

## Outsourcing Failures leave Raphaels Bank with £1.89m Fine



Article By

[Garon Anthony](#)

[Rose Chaudry](#)

[Squire Patton Boggs \(US\) LLP](#)

[UK Finance Disputes and Regulatory Investigations Blog](#)

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Raphael & Sons plc (the “**Bank**”) has been hit by separate fines from the Financial Conduct Authority and the Prudential Regulation Authority (together, the “**Regulators**”) of £775,100 and £1,112,152 respectively.

An IT issue with one of the Bank’s third party card processor’s left over 3,300 customers unable to use their prepaid cards on Christmas Eve in 2015.

This event crystallised the risks that the Bank had failed to manage, but the Bank’s failings went deeper than that. The Regulators found that the Bank, “*failed to have adequate processes to enable it to understand and assess the business continuity and disaster recovery arrangements of its outsourced service providers*” but the management failings and oversights came from “*Board level down*”.

There was an absence of processes, flaws in the Bank’s due diligence (both initial and ongoing) and an overall lack of consideration of the risks of outsourcing. The Bank’s systems and controls were inadequate and exposed its customers to a serious risk of harm.

These failings continued from April 2014 through to the end of 2016. The Regulators’ investigation found that there was a previous incident in 2014, which should have led to the Bank resolving the issues then. The Regulators have stated that the

repeat failings of the Bank were an aggravating factor in this case, which led to an increased penalty.

Nevertheless, the Bank's co-operation with the Regulators resulted in a 30% reduction of the fines imposed, which would have otherwise totalled over £2.7m.

### **Comment**

This regulatory investigation highlights the level of internal governance and controls required for any outsourcing arrangements, and the serious risks involved if these are insufficient.

Regulators are becoming more and more concerned with the "operational resilience" of firms, particularly after some recent high profile failures (the chaos caused by TSB's IT upgrade issues last year, to name just one). Both Regulators have identified this topic as one of their priorities this year, which they state should be "*viewed as no less important than financial resilience*".

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