



BANK OF ENGLAND

News release

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PRA fines Raphaels Bank £1,278,165 for outsourcing failures

The Prudential Regulation Authority (PRA) has today announced that it has fined R. Raphael & Sons Plc (Raphaels) £1,278,165 for potentially putting its safety and soundness at risk by failing to properly manage its outsourcing arrangements.

As at April 2014, Raphaels owned 334 ATMs in the UK for public use in locations such as bureaux de change, railway stations and airports. Raphaels also owns mobile ATMs which are used at major sporting and other events. In September 2006, Raphaels agreed to enter into a joint venture with another company in its parent's group (the "Group") (Company C) to provide ATMs in various locations around the UK. Raphaels outsourced its ATM finance function to a team within Company C but did not have appropriate controls around this arrangement. Raphaels failed to enter appropriately into suitable written agreements or undertake suitable due diligence around the outsourcing.

From 2007 to 2014, Company C employees in the team responsible for managing the outsourced functions improperly transferred funds without the knowledge or consent of Raphaels and took steps to conceal their actions. The PRA has seen no evidence that anyone else in the Group was aware of their actions. The funds were transferred from Raphaels to deal with cash flow problems in Company C. This meant that Raphaels was exposed to Company C, which would have led to severe financial repercussions if Company C had become insolvent.

As a result of the failings around its outsourcing, these breaches meant that Raphaels had inadequate oversight and control over its regulatory capital position. Specifically, from May 2011 to November 2013, Raphaels failed to understand and accurately report its capital requirement and failed to understand that it had a large exposure to the Group of more than 25% of its capital resources.

Andrew Bailey, Deputy Governor for Prudential Regulation and CEO of the PRA said: "You can delegate or outsource work but you cannot delegate or outsource responsibility. Raphaels put its safety and soundness at risk by failing to have adequate controls in place over their outsourcing. The lack of controls meant that Raphaels did not know what its capital position was or who it was exposed to. This behaviour could have

had severe consequences for Raphaels which is why the PRA has taken the relatively unusual step of levying a fine in this case”

Raphaels agreed to settle at an early stage of the PRA’s investigation and therefore qualified for a 30% stage 1 discount under the PRA’s Settlement Policy. Were it not for this, the PRA would have imposed a financial penalty of £1,825,950.

ENDS

Note to Editors

1. [Final Notice](#)

