

PRESS CUTTING

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Business

MAJOR MARKETS

▼ FTSE-100 -11.0 4971.5	▼ Techmark -1.58 1140.40
▼ Dow Jones -45.88 10457.80	▼ Nasdaq -11.50 2050.12
▲ Pound/Dollar +0.0023 1.8308	▼ Euro/Pound -0.0001 0.6880

SCOTTISH MOVERS

Cairn Energy	FirstGroup	lomart	Metrose Resources	Thus
+34	-6.5	+2	-22.5	-0.25
1189	324	109.5	235	13.5
Return to favour for shares in wake of recent output update on Rajasthan	Transport group eases after modest run in response to rail-driven results	Modest rally stops slide in tech stock following post-results profit-taking	Volatility of small explorer underlined with heavy markdown in thin trade	Second day of weakness after results as Goldman Sachs cuts earnings forecast

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Abbey hit with £800,000 fine

Financial watchdog levies record penalty on bank for endowment complaint mishandling

SIMON BAIN

THE Financial Services Authority yesterday levied its biggest yet penalty for endowment complaint mishandling when it slapped a fine of £800,000 on Abbey National, which it said would have been far higher but for the co-operation of the bank's new Spanish owners.

In a two-year period to October 2003, more than a year before its takeover by Santander, Abbey mishandled 5000 mortgage endowment complaints, including 3500 that were rejected when they should have been upheld. Since 2001 more than 16,000 complaints may have been mishandled.

Clive Briault, the FSA's director of retail markets, said: "By

putting its own interests ahead of those of its customers with a mortgage endowment complaint, Abbey has singularly failed to treat its customers fairly. Its failings were made more serious as they occurred at a time when there was a high level of awareness within the industry about mortgage endowments and concerns regarding the fair handling of complaints."

Abbey's behaviour was in defiance of a high-profile warning letter in April 2002 from the FSA to Luqman Arnold, the then chief executive of Abbey National. It was sent to the chief executives of all mortgage lenders, but was widely seen as an attempt to wave the red flag at the industry's worst offenders.

The reply to the regulator

from Arnold contained "inaccurate and potentially misleading information", the FSA said yesterday. The bank's "conduct fell well below the standards it would expect of an authorised firm's communications with the regulator", it added.

Abbey National said yesterday that its "inadequate processes ... were the reason it unknowingly supplied incorrect information".

Customers too were given misinformation regarded by the regulator as "serious".

In cases where the bank had no documentation on the sale of the endowment, the complainant was told in carefully-worded terms that advisers had been "trained to high standards" and the bank had "no reason to

believe that the recommendation provided would not have been appropriate".

The FSA says the wording may have discouraged customers from pursuing their complaint to the Financial Ombudsman Service. In fact, the regulator was alerted to the bank's behaviour by "an emerging trend of cases where Abbey had previously rejected a complaint but which on referral to the FOS resulted in either a settlement or ex-gratia payment being offered to the customer".

When the FSA later reviewed 20 such cases, "in all 20 cases Abbey could have settled/upheld the complaint when (it) was first considered".

Although the FSA's statement talks of £19m in losses incurred

by 3500 customers, the real figure is likely to be vastly higher, the bank admitted last night. Abbey has made provisions of more than £200m for mis-selling compensation, most of it from mortgage endowments.

Friends Provident was fined £675,000 in December 2003 for failures in its mortgage endowment complaint handling, and in March 2004, Allied Dunbar was fined £725,000 for serious flaws in its procedures.

Gerry Diamond, managing director of Glasgow-based Endowment Compensation Centre, commented: "For some time companies like my own have been aware a number of firms have not been obeying the rules and have not accepted responsibility for their actions. Clearly

a great number of people who have been fobbed off will feel cheated."

Abbey said it had now widened the scope of its review to cover all complaints from January 1, 2000, to yesterday - some 80,000, and was re-examining 50,000 it had rejected. Those customers would be notified by June 22 with the review completed by the end of the year. It added: "The review only includes previous complaints about policies that Abbey sold and advised on, such as Abbey National Life. Scottish Mutual and Scottish Provident endowment policies were sold through third parties, and any complaints about these policies should be addressed to the firms that sold them."