

HOUSE OF COMMONS
ORAL EVIDENCE
TAKEN BEFORE THE
TREASURY COMMITTEE

PROJECT VERDE

WEDNESDAY 4 SEPTEMBER 2013

NEVILLE RICHARDSON

Evidence heard in Public

Questions 134 - 234

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Oral Evidence

Taken before the Treasury Committee

on Wednesday 4 September 2013

Members present:

Mr Andrew Tyrie (Chair)
 Mark Garnier
 Stewart Hosie
 Andrea Leadsom
 Mr Andrew Love
 John Mann
 Mr Pat McFadden
 Mr Brooks Newmark
 Jesse Norman
 Mr David Ruffley
 John Thurso

Examination of Witness

Witness: **Neville Richardson**, former CEO, Britannia Building Society and Co-operative Bank, gave evidence.

Q134 Chair: Thank you very much, Mr Richardson, for coming in to give evidence this afternoon. You are on record as being very sceptical about the Verde deal, to put it mildly. Who within the Co-op Banking Group, or the wider group, was pushing most strongly for the Verde acquisition?

Neville Richardson: Can I give you a little bit of context before I start on the deal and the transaction?

Chair: We have already had quite a bit in your written evidence.

Neville Richardson: It was a deal that was being pushed strongly by the Co-operative Group and by the Co-operative Chief Executive at the time.

Chair: Just give us the names if you would. Who was pushing for this most strongly?

Neville Richardson: When I say “Co-operative Group”, the Co-operative Group has a number of very senior people. Its Chairman, Deputy Chairman and Chief Executive were very keen on the deal. That is, Len Wardle, Paul Flowers and Peter Marks were keen on the deal. I have to say that the deal as such, at another time, was one that I could understand. The problem that I have talked about and would like to talk more about is the timing of the deal and the capability of Co-op Bank to carry out that deal and other major change programmes at a time of many, many changes in the organisation.

Q135 Chair: You have set out your reservations in some detail already. We will go into some of that in a moment. What was the rationale of those seeking to acquire Verde among the Co-op senior management?

Neville Richardson: The Co-op had gone through the merger with Britannia. That had been largely successfully integrated by 2011. It had grown the size of the Co-op branch network from something like 100 branches to well over 300 branches. This came forward as, I think, what was seen as a once-in-a-lifetime opportunity. It had some real attractions for the

Co-operative movement in that part of the Verde deal represented the old Scottish branches, the TSB branches, where Co-op was quite weak in terms of presence on the ground. There was a logical, strategic fit that said that, at the right time, this could have transformed the Co-operative Group but, as I said, it was being put forward very much as a once-in-a-lifetime opportunity and perhaps it was with that deal. I have always taken the view that that does not make it an imperative to carry out a transaction if it is the wrong time to carry out that transaction.

Q136 Chair: We might come on to why it was the wrong time in a moment. It has been alleged that the Government was extremely keen for Co-op to acquire Verde. Did Government Ministers encourage this or put pressure on the Co-op, or have other contacts?

Neville Richardson: I saw none of that during my time, but you have to remember that I left in July 2011. At that stage this was nothing more than an indicative bid.

Q137 Chair: If I were to ask you, not having seen the subsequent press coverage, “Could you confirm that, as far as you are aware, there was no ministerial pressure?” you would answer that you can confirm that?

Neville Richardson: At that time, absolutely none that I was aware of.

Chair: Okay. Thank you very much.

Q138 Andrea Leadsom: Good afternoon, Mr Richardson. In your written evidence to us you have said, “The Board and CEO of Co-op Group at that time did not accept my warnings and were determined to press ahead. That is why I stepped down.” Can you tell us what specific reservations you had about the Co-op acquiring the Lloyds branches?

Neville Richardson: I think this is the context that I have to give to you, which is that, at the time of the proposed bid, the Britannia/Co-op deal had only been done two years. A lot of the integration had been done, but there was still work to be done. The Co-op Bank was involved in two other very major change programmes. A phrase that I like—and very much believe to be the case—is that trying to carry out one very major change programme is a challenge. Two major change programmes is asking for trouble and three major change programmes is asking for failure. The bank at that time was carrying out two major change programmes.

Q139 Andrea Leadsom: Which are you referring to?

Neville Richardson: The first was IT transformation. IT transformation had started before the Britannia CFS merger and was the replacement of poor IT systems, something that I think no other UK clearing bank has ever done. It was a massive change, but it was necessary. The second programme was the sale of the life and savings business. At the point of merger, discussions were held in the board and strategic reviews as to whether the bank should continue in insurance areas. The conclusion that we came to was it did not need to and that it probably was not core to carry on insurance businesses.

The life and savings business was facing retail distribution review changes. It was facing changes in the market that meant that it would cost a very significant amount to stay as is. It was decided and concluded—and I led this—that the life and savings business should be sold, which would produce about £200 million more capital for the business. Those were two very major strategic change programmes happening in the bank.

Q140 Andrea Leadsom: Were you worried about the success of those programmes?

Neville Richardson: I would always worry about those. They are such big programmes that there is no guarantee of success.

Q141 Andrea Leadsom: Have they now been successfully completed?

Neville Richardson: The life and savings business has now been sold. I finalised the deal before I left, but it took two years of regulatory approvals to get it finally done. The IT transformation was suspended as part of the Verde transaction and has now been abandoned altogether.

The context I am giving you is that there were two very major change programmes happening. Together with that, the Co-op Group introduced something called Project Unity, which was to take many major areas of the bank and put them under the control of Co-op Group as a cost saving exercise. This was putting financial services people under the control of people who are not financial services people. It was causing very major disruption at the time that we were trying to settle in other programmes. I was very, very much against the disruption that that was likely to cause and said at the time that I believed that that, combined with the other two programmes and with Project Verde, would have disastrous consequences for the organisation.

Q142 Andrea Leadsom: It sounds like there was some real strife then with your senior colleagues. Can you tell us how they reacted to your warnings, and whether they accepted any of your concerns? Did you have any allegiance from other senior colleagues?

Neville Richardson: The way that I would normally deal with things and the way that I dealt with this was through attempting to persuade, attempting to use my experience and knowledge, to explain to people that this was going to be disastrous if all these programmes were done at the same time.

Q143 Andrea Leadsom: Yes, but did anyone believe you?

Neville Richardson: I believe that some of them did. I think some of the executives did.

Andrea Leadsom: Can you give us any names of colleagues that agreed?

Neville Richardson: As a whole, I believe that all the executives believed that this was a major problem that we were going to have.

Andrea Leadsom: The executives of which entity?

Neville Richardson: CFS.

Andrea Leadsom: The main board members of CFS agreed with you?

Neville Richardson: Yes. The executive members, and there were those among the non-executives who also agreed that this was going to cause difficulties.

Q144 Andrea Leadsom: Essentially the whole board of CFS and some of the non-executive members, also of CFS, agreed with you, but the Co-op Group overruled you?

Neville Richardson: The executive team and some of the non-executives, because the board comprised executive and non-executive members, and, as I have said, the executives could see the problems that this was creating and some of the non-executives, the more experienced financial services—

Andrea Leadsom: Now are you talking about CFS or the Co-op Group?

Neville Richardson: CFS.

Andrea Leadsom: Some of the non-executive members of the board of CFS thought it was a good idea, but others didn't. None of the executive members of the CFS board thought it was a good idea, but it was the CFS Group board then that overruled you. Is that right?

Neville Richardson: CFS Group and Co-op Group, yes.

Q145 Andrea Leadsom: Did anyone else in the Co-op Group board support your views, or was it a complete disagreement?

Neville Richardson: I am not aware of anyone who did.

Q146 Andrea Leadsom: There was no agreement from the Co-operative Group board that this was a problem?

Neville Richardson: That is right and, just to be clear here, I am talking specifically about taking on Project Unity. This was the third of the major programmes. At that stage, Project Verde was at an indicative bid stage. It was an indicative bid, which means that very little resource was being allocated to it. But you can gather from what I am saying that, if I was very unhappy at taking on three major programmes, a fourth on top of that, to my mind, was going to be absolutely disastrous.

Q147 Andrea Leadsom: Just to be clear, the evidence you have just given is about Project Unity, not about Project Verde?

Neville Richardson: It is specific to Project Unity and the combination of programmes that the business was trying to cover.

Andrea Leadsom: Yes, but, specifically, this inquiry is about Project Verde.

Neville Richardson: Yes.

Q148 Andrea Leadsom: You have said that you resigned because your warnings about Project Verde were not heeded. Can I ask you those same questions? Who in CFS, executive or non-executive members, agreed with you that Project Verde would be a disaster and who in the Co-operative Group agreed with you?

Neville Richardson: Can I clarify? I did not resign. I left the organisation because the board did not accept my view about the combination of programmes of which Verde was one. This was not a matter of principle purely about Verde. It was that the business was incapable of coping with all the significant change that was happening in the organisation at the time. This was not a principle about one particular programme. It was an absolute, pragmatic view that the business was incapable of coping with all this change at the same time.

Q149 Andrea Leadsom: Your resignation was a result of pre-dating project overload, not a result of Project Verde?

Neville Richardson: Not in isolation, but I have to say quite unequivocally that, if I had known that Verde was going to be as all-consuming as it became, I would not have been for it at all, because the disastrous consequences that I warned of, with the other programmes and Verde coming down the line, were just being multiplied by Verde and the distraction that Verde was creating.

Q150 Andrea Leadsom: But, to be clear, you are not saying your resignation was Verde. It was a combination of the other programmes and this was the final straw?

Neville Richardson: Also, just to be clear, I did not resign. I brought matters to an absolute head and we mutually agreed that I would leave the organisation, but it was—

Q151 Andrea Leadsom: Most people would see that as resigning, but okay. Just one last question. Did anybody else from the CFS board, either executive or non-executive, decide to also fall on their sword or leave mutually or whatever, resign?

Neville Richardson: In the period between me leaving and the current—

Andrea Leadsom: For the same reason obviously.

Neville Richardson: For very similar reasons. Five of the eight executive team members left and something like 15 of the 30 people below left. That is an awful lot of experience to lose over that period of time. There were different reasons for different people, but it is important that people realise that the management team was being denuded of experience and resources.

Q152 Andrea Leadsom: What was the Co-operative Group's reaction to that? Did they try to keep people? Did they let people go? How did they respond to such a massive loss of experienced staff?

Neville Richardson: You are talking about a time after my time. Quite a number of people did try to persuade me to stay. Quite a number of members of the Co-operative Bank board, who were also on Co-operative Group, spoke to me and asked me to stay. They did not want to lose me. I understand that that may have been the case with some of the other colleagues who left. They were not people that the bank or the group wanted to lose.

Q153 Chair: Was there any financial benefit to you in leaving by mutual agreement rather than resigning?

Neville Richardson: I don't believe so. That wasn't something that crossed my mind.

Q154 Chair: On the points that you have made about the positions of the respective parties on these boards and their attitude—and you have been pretty trenchant in giving that—will the minutes of the respective boards support what you have said?

Neville Richardson: The minutes and board papers will point to the fact that, throughout 2011, I was talking about management stretch and that is I suppose a shorthand version of "We're trying to do too much". That was before Project Unity and before Project Verde. The minutes will say that quite clearly. The minutes will not say that I pointed out that there would be disastrous consequences, because that was done over a very short period of time and was done outside of a board meeting with the Chairman, the Deputy Chairman and the Group Chief Executive.

Q155 Chair: The answer to my question is no, the board minutes will not support the evidence you have just given us?

Neville Richardson: The board minutes will not but there is substantial evidence—it is absolutely clear what I was saying and who I was saying it to at the time.

Chair: Documentary evidence in the firm?

Neville Richardson: I have contemporaneous transcripts of what I said when I said it and that is absolutely clear.

Q156 Chair: What about the position of the other people on the board, which you have just been describing to Andrea Leadsom, the respective board positions?

Neville Richardson: I don't know whether the minutes would reflect that—I will have to tell you how quickly all this happened. It happened in a very short period of time. Project Unity had been coming around for quite some time. Project Verde had been a possibility for a few months. I brought this to a head at a point where it was decided that Unity was going to be implemented immediately and Verde was at the indicative bid stage. It was something that I felt so strongly about that I was not going to stand for it.

Q157 Jesse Norman: We are focusing on July 2011 then, Mr Richardson, which is when your disagreement about these projects with the management comes to a head. By the way, was there a gagging clause in your separation agreement?

Neville Richardson: It is normal to have confidentiality agreements and I have those, yes.

Jesse Norman: You are not in breach of any of that stuff in talking to us or making transcripts available of meetings you have had?

Neville Richardson: You have invited me here today and parliamentary privilege means that I can talk openly to you in a way that I have been unable to for the last two years.

Jesse Norman: You could let us have copies of the scripts that you prepared for your conversations in July—

Neville Richardson: Subject to legal clearance, I will.

Q158 Jesse Norman: I must say I am staggered that your concerns were sufficiently clear in your own mind and sufficiently important that you found it necessary to write a script. You have said here you had telephone conversations with Paul Flowers, who was the CFS Chair and Group Deputy Chair, and Rodney Baker-Bates, who was the CFS Deputy Chair, and then on 11 July you had a face-to-face meeting with Peter Marks. For those meetings you had transcripts to make sure there was a consistent message about your concern?

Neville Richardson: Yes, there was. I wanted to see all three of them on the morning of 11 July but Paul Flowers was flying off to Europe for a meeting and so, because I couldn't see all three together, I arranged a telephone conference call on Sunday, 10 July and then spoke to Peter Marks face-to-face on the morning of 11 July.

Q159 Jesse Norman: From your point of view, the fact that the Chief Executive was in the process of having severe concerns registered at board level ought to have been an earthquake to the board of the CFS and, indeed, to the board of the Co-op, should it not?

Neville Richardson: I didn't take this lightly. This was very, very serious. For a Chief Executive to take the steps that I took, I think, is incredibly serious.

Q160 Jesse Norman: There is an interview with Len Wardle on the Co-operative website, dating from 19 July 2012. I don't know if you have seen that?

Neville Richardson: I don't think so, no.

Q161 Jesse Norman: This is at the point when they are going live with the formal bid for Verde and he is asked a question, "Any deal of this size and complexity must carry with it a degree of risk. How does the board satisfy themselves that these risks can be properly managed?" He answers, "I make no apologies that we took such a long time to come to a conclusion on this deal, almost a year really, and, therefore, we have gone into the deal in finite detail." I think he means "in infinite detail", "The audit committee looked at all the due diligence to satisfy itself it was sound. The risk committee looked at all the risks, stress testing, economic scenarios for the future, a very detailed process. Totally unlike how Lloyds got themselves into their difficulties in the first place"—that is ironic—"when they took on HBOS. Considerable time and effort—". He does not mention the fact that his Chief Executive has quit over the issue because he could see a year earlier that the bank was wildly overloaded in the commitments it was making.

Neville Richardson: I think also the comments you have just made there relate to the due diligence on a project, and my concern was more significantly about the impact that this was having on business as usual.

Q162 Jesse Norman: Just to be clear, do you share my amazement that he should have been able to make those remarks given the history of the experience that you had had?

Neville Richardson: I am very surprised, but I want to just clarify that my real concern was that, when you run a bank, it is all about running it on a weekly, a daily, an hourly basis. To take resource away from that may mean you can achieve the project, so you can look at the project and say, “We’ve done it properly”, but that leaves a bank vulnerable to not being run properly.

Q163 Jesse Norman: Your point was they should never have got started with the Verde proposal because the bank was already being stretched in so many different ways?

Neville Richardson: Yes. I was willing to go with an indicative bid, which means you are having a look at it, it takes very little to resource and it is not a problem. I would certainly not have been in favour of diverting significant resource from the bank because I thought that was dangerous for the bank.

Q164 Jesse Norman: Did you think the board of the Co-op Banking Group had the capacity to manage an expanded network as a result of Verde, given all the other problems we knew: stress on management, other commitments, failure of IT systems, capital shortfall, and so on? Do you think they had the capacity to do that?

Neville Richardson: This was one of my concerns. One of my concerns was not just at the management, but at the board level. You have to remember, this was increasing the size of the bank from 100 branches to 1,000 branches over the space of less than three years.

Q165 Jesse Norman: Cutting through it, you thought they were not competent to manage that process from a board level, let alone from a management level?

Neville Richardson: They needed more experienced resource on the board to cope with that.

Q166 Jesse Norman: Thank you. Andrew Bailey of the PRA, the Bank of England, came before us and said that he raised his concerns first with the Co-op about their status in July 2011. Do you remember that? Was that about the time you were talking to them?

Neville Richardson: I only recall one conversation with Andrew Bailey, remembering that I left the organisation around about 18 July. I have read the transcript. I don’t know which conversation he is talking about, but I know that he came to the board of Co-op Bank for a regular visit. It was on 12 July, I believe, and he came for dinner with the board and made some remarks before the board. At that stage—

Q167 Jesse Norman: This is the day after you have had a face-to-face meeting with Peter Marks, scripted by you, at which you tell Peter Marks that the bank is incapable of running all these deals?

Neville Richardson: Yes.

Jesse Norman: Andrew Bailey turns up. You have dinner with him?

Neville Richardson: Yes. He didn’t turn up. It was pre-arranged because it was a board off-site and he was asked to come as a guest to that—

Jesse Norman: Did you discuss it with Andrew over dinner, “By the way we think the bank is vastly overstretched and shouldn’t be doing this”?

Neville Richardson: No. I wasn’t in a position to discuss it directly with Andrew.

Jesse Norman: Did Peter Marks raise it with him?

Neville Richardson: I don’t know. I don’t know. But you asked me the question, and the question was, “Did Andrew Bailey raise any concerns?” Yes, I recall that he did. In a session that he had with the board before dinner he raised the question of whether Co-op Bank/Co-op Group was capable of taking on Verde. Remember, this was at outline bid stage,

so he was commenting before there was any real clarity as to what the bid might look like and he—

Q168 Jesse Norman: He is tacitly backing your position. He is saying, “You shouldn’t be in the business of launching this bid given how overstretched you are”?

Neville Richardson: I recall that the specific comment he made at that dinner was that he felt that Co-op may need a partner if it was going to go ahead with this. I think it was an off-the-top-of-the-head remark, but he mentioned Rabobank. We had no conversations with them, which is why I think it was an off-the-top-of-the-head remark from him, but he said that he felt that was the case.

Q169 Jesse Norman: This would be a partner that helps the bank with the management of the new branches, but would also supply new capital?

Neville Richardson: When the possibility of Verde was first put to Co-op Bank, it was put to Peter Marks and it was put to me by Credit Suisse. I said no at that stage, even to looking at an indicative bid, although I was later willing to look at that. There were three reasons that I said no: capital, liquidity and management stretch. This is only me thinking—I think Andrew Bailey was being more specific to capital and liquidity—but I don’t know.

Q170 Jesse Norman: You will recall in his testimony to us he mentions all those three things.

Neville Richardson: Yes.

Jesse Norman: They are also tracked by the NBNK memo that was sent in the context of the bid to the Lloyds board.

A couple more questions if I may, Chairman, because we are on quite a rich seam here.

Q171 Jesse Norman: How would you evaluate Peter Marks’ performance in regard to the discussions that we have just considered?

Neville Richardson: All these things are about judgment. I was making a judgment call to take what I think was a massive decision, which effectively ended my executive career, to go and say, “We cannot cope with all this at the same time”. This was a massive decision for me to take. It was a judgment call about which I might have been wrong. If I had been wrong, then I had effectively left my executive career, which was very successful at that point, and was not going to walk back into any executive career. Hindsight tells me that that was a good judgment call. As far as Peter Marks is concerned, which is what you asked me—

Jesse Norman: Bailey could see it from afar, you could see it from nearby, but Peter Marks could not see it either from afar or nearby.

Neville Richardson: I think—

Q172 Jesse Norman: A final question if I may, because we have no time. Win Bischoff, the Chairman of Lloyds, told us that the first time that Lloyds became aware of any shortfall with regard to the Verde transaction was December 2012. Do you find that plausible?

Neville Richardson: Yes, I do, because there was no shortfall. This is only picked up from what I have read, but my understanding is that Lloyds were helping substantially with the capital and liquidity, and I think what Win Bischoff was talking about was shortfall in Co-op Bank itself, so prior to the merger. That must have been the case because when I left, there was certainly no capital shortfall. There was none recorded in the mid-2011/end-2011/mid-

2012 accounts and, in fact, I think the Co-op Group was raising public funds in late 2012 and, therefore, must not have been aware of any shortfall.

Q173 John Mann: You refer in your statement to the reasons for the £1.5 billion additional capital. Were you surprised when this emerged as an issue?

Neville Richardson: I was surprised at the quantum, but could I link this to Mr Norman's question, because this happened in December 2012? We now know that several things were happening. First, there were the losses being incurred by Co-op Bank. There were significant charges on PPI, which related to the time prior to merger. There were significant write-offs on IT, and I believe that to be linked to the Verde transaction. Those costs were incurred. If you incur unanticipated costs, that hits your capital. Secondly, I believe that, because the Co-op Bank had taken its eye off the ball of running the business, its operating profits were much diminished, so its ability to absorb losses had gone down an awful lot. Thirdly—and this is the thing that we now know, which links to 12 December—the regulators started to impose a significantly higher level of provisioning on debts than was the case before, and I can track that by looking at the accounts of other organisations.

Q174 John Mann: Did you raise these specific concerns while you were still employed?

Neville Richardson: No, because these happened after I had gone. Take the three items there, the—

John Mann: No, I am aware that they happened after you had gone, but did you raise these concerns as potential issues that could emerge?

Neville Richardson: No. The IT transformation write-off would not have happened had I still been there. If the bank had been managed on a proper basis, if the bank had been managed and not had its resources diverted to Verde, and many key people diverted to Verde, its operating profit position would have been better than it was. Its loans would have been better managed than they were. Loans have to be managed on a daily basis. They have to be managed on a frequent basis. That diversion of resource is exactly what I was talking about when I warned about the consequences of taking on too many projects at one time.

Q175 John Mann: But you were not quantifying your fears in any way?

Neville Richardson: It was almost impossible to do that. It was impossible to do that apart from I used the word “disastrous”. I used the words “collapse of the banking system”. These were pretty dramatic words that I used at that time.

Q176 John Mann: Mr Andrew Bailey is suggesting to us that the main issue was around the Britannia assets. Is he right in that?

Neville Richardson: No, he is not and, by reference to the report and accounts and the research I can do just looking at the websites of the Co-operative Group, you can see that, of the losses that have been reported over the last 18 months, only about one third relate to Britannia.

Q177 John Mann: When he had these meetings and this dinner—and you are obviously better placed than anyone to answer questions in relation to Britannia and Britannia assets—what specifically did he raise with you about Britannia?

Neville Richardson: Absolutely nothing. At that point, the merger had happened two years ago.

John Mann: He did not ask any questions?

Neville Richardson: None whatsoever.

John Mann: None?

Neville Richardson: There was no issue about the Britannia assets.

Q178 John Mann: The internal models that the Co-op was using in relation to capital, were they sufficient?

Neville Richardson: They were approved by the boards and by the regulator. They were sufficient.

Q179 John Mann: In your view, they were sufficient?

Neville Richardson: In my view and the regulator's view, they were sufficient.

Q180 John Mann: You seem to be a little vague on whether you resigned. Was anyone trying to push you out?

Neville Richardson: If I could give you the explanation of what happened. I took things to a head on 10 and 11 July. This was a serious move on my part and I had thought about it very long and hard. We had a board meeting on 12 July in which I tried to persuade the board not to carry on with Project Unity. I wanted the board to suspend Project Unity. If I had known the depth of the work required on Verde, I would have been against that as well. The board did not take the warnings that I gave, and Project Unity was announced on the Thursday of that week, so around 14 July. Project Unity was announced to all the staff on that date.

I thought about it very long and hard over that weekend and went see Peter Marks on the Monday morning, 18 July, and said, "Look, I have made this judgment call that I think it is impossible to run the bank in a proper way and carry out all these projects. You and the board have taken the view that you think it is. I think my position is untenable. I am not prepared just to sit back and try to make this thing work, because I have made it so clear that I think it is untenable," and we agreed that it was in the interests of the bank that I left.

Q181 John Mann: You take a very different view from Andrew Bailey on the relative significance of the problems of the Britannia in the whole picture, but you accept that there were problems with the Britannia. When were you first aware of those problems?

Neville Richardson: No, I don't take that point at all. Can I just take you back through the sequence? Britannia was a good organisation. It was a strong organisation. It was approached by Co-op Bank, not the other way round. It was approached by Co-op Bank to look at a possible merger. Co-op Bank then carried out due diligence on Britannia over a period of 15 months—it had 15 months to complete the deal. It carried out very extensive due diligence. Whatever it came up with was for the Co-op Bank to see, so any loans that had been written by Britannia and any issues were open and transparent to Co-op Bank. For the two years after that, while I was still there, no unexpected issues whatsoever from Britannia arose. For the year and a half after that, after I had left—so this is outside my influence—no issues arose. Accounts were audited year after year after year. Boards were carrying out their governance structures and reviewing loans month after month after month, throughout the whole of that process, and no issues whatsoever arose. So something different happened.

Q182 John Mann: Your position on that is very clear. One final question and that is on the future of co-operative banking. Are we seeing now the end of co-operative banking in this country?

Neville Richardson: I sincerely hope not. I am a very big supporter of the mutual model. I think the mutual model as a whole, and co-operative banking in particular, provides something that others do not provide. I think it provides competition on the high street. If you

look in the Sunday newspapers at the best buy, invariably mutuals and the Co-operative are strongly featured in that. I think it would be a very sad day if the Co-op Bank or other mutuals did not exist.

Q183 Mr Love: First, can I draw the attention of the Committee to my designation as a Labour and Co-operative Member of Parliament?

Can I take you back, Mr Richardson, to one of your answers to an earlier question, when you indicated that five executive members and 15 senior management personnel left after the Verde process had started? That rather links the two together. Do you have any evidence to suggest that management stretch or Verde or a combination of those things were the reasons why any of those people left?

Neville Richardson: Verde and Unity. I bring Unity into it as well because Unity was changing people's roles and so a number of people who were in senior positions had their roles changed in such a way as they found it unacceptable to stay in the organisation. Their reporting lines changed and they just found it unacceptable to stay. It wasn't—

Mr Love: But was that linked in any way to Verde or to the concerns you had about management stretch, with all the things they were being asked to do, and Verde making that impossible?

Neville Richardson: I would be guessing if I gave the answer to that because I wasn't there at the time, but it is highly unusual to lose that level of experience and expertise in such a short space of time. I would find it very difficult had I been chief executive to continue running the organisation at that point. I should also say that the business was running at that point with a temporary chief executive, a temporary chief finance officer and a temporary chief risk officer. This was an organisation trying to do the biggest transaction of its life—Verde—running with a depleted executive team, a depleted management team and temporary people in all the senior roles.

Q184 Mr Love: You have commented on this earlier, but I would like to get some more specific information from you in relation to the widespread reports in the press, in particular that the current problems faced by the Co-operative Banking Group were a direct result of the loan portfolio that they inherited from Britannia. Perhaps you would contradict what the press has been commenting on regularly?

Neville Richardson: First, it is not all the press. One or two newspapers have been making these sorts of comments. Others have carried out the research that I have and looked on the websites and the report and accounts. The figures that are reported to relate to losses and significant items over the past two sets of reports from the Co-op Bank add up to £1.6 billion. Of that, the amounts attributed to Britannia are about one third. But I would also contend very strongly that, of those that are attributed to Britannia, much has come about because of the way in which the businesses have been run and, very importantly, because of regulatory change in the way that provisions are being required. The regulator in December 2012 imposed on banks and building societies a new way of carrying out provisions and my understanding is that that hit almost immediately, in one go.

Q185 Mr Love: That brings us on to why the regulator would want to do that and presumably they consider that more prudent and perhaps either the Co-op or Britannia or both, the merged organisation, should have been more prudent in the way that they accounted for each of those loans.

Neville Richardson: The regulator brought that in, in regard to all banks and building societies, as far as I am aware. If I take a look at the accounts of Nationwide or other organisations, I see a similar increase in provisioning suddenly happening at a time when the

economy was starting to improve, unemployment was starting to go down and house prices were going to go up. There is no logic to suddenly find that significant additional provisions are required when that combination of circumstances is occurring. There is an imposition by the regulator that appears, to my mind, to have substantially increased the reported losses of banks and building societies in general.

Q186 Mr Love: That may be something that we will take up with the regulator when we see him.

You commented in your written evidence to us on the results announced on 29 August, where you highlighted non-core loan losses of £680 million and you indicated that it was clear from the published information that the Co-operative Financial Services originated loans were part of this figure. You said earlier the only resource that you had was published information? Can you give us any information on how that £680 million figure breaks down between Co-op Financial Services and Britannia?

Neville Richardson: I can give you part of the information that is publicly available and that is to say the £680 million I don't immediately recognise because the loss was £709 million in total. The amount that related to loan impairments was £496 million. Of the £496 million, £330 million related to non-core. So at that point we are down to a figure significantly less than half of the total. Non-core had been designated, according to the Co-op's own results, as being the ex-Britannia commercial loans and intermediary lending, but it is very clear from the 31 December accounts that non-core business also included significant amounts of loan write-offs relating to Co-op Bank issued before the merger. I don't have an exact figure for you, but I can say that, of the total loss provisions and significant items of £747 million, my belief is that significantly less than £300 million was generated by Britannia assets.

Q187 Mr Love: Perhaps, rather than bore the Committee by throwing figures around, we could ask that perhaps, Mr Richardson, you could write to us on how you find these figures and the sources from which you have them.

Neville Richardson: Yes.

Mr Love: That would be very, very helpful.

Q188 Chair: Before you move off that, if I may just interject with one point. You have already supplied us with some figures. I just want to as a point of fact clarify this. This says, "Britannia's gross assets £37 billion were analysed". Analysed by whom?

Neville Richardson: It is in the public domain. At that time, under the Basel requirements, it was—

Chair: This is a Pillar 3 disclosure, is it?

Neville Richardson: It was Pillar 2 at the time but it became Pillar 3, yes.

Chair: All these figures that you have in here are derived directly from the accounts by you?

Neville Richardson: Yes.

Chair: You have put this table together?

Neville Richardson: I have put that table together. It is very straightforward. It was a publicly available document. In fact, I should emphasise that virtually every figure that I have mentioned in my written statement—and I apologise that there are a lot of figures in my written statement—I have derived very largely from the Co-op Bank and the Co-op Group website.

Chair: Thank you. Sorry to interrupt, Andrew. It was clarification.

Q189 Mr Love: Yes, that is helpful. Can I take you on to the issue of commercial property and commercial investment more generally? There has been a lot of comment over a long period about the fact that many financial organisations got into this. Can you tell me whether you were the originator of the idea of moving into this area and why you took that decision as part of the Britannia organisation?

Neville Richardson: No. In fact Britannia has been in commercial lending for a substantial amount of time. I believe it was from prior to 1990—way before my time—that Britannia was a commercial lender, but can I just draw a distinction because—

Q190 Mr Love: Did that go from a very small base prior to the 2000s, because I think you will find from other financial services organisations that they had exposure to commercial property but it was very much smaller than it built up to be prior to 2007?

Neville Richardson: It increased over that period of time but so did the Britannia balance sheet. Looking at the balance sheet as a whole, I always look at the balance sheet as a balance of risks. The largest individual part of the lending was standard retail mortgages, which represented over 30% of the balance sheet. Those had a loan to value of 37%. That was probably the least risky lending anybody did in the country at the point. It had some loans that were of higher risk. It had £2 billion of commercial rented property, which represented only 5% of the balance sheet.

I just wanted to clarify what we mean by commercial lending because, to some people, commercial lending was speculative. It was lending to property developers who didn't have a property in mind or they just had the land. The lending that Britannia did throughout my time was underwritten in two ways: first, by the rental stream that came from whoever the tenant of the property was. If we lend to a borrower because he is buying an office block, we want to know who the tenant of the office block is, what the length of lease of that property is and how long the tenancy agreement runs. The second piece of underwriting was the value of the property itself. We never lent speculatively in that period of time. We were not developers in that way at all. Every one of those loans, as far as I am aware, was loaned on the security of an underlying tenant and an underlying property value. That is very different from what you will see in many organisations.

Q191 Mr Love: There was a lot of comment at the time when commercial property and commercial loans generally had gone up prior to the credit crunch and there was particularly a lot of comment about whether mutual organisations which had been based in retail and mortgage-type activity had the expertise. Did you assure yourself, as the managing director of Britannia, that you had the commercial expertise to enter in the way that you did into this marketplace?

Neville Richardson: Just to go back, we didn't enter it during my time. We continued it during my time and, yes, we did have the expertise. We had people, crucially, who had been around in the early 1990s seeing the aftermath of the previous crisis. They had seen what problems can occur. They were an experienced team. My guess is we had somewhere between 30 and 40 people working on this activity, which in fact is a very big team with a lot of combined experience.

Q192 Mr Love: You have commented in your written statement about the Co-op's £1.7 billion exposure to property and construction. What was your assessment at the time of the merger about the riskiness of that portfolio and, if you felt it was risky, did you draw it to the attention of the board?

Neville Richardson: Yes. I have talked a lot about the due diligence that Co-op did on Britannia, but it is quite right that I also point out that Britannia did due diligence on Co-op

and when we looked at that loan book, yes, we did see risks in it. I would expect to see risks in any loan book. The view that one of our experienced non-executive directors had was that perhaps it would have needed additional provisions of something like £100 million or so against it. My own view is that the reason why that would be an understated figure—so I suspect losses have been higher than that in the period since—gets back to my fundamental concern that, because the eye had been taken off the ball because of Verde, the loan books have not been managed properly in the last two years, as has the rest of the business.

Q193 Mr Ruffley: On this point about the impairments predominantly arising after you left—that is the sense I am getting from your evidence, Mr Richardson—could you just say something about the blame you seem to be putting on the regulator for asking for more extensive provisions for potential future losses as compared with write-downs that you would have seen and discussed when you were there?

Neville Richardson: I think I would come back to the view that I just expressed, which is something happened that suddenly required banks and building societies to make additional provisions at the end of 2012. My understanding is that the regulator took a different view and a harsher view on commercial provisioning, such that they were asking organisations to provide on what I think they believed to be an economic basis rather than an accounting basis. An accounting basis is you make provision when you see something wrong. An economic basis is you assume that certain economic circumstances will arise over the next few years and you make provisions on that basis, but can I just support my view that provisioning is not necessarily the same as a loss?

In 2012 provisions raised by Co-op Bank amounted to nearly £500 million, I think. They already had provisions sitting in their accounts of something over, I believe, £200 million or £300 million. They had hundreds of millions of provisions. The actual write-offs—so this is a position where you recognise that you do have a bad debt as opposed to trying to make a provision—from the report and accounts was about £50 million. There was provisioning being built up, being built up, being built up, and actual write-offs seemed to be quite small. Then in December 2012 it seems that the regulator came in and said, “We would like a harsher method of provisioning. We would like you to regard things as impaired at an earlier stage than you have previously been doing that”. I am not saying that the regulator was right or wrong to have a judgment call. The thing that surprises me is to bring it in in one go; so to bring it in as an immediate effect.

Q194 Mr Ruffley: Let us just go to your written evidence where you talk about Britannia having an £8.6 billion specialist residential mortgage loan portfolio acquired through intermediaries. The Co-op interim for the first half of 2013, which we have most recently seen, shows that more than £1 billion of the £7 billion optimum (Britannia) portfolio is impaired with more than a quarter having a loan to value of over 100%. Do you agree with that?

Neville Richardson: I don’t know. I haven’t seen those figures.

Mr Ruffley: What do you mean you don’t know?

Neville Richardson: Sorry, I haven’t necessarily seen those figures but it doesn’t surprise me.

Mr Ruffley: But this is the optimum portfolio that is your baby, from Britannia.

Neville Richardson: The £8.6 billion is a figure that I recognise, and I recognise that there would be significant figures—

Q195 Mr Ruffley: You are a numbers man and you have given us quite a lot of details and reiterated that in your oral evidence today, but the Co-op interim accounts for the

first half of 2013 show that more than £1 billion of the £7 billion optimum portfolio is impaired. I am asking you, do you agree with that or not?

Neville Richardson: I am assuming that they must have the right figures but can I just draw your attention to—

Mr Ruffley: So that is a yes?

Neville Richardson: Can I just draw your attention to what—

Mr Ruffley: Sorry, is that a yes? You accept that figure in the Co-op interim report?

Neville Richardson: I will check that figure afterwards and confirm to you whether I accept it or not.

Q196 Mr Ruffley: Who was responsible at Britannia for the strategy of pursuing growth through specialist mortgage business?

Neville Richardson: The board approved all the strategy of Britannia and the board was in approval of this, but can I—

Q197 Mr Ruffley: Hang on; I want to stick on that. Who on the Britannia board had knowledge of this specialist mortgage business?

Neville Richardson: Quite a number of members of the board. We had a very experienced board at Britannia.

Mr Ruffley: In sub-prime?

Neville Richardson: It was not sub-prime. The definition you are applying—there are one or two things I need to—

Mr Ruffley: Hang on, specialist mortgages of the kind of business that General Motors Acceptance Corporation were flogging to you. There is no sub-prime in that?

Neville Richardson: I need to clarify some of the comments that you are making.

Mr Ruffley: No, I am asking a question. I am not making comments. You are saying there was no sub-prime on the Britannia loan book?

Neville Richardson: I am saying there were no significant problems with the—

Mr Ruffley: No, no, sorry, there was no sub-prime. Is that what you are saying?

Neville Richardson: Not at all. No, there was some sub-prime.

Q198 Mr Ruffley: There was some sub-prime. Let's just go back to the optimum portfolio. What proportion was originated by Platform, which was a Britannia entity? That is a yes. What proportion was originated by Platform and what proportion was flogged to you by General Motors Acceptance Corporation?

Neville Richardson: The amount from General Motors was only purchased subject to extensive due diligence—

Mr Ruffley: No, that isn't the question. I want to know what proportion—

Chair: Let him just—

Mr Ruffley: No, with respect, he needs to answer the question I am asking, not make a statement.

Chair: I would be very grateful if you could just finish that sentence and then answer Mr Ruffley's question.

Neville Richardson: Yes.

Mr Ruffley: You have probably forgotten it now. What proportion of the optimum portfolio was originated—

Chair: David, just let Mr Richardson say what he wanted to say and then we will come on to this question.

Neville Richardson: There is a presumption behind your question that the GMAC loans are not necessarily good loans.

Mr Ruffley: There was no presumption. I asked you what proportion of the optimum portfolio—

Chair: You must let Mr Richardson just finish what he wants to say about GMAC—

Mr Ruffley: Try answering the question, please.

Chair:—and we will come back to your question, David.

Neville Richardson: Whenever we purchased loans from GMAC we underwrote them ourselves. That is what I am trying to say. In other words, the underwriting criteria that GMAC used were somewhat irrelevant to us because we went in and did due diligence and looked at them as though we had originated them ourselves, and if they were not to the quality that we expected in that due diligence, we would reject them and not take them on board. That has not been the case for other people who purchased GMAC loans. They often just took them as stated. We did not. The quality of those loans from GMAC was not significantly different from the quality of loans we were originating ourselves.

Q199 Mr Ruffley: Before I get to my final question, I am going to have another go. What proportion of the optimum portfolio was originated by Platform and what proportion from GMAC? Can you answer that?

Neville Richardson: My guess would be about two thirds to three quarters from Platform and the remainder from GMAC, but I don't have the figure readily to hand.

Q200 Mr Ruffley: Bradford & Bingley explained to the predecessors on this Committee when they looked at Bradford & Bingley's failure: "Underwriting criteria written into their GMAC contract meant that when credit conditions deteriorated there was no ability to change the underwriting criteria for the loans". Did Britannia have a similar—

Neville Richardson: This is what I am trying to explain to you.

Mr Ruffley: It didn't?

Neville Richardson: No, it did.

Mr Ruffley: It did, right.

Neville Richardson: Bradley & Bingley were very different from Britannia. Britannia, when it bought loans from GMAC, did three things. One is what I just explained, which is that it carried out due diligence. We carried out our own due diligence on those loans. The second is we had no forward purchase agreements. Bradford & Bingley had agreed in advance that it was going to take loans from GMAC, regardless of whether they wanted them or not. We did not. We bought GMAC loans on a portfolio-by-portfolio basis. The third and absolutely critical point is that we in Britannia had extensive warranties, so if the loans proved not to be what we thought they were going to be, we put those loans back to GMAC. That was a massively different position from the one which Bradford & Bingley accepted.

Q201 Mr Ruffley: My final question is, given the Co-op accounts show that more than £1 billion of the £7 billion optimum portfolio is impaired, you can't account for that, can you?

Neville Richardson: I would like to explain to you what I was trying to explain before, which is about what impaired means. Impaired does not mean bad debt. If we look at some of the aspects of the accounts, impaired is a title that is given on the credit card and loans accounts to accounts that are one penny one day overdue. If anybody around this table has ever had a credit card with a repayment of one penny one day overdue, you were an impaired borrower. Impaired is not the same as a bad debt. For a portfolio like this, which included self-certified and included non-conforming loans, for people to go overdue is quite normal. It is how you manage that that is absolutely key. If those loans are managed properly—and they were in Britannia, by some fantastic people in Britannia, who ran that portfolio—bad debts do

not arise. Something can become overdue one day and you talk to the customer, you give the customer the ability to repay, they do repay and it is not a bad debt. The evidence of what I have said is that, in the period since the merger between Britannia and Co-operative Financial Services, the actual bad debts arising on that portfolio, despite the level of impairment you have talked about, have been absolutely minimal. That has been a good book and, over the years, earned Britannia members profits of well over £100 million.

Q202 Mr Ruffley: It all went wrong after you left. Is that what you are saying? You would like that to be the conclusion from your evidence?

Neville Richardson: It is absolutely clear that, when I left, the business was in good shape. There were no issues arising. Nothing was coming forward from regulators or auditors that suggested that there were any issues, nor was there at the half year after I had left or the full year or the following half year.

Q203 Mr Ruffley: Absolutely the final question. Therefore, it is completely mystifying to you, is it, as to why Andrew Bailey came in front of this Committee a few weeks ago and said, in reply to Mr Norman, that Britannia assets were something that troubled him? You cannot understand why the senior banking regulator, currently, said that to this Committee? You have no idea why he said it?

Neville Richardson: I have no idea why he would say that, given the figures that I have in front of me.

Mr Ruffley: Thank you.

Q204 Chair: Just to be clear, I think I understand you to say, in effect, that, far from being a weakness, having GMAC on your balance sheet, given your ability to sift out the good from the bad GMAC, the wheat from the chaff, and your unique skills of managing it as a firm, even though we are talking about non-conforming loans, self-certification, buy-to-let and so on, represents a source of strength on the balance sheet overall and not weakness?

Neville Richardson: It was certainly a source of profit and a very good return on capital. The answer to your question is yes.

Q205 Chair: In that case, given the crucial role that this very large proportion of loans on your balance sheet played and the importance of it in the overall presentation of your view of the performance of Britannia, why did you make no reference to this at all in your evidence?

Neville Richardson: Because it is within the figures that I have mentioned and, from my point of view, these loans were never worse performing than the Britannia-generated loans. It wasn't an issue because of the underwriting that we had carried out ourselves to satisfy ourselves on those loans.

Q206 Chair: But if this is such a strong point, given that this is what is likely to have been raised—and indeed has been raised given that this was a very similar problem with Bradford & Bingley—might it not have been a good idea to spell this out in your evidence?

Neville Richardson: I think, with hindsight and given the questions that I have just had, I would have been delighted to spell it out.

Q207 Chair: You certainly bought a lot, didn't you, of GMAC?

Neville Richardson: Over the years we did buy a significant amount, as I have just said, but—

Chair: The total value being do you know, roughly?

Neville Richardson: I don't have the figure to hand. My guess would be around about £3 billion, which would be about 10% of the balance sheet.

Chair: So a very great deal.

Neville Richardson: I am happy to follow that up to see if that was accurate.

Chair: I think it might be helpful. I think the area that we have just been exploring is extremely important for our inquiry.

Q208 Stewart Hosie: Mr Richardson, you have gone on at some length, rightly I think, to describe your concerns that four major projects, including Project Verde and Project Unity, leading to the management stretch was a fundamental reason for many of the problems. To what extent are the current difficulties rooted in the acquisition of Britannia in the first place?

Neville Richardson: I do not think that is a major problem at all and I go back to my earlier comment that, after the Co-op approached Britannia, the Co-op carried out extensive due diligence. The sort of loans that we have just been talking about were generated in 2008 and prior; so 2007 going back probably over the previous five, six, seven years. That means that, by the time that suddenly the shock hit in 2012, these loans had been on the books for between six and 10 years. It defies credibility to say that loans suddenly become bad after six to 10 years and I will just explain why I say that. Experience in lending, and particularly in the sort of lending we have just been talking about, the residential intermediary lending, tells you that, if a loan is likely to go bad, it goes bad very quickly. For instance, whenever we bought GMAC loans, we insisted that the first or second payments had already been made, so the existence of the ability to pay was in place. Trying to claim that issues that arise now in the Co-op relate to loans issued six to 10 years ago that had been subject to six to 10 audits simply does not make sense.

Q209 Stewart Hosie: I am not making the point that it is in relation to the loans. I am taking the lead from your evidence, of what you have said earlier today, that in large measure this was down to Co-op trying to do three major projects in advance of Verde. The question I have is, even if Project Verde had not come along, is it not the case that the new bank, Co-op and Britannia combined, would still have lacked the management capacity to deal with the three substantial changes that you spoke about earlier?

Neville Richardson: No. The business as usual was succeeding very well. In fact, at the point at which I left the organisation in mid-2011, the business was profitable. It had good liquidity. It was meeting all its capital requirements and it had good ratings. The business, as business as usual, at that point was performing well. It was achieving the £50 million per annum synergy targets—so the cost saving targets that we had set at the time of the merger—and was performing well. It was a good organisation.

In terms of the IT transformation, that was a big stretch, a very big stretch, because it takes hundreds of people to work on that sort of programme, but external quality assurance was telling us that we were on track. There was an awful lot to do, but it was on track. In terms of the life and savings business, again that was taking a lot of resource to sell and to put together as a package that could be separated from the rest of the business, but the sale process was going well. It is my fundamental belief, backed up by the facts of the results in the accounts and everything around it at the time, that CFS at the stage that I left was meeting all the targets that had been set for the merger. This was set up as being a merger creating a new force in banking and at that point it was doing that.

Q210 Stewart Hosie: The entire reason for the difficulties is the pressure that was added to the management team as a direct consequence of the Project Verde acquisition?

Neville Richardson: Verde and Unity.

Stewart Hosie: Verde and Unity?

Neville Richardson: Yes.

Q211 Stewart Hosie: Let us go back to the Co-op Britannia acquisition in the first place. There was a deal of market turmoil immediately prior to that. Was there any pressure from the FSA for the Co-op to acquire Britannia?

Neville Richardson: No. In fact, quite the contrary. If you recall, at that time, the markets were incredibly tough. When we first approached the regulators—we jointly approached the regulator, CFS and Britannia—they were, I believe correctly, sceptical about the transaction. Could this combined entity have sufficient capital? Could it cope with the stresses? You have to cast your mind back to 2008 and how tough things were at that time. The regulators were keen to make sure that any merger that was announced, if it was being announced as good news, which this was, had sufficient capital backing. We had to go through significant amounts of numbers and detail with the regulators to confirm that this was a deal worth doing and a proper deal.

Just to add one point, the regulator at the time was looking at the adequacy of capital in banks. They were going through a process of insisting that some banks got more capital from other sources and many of the listed banks went ahead and raised additional capital at that point. If the FSA, as it was at that time, had felt that this deal, which they were very closely involved with, did not have sufficient capital, they would not have let it go through.

Q212 Stewart Hosie: Let me ask that question a slightly different way. Clearly, there were discussions with the FSA. They raised issues about capital and liquidity; quite right, too. The capital adequacy debate was raging at the time. Could Britannia have survived on its own, given the liabilities on its balance sheet at that point, if it had not had the merger with Co-op?

Neville Richardson: Yes, it could. In fact, my recollection is the way the regulator looked at the merger was it looked at the two separate entities first and then looked at the merged entity. My recollection is that there were no issues to do with the capital adequacy of either of the organisations.

Q213 Stewart Hosie: Good. You told this Committee in February 2011, “Following its merger with Britannia, Co-op is now a bigger and stronger organisation.” Notwithstanding what happened since Unity and Verde, do you still stand behind that or, in practice, was it a bigger but weaker and riskier organisation?

Neville Richardson: No. It was a good, strong organisation. It was putting together two organisations that had different strengths. Britannia, in many respects, I would have said, was the best mutual in Britain at the time. Its attention to members, its attention to customers and its attention to employees was tremendous. It had a great name in mortgages and in savings, but a very narrow product range. The Co-op had a tremendous name in current accounts. It also had a good name in corporate and it had other activities that went with it, and it was part of the bigger Co-operative Group. Putting the two organisations together, to me, made perfect sense at the time, as it did to the Co-op, as it did to my board, and it still makes perfect sense to me today. I think it is very sad, what has happened to the organisation.

Q214 Stewart Hosie: Just one final question. In your written evidence, you state that CFS may have been a less prudent organisation than Britannia in the years preceding the merger, “The level of provisions charged to P&L by Co-op was higher than those made by Britannia on a proportionate total asset basis”. To what extent could that be a reflection of

under-provisioning by Britannia historically, rather than the adoption of a more prudent approach?

Neville Richardson: There was never any suggestion of under-provisioning by Britannia. In terms of the audits and all those sorts of things, they were all clean. In terms of the level of overdue debts, they were very low. It was a well-managed organisation and, had there been some horrendous issue arising, I am sure that the Co-op due diligence would have picked that up or it would have arisen before December 2012. It is such a long time in banking terms. If you look at the collapses that have happened with the listed banks, so many of those have happened very soon after the loans were written. It just does not happen that loans subject to so much due diligence, subject to so many audits, suddenly fail for no reason at all and were claimed to be problems at the start. That does not make sense.

Q215 Stewart Hosie: The bit of this jigsaw I am struggling to fit in is that Britannia is functioning notwithstanding the difficulties. Co-op is functioning notwithstanding the economic circumstances. The merger is fundamentally good. You then give the most stringent warnings that the addition of two projects, Unity and Verde, will effectively crash the bank, and nobody listens to you. What more should you have done? Should you have been public and said something more clearly? Should you have been more strident internally? To get to this point now, where Verde has failed, where Co-op is struggling, what more should you have done to make your view heard at that point, in and around the middle of 2011?

Neville Richardson: I have thought about that an awful lot. Could I have done anything differently? In some respects, the people that I was talking to were people who were not financial services people—people who had a very successful background in retail—and financial services and banking is very, very different from retail. I am not at any stage accusing anybody of being reckless or ignoring my warnings in order to be reckless. What I am saying is I think they did not understand the consequences. I tried to make those very clear.

I have thought about exactly what you have said—should I have gone public at the time?—and I go back to an answer I gave earlier. This was about a judgment call that I was making. It was my judgment that putting all these projects together was going to lead to disaster. I may have been wrong. If I had gone public at that stage and said, “This business is heading for disaster”, it would have had severe consequences for the business. That was my judgment, and if my judgment had been wrong, I would have caused as a big a problem as they have today.

Q216 Chair: Just to be clear, your position remains that the Britannia merger offered a unique opportunity to create a new and strongly capitalised force in financial services?

Neville Richardson: Yes.

Q217 Chair: The PRA, it seems, thinks that this entity now needs £1.5 billion of capital. The regulator has told us that the main issue was the Britannia assets. You will understand that we feel there is some gap between your interpretation and the fact that all this capital is required and the regulator is saying that the main issue is Britannia assets?

Neville Richardson: I can assure you very clearly, as I have done in my written statement, that more of the problems that the Co-op Bank has faced came from sources other than Britannia than from Britannia. Can I just talk a little bit about the £1.5 billion? In addition to the regulators changing the rules on provisioning in December 2012, they also brought in more stringent requirements for capital in February-March 2013. £1.5 billion is on a new basis. It is on a different basis.

Chair: A basis that will have hit Britannia assets more than the other assets. That must be the case for your argument to be sustained.

Neville Richardson: It could well be the case.

Chair: You think that that is likely to be the case?

Neville Richardson: It could well be the case.

Q218 Chair: We will find out. I have to tell you now, although I have not discussed this with my colleagues, that we might want to have further discussions with you and take further evidence, as that reveals itself.

Perhaps I might also ask you now a couple of other points. We have had a letter that has been put into the public domain from a Mr Roger Gorvin who is a long-retired former main board executive of Co-op. He says, “It was known that Britannia was a rescue operation because Britannia had got into trouble with some large-scale Icelandic investments.” Is that not true?

Neville Richardson: Not at all. I am struggling to cast my mind back, but I do not remember.

Q219 Chair: Fine, if you think it is not true. You have given the Committee a clear steer. Mr Gorvin also says, “It should be remembered that Mr Richardson made it a condition of his support for the merger that he became chief executive of the merged entity.” Is that correct?

Neville Richardson: That is not true at all. The approach that was taken was that David Anderson, who was the chief executive of the Co-op Bank, said that he was going to step down and the Co-op Bank and Co-op Group went through a very thorough process, including psychometric tests, a series of interviews—

Chair: Okay, fine. You have given us a very clear steer on both those points.

Q220 Mr Newmark: I just want to focus on what happened after you left because it raised some questions with me and was problematic with a lot of people in the financial services sector, as well as constituents. My first question is, what was your severance at the time when you resigned?

Neville Richardson: My severance?

Mr Newmark: Severance, yes. When you resigned you received a certain amount of money. How much was it, just so I am clear on that?

Neville Richardson: The amount that I received over and above the pay for the year and all those various things, I received a final severance payment of £560,000 before tax, which is £280,000 after tax.

Q221 Mr Newmark: On top of what else, though, before that? Your base pay and everything else, what was that, all-in?

Neville Richardson: Beyond the amount that I was paid for 2011, which was a contractual year, I received £1.39 million, which represented £830,000 as pay for the year’s notice. I was on a one-year contract. The Co-op Bank held me to certain obligations within that contract. That one year’s notice would have applied the same both ways around, and I was paid the one year’s notice.

Q222 Mr Newmark: Can I ask, just to be clear: your pension, on top of that, was how much; on top of the £1.3 million?

Neville Richardson: That was nothing to do with the severance.

Mr Newmark: I just want to understand how much, all-in, you received when you left.

Neville Richardson: But it was not all-in. In January of 2011, the Co-op Group took a different approach to the way in which it was making pension provisions. It approached me and said that it was taking a different approach and gave me a number of options. Bear in mind this is seven months before I left. I had no indication or no intention—

Mr Newmark: I know, but what is the number? I am trying to get whole—

Neville Richardson: I am trying to give the background, because you lumped it in with me leaving and it is nothing to do with that.

Mr Newmark: Go ahead, please.

Neville Richardson: Yes. The Co-op Bank approached me and they gave me various options. One of those options was to take the pension entitlement I had in cash and pay tax and employer's national insurance on it. I took that option in April. I took the sum of £2.1 million and paid 63% tax and national insurance on it.

Mr Newmark: Okay. I am sure the Exchequer was very happy with that. But when you add in all those numbers, £1.3 million plus the bonus plus the £2.1 million, it comes to a large figure. I know that, in the financial services sector—because I was in there—maybe in the grand scheme of things that was not a big number, but to most people out there that is a big number. Then they see you leave and the problems that seem subsequently to emerge. I am just curious. Why you were paid such a relatively large amount of money—assume it is a rhetorical question—is because you were the senior guy at the firm, responsibility sits with that individual and the buck stops at the top. I have been listening to your answers, which are sort of a slight self-justification explanation for what went on and a lot of ducking and diving as to why you were not responsible, some of which I buy and some of it that I find a little problematic, but at the end of the day you are paid a lot of money, so when something happens, ultimately, responsibility does lie with you. When there is catastrophic failure, which there was at this institution, you have to take some sense of responsibility for that. I just get no sense of that listening to you answering any of these questions. Do you take any responsibility for what went on?

Neville Richardson: You have asked me a number of questions in that explanation. As regards the pension payment and, although you said it should not be lumped in, you sort of lumped it in. That pension was earned over many, many, many years of my career and so was nothing to do with what happened in 2011.

Q223 Mr Newmark: No. The point that I was making was the fact that you are the top guy. Responsibility sits with you and all of us here have constituents who write to us the whole time not understanding this. Now, I understand this. I was not in your business, I was in private equity, but there are large numbers there. But to the vast majority of ordinary people out there, what you received—because you had a responsible position you received a large bonus over a number of years, plus a large salary relative to mere mortals out there. Given that responsibility sits with you, you may not have been totally to blame for everything but you must share some of the blame because you were the top guy.

Neville Richardson: I will make it absolutely clear. You have mentioned ducking and diving there and if you think that is the case, then please ask questions again because—

Mr Newmark: No. Just like Mr Ruffley, just like everybody, I am trying to understand—

Neville Richardson: Let me answer your question. One of my personal values is about taking personal responsibility. I think anybody who has ever worked with me and anybody who knows me knows me as somebody of the highest integrity and somebody who will take

personal responsibility. In the Co-op Bank, I took tremendous personal responsibility because I was the one who stood up and said, “This is not going to work. This is not going to work. This is going to lead to disastrous consequences”.

I could have taken a far easier line. The easier line that some were encouraging me to take was to go with it. If I had done that—and the numbers, I agree, are big numbers—I would have earned a lot more by staying in the Co-operative Group, keeping my head down and not saying anything. If I was in this for the money, that is what I would have done. Because of my absolute belief in taking personal responsibility, because of the integrity that I believe that I have built up over my entire working career, I took probably the toughest decision of my life and that decision was to tell the board members that this was not going to work, and effectively ruled me out of an executive career for the rest of my life.

Q224 Mr Newmark: Again, I can tell that the whole experience was painful for you and I understand that and I recognise once again that you did take a big decision in resigning, but we are here as representatives of the public and there often is a disconnect between understanding the granularity with which you have now had the opportunity to go into matters with us—but I just need to move on to the next question, because you were paid a lot of money. You decided, effectively, in your words, to resign; fall on your sword, say, “I’ve had enough”, and walk away. It was a lot of money to the public out there and you were the top guy when things went under. This is where I have a problem.

Neville Richardson: I am sorry. You said I was the top guy when things—

Mr Newmark: Effectively while the catastrophic failure was taking place—

Neville Richardson: No, I do not agree with that. The catastrophic failure arose because the people around did not take heed of my warning. If they had done that, this would not have come to the issues that we have today.

Q225 Mr Newmark: I guess therein lies the difference. We are trying to get to the bottom of that. It is almost a Gordon Brown-esque argument. The ground, effectively, for what happened was prepared. When the failure happened with the bank, the organisation was an impaired organisation—not impaired in the one pence overdraft thing, but impaired in more of a macro sense—because—

Neville Richardson: No, I refute that. The organisation was not an impaired organisation. At that point it was a good organisation and continued to report good results for the following 18 months.

Q226 Mr Newmark: Therefore, what you are saying to me is there was nothing wrong with the organisation up until the day that you stepped down. Just to be clear here, there was nothing wrong with the organisation. You left with your head held high. Next question was, having been chief executive of an organisation that quickly unravelled, in my view, you then went on to another financial services business, which is M & S Bank, which you subsequently came, because of public pressure, to resign from. Do you think that individuals such as yourself—I will not even say “you”, but individuals such as yourself—who have been paid a lot of money to be chief executives of companies that subsequently are seen to fail should immediately go into another financial services business or that perhaps they should pause, have a cooling off period, because there may be an issue with being, effectively, fit and proper to go on to another financial services business? I am not saying you are not a fit and proper person, because I can tell that you are and I know you have a huge moral code. I feel that from you. But, still, you are chief executive and bad things did happen. Do you think you should have gone on to M & S Bank as a non-exec officer?

Neville Richardson: Again, let us be clear. You mentioned the point of “immediately problems occurred”, but they did not. The Co-op Group would not have been raising funds in the market in the latter part of 2012 if it thought there were major problems around. That would not have been right. The issues arose 18 months after I left. That is a long time for a bank to incur problems.

I joined the board of Marks & Spencer Bank in January 2012, so it was nearly six months after I had left. There were no issues coming forward from Co-op Bank whatsoever. The regulators clearly had to approve my appointment and were happy to do so. I felt, in my time at M & S Bank, that I was contributing well to its board. My reason for stepping down was not in any way that I felt there were any issues to do with Britannia or CFS or Co-op that should reflect on them. It was to do with commentary that people were making in the media suggesting that I was not fit to carry out that role. That is not the view that M & S Bank took, but I chose to step down because I thought it was unfair on what is a very good organisation—M & S Bank—to have to deal with the media on a subject that was not of their own doing.

Q227 Mr McFadden: We have been going around this now for about an hour and a half and I want to try and get to the heart of the point that you are making. As the Chairman asked you a few minutes ago, Mr Bailey from the PRA said a big chunk of the Co-op’s problems—I’m paraphrasing, not quoting—were down to the inheritance from the Britannia takeover. You have made it the central point of your evidence to us, both in writing and today, that you fundamentally disagree with that. Is that correct?

Neville Richardson: I do disagree with it because I have taken my evidence from the report and accounts that I see. If Mr Bailey is aware of something different from what is in the report and accounts, I am not aware of that.

Q228 Mr McFadden: I will just clarify. You absolutely refute that the lion’s share of the Co-op’s problems as has been publicised in recent months are down to bad loans from the Britannia period?

Neville Richardson: I do.

Q229 Mr McFadden: All right. You would say then, that when it comes to this £1.5 billion, which has caused such a nervous breakdown in the Co-op Bank and serious consequences for investors, that £1.5 billion shortfall is essentially down to two things: first, the overload that you predicted of all these different change projects and, secondly, the actions of the regulators themselves. Is that a fair summary of your view?

Neville Richardson: I am not naive enough to say there are no other causes. For instance, loans do go bad over a period of time. There are also other factors that have come into play, such as the requirement for the Co-op Bank to pay redress on PPI mis-selling that it carried out before the Britannia merger, and that has made a hole of several hundred million pounds in these accounts. There are other factors, but the straight answer to your question, “Do I think those are the principal causes?” is yes, I do.

Q230 Mr McFadden: On the one hand, the regulator is saying it is Britannia and you are saying, at least in some part, it is not Britannia; it is the regulator?

Neville Richardson: I am saying the regulator has had a significant influence on that £1.5 billion black hole.

Q231 Mr McFadden: Obviously, we will have to try and get to the bottom of these two very different versions of events. You have made great play of this Project Unity. Would

you say that the bank was seriously impaired by what amounts to an internal takeover by the rest of the Co-op Group?

Neville Richardson: I think it was, for two reasons. One is that there is something very different about financial services that people need to understand. The requirement for attention to detail, the requirement for attention to records and so on, is very different in financial services from in retail. For the finance people in a bank to report to people who do not have financial services experience, is, to my mind, dangerous. That is the philosophical part of it. In addition, Project Unity was requiring people to reapply for their own jobs. It was changing the structures, it was changing their positions, at a time when I think they should have been concentrating 100% on running the bank. It was just the wrong time.

Q232 Mr McFadden: Can I take you forward then to the restructuring of the Co-op itself that is coming about as a result of all this? Obviously, there are many investors who are very unhappy at the concept of what we have come to know as a haircut or perhaps a bail-in. Do you believe that the broader Co-op Group should bear a greater responsibility for the turnaround of the bank in the rescue package?

Neville Richardson: I do not know what the Co-op Group is capable of putting in. There may be restrictions on what it is capable of putting in. Certainly, from what I read, it is putting in what it can afford to put in, but I don't know. My honest answer to your question is it should put in what it can afford to put in.

Q233 Mr McFadden: I will just ask you finally about where this leaves mutual. You said in your written evidence to us, "If the Rochdale pioneers had been at Thursday's results announcement"—the latest £1.5 billion—"I think they would say that their successors have not lived up to the example they set." Britannia and the Co-op was supposed to be the super-mutual; as you said, a new force in banking. This could end up—and it looks very much like it will—with the main mutual force that people know in banking, the Co-op Bank, no longer being a mutual because its shares are listed. Where does this leave mutuals in the financial services sector?

Neville Richardson: Let me try and make two separate issues here and that is the bail-in you talk about. If I had still been around, first, I believe many of these issues would not have arisen. Verde would not have been on the cards, the distraction of management would not have happened and the business would have been in better shape. But if I ask, "Is that bail-in necessary?" I think it is a question to ask the regulators. The changes that were imposed on provisioning and on determination of the so-called black hole in UK banking—£27 billion in total—was it necessary to impose that in one go over the period December 2012 to March 2013? What would have been the alternative if it had been imposed over a longer time, specifically for the Co-op Bank? When I am saying that Britannia was not the major part to blame, if I look at the figures that gave rise to significant losses—items such as the IT write-off, PPI, Project Verde costs—they add up to very significant figures, but they are all one-offs, in my opinion. Would it have been possible for the regulator to say, "Because they are one-offs, we will give you time to put the capital right"? So, "We will give you time to put your capital into proper position, rather than list the company".

Q234 Mr McFadden: But you accept that when a financial institution gets into trouble, it is a desirable policy objective for the taxpayer not to be continually on the hook, as they were for RBS, Lloyds and so on?

Neville Richardson: Absolutely, and I am purely talking about the timing here. I am saying, would it have been possible for the regulator to impose these rules over a longer period of time? If that had been the case, would it have then been necessary to list the bank?

You also asked me about the future of mutuals. I believe mutuals have a very strong future in this country. I think they add an awful lot to the economy. They add a massive amount to competition because they have a very clear focus. In the building society sector, the customer owns the business. I always say to people, "One of the very clear things that I understand with a mutual is that the next person who walks in through the door owns the business. They are not a profit opportunity". That is a very different way of looking at things. I hope, and I believe, that the mutual sector will have a very long and successful future in this country.

Chair: In various ways, we have gaps between your evidence, the evidence of the PRA, and the evidence we have had from Lloyds, and it is those gaps that this Committee will now want to fill in the months ahead. We are very grateful to you for your evidence today. We may want to hear from you again when we have heard from others. Thank you very much for coming.

Neville Richardson: Thank you.