2015, 17 months after estimating it had 76,702 affected accounts with assets of £131m;
- (2) failing to be open with the Authority when its staff decided not to inform the Authority of the number of accounts and the amount of funds that were potentially affected by the deceased customer accounts issue and instead providing statements to the Authority which were selective and which did not reveal the potential extent of the deceased customer accounts issue;
- (3) failing to proactively notify the Authority that it had formally reported and escalated the deceased customer accounts issue internally as a material risk event in November 2014; and
- (4) failing to proactively notify the Authority of the commencement of the Project Panther remediation exercise.

5.7. The Authority expects to receive proactive notification of matters as serious as the deceased customer accounts issue. There was a clear obligation on Santander to notify the Authority of this issue under Principle 11, yet Santander staff chose instead to keep relevant information about the nature and extent of the issue from the Authority.

5.8. It is not acceptable conduct for regulated firms to delay informing the Authority of serious issues and relevant information as Santander did in this case.

## **6. SANCTION**

6.1. For the reasons set out in this Notice, the Authority has found that Santander breached Principles 3, 6 and 11. The Authority has considered the disciplinary and other options available to it and has concluded that a financial penalty is the appropriate sanction in the circumstances of this case.

6.2. The principal purpose of imposing a financial penalty is to promote high standards of regulatory conduct by deterring firms who have breached regulatory requirements from committing further contraventions, helping to deter other firms from committing similar contraventions, and demonstrating generally to all firms the benefits of compliant behaviour.

6.3. Set out below is the application of the Authority's penalty policy in relation to:

(1) Santander's breach of Principles 3 and 6; and

(2) Santander's breach of Principle 11.

### **Financial penalty – breach of Principles 3 and 6**

6.4. The Authority's policy on the imposition of financial penalties is set out in Chapter 6 of DEPP. The Authority applies a five-step framework to determine the appropriate level of financial penalty. DEPP 6.5A sets out the details of the five-step framework that applies in respect of financial penalties imposed on firms.

#### Step 1 – disgorgement

6.5. Pursuant to DEPP 6.5A.1G, at Step 1 the Authority seeks to deprive a firm of the financial benefit derived directly from the breach where it is practicable to quantify this.

6.6. The Authority has not identified any financial benefit that Santander derived directly from its breach. The remediation exercises being carried out by Santander, detailed above, include the transfer of affected assets, plus interest, to customer representatives and/or beneficiaries/next of kin to compensate them for the delay

in their receiving the funds, together with, where appropriate, compensation for any consequential loss that was suffered.

6.7. Step 1 is therefore £0.

Step 2 – the seriousness of the breach

6.8. Pursuant to DEPP 6.5A.2G, at Step 2 the Authority determines a figure that reflects the seriousness of the breach. Where the amount of revenue generated by a firm from a particular product line or business area is indicative of the harm or potential harm that its breach may cause, that figure will be based on a percentage of the firm's revenue from the relevant products or business area. In this case, the Authority considers that the revenue generated by Santander is not an appropriate indicator of the harm or potential harm caused by its breach.

6.9. The Authority considers that an appropriate alternative to indicate the harm or potential harm caused by the breach is the total value of the funds that Santander has delayed in releasing to those who were entitled to them as a consequence of the breach. This amounts to £183,381,578, being made up of the funds within the Project Panther remediation exercise (£160,320,325) and the funds within the four other remediation exercises (£23,061,253).

6.10. Pursuant to DEPP 6.5A.2G(13), where the Authority determines that revenue is not an appropriate indicator of harm or potential harm that a firm's breach may cause, it will nonetheless adopt a similar approach to that described in DEPP 6.5A.2G. In this case, the Authority has decided to apply the same range of percentages as are applied where revenue is the appropriate indicator of harm. In such cases, in deciding on the percentage that forms the basis of the Step 2 figure, the Authority considers the seriousness of the breach and chooses a percentage between 0% and 20%. This range is divided into five fixed levels which represent, on a sliding scale, the seriousness of the breach. The more serious the breach, the higher the level. For penalties imposed on firms there are the following five levels:

<b>Seriousness level</b>	<b>% of value of assets</b>
Level 1	0%
Level 2	5%
Level 3	10%
Level 4	15%
Level 5	20%

6.11. In determining the seriousness of the breach of Principles 3 and 6, the Authority has considered various factors that reflect the impact and nature of the breach and has considered whether the firm committed the breach deliberately or recklessly.

6.12. The following factors reflect the impact and nature of the breach.

*Factors relating to the impact of the breach*

- (1) The breach affected a significant number of consumers who were entitled to funds and contributed to those consumers being deprived of the use of the funds for a considerable amount of time. The beneficiaries of 40,428 of Santander's deceased customers were affected.
- (2) The average amount of funds that were not transferred to the beneficiaries of each deceased customer when they should have been was significant, amounting to over £4,500 per customer.
- (3) Many of those impacted by the breach were vulnerable because they were bereaved.

*Factors relating to the nature of the breach*

- (4) The breach took place over many years. The flaws in the process existed before the commencement of the Principle 3 and Principle 6 relevant period and affected Santander's ability to close accounts of deceased customers, including legacy accounts from Abbey, Alliance & Leicester and Bradford & Bingley, with recorded dates of death as early as 1980.
- (5) From 26 November 2013, the firm's senior management were aware of the breach and did not take adequate and timely steps to address it. Insufficient priority, resources and governance were applied to the response to the deceased customer accounts issue.
- (6) The breach revealed serious and systemic weaknesses in Santander's systems and controls as applied to its probate and bereavement process in that it reduced its ability to effectively transfer the funds it held which formed part of a deceased customer's estate to those who were entitled to them.

6.13. DEPP 6.5A.2G(11) lists factors likely to be considered 'level 4 or 5 factors'. Of these, the Authority considers that the following factors are particularly relevant to this case:

- (1) the breach caused a significant risk of loss to consumers as it contributed to Santander not transferring funds amounting to over £183m held on behalf of 40,428 deceased customers, to beneficiaries when they should have done. This resulted in beneficiaries being deprived of the use of funds for a considerable amount of time;
- (2) Santander was unaware of the deceased customer accounts issue until late 2013. Its systems and controls within the probate and bereavement process did not identify it. Had the issue not been identified as part of another exercise, the breach would have continued, and beneficiaries may never have received the funds to which they were entitled;
- (3) the breach revealed serious and systemic weaknesses in Santander's systems and controls relating to the probate and bereavement process; and
- (4) the vulnerability of many of those impacted by the breach.

6.14. DEPP 6.5A.2G(12) lists factors likely to be considered 'level 1, 2 or 3 factors'. Of these, the Authority considers the following factor to be relevant:

- (1) the breach was committed negligently.

6.15. Taking these into account the level of seriousness of the breach is level 4 and the Step 2 figure is 15% of £183,381,578.

6.16. Step 2 is therefore £27,507,236.70.

#### Step 3 – mitigating and aggravating factors

6.17. Pursuant to DEPP 6.5A.3G, at Step 3 the Authority may increase or decrease the amount of the financial penalty arrived at after Step 2 to take into account factors which mitigate or aggravate the breach.

6.18. The Authority considers that the following factors mitigate the breach.

- (1) Whilst there was unacceptable delay in it doing so (see paragraph 6.19(2)), Santander established remediation exercises on its own initiative to transfer funds to consumers potentially affected by delays caused by the breach. In particular, consumers were not required to establish that they had been affected by the breach and were provided with interest and (where appropriate) compensation to reimburse them for any loss caused by delays.
- (2) Santander displayed good cooperation with the Authority during its investigation. This included providing the Authority with a copy of a report by its legal adviser into the matters referred to in this Notice and making available notes of interviews with Santander staff. Santander also participated in open meetings with the Authority in which it answered technical questions about the probate and bereavement process to assist the Authority's understanding.

6.19. The Authority considers that the following factors aggravate the breach:

- (1) Santander has faced previous disciplinary action from the Authority:
  - a. on 16 February 2012, Santander was fined £1.5 million for breaches of Principles 2, 7 and COBS 6.1.16R, by failing to deal appropriately with the issue of the scope of FSCS cover over Santander's structured products and providing investors with unclear information in this regard; and
  - b. on 24 March 2014, Santander was fined £12,377,800 for breaches of Principles 7 and 9 in relation to its provision of investment advice; and
- (2) As stated above, whilst Santander ultimately established remediation exercises on its own initiative, it took too long to do so. It failed to give sufficient priority or allocate sufficient resource to setting up the remediation exercises required to trace beneficiaries and to transfer funds affected by the deceased customer accounts issue to them. By November 2013, Santander had estimated that the value of assets it had retained was £131m (and this rose thereafter), but took no action to commence the process required for tracing beneficiaries until February/March 2015 and mailings did not commence until October 2015. This failure to act with appropriate

speed and resource resulted in considerable delays in the transfer of funds to those who were entitled to them.

6.20. Having taken into account these mitigating and aggravating factors, the Authority considers that the Step 2 figure should be increased by 5%.

6.21. Step 3 is therefore £28,882,598.53.

#### Step 4 – adjustment for deterrence

6.22. Pursuant to DEPP 6.5A.4G, if the Authority considers the figure arrived at after Step 3 is insufficient to deter the firm who committed the breach, or others, from committing further or similar breaches, then the Authority may increase the penalty.

6.23. The Authority considers that the Step 3 figure of £28,882,598.53 represents a sufficient deterrent to Santander and others, and so has not increased the penalty at Step 4.

6.24. Step 4 is therefore £28,882,598.53.

#### Step 5 – settlement discount

6.25. Pursuant to DEPP 6.5A.5G, if the Authority and the firm on whom a penalty is to be imposed agree the amount of the financial penalty and other terms, DEPP 6.7 provides that the amount of the financial penalty which might otherwise have been payable will be reduced to reflect the stage at which the Authority and the firm reached agreement.

6.26. The Authority and Santander reached agreement at Stage 1 and so a 30% discount applies to the Step 4 figure.

6.27. Step 5 is therefore £20,217,800.

#### **Financial penalty – breach of Principle 11**

6.28. The Authority has applied the five-step framework that applies in respect of financial penalties imposed on firms to Santander's breach of Principle 11.

#### Step 1 – disgorgement

6.29. The Authority has not identified any financial benefit that Santander derived directly from its breach of Principle 11.

6.30. Step 1 is therefore £0.

Step 2 – the seriousness of the breach

6.31. In considering the approach to take regarding Principle 11, the Authority does not consider that revenue is an appropriate metric to provide an indication of the harm or potential harm caused by the breach. The Authority has not identified an alternative indicator of harm or potential harm appropriate to the breach and so, pursuant to DEPP 6.5A.2G(13), has determined the appropriate Step 2 amount by taking into account those factors which are relevant to an assessment of the level of seriousness of the breach.

6.32. In determining the seriousness of the breach of Principle 11 the Authority has considered various factors that reflect the impact and nature of the breach and has considered whether the firm committed the breach deliberately or recklessly.

6.33. The following factors reflect the impact and nature of the breach.

*Factor relating to the impact of the breach*

(1) The breach had an effect on a vulnerable group of people, the bereaved. The absence of adequate disclosure to the Authority by Santander had the effect of preventing the Authority from applying scrutiny to the work that Santander was carrying out to address the deceased customer accounts issue. As a result, the Authority was unable to provide challenge, guidance and direction to Santander in this regard and the remediation exercises were delayed meaning those who were entitled to funds had to wait longer than necessary to receive what they were entitled to.

*Factors relating to the nature of the breach*

(2) Principle 11 and the requirement for firms to deal with the Authority openly and cooperatively is a fundamental and central tenet of the Authority's regulatory regime.

- (3) From July 2014, the separate Santander investment business was subject to increased scrutiny following the discovery by the Authority that the investment business had an issue with open investment holdings for customers that Santander had recorded a Deceased Indicator against and who had settled and closed banking and savings accounts. This was an issue similar to the deceased customer accounts issue. The Authority required detailed information and updates relating to the issue within the investment business and Santander was aware of this. Santander should have known that the Authority would expect clear and full disclosure of information about the more serious deceased customer accounts issue after July 2014.
- (4) From October 2014, Santander staff decided not to inform the Authority of the number of accounts and the amount of funds that were potentially affected by the deceased customer accounts issue and instead staff provided statements to the Authority which were selective and which did not reveal the potential extent of the deceased customer accounts issue.
- (5) Santander did not notify the Authority whether any deceased customer accounts were affected and, if so, the amount of funds that were potentially affected until it was specifically questioned by the Authority about the existence of the issue in April 2015.
- (6) Senior management at Santander were provided with inaccurate information which indicated that the deceased customer accounts issue had been notified to the Authority.
- (7) Santander failed to give any consideration as to whether it should disclose the existence of the following important events central to the deceased customer accounts issue to the Authority and as a result failed to proactively notify the Authority of them:
  - a. in November 2014, Santander reported and escalated the issue within the bank as a material risk; and
  - b. in March 2015, Santander commenced a major remediation exercise.

6.34. DEPP 6.5A.2G(11) lists factors that are likely to be considered “*level 4 or 5 factors*”. Of these, the Authority considers the following factors to be relevant to the seriousness of the breach:

- (1) the breach revealed serious weaknesses in Santander’s procedures and systems and controls relating to the disclosure of information to the Authority, including:
  - a. failing to ensure that the banking and savings business was adequately advised in respect of its regulatory obligations which resulted in it failing to be open and cooperative with the Authority; and
  - b. failing to ensure that, after November 2014, when the deceased customer accounts issue was escalated within the bank, the information provided to senior management in relation to what information the Authority had been provided with was accurate; and
- (2) the breach was repeated and for a prolonged period, from 26 November 2013, or reasonably soon thereafter, until 1 May 2015.

6.35. DEPP 6.5A.2G(12) lists factors likely to be considered 'level 1, 2 or 3 factors'. Of these, the Authority considers the following factor to be relevant:

- (1) whilst the Authority does not contend that Santander’s actions amounted to a deliberate intention on its part to breach Principle 11, its conduct during the Principle 11 relevant period was negligent and demonstrated serious misjudgement on its part and a fundamental misunderstanding of what was required to comply with regulatory obligations.

6.36. Taking all the above into account, the Authority considers the seriousness of the breach to be level 3. The Step 2 figure is £15,000,000.

Step 3 – mitigating and aggravating factors

6.37. The Authority considers that the following factor mitigates the breach. Santander displayed good cooperation during the course of the investigation (as described at paragraph 6.18(2)).

6.38. The Authority considers that the following factors aggravate the breach:

- (1) the previous disciplinary record and general compliance history of Santander (DEPP 6.5A.3G(2)(i)) – see paragraph 6.19(1). Santander has previously been criticised by the Authority for the inadequacy of its communications with the Authority. In the Final Notice of 24 March 2014, Santander’s too positive and misleading statements to the Authority were found to be an aggravating factor which increased the amount of financial penalty the firm paid; and
- (2) the Authority has published a series of Final Notices in recent years in relation to Principle 11 breaches by other firms which make very clear that complete openness and full disclosure are crucial to the success of the regulatory regime. Despite these published materials, Santander did not comply with its Principle 11 obligations.

6.39. Taking these mitigating and aggravating factors into account, the Authority considers that the Step 2 figure should be increased by 20%.

6.40. The Step 3 figure is therefore £18,000,000.

#### Step 4 – adjustment for deterrence

6.41. The Authority considers that the Step 3 figure of £18,000,000 represents a sufficient deterrent to Santander and other firms, and so has not increased the penalty at Step 4.

6.42. Step 4 is therefore £18,000,000.

#### Step 5 – settlement discount

6.43. The Authority and Santander reached an agreement at Stage 1 and so a 30% discount applies to the Step 4 figure.

6.44. The Step 5 figure is therefore £12,600,000.

### **Penalty**

6.45. The Authority hereby imposes a total financial penalty of £32,817,800 on Santander comprising:

- (1) a penalty of £20,217,800 for a breach of Principles 3 and 6; and

(2) a penalty of £12,600,000 for a breach of Principle 11.

## **7. PROCEDURAL MATTERS**

### **Decision maker**

- 7.1. The decision which gave rise to the obligation to give this Notice was made by the Settlement Decision Makers.
- 7.2. This Final Notice is given to Santander under and in accordance with section 390 of the Act. The following statutory rights are important.

### **Manner and time for payment**

- 7.3. The financial penalty must be paid in full by Santander to the Authority no later than 9 January 2019.

### **If the financial penalty is not paid**

- 7.4. If all or any of the financial penalty is outstanding on 10 January 2019, the Authority may recover the outstanding amount as a debt owed by Santander and due to the Authority.

### **Publicity**

- 7.5. Sections 391(4), 391(6) and 391(7) of the Act apply to the publication of information about the matter to which this notice relates. Under those provisions, the Authority must publish such information about the matter to which this notice relates as the Authority considers appropriate. The information may be published in such manner as the Authority considers appropriate. However, the Authority may not publish information if such publication would, in the opinion of the Authority, be unfair to you or prejudicial to the interests of consumers or detrimental to the stability of the UK financial system.
- 7.6. The Authority intends to publish such information about the matter to which this Final Notice relates as it considers appropriate.

### **Authority contacts**

7.7. For more information concerning this matter generally, contact Gareth Buttrill at the Authority (email [gareth.buttrill@fca.org.uk](mailto:gareth.buttrill@fca.org.uk)).

Laura Dawes  
Head of Department  
Financial Conduct Authority, Enforcement and Market Oversight Division

## ANNEX A

### RELEVANT STATUTORY PROVISIONS, REGULATORY REQUIREMENTS AND GUIDANCE

#### Statutory provisions

1. The Authority's operational objectives established in section 1B of the Act include the protection of consumers (section 1B(1)(3)(a)).
2. Pursuant to section 206 of the Act, if the Authority considers that an authorised person has contravened a requirement imposed on it by or under the Act, it may impose on that person a penalty in respect of the contravention of such amount as it considers appropriate.

#### Relevant regulatory provisions

3. In exercising its power to impose a financial penalty and to impose a restriction in relation to the carrying on of a regulated activity, the Authority has had regard to the relevant regulatory provisions published in the Authority's Handbook. The main provisions that the Authority considers relevant are set out below.

#### *Principles*

4. The Principles are a general statement of the fundamental obligations of firms under the regulatory system and are set out in the Authority's Handbook. They derive their authority from the Authority's rule-making powers as set out in the Act and reflect the Authority's statutory objectives.

5. Principle 3 provides:

*"A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems."*

6. Principle 6 provides:

*"A firm must pay due regard to the interests of its customers and treat them fairly."*

7. Principle 11 provides:

*“A firm must deal with its regulators in an open and cooperative way, and must disclose to the appropriate regulator appropriately anything relating to the firm of which that regulator would reasonably expect notice.”*

*DEPP*

8. Chapter 6 of DEPP, which forms part of the Authority’s Handbook, sets out the Authority’s statement of policy with respect to the imposition and amount of financial penalties under the Act. In particular, DEPP 6.5A sets out the five steps for penalties imposed on firms.

Relevant regulatory guidance

*The Enforcement Guide*

9. The Enforcement Guide sets out the Authority’s approach to exercising its main enforcement powers under the Act.
10. Chapter 7 of the Enforcement Guide sets out the Authority’s approach to exercising its powers to impose a financial penalty.

## ANNEX B – CHRONOLOGICAL TIMELINE OF KEY FACTS AND EVENTS

Date	Event
July 2013	As part of the Simplification exercise, Santander estimates there are 7,176 open accounts with Deceased Indicators
31 October 2013	Santander estimates there are 56,016 potentially affected accounts with assets totalling £117m
November 2013	Santander estimates there are 76,702 potentially affected accounts with assets totalling £131m
26 November 2013	Deceased customer accounts issue is reported to a management committee for the first time
January 2014	Paper is produced stating 76,702 banking and savings accounts potentially affected with assets totalling £131m
24 January 2014	Minutes of management committee of 26 November 2013 provided to the Authority
8 July 2014	The Authority becomes aware of the issue within the investment business
22 September 2014	Meeting between Santander, its affiliate, and the Authority to discuss the issue within the investment business
8 October 2014	Paper is presented to the Banking and Savings Forum stating 280,000 accounts potentially affected with assets totalling £1.28bn
7 November 2014	Meeting between Santander and the Authority to discuss the issue within the investment business
10 November 2014	Material risk event escalation report raised
November 2014	Paper is produced stating 63,000 accounts potentially affected with assets totalling £311m
12 December 2014	Meeting between Santander and the Authority to discuss the issue within the investment business
20 February 2015	Minutes of management committee meeting of 10 February 2015 provided to the Authority
26 February 2015	Meeting between Santander and the Authority to discuss probate and bereavement process changes and the bank wide piece
25 March 2015	Project Panther Steering Committee meets for the first time
21 April 2015	The Authority requests information from Santander about a reference to the Deceased Holdings Project in a committee paper dated 10 February 2015
1 May 2015	Santander notifies the Authority of the deceased customer accounts issue. Santander reports that there are 66,199 potentially affected accounts with assets totalling £343m
5 October 2015	Project Panther remediation exercise customer contact pilot begins
19 October 2015	Root Cause Analysis report on the deceased customer accounts issue is produced
November 2015	Internal Audit review on the deceased customer accounts issue is produced