

Treasury Committee

Oral evidence: RBS' Global Restructuring Group and its treatment of SMEs, HC 737

Tuesday 30 January 2018

Ordered by the House of Commons to be published on 30 January 2018.

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Members present: Nicky Morgan (Chair); Rushanara Ali; Charlie Elphicke; Stephen Hammond; Stewart Hosie; Mr Alister Jack; Catherine McKinnell; John Mann; Wes Streeting.

Questions 1 - 217

Witnesses

[I]: Tony Boorman, Managing Director, Promontory Financial Group.

[II]: Ross McEwan, Chief Executive, RBS; Sir Howard Davies, Chairman, RBS.



Examination of witness

Witness: Tony Boorman.

Q1 **Chair:** Good morning. Thank you very much to everybody for being here, but particularly to you, Mr Boorman. Perhaps, just for the record, for those watching both here and online, you could just introduce yourself briefly.

Tony Boorman: Thank you, Chair. Thank you for the invitation. My name is Tony Boorman. I am managing director of Promontory Financial. Promontory, for those of you who do not know, is a regulatory and risk consultancy, and we were appointed by the FCA to conduct this skilled-person review into GRG.

Q2 **Chair:** Lovely. Thank you very much, as I say, for being here. Let us start with that review, which analysed the treatment of SME customers in GRG across 14 thematic areas and documents a litany of poor conduct. It is not really drawn together in a general assessment of the seriousness of what happened. As well as heading up Promontory, you are also a former chief executive of the Financial Ombudsman Service. I wanted to get your first thoughts, really: in ethical terms, where does GRG sit on the scale of poor conduct.

Tony Boorman: We were asked to conduct a review of six years of policy and practice of GRG. We were asked to look at over 200 individual customers and the way in which they were treated by GRG. As you have seen from the summary that the FCA published, our overall conclusion was that those customers were not well treated by GRG. We drew attention to widespread inappropriate treatment, some of which we judged to be systematic in terms of the RN. You have seen for yourself some of the evidence that we saw in making that assessment. If I may say so, Dr Tomlinson was right to draw attention to this unit and the far from satisfactory conduct that was involved.

Q3 **Chair:** Derek Sach, who was the head of GRG, told the Treasury Committee in June 2014, "I genuinely believe that we do good overall". Was he right to believe that?

Tony Boorman: I cannot speak to his beliefs. All I can say is that what we found was, on too many occasions, GRG let the customers down. As you recall, in one in six of the cases that we studied where the customer was, we considered, potentially viable, the inappropriate actions of GRG resulted in material financial distress to those small and medium enterprises.

Q4 **Chair:** I want to pick up on that phrase "material financial distress". That is a term that you use. When you use it, are you talking about the stress and misery for business owners and their families?



Tony Boorman: No. You make a very important point, Chair. We were very conscious, in speaking to many of the customers in our sample, of the very considerable distress that was caused by some of the events that we witnessed. Many of the customers we spoke to described the damage it did to them: to their marriages, to their wellbeing. These businesses, after all, were often ones where, for the owner of the business, this was their livelihood; this was their pension; frankly, this was their life, and the damage that was done often had a profound personal impact on them. No, we were very conscious of those issues, but the issue that we were asked to consider, in effect, was the financial distress: were the actions of GRG likely to have caused material financial distress? That is the term that we picked up from the requirement notice.

Q5 **Chair:** Can you explain further what you mean when you say that a company was caused material financial distress? If you want to use an example, please do.

Tony Boorman: We were seeking to make a judgment where, first of all, the actions of the bank were, in our view, inappropriate, and where it appeared to us likely that, notwithstanding perhaps other problems that the company was facing, the actions of the bank itself gave rise to a financial damage, which had to be material in the context of the business. For a reasonable-sized SME, a £50 charge that should not have been raised was perhaps not material.

If I perhaps pick Mr Jack's example, where a customer was, in effect, forced, as he might say, to re-bank and incur significant costs, that might, in the context of an individual business, be a material financial distress. That would be at the lower end of what we were describing. At the further end of what we were describing, it was a case of customers being placed on a pathway to insolvency.

Q6 **Chair:** When you write of "inadequate controls over pricing practices" and "absence of records of rationale", you are talking about charges that were invented so as to maximise income and/or negotiating leverage over potentially vulnerable individuals, are you not?

Tony Boorman: We saw a policy on the part of the bank—a sensible policy, we felt—to document carefully the rationale for the charges that it was going to levy on customers. The reality that we observed in the cases that we looked at was that that simply did not happen. You will have seen for yourselves in the terms of the "just hit budget" memorandum that the bank's officials, or at least some of them, were perhaps all too ready not only to focus significantly on the financial returns to the bank, but—how shall we put this?—to think creatively about the rationale for those charges.

Q7 **Chair:** To talk about staff conduct, you write also about "the generation of incremental income from customers" taking precedence over any other aspect of GRG's work. You are talking about staff behaving with impunity



to extract as much income as possible from customers, taking advantage of the power that they have over them, with absolutely no regard to fair treatment.

Tony Boorman: Yes. As you recall, GRG held itself out to its customers and stakeholders as having two objectives. The first was a financial objective for the bank, and we did not argue that that was not a reasonable thing for an organisation like GRG to have. But the second—which it tended to emphasise—was assisting customers: helping to turn them around, to return them to normal relations.

In practice, we found, as we set out in our report, that the focus was almost entirely on the commercial interests of the bank, and, particularly during the early period that we were asked to look at, the collection of charges from customers. What we did not see in individual cases was: “How can we help this customer re-formulate their business? How can we help them get back to a normal banking relationship?” We saw a discussion around what charges could be levied on those customers.

Q8 **Chair:** In your interviews with GRG staff or former GRG staff, did you encounter any awareness or thought from any of them about the human impact of what they had done?

Tony Boorman: I do not think that was uppermost in their minds, no.

Q9 **Chair:** Moving on to publication of the report, the review was commissioned by the FCA in May 2014. A draft of what the former FCA acting chief executive called your final findings was submitted to the FCA in April 2016. A final report was submitted in September 2016. What happened to your report between April 2016 and September 2016?

Tony Boorman: As you say, Chair, we produced a draft. It is normal practice in these reviews to produce a draft report that the parties—in this case, the FCA and RBS—had an opportunity to comment on. RBS took some time, and took extensive opportunity to comment. We were very clear that we would only accept amendments to our draft report insofar as the parties raised matters of factual accuracy. That process took some time, but, as you say, we finalised the report later on in 2016.

Q10 **Chair:** Did RBS seek to make other than factual changes to the report?

Tony Boorman: The brief answer is yes. I think you have seen from the letters that RBS has sent you, Chair, that RBS continues to dispute many, if not all, of the significant findings that we make. The points that were made in the correspondence to you are well known to us. We considered them carefully, not just at that last stage of our review, but throughout our review. We are very satisfied with the judgments that we have made. We believe that they stand up to scrutiny. I am very pleased to say that you will recall that the FCA, in the further work that it did, agreed with us and disagreed with RBS.

Q11 **Chair:** There was then a further delay of a year before the summary was



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published. Do you know why that delay happened?

Tony Boorman: Our job was completed fundamentally when we produced our final report and sent it to the FCA. I believe Mr Bailey has described some further investigative processes that his team undertook, but we were not party to that.

Q12 **Chair:** Your terms of reference from the FCA required you to draft the report “in such a way that the contents can be published without the disclosure of confidential information to third parties”. Do you feel that you have fulfilled that requirement?

Tony Boorman: We certainly sought to do so. Without wishing to bore you with legal matters, my understanding—and I believe your understanding, too—is that the world around Maxwellisation has moved on since the period when the requirement notice was written, but we certainly sought not to include matters that could not be placed in the public domain.

Q13 **Chair:** You specifically felt that the report was drafted in a way that did not breach statutory confidentiality requirements under Section 348 of FISMA.

Tony Boorman: That was our intention in drafting it. I think we recognised that there would probably need to be some further amendments, not least with the Maxwellisation points that both your counsel and the FCA have made, but we did not believe that that would require wholesale changes to our report, no.

Q14 **Chair:** That could have been achieved through redactions, for example.

Tony Boorman: That was our judgment but, for the avoidance of doubt, we are not the publishing authority. Those are matters for the FCA, and not for me. We sought to meet the terms of reference that we were set in the requirement notice, and provide a report that responded to the points in the requirement notice and met that point around the potential for publication.

Q15 **Chair:** The FCA has noted that you, Promontory, would prefer to see the report as a whole published. Can you set out your explanation on that?

Tony Boorman: I have been in public service for quite some time in one way or another. You mentioned my previous role in the ombudsman service. One of the things I did at the ombudsman service was to agree with the House and encourage this House to make all the ombudsman’s decisions public. As a general rule in public life, the more that one can put in the public domain, the more everyone can be clear about the facts. Again, I stress that these are matters for the FCA, and not for me.

Q16 **Chair:** Finally from me, there was a phase 1 investigation, and there was going to be a phase 2. Do you consider that the criteria for proceeding to phase 2 were met, and do you agree with what has happened, in that phase 2 has not been carried out as expected?



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Tony Boorman: Without wishing to get too technical with you, I think the FCA would say that phase 1 was set off, and it was a matter for the judgment of the FCA whether phase 2 should proceed. In answer to your specific question, yes, we believed that the terms for the potential for phase 2 were met: in other words, that we had uncovered matters of widespread and systematic inappropriate treatment of customers, and that was the entry condition into phase 2. It was then solely a matter for the FCA to determine whether or not phase 2 was appropriate.

Q17 **Mr Jack:** Can I turn to the interviews and information-gathering? How many GRG and former GRG staff did you interview as part of your work?

Tony Boorman: I do not have the precise figure in front of me, I am afraid. With the majority of the reviews of individual cases, we were able to speak to at least one of the GRG staff involved. We would have seen more than 50 members of the GRG, I should think.

Q18 **Chair:** Could you write to us with the exact number?

Tony Boorman: I will certainly do so.

Q19 **Mr Jack:** Were you able to interview everyone you wanted to, including those who had moved on from RBS?

Tony Boorman: No. Many staff had moved on from RBS, and it was usually not possible to interview them. They were typically front-line staff. For the avoidance of doubt, we tended to interview two different groups of people. One might broadly be described as senior management of GRG, where we were concerned with the policies and procedures of GRG. When we were looking at the individual cases, we tended to want to speak to the local relationship managers: the people who had been involved in the day-to-day handling of that individual case.

Q20 **Mr Jack:** Were they forthcoming and helpful?

Tony Boorman: In the main, yes. Some time had passed from the events that we were asking people to describe. I have to say that, usually, customers' recollection of events was more intense than that of RBS members of staff.

Q21 **Mr Jack:** Had the people you were interviewing been briefed by RBS, do you think?

Tony Boorman: I am not sure about the arrangement. You would have to ask RBS that.

Q22 **Mr Jack:** Did they have an RBS-instructed solicitor present, for instance?

Tony Boorman: You are right to point to a concern we had: that the approach RBS took to much of this inquiry was unduly defensive. One of the things that one looks for when conducting Section 166 reports is the active co-operation of the senior management of the organisation that you are inquiring into. This was a difficult inquiry. It had many different facets. There were significant difficulties in getting to the bottom of



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much information, but the defensive position of RBS—which you can still observe in the correspondence from it that you have in front of you—did not help us make good progress through this inquiry.

Q23 Mr Jack: RBS or GRG had seconded accountants, lawyers and valuers. How many of those did you interview?

Tony Boorman: We did not tend to speak to the seconded staff you refer to. We drew attention to the fact that there was a potential for conflicts of interest in the way in which RBS/GRG managed that secondment process.

Q24 Mr Jack: With those GRG staff that you did interview, can you comment on their general attitude to the whole thing, both at the time they were carrying out the bank's instructions and with the benefit of hindsight?

Tony Boorman: There were many individuals, and I do not think, to be honest, that that is something I would particularly want to comment on.

Q25 Mr Jack: I am going to go a bit extreme here, but it is a bit like the Nazis taking instructions from Hitler. Afterwards, with the benefit of hindsight, when they were interviewed, how did they behave later in life, or how did they see their actions at the time? Was there any remorse from any of them?

Tony Boorman: We met a lot of very professional members of banking staff. I think they recognised that this was a difficult period for the bank, and were conscious of the pressures that were placed upon them as members of staff—and on the bank—during this time. There was, I suppose, some recognition of the impact that this had on customers, not least because many of them had to deal with quite outspoken criticisms by the individual customers, in terms of complaints that were made at the time.

Q26 Mr Jack: Was RBS as prompt and transparent as you could have reasonably expected with providing you with information for your review?

Tony Boorman: It is right to say that RBS took very significant steps to uncover the information that we were seeking. There were, however, significant challenges in getting to the bottom of that information on occasion. RBS's systems were not well designed to respond to these inquiries. There was not a classical case file of the sort that you and I might imagine, with the customer's name on and all the relevant documents neatly bound into it. We had to make extensive inquiries across multiple systems to get to the bottom of things. We were able to triangulate the information that RBS gave us with the information that was given to us by many customers, and that was helpful in filling in the detail of these issues.

Q27 Mr Jack: What proportion of GRG/RBS customers responded to your requests for information or meetings?



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Tony Boorman: We invited all the customers in our sample to be part of that.

Q28 **Mr Jack:** The sample was just over 200, I think.

Tony Boorman: Yes, and just over half responded to that request and we were able to meet with them.

Q29 **Catherine McKinnell:** The FCA's summary of the Promontory report states, "The independent review found no evidence that there was a general practice of targeting businesses for transfer based on their value to GRG rather than on the level of their distress". Why do you use the word "general" here? It does indicate that there were some examples of that practice. Do you know how many there were?

Tony Boorman: We used the word "general" because the question we were asked was whether there was widespread practice. We identified, I think, two cases where we were concerned that there had been some discussion on the wrong side of the decision point around the potential value for GRG. The facts of those cases are significantly disputed, but they gave us rise for some concern that one could make that allegation in those cases.

Q30 **Catherine McKinnell:** Do you agree that there are examples of businesses being targeted for their value and being moved to GRG, or not?

Tony Boorman: I would not choose to use that phrase myself. I would say that GRG was conscious, as was RBS, of the possibilities for increasing fees and charges, and changing facility arrangements, when customers were in GRG.

Q31 **Catherine McKinnell:** I am not very clear on whether or not this practice was general.

Tony Boorman: So that I am very clear, this practice was not general. We did not identify a widespread practice of targeting customers.

Q32 **Catherine McKinnell:** It was neither widespread nor general, and you did not find any cases.

Tony Boorman: We found a couple of cases where we had cause for concern that that might be a relevant allegation, but we did not believe that that represented a general practice, or a widespread practice.

Q33 **Catherine McKinnell:** You did not find any evidence that it was a general practice, but you did find some cases where that may have been an allegation.

Tony Boorman: Indeed, yes.

Q34 **Catherine McKinnell:** You did find some cases, then.

Tony Boorman: Yes.



Q35 **Catherine McKinnell:** Would you not agree that even one case of moving a business into GRG because of its value to the bank, rather than because of the level of its distress, would be extremely concerning?

Tony Boorman: Yes. For the avoidance of doubt, we criticised the overall governance that the bank had for its transfer policy. The transfer arrangements that the bank had and the decision point about when to transfer people gave considerable discretion to the bank about this point. At the very minimum, that left the bank open to the sort of allegations to which you are referring. The fact that one side of the fence, GRG, was, in our judgment, so interested in the financial value of customers and their ability to raise fees, as you have seen in evidence, clearly gives rise to the sorts of concerns that you are raising. That is one of the reasons why we have criticised the effectiveness of the governance approach that the bank adopted.

Q36 **Catherine McKinnell:** During a recent parliamentary debate, it was suggested that the activities at RBS were not proper turnaround practice: "It was not turnaround practice at all for the customers. It was more like the turnaround of the bank at the expense of its customers. Perhaps the name, Global Restructuring Group, was a clue. It was a division responsible for the restructuring of the bank, not the small businesses that banked there". Would you agree with that?

Tony Boorman: Those are not the words of our report, but fundamentally they reflect what our report says. Our report says that the bank held itself out as having two objectives for GRG: one was a commercial objective for the bank, which we do not criticise it for having, and the other was to help turn around customers and return them to mainstream banking. That second objective was, frankly, forgotten.

Q37 **Catherine McKinnell:** What work did Promontory do to assess the treatment of businesses by RBS before they ended up in GRG? Many will have been mis-sold products such as IRHPs, which then resulted in their businesses becoming distressed and then being forced into GRG for even worse treatment. Was that something that you considered as part of your investigation?

Tony Boorman: Yes, it was. I have been dealing with disputes between banks, customers and business customers for many years now, and you are looking at a relationship. Small business customers rely on a bank to have a relationship with, usually a relationship of trust. For most of the customers that we observed through this process, what we did in practical terms was to look back a year before they transferred to GRG, to understand the story of their relationship with the bank over that period.

Most of the customers had purchased a number of products, some of which the customer regretted; some of which I think the bank regretted. Often, the challenges in GRG were about unwinding previous decisions. You mentioned IRHP swaps, and that was certainly a feature of some of



the cases that we looked at. The other feature of many of the cases we looked at was an environment pre the crisis where RBS's lending had been ambitious. In other words, it had lent against quite optimistic valuations, and at very low rates. Clearly, post crash, it found that difficult.

- Q38 **Stewart Hosie:** In the themed areas, you found a small number where there had been a shadow directorship. Even one or two cases is very serious, but it is a very small number: 4% of your sample. I am perplexed by that, because in the memo from 2008 about GRG, in terms of referring customers to it, it says, "Any material event which has a negative impact on the customer should result in a transfer to GRG. Typically, this will be characterised by a significant deterioration in some aspect of the customer's activity, such as trading, where a breach of covenant is likely or where a customer has missed or is expected to miss a contractual payment to anyone."

In difficult times, any business will decide not to pay its supplier this week. It will hold the cheque back until it is paid for its own goods. This is standard business practice, particularly in straitened times. How would the bank know that, if it was not behaving as a shadow director?

Tony Boorman: You draw attention to one of the concerns that we had about the degree of flexibility in the transfer criteria. Some flexibility in the transfer criteria appeared to us appropriate, because one could imagine circumstances where the fundamental financial difficulty of the business would be as plain as a pikestaff to any reasonable observer. As your question illustrates, the criteria in practice left a much more fluid boundary between the bank and GRG, and we suggested that that needed looking at and tightening.

The question about shadow directorships is, to some degree, a technical one. The area where we tended to have most concern about shadow directorships was where the bank had pursued what, in the jargon, were called "upsides". That is, in effect, where it would take a share of the business as part of its security against its continued lending. In those cases, we observed cases where we felt that the bank came close, at least, to acting as a shadow director for the company. That was something that the bank was very conscious of the need not to do, but the nature of the hands-on relationship that it had with some of these customers made that separation difficult.

- Q39 **Stewart Hosie:** I understand that where there is an equity share. I understand that, and the line there is more blurry, because there is an interest as an owner in terms of the bank having a share. The more general question actually worries me more. With no breach of covenant and no missed payment to the bank, the normal day-to-day management of the business in difficult times, to ensure cash flow was maintained, was enough to send some of these businesses into GRG. That is what the bank said in the memo. It is the same question: how could it have known this, or taken this decision, if it was not acting as a shadow



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director? How could it have known that you had missed a payment to your vehicle supplier that week because you were waiting on a big cheque to arrive? How would it have known that, unless it was behaving as a shadow director?

Tony Boorman: Obviously, there are many circumstances here. I would say, in defence of the bank, that we probably found more cases where we felt that the customer had been impacted by being transferred too late to a restructuring unit, rather than too soon. To answer the specific question that you raise, classically, that is a question where the owner goes along to the bank and says, "Can I have an extension on my overdraft for this weekend, please?" That is the question that starts a set of challenges.

Q40 **John Mann:** Good morning, Mr Boorman. In 2014, Ross McEwan said that GRG "successfully turns round the vast majority of businesses that it works with". Is that an accurate statement?

Tony Boorman: It was not an accurate statement in relation to the SME businesses that we looked at. If I can just remind the Committee, we were charged with looking at a particular group of customers: not all customers that were in GRG, but those with debts of between £250,000 and £20 million. When we looked at the outcome for those customers, about one in 10 returned to normal banking relations with RBS. About one in 10 left the bank. The overwhelming majority remained in GRG throughout the period of our review, so I would not describe the outcome of GRG's involvement in the way that you have just quoted.

Q41 **John Mann:** Derek Sach told this Committee that less than 10% of businesses put into GRG ended up in insolvency. Was that accurate?

Tony Boorman: With the same preface, when we looked at those cases, we concluded that the issue was not resolved by the end of our period of review for most of those customers. It is true that only 10% went into actual insolvency processes, but our review suggested that the end number would probably be that between a third and a half of customers in that category going into GRG during the period would go into insolvency.

Q42 **John Mann:** Mr Sach told this Committee, "We restructured in each of the difficult years numbers like 850". Is that accurate?

Tony Boorman: That is not a number I recognise.

Q43 **John Mann:** Did you compare firms entering GRG with a sample from the main bank to establish how much more financially distressed they were than the average?

Tony Boorman: No. That was not part of the remit we were given in the requirement notice. We were only asked to look at customers who had transferred to GRG, to make judgments about their treatment.

Q44 **John Mann:** How precise were the criteria you used to judge whether a



firm was in financial difficulties?

Tony Boorman: Inevitably, those are matters of judgment, and I do not think I should shy away from saying that they are matters of professional judgment. We brought accountants and insolvency experts to bear in our review, but of course we had to look at the information that was available to us and make assessments, without the benefit of hindsight, as to the state of the firms as they were entering into GRG. It was a matter of judgment, but independent and thoughtful judgment, which we exercised.

Q45 **John Mann:** Do the figures that you have give rise to concern that viable firms were being driven into insolvency by GRG's practices?

Tony Boorman: The figures give rise to many interpretations. What is that expression about statistics? The evidence that we have produced in our report about the nature of treatment of individual customers is more significant. You will recall that we concluded that one in six of the potentially viable customers suffered inappropriate treatment that was likely to give rise to material financial distress for that business.

Q46 **John Mann:** You have already expressed what I took to be surprise that there were no case files. Was the set of charges that were applied transparent to the customer?

Tony Boorman: No, they were not.

Q47 **John Mann:** Was there a set of charges that was transparent to RBS?

Tony Boorman: There was some broad pricing policy material in RBS, but, in the context of the individual cases that we looked at, that was followed only in the very broadest of senses. Very considerable discretion was given to front-line staff to set the terms of arrangements, in particular in relation to charges. You will have seen what that meant in at least some cases.

Q48 **John Mann:** Given your previous ombudsman experience, is there not a potential problem that, if a customer is asked to resolve a dispute by taking back substantial fees, there is always a likelihood that they will jump to resolve the dispute quickly, and in this case, therefore, not be able to have any consequential loss claim?

Tony Boorman: I understand the point you make. These customers were in very difficult circumstances, and they faced some very difficult choices, which were not made any easier by the actions of the bank. Part of the reason why those choices were not made any easier was the lack of information that the bank provided about the logic of its approach, and an explanation of why it was taking the steps that it was taking. That made it difficult for businesses to plan and respond sensibly. It was inevitable that many of the businesses were put in a position where they felt they had to say yes to the bank's requests or demands—call them what you will—as the only way of continuing to progress.



Q49 **Stephen Hammond:** You concluded that 16% of potentially viable firms suffered action likely to cause material financial distress. Can I just confirm that, by “material financial distress”, you mean some element of financial distress, distress that was likely to be material in scale for that customer—I take what you have already said about the customers you were looking at—and a reasonable causal link between RBS and the distress that the actions caused?

Tony Boorman: Correct.

Q50 **Stephen Hammond:** You concluded that 16% of those firms suffered some actions that were likely to cause material distress. Ross McEwan, when he wrote to the Committee, stated, “The skilled person appears to classify an unquantified level of financial detriment as ‘material financial distress’, regardless of whether a customer has suffered any financial impact at all”. Would you like to tell the Committee whether or not the findings you have on material financial distress were concluded without looking at whether any customer had actually suffered any financial impact?

Tony Boorman: No, we looked very carefully at the financial impacts that we believed the inappropriate actions of the bank had. To be clear, it was not always possible to document those in an accountancy sense, because one did not always have the full details of the commercial position of the customer at that time.

Q51 **Stephen Hammond:** You assessed financial impact.

Tony Boorman: We assessed financial impact.

Q52 **Stephen Hammond:** As I mentioned a moment ago, you concluded it was 16% of the potentially viable firms. In Ross McEwan’s letter to the Committee, RBS disagreed and said that the true figure was zero. How would you respond to that?

Tony Boorman: First things first, I share with the FCA some disappointment that RBS has not accepted the findings of our report. We approached this carefully and professionally, and with some caution. These were not findings that we made lightly.

If you look at some of the arguments that it put forward, you will see that they do not bear much scrutiny. For example, it draws attention to the fact that, in some of the cases, the fees were not actually levied or collected, but, if I say to you, Mr Hammond, that I am going to quadruple your fees tomorrow, you may take a whole series of steps. Whether I actually do it or not is perhaps not the point. As it were, threatening violence is nearly as serious as actually carrying it out.

When we looked at these cases, we observed customers taking often quite momentous steps to avoid threats. I use the word “threats”, but I suppose RBS would say “increasing charges”. Where we thought those were inappropriate, and only where we thought those were inappropriate,



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we looked at the impact that that had on the business, and decided whether it was material in the contest of that individual business.

Q53 Stephen Hammond: Your answer answered my next two questions. The point had been made by RBS in its response to us that certain of the pricing proposals had not been implemented, but as you rightly say that does have implications. This, in many people's view, is the key finding of the GRG report: that 16% of the potentially viable businesses suffered actions, and yet RBS is refuting that. Is it not rather concerning that it has pretty much entirely refuted this finding, and how do you respond to that?

Tony Boorman: It is not a skilled person's job to ensure that the firm that you are investigating agrees with your conclusions, but it is often helpful if it does, because that sets the tone for the next steps that are often necessary following these reports, for the company in question to put matters right.

Q54 Stephen Hammond: The skilled person, of course, does not necessarily have to have the firm agreeing with its conclusions, but the skilled person is allowed to pass a comment on the reaction of that firm to its conclusions.

Tony Boorman: I said in answer to an earlier question that I shared with Mr Bailey some disappointment about RBS's continuing stance in relation to these findings. I understand that it is concerned about its legal position in a number of disputes, but what we were conducting here was not a legal inquiry as such. It was a practical, professional, pragmatic inquiry to get to the bottom of the questions that many customers have asked, which are, "Was there inappropriate treatment of customers at GRG? Was that widespread? Was that systematic?"

Q55 Stephen Hammond: In response to that, are you confident that your inquiry did get to the bottom, and were there any impediments to your inquiry taking place?

Tony Boorman: Fundamentally, we are satisfied that we got to the bottom of the GRG story, and the actions that GRG took over those six years. We set out clearly in the report, and this is well summarised in the FCA's summary, the conclusions that we reached.

Q56 Rushanara Ali: I want to talk a bit about fees and staff incentives. From what you have said so far, it would be correct to say that there was no particular guidance regarding fees charged to GRG customers until 2011, and that GRG staff had wide discretion over the size of the fees. You mentioned the lack of transparency earlier on, in terms of charges to customers.

Tony Boorman: There was some general guidance, but it was general.

Q57 Rushanara Ali: In effect, within that general guidance, they had wide enough scope to be able to pluck numbers out of thin air.



Tony Boorman: That was certainly the risk, and we felt that in some cases that is what happened. You will have seen the way in which the author of the “just hit budget” memo put it. Even if we put that to one side as something of an aberration, that culture was something relevant to think about in the context of GRG at this time. The lack of controls around pricing were an issue that we drew out as being of concern. There was a lot of discretion. In practice, in a restructuring unit, you need quite a lot of discretion for front-line staff, but we raised some significant doubts about whether the control environment was adequate.

Q58 **Rushanara Ali:** One of the remarks in the “just hit budget” memo advises relationship managers to avoid round-number fees, and says, “£5,300 sounds as if you have thought about it”, instead of £5,000. What do you make of that? It just sounds completely dishonest, does it not?

Tony Boorman: Yes.

Q59 **Rushanara Ali:** You would not expect that from a major bank.

Tony Boorman: Anyone who has looked at that document would find it reprehensible and inappropriate for production by any person with “manager” in their name in any sensible financial institution. We thought long and hard about including that in our report. We did decide that it was a relevant piece of evidence, because we were satisfied in the end that, although it was a stand-alone event—there was not a string of these memos circulating, and it had a reasonably limited circulation: one regional office, perhaps two—it spoke to something around the culture of the bank at that time. We saw other comments on file at various points that were similar in tone and spirit to the ones that you are quoting.

Q60 **Rushanara Ali:** Could you say a bit more about the others?

Tony Boorman: One needs to put all these things in some context, but this was more around what I think we described in the report as something of a deal-making culture in parts of GRG, where the issue was whether the relationship manager was striking a good deal for the bank with the customer. I am a consultant; I get paid for what I do. I am rather proud, and my boss sitting behind me is probably quite pleased, if I get some good charges, so there is nothing wrong with a little bit of that. This is commercial business. We did not see alongside that the same level of pride in having successfully turned businesses around, and comments about the success of the turnaround function.

Q61 **Rushanara Ali:** The manager who wrote the memo was merely responding to the incentives and objectives established by his seniors. The chief executive says that it was confined to two places, and it was a junior member of staff. Is that not an abdication of responsibility?

Tony Boorman: You invite me to go down a path that you will understand is slightly difficult, given the legal advice that you and the FCA have. Suffice it for me to say that you will recall that we concluded



that, in relation to pricing, the issues of inappropriate treatment we found were, in certain respects, systematic. That implies an intentional and co-ordinated strategy.

Q62 **Wes Streeting:** Good morning. You found that, in a number of areas, RBS was responsible for systematic inappropriate treatment of SMEs. I am assuming that this relies on your conclusion that RBS failed to manage the conflict between GRG's commercial objective and the turnaround objective that you have referred to. Is my assumption correct?

Tony Boorman: Fundamentally, that was the root issue. In relation to the individual items, as you will see in the summary, we draw attention to other bits of evidence where we conclude that there was indeed a strategy—albeit, in fairness, one of omission rather than commission in certain respects—to pursue activities that resulted in the inappropriate treatment of customers.

Q63 **Wes Streeting:** The FCA's summary of the report states, "The commercial objective had been the strategic focus of management during the review period". It logically follows, does it not, that management is at fault for these findings related to systematic inappropriate treatment?

Tony Boorman: Again, you invite me to go down a path that you will understand is difficult for me to go down very far. You have set out the logic very clearly.

Q64 **Wes Streeting:** I might leave that one there. I think you have given the answer; people can draw their own conclusions. The prioritisation of the commercial objective was reflected in staff incentive objectives, as Rushanara was just referring to. Your report found that the tone and emphasis in the appraisals of senior managers placed financial objectives first, and emphasised the need for continuing financial performance. Who in RBS conducted the appraisals of senior managers in GRG?

Tony Boorman: I would like to make a couple of points. The appraisal process in GRG was not unusual or different from any other organisation that you have ever observed. People's local managers were primarily responsible for front-line appraisal processes. I want to make the point very clearly at this stage, and underline it, that it was not part of our role in phase 1 to ascribe responsibility for any of these events to individuals. That is not something that we did, or that I can do or comment on today.

Q65 **Chair:** Could it have been if phase 2 had happened?

Tony Boorman: That was an issue that was more in the scope of phase 2, but was not for us to consider in phase 1. That distinction of: "Was there a problem?", "What should we do about it" and, to be colloquial, "Who was to blame?" is not an unusual distinction in the way in which these reviews operate.

Q66 **Wes Streeting:** Taking into account the issues that arise from the failure



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to move on to phase 2, without naming names, they bear responsibility for the prioritisation of the commercial objective over the turnaround objective, and, it follows, the systematic inappropriate mistreatment. That is fair, is it not?

Tony Boorman: I am tempted to say, "Was that a question?"

Wes Streeting: It is a statement, which I am asking you to agree with or disagree with.

Tony Boorman: I am not going to talk about the responsibilities of management beyond the text that is there. We are clear that there was a responsibility for management to think carefully about keeping those two objectives in balance, and we are clear that that did not happen effectively.

Q67 **Wes Streeting:** Moving down the hierarchy, your report also finds that, although assessment of GRG relationship managers' performance used a balanced scorecard, the measurable outcome that took precedence over any other aspect was the generation of incremental income from customers. I wonder who in RBS conducted the assessment of GRG relationship managers.

Tony Boorman: That was usually conducted by the local team manager, I recall. In all management, you get what you measure. If you are perhaps not as thoughtful in management as you should be, you measure the stuff that is easy. Income was easy to measure, and that was what was measured.

Q68 **Wes Streeting:** Based on what you have said this morning and the reports that we have seen so far, the excessive prioritisation of the commercial aspects of GRG's role, seeking to generate income from customers with no regard to the financial distress being caused, runs right through the GRG hierarchy like a seam of greed. Do you think that that is a fair criticism?

Tony Boorman: I will leave it for others to make criticisms, if I may. All I can do is to restate what we found in our report. It is primarily for the FCA, but no doubt for others, to draw the conclusions from that.

Q69 **Wes Streeting:** Finally, I and the Chair have alluded to the difficulty of not having progressed on to phase 2, in terms of individual accountability for the distress and financial hardship caused to businesses and families across the countries. In terms of where the Committee should direct its focus on the future, what are the outstanding issues that you think need to be addressed, and that you are frustrated you have not been able to address throughout your work?

Tony Boorman: We were employed by the FCA to conduct the work that it wished us to do. It wished us to conduct phase 1, and not phase 2. That is a matter for the FCA, not for me. I do not sit here with some burning frustration about doing further work, as interested as Promontory



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no doubt always is in conducting interesting and purposeful inquiries. I think Mr Bailey, when he met you, described some further work that his organisation was doing: some further focused inquiries. That is where the FCA has decided to take this. That, for the avoidance of doubt, is entirely a matter for its discretion, and not a matter for me.

Q70 Catherine McKinnell: I appreciate that it is not within the scope of the current report, but do you have concerns, or share any suspicions, that what took place at GRG was not just restricted to RBS, and that similar practice may be widespread within the banking sector?

Tony Boorman: It was not part of our review to make a comparative report, so I cannot make any statement whatsoever about any other institution. There are some lessons to be learned. You will see from the recommendations that we set out in our report that we drew attention to the particularly vulnerable circumstances of SME customers in these circumstances, and the need for very thoughtful and careful controls around how the bank exercises its discretion, which rightly belongs to the bank; it has lent the money and so forth. There needs to be a carefully controlled environment. I am sure, and I hope, that all the institutions have thought about some of those recommendations post these events, and sharpened up their own procedures.

Q71 Mr Jack: I did ask you, but I want to be clear on this: I think you said that you did not interview any former RBS employees in your report. Is that correct?

Tony Boorman: I will need to double-check the detail of that.

Mr Jack: You said no to my original question.

Tony Boorman: As a generality, that would be the case.

Q72 Mr Jack: You also said to Ms McKinnell that it was not a general practice that businesses were targeted for their value. I would just like to say that, from my experience, where my business was targeted for its value, I was particularly clear about that, and I made a speech about it in the House last week, as you know.

In a different guise, in a different business, at a later stage, a former employee of RBS who was one of the relationship managers at the time told me very clearly—and he was not at GRG; he was a relationship manager—that the pressure was on them to analyse their customers, attend meetings and produce information as to which businesses might likely be put into default, or had value in them. I think this report would be a better report if you had employed people who had left RBS, who were able to tell some stories without fear of losing their jobs. Do you agree?

Tony Boorman: I understand the point that you make. The relationships between the mainstream bank, in RBS's jargon, and GRG were not always good, but I understand the point. Whistleblowers have



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an important part to play in the regulatory regime, and they can add real value. It was not a process that we engaged in here, although we invited anyone with relevant information to provide that to our inquiry. In fact, that was a public request that we and the FCA made.

Mr Jack, I read and watched with interest your contribution, and many Members' contributions, to the debate last week. The description that you had of your own personal circumstances was very common to a number of customers. The thing that made it different was that you had the gumption, capability and all those things to take the steps that you did. Many other customers did not, and were left to GRG, which was where many of them still remain.

Chair: And then to get himself elected on to the Treasury Select Committee.

Q73 **Charlie Elphicke:** Morning. I am looking at typical cases here. There was a man who was doing property development on his farm in Buckinghamshire, and after the price-gouging, secret profits and all the rest of it—which becomes routine, by the looks of it—he then says, “A senior manager involved in my case ended up buying the barn that my wife and family were supposed to retain. A good friend of his told me that he had been eyeing it up for some time”. Is that an acceptable practice?

Tony Boorman: Absolutely not. Moving away from the specific, the potential for conflicts of interest in this area is very clear. Even if we move away from the clear illegalities and fraudulent extremes that another bank observed in the context of Reading, you see a set of possibilities here for the sorts of actions that you describe. Again, that comes down to the importance of good systems and controls, and a recognition of those risks of conflicts of interest, so that those sorts of events simply cannot occur.

Q74 **Charlie Elphicke:** Where there are practices like the sorts we have seen, where there are conflicts of interest, do you think that the law should be changed to make it a fiduciary duty to account as though it were a breach of trust, or a breach of agency?

Tony Boorman: That question is beyond my legal ken to answer. There is a set of issues about the legal protections available to SME clients. We drew attention to that at the end of our report. As I was saying earlier on, in the context of customers going through a potential insolvency process or through restructuring, they are subject to a particular vulnerability. There is a relevant question, which I know the FCA is exploring, and I know the House is thinking of, around what the relevant protections ought to be. I am not a great fan of regulation for regulation's sake, but this is an area that deserves further consideration.

Q75 **Charlie Elphicke:** Do you agree that it is unacceptable for the bank to say that caveat emptor applies when it is a little, small business—a Mom



and Pop shop—versus a massive bank with billions and billions of capitalisation?

Tony Boorman: You make a good point. One of the things that struck me about the cases that we were asked to see was the very significant diversity of this SME group. We who deal with SMEs all know that, while at the top end you have very sophisticated and well-resourced organisations, at the smaller end you have, in your phrase, Mom and Pop affairs, where people who do not have great levels of financial sophistication and awareness are running businesses. That includes the businesses that we looked at in our review.

Q76 **Charlie Elphicke:** The FCA has made proposals to extend the remit of the Financial Ombudsman Service to deal with disputes between SMEs and banks. What do you think of these proposals? Do they go far enough, or should we have a proper tribunal system?

Tony Boorman: My answer, in the context of the review, is that we drew attention to the desirability of having better access to a redress scheme for small businesses. On a personal basis, redress schemes are often a good solution. They give people immediate and personal access, rather than a broader, theoretical access, to get things put right.

The proposal that the FCA has come up with to extend the remit of the ombudsman service is a useful first step. As the FCA itself says, there are a number of challenges around that: the award limit, which we drew attention to in our report, and the fact that it would not be of much assistance to GRG customers, not least because many of them are now insolvent, so they would not secure the benefits of any claim.

Q77 **Charlie Elphicke:** Mr Jack here is an incredibly sophisticated businessman. It took all his energy to head them off at the pass. Others, who did not have his skill, were not so lucky. Do you think that commercial lending should be subject to conduct rules and regulation in the same way as, say, a consumer loan or a mortgage?

Tony Boorman: All I can say is that, in our review, we said that that was something that should be seriously considered. Again, a personal observation: it may be an area where some sensible self-regulation, particularly in the context of these restructuring and insolvency units, has a role to play. In the nicest possible way, that is a judgment that I am not paid to make. It is a judgment for this House.

Q78 **Charlie Elphicke:** Would you agree that this idea of voluntary codes of conduct for banks will be yet another toothless paper tiger, equivalent to putting the old foxes back in charge of the chicken coop?

Tony Boorman: I understand that concern about self-regulatory things. Clearly, that is one judgment that has to be made. If you give self-regulatory codes some teeth, from my experience of the Financial Ombudsman Service, they can be made effective if you have an effective redress system behind a voluntary code.



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Q79 **Chair:** Can I just check one thing? I think you just said that there were some businesses still in GRG.

Tony Boorman: That is probably technically incorrect, because GRG does not exist in its present form, but when we left the inquiry at the end of 2013 there were still businesses in GRG.

Chair: Can I thank you very much indeed for your evidence this morning? It has been extremely helpful. We are going to pause for a moment or two, just for the next panel of witnesses to take their seats.

Examination of witnesses

Witnesses: Ross McEwan and Sir Howard Davies.

Q80 **Chair:** Good morning. Thank you very much indeed for appearing before the Treasury Select Committee this morning. For the benefit of those here, but also those watching online, I would be very grateful if you could both introduce yourselves.

Sir Howard Davies: Sir Howard Davies, chairman of the board of the Royal Bank of Scotland.

Ross McEwan: Ross McEwan, CEO of RBS.

Q81 **Chair:** Thank you very much. I think you have heard the evidence that Promontory has been giving.

Sir Howard Davies: Yes, we have.

Ross McEwan: Yes.

Q82 **Chair:** Thank you very much. I wanted to take you back, Mr McEwan, to a statement that you made following the publication of the Clifford Chance report into GRG. This was a report that RBS had commissioned following the Tomlinson report. In that statement, you said GRG "turns round the vast majority of businesses that it works with". That was not true, was it?

Ross McEwan: Thank you, Chair. That report came after we had gone through the Clifford Chance report. That was prior to the FCA report that we had gone through. If I just take the Committee back to what landed on my desk pretty much my first week in the job, it was the Dr Tomlinson report, which, for any CEO or board, was a fairly damning report on the organisation. I wanted to make sure quite quickly: was this reality, or were there things in here that we should be giving serious consideration to?

That report came out. There were things in there that we found were just not right and that came through in a report before that, through Clifford Chance and through the work of the FCA. There were a number



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of features that this organisation just did not get right for its customers, and, for that, we absolutely apologise.

Q83 Chair: I do understand that, and I do not want to keep interrupting, but time is very limited—depending on how long you want to spend in front of the Committee today—and I asked a very specific question. You made a statement in 2014 about GRG turning round the vast majority of businesses that it works with. I am putting to you that that statement was not true.

Ross McEwan: When you look at the stats that have come through, that is right: it is not true. In that statement, I thought I had said that we had also turned around thousands of businesses, which is true, but “the vast majority” is not right, and the stats show that.

Q84 Chair: You said that GRG successfully turned round thousands of businesses, safeguarding hundreds of thousands of jobs. What is the evidence to support that statement?

Ross McEwan: That is actually correct, because GRG is not just SME businesses. For example, we were involved in things like Samsonite and Thomas Cook—major employers of people, employing thousands of people—and turning around those businesses. The stats that you are looking at here are to do with the SME portfolio, which is a smaller part of the total GRG. GRG, in its day, was a global business, covering 20-odd countries that we were operating in. It was much larger than this, so the stats on that are not the stats that you are seeing here, because this is a specific portfolio.

Q85 Chair: One in 10 GRG customers were returned to mainstream banking. How do you define “turnaround”?

Ross McEwan: Can we just go back to the statistics, so that we get this right? That is right. As of the end of the period of 2014, 10% had actually returned to mainstream banking. If you look at the portfolio that went into GRG and into the SME portfolio, about 50% to 60% of those customers and businesses were commercial real estate or development, and, in the nature of those businesses, they are a one-off transaction.

When you look through the stats, you are right: one in 10, at that time, ended up back in mainstream. A number of those customers were re-banked, or they were re-paid because of the sheer nature of them. A number of them stayed within GRG, and the statistics, since that time, have improved quite dramatically. The report itself showed that a third, or 34%, of the businesses that went into GRG pretty well had no chance at that point in time. When you look at the stats, you are absolutely right: one in 10 at that time, by the end of 2014.

Q86 Chair: One in 10 GRG customers were returned to mainstream banking. A third entered insolvency. 15% left the bank or repaid their facilities. What you are saying is that the 5,900 SME customers are not the total customer base of GRG.



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Ross McEwan: That is right.

Q87 **Chair:** Does the one in 10 apply to the 5,900?

Ross McEwan: I do not have the statistics on the greater piece.

Q88 **Chair:** If it did, it would be 500 SME customers who were returned to banking. That is not thousands, and I doubt very much whether SMEs are going to have hundreds of thousands of jobs.

Ross McEwan: It depends upon the timeframes. If you take up to today, 20% of the businesses went back into mainstream. Only 9% are left in the actual portfolio. 41% of them have gone into some form of liquidation or administration, and the rest have been either repaid or re-banked. It depends on the timeframes, and we are happy to share those figures.

Q89 **Chair:** As I understand it, GRG was closed in 2014.

Ross McEwan: Yes.

Chair: I appreciate that we may get on to some questions about learning lessons for the future at some point, but today we are talking about up to 2014, when GRG presumably was closed.

Ross McEwan: That is right.

Q90 **Chair:** I asked you another question, which was how you define "turnaround".

Ross McEwan: Turnaround depends on in what situation the business goes into a recovery or restructuring process, in this case GRG. It depends on the situation that we find, and the customer finds, when going in. That is the starting determinant. The report itself showed that the right customers were going into GRG, so from that perspective they are having some form of difficulty as a business. It is at that point that we have to make a determination, on an individual basis, of what needs to happen with that business, or whether it has a chance of survival. That is the first decision that is made.

Q91 **Chair:** I am taking from that that "turnaround" could include not actually being turned around. It could include going into insolvency, liquidation, administration or whatever form.

Ross McEwan: Yes, that is right.

Q92 **Chair:** When you said in that statement in 2014, "Our first priority then and now is to try and help our customers recover", that cannot be right, or do you think that recovery includes losing everything through a process of liquidation?

Ross McEwan: The first thing on this is that you have to take every case on its merits, have a look and make a determination about that business. At that point in time, is it a business that should have more money put



into it, to see it come out the other side, or is the best determination at that point in time to put no more money into it, and put it into an administration or liquidation process? That is the first determination that needs to be made, and that is what happened. That is why the twin objectives for this operation at the time were around protecting the capital of the bank and looking after customers.

Q93 Chair: Do you think that your normal, non-expert-skilled SME business owner—of course, there are many skilled business owners, but let us just take somebody who set up a business of their own—would consider that the word “recovery” would include putting their business into liquidation?

Ross McEwan: Particularly at the smaller end of the SME market, they set up a business with the aim of trying to create something for themselves and their family that will be a viable business that makes money. Many of those people are not sophisticated people, and they need to be looked after and guided, in a shape or form, when they get into difficulty, as to whether this is a business that should be looked after or not.

Let me be quite clear with the Committee: we did not do a good job with these customers, and the report shows that. We did not do a good job. At a time when they were in most need of help, this organisation, in many, many cases—far too many cases—was not there, giving them the help that they needed. We are very clear about that.

Q94 Chair: In your letter to me on 30 October, you said, “The turnaround obligations inferred or implied by the skilled person do not, in fact, exist”. GRG did not have a turnaround objective, or a recovery objective.

Ross McEwan: It had twin objectives. One was to look after the customer, and the other was to look after the capital of the bank. Those were the objectives. If you look at the institute that looks after the recovery business, it looks after the capital and, by doing that, looks after the customer as well. There is an absolute conflict between these when there is a difficulty with the business, and we accept that. Another one of the things that you have found here is that the conflicts were not well managed within GRG in many cases.

Q95 Chair: In your statement in 2014, you said, “We are determined to earn back the trust of our customers”. Do you think that statements like the one that you made in April 2014 earn customers’ trust, or do they undermine it?

Ross McEwan: This business, and indeed the entire industry, needs to rebuild trust after a very traumatic period of time for both customers and the banking industry. It would be fair to say that we have lost a lot of trust, across the industry and in RBS. A bank such as ours only has two things that it trades on. One is a financial position—a strong capital position—and the other is the trust and respect of its customers. We burned both of those with what happened in this organisation. We, of all banks, are having to work very hard to rebuild that trust.



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We are not proud of the situation that happened between 2008 and 2014 in this area. There are many things that we just did not get right. The organisation I am trying to lead is one that is trying to rebuild the trust, focusing on the customer. In any recovery situation, there are times when that recovery may well mean the best decision is to not put any money in and, unfortunately, let that customer's business fold over. Unfortunately, that is the conflict that you get.

Q96 **Chair:** Thinking about today, Mr McEwan, what are the bank's four core values?

Ross McEwan: We have four core values. First off, customer service is a primary one, and we are talking about that very clearly today. The other one is working well together. As banks, the traditional view was that we ran in various silos. The next one is thinking, long term, about how the organisation thinks about its customers. As you have me on the spot, I am struggling with the fourth one, but it was around how we work together and think about this bank long term.

Chair: The fourth one is "doing the right thing".

Ross McEwan: Sorry, doing the right thing.

Q97 **Chair:** As chief executive, you have four core values. You have a purpose and ambition, and four core values. Do you think that, for members of your staff, those four core values trip off the tongue?

Ross McEwan: We have done a very good job to date of rebuilding this organisation around the values and around the purpose of this bank. It is not yet finished.

Sir Howard Davies: Chair, from the board's perspective, the answer to your question is that, in very large parts of the bank, they do. As you go around the bank, as I do frequently, you will find the hierarchy of customer service in every branch, in every organisation. They have morning huddles about how they are going to improve customer service. The work that has been done to turn around the culture of the bank over the last few years is now bearing fruit, and I certainly find evidence of that wherever I go.

Q98 **Chair:** Sir Howard, I understand that RBS is a great supporter of the Banking Standards Board. You can correct me if I am wrong on that.

Sir Howard Davies: Yes.

Q99 **Chair:** It is a great supporter. Presumably, it has carried out a survey of the culture of RBS, as it has with other banks. When I looked this morning, I could not find that report on the culture. It is up to the bank, I understand, to publish that report. Where is that report on your website?

Sir Howard Davies: It is not published. The individual reports by the Banking Standards Board into individual banks are not intended for



publication. That is not its position. It believes that they are more effective if they are feedback to the bank. We had the chair and chief executive of the Banking Standards Board attend a board meeting recently and talk us through that. That report, this year, was—I can say to you—reasonably positive. It showed an improving trend against industry benchmarks. It is not perfect, but it showed that the organisation was turning itself around, and that, on many of the measures of risk culture and customer service culture, we were certainly on an improving trend.

Q100 **Chair:** My understanding, from conversations with the chairman and the chief executive of the Banking Standards Board, is that it is up to each individual bank, and it could publish at least a summary of the report from the Banking Standards Board. I think it might perhaps be in line with your core values if that were something that you did.

Sir Howard Davies: I will certainly look into that.

Q101 **Rushanara Ali:** In response to the publication of the FCA's summary of the Promontory report, RBS stated, "We have acknowledged for some time that mistakes were made and have apologised that we did not always provide the level of service and understanding we should have done for these customers in the aftermath of the financial crisis." Is poor service and understanding the extent of what you are sorry for, or would you like to broaden it to cover any other specific matters, Mr McEwan?

Ross McEwan: There are a number of areas that we just did not get right. The first one is that we were not there for our customers when they were having difficulty with their business. Our communication with our customers was very poor. The movement of them into GRG was very, very confusing for them. It created stress at a time when they were under enough stress as it was.

The fees, the structuring of fees and the complexity of fees for SMEs were far too confusing, far too complex and very, very poorly communicated. We had issues around conflicts of interest, and indeed perceived conflicts of interest, more importantly. Once you have a perceived conflict of interest, you have an issue of trust. There were areas around West Register that created difficulties with the perception, certainly in some of the valuation areas. There were a number of those, not just the ones you raised.

Q102 **Rushanara Ali:** I have some very specific, quick-fire questions, so I would appreciate really rapid answers. In your letter to the Chair on 30 October, you disagreed with Promontory that there was widespread inappropriate treatment of SMEs in GRG. Is that still your view?

Ross McEwan: Yes, it is, remembering that we were asked to say what the disagreements were. That is a disagreement, but we have moved on.

Q103 **Rushanara Ali:** Sorry, you have moved on.



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Ross McEwan: We have accepted the report and we have moved on.

Q104 **Rushanara Ali:** Is it still not your view, or have you changed your mind?

Ross McEwan: I was asked to write on what the points of disagreement were. I wrote and put forward the points of disagreement.

Q105 **Chair:** They are still disagreements.

Sir Howard Davies: There are disagreements with the background and analysis of a lot of individual cases, which are very complex. To be very clear, as far as the recommendations of the report are concerned, we no longer think it is useful to have an argument. It has made a series of recommendations. We are accepting those recommendations and getting on with it.

Q106 **Rushanara Ali:** Do you now accept that there was widespread inappropriate treatment of SMEs in GRG—yes or no?

Ross McEwan: Against the—

Q107 **Rushanara Ali:** Sorry, I just need a yes or no, because I have about five other questions.

Ross McEwan: I am sorry; it is not a yes or no answer.

Q108 **Chair:** Well, you either disagree, as you did in the letter on 30 October, or you do not now disagree.

Ross McEwan: I disagreed, because we felt that what it was interpreting against the actual requirements was wrong. That is the disagreement.

Q109 **Rushanara Ali:** In the same letter, you disagreed that there was material financial distress caused to any business as a result of GRG's actions. Is that still your view?

Ross McEwan: Yes, it is.

Q110 **Rushanara Ali:** You also stated that you disagreed that inappropriate treatment was systematic. Is that still your view?

Ross McEwan: The interpretation of "systematic" was not what was put into the requirements for the skilled person. That is the piece that we disagree with.

Q111 **Rushanara Ali:** Finally, you disagreed that GRG staff were insensitive or aggressive. Is that still your view?

Ross McEwan: There are absolutely cases here where we just did not get this right, and our staff did not get it right.

Q112 **Rushanara Ali:** Were you wrong to say that you disagreed with it, and do you accept that they were insensitive and aggressive?

Ross McEwan: No.



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Rushanara Ali: It is one or the other, Mr McEwan.

Ross McEwan: I agree with what I wrote, so therefore the answer is that I disagreed with what was written.

Q113 **Rushanara Ali:** You disagreed with what was written in your letter, or in the report.

Ross McEwan: No, in the Promontory report.

Q114 **Rushanara Ali:** You disagree that staff were insensitive or aggressive in their treatment of customers, despite the evidence.

Ross McEwan: I know that our staff did not get this right. There were points we were asked to write back about the report itself with which we disagreed. That was one of the points, but we did not get this right for our customers.

Q115 **Chair:** We have heard this phrase a lot, I have to say. We have heard the phrase, "We did not get this right". We understand that that is the phrase that you are going to keep using. We have heard it a lot. If you did not get it right, do you think that some staff were insensitive or aggressive?

Ross McEwan: There may well have been cases where we and our staff were insensitive to what was going on.

Chair: I will take that as a yes.

Sir Howard Davies: We have to accept that the Promontory report, when it talked to customers, found customers who believed that our staff had been insensitive and aggressive. We have to accept that. To some extent, in this area, as you know, perception is reality. If that is what a customer thinks, we have to take that on the chin and accept that.

Q116 **Rushanara Ali:** We have a customer in this Committee, in fact. Sorry, I just have a few more. In general, the apology made so far, with a few notable exceptions that Sir Howard has highlighted, seems to broadly fit with the position that was taken after the Clifford Chance report. Are there any other areas that you want to go on to that you are particularly regretful about and feel that you should apologise for?

Sir Howard Davies: From the board's perspective, having looked at this, we completely accept that there was inappropriate charging, and that some of the complex fees charged were quite impossible for many customers to understand, even if the relationship manager thought that there was some justification for that at the time. These were not capable of being understood by customers, and we regret that. We think that was a mistake. We also think that the equity participation schemes that were put in place were complex, capable of being mishandled and poorly used, and inappropriate.



We also think that we did not have an appropriate complaints scheme through which small businesses could register reasonable complaints about the way that they had been handled by the bank, and be assured that those complaints were dealt with reasonably by people who were independent of the original process. Having looked at the Clifford Chance report, individual cases with the assistance of accountants and turnaround specialists, and the Promontory report, we completely accept all those, and that is the basis on which we put in place this independent complaints scheme. We think all those things were badly done by the bank at the time.

Q117 Rushanara Ali: Sir Howard, just on some of these points, I wanted to pick up on the point about potential litigation by former GRG customers. We have just seen the back and forth in terms of acknowledging what is in the letter versus the report, and so on. Is the fact that you have litigation by former customers inhibiting your ability to be frank with the public and this Committee about what went wrong? Might you otherwise be freer to be more straight about what went wrong and the specifics, particularly in light of this letter that we received to the Chair, which, frankly, I found staggering?

Ross McEwan: The answer to that is no. That is why we agreed with the FCA on the approach that it believed was appropriate we take, in setting up a complaints process that had an independent High Court judge sitting on the top of it, to make sure that it was a process that people could go through, knowing that somebody was overseeing it and it was not the bank. That position allows customers, whatever their claim against the organisation, to go through it at no cost to themselves. That was one of the features we believed was a good way of putting it right for customers where we got it wrong. That is not restricted, so any customer can go through it.

The second piece was around the fees, which, right from the start, we saw were very confusing and wrong for customers in many, many cases. We wanted to put that right. We agreed with the FCA that those two features were the right things to do, and we wanted to get on with them. We agreed that a year or so ago.

Sir Howard Davies: The litigation point is not one that has been front and centre, because the complaints team that we put in place does not in any way cut off people's ability to litigate against the bank if they are not satisfied with this. We do not think that that is really an obstacle.

Q118 Rushanara Ali: I have one final question. Mr McEwan, you said to the *Sunday Times* in October last year, "There is absolutely no evidence that we deliberately destroyed businesses for their assets [...] If people aren't happy with our procedures, let them sue us". 16% of businesses put in GRG were caused material financial distress by its actions. Among the Tomlinson cases looked at by Promontory, the figure is 28%. There might not be evidence of staff deliberately destroying businesses for the fun of it, but there is evidence that GRG inadvertently destroyed



businesses in its relentless pursuit of short-term income, is there not?

Ross McEwan: This why it is very important to have the complaints process, so that any customers who feel that they have had some wrong done by this bank can go through that process. I regret the comments that appeared in the newspaper. They were part of a conversation with a journalist at a client function, where he asked me the question. I took him through the complaints process, and said that, at the end of it, customers can still take us to court and they still have the right to sue us. That is where, unfortunately, that comment came from, but it was in the context of a much, much broader conversation.

Q119 **Rushanara Ali:** Would you say that your general approach to the report—your responses, your reluctance to accept responsibility in terms of the report, the recommendation and the findings—are damaging for the banking sector’s reputation?

Ross McEwan: Let me be quite clear: I accept the report. There are features in this report that we have written to the Committee about, because you asked about what things we disagreed with. That is what we did. We accept the report, and we now want to put right things with customers. We started setting up the complaints process well over a year ago. We thought that was really important for customers. We want to get on and rebuild the relationship with customers, and rebuild this bank.

Sir Howard Davies: If I can add one point from the board’s perspective, it is a point that concerns us a lot. That is partly from a reputational point of view, but also from an economic point of view. If people do not believe that banks are trustworthy, and small businesses are concerned about getting into a relationship with a bank, that is a damaging thing for the economy. Therefore, we think that getting this process right, being transparent about it and having the right complaints team is crucial.

We are encouraged by the fact that, over the last couple of years, our small business lending has begun to grow again. There was quite a period when RBS contracted in this market. That was partly because of the economic circumstances of the bank, which you well know were not great, but also perhaps because small businesses were reluctant to borrow, and that was economically a bad thing. The evidence now suggests that small business lending is growing, and certainly our small business lending is once again, over the last 18 months, on an upward trend. We do not think, at the moment, that there is a straightforward read-across into a systemic bad relationship between the bank and its small business customers.

Chair: We will be looking at that, and at the complaints mechanism, in a moment, but we are just going to carry on with the findings from the report.

Q120 **Mr Jack:** I would like to pick up on the point about the aggressive



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behaviour of your staff. This was in 2009, so it was before your time, Mr McEwan, but the manager who came to see me with his assistant, with his first trumped-up version of a breach of covenant, was not only aggressive; he was thuggish. He shouted at his assistant because she could not make her numbers stand up, reduced her to tears and, as he left my office and headed down the stairs, he was still shouting at her. My co-director, who was present at the meeting, had a grandfather who had been chairman of the Royal Bank, and he was horrified to see how they were behaving. I was discussing this with him only this morning, over the telephone.

About three months later, they then had a pop at another business—a farming business—that he had, trying to trump up reasons why they should change his terms and his financing. He saw them off, and he still has the same terms today, but he had to be very robust in pushing them back. We complained about his behaviour, and the next time he came with a trumped-up reason to try to take our asset away, which was only a month later, he brought his manager with him. We thought there might be better conduct, but his manager was equally aggressive. Do not tell anyone that you do not for a minute think that your staff were aggressive, please. It is just offensive.

Moving to the main business, this is regarding the findings that were serious but not widespread: the FCA conclusion. The top line of your press release, in response to the publication of the FCA summary, was, “The most serious allegations against the bank were not upheld”. It said that there was not a widespread practice of identifying customers for transfer for inappropriate reasons. You will know, from my speech in the House last week, that I completely disagree: there was some evidence of it.

You focused on the word “widespread”, in terms of moving people to GRG for their potential value. Would you acknowledge that, even if it was not widespread—I think 4% of the sample were found by Promontory to have been moved for that reason—that it happened on some occasions, and it does not have to be widespread for it to be very wrong?

Ross McEwan: I agree that for it to happen is wrong, and to have any cases that were wrong should not have happened here. Unfortunately, back in 2009 through to 2013, there were cases that were found by Promontory to be wrong, and for that I apologise. It is not the way it should have been operating.

Q121 **Mr Jack:** GRG had the final decision on transfer. Staff objectives at GRG had focused on “the generation of incremental income from customers”. Would you agree, therefore, that the means, motive and opportunity to identify and transfer customers on this basis—the potential value to GRG—was there? I would like to ask you particularly who identified those target businesses. What was the relationship between staff at GRG—which was SLS prior to that, as you know—and relationship managers? Did the practice go on, and how did the dynamics work there?



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Ross McEwan: The fact that there was conflict—GRG having the ability to move it in—was the problem here, if for no other reason than the perception of the wrong thing happening. Throughout this, there were a number of areas where there were conflicts that, in today's model, we do not believe exist. You are right that the sheer conflict left that very open to the accusations, and in some cases the reality, as we have seen.

The structure of our operation today is completely different to what it was back in 2009 through to 2013, because of those very conflicts: the conflicts around income, as opposed to a broad set of arrangements. Income has now gone from our restructuring operation. On the ability for GRG—today, the restructuring team—to move customers, the final decision is made by credit. We do not even take them into a resolution area today. They are left with the relationship manager, and the relationship manager works with a team of people, including our restructuring team, to get the right solution. You are right: there were a lot of conflicts running through this operation.

Q122 **Mr Jack:** Were relationship managers, back in the day, bonused on finding potential customers for GRG?

Ross McEwan: No, they were not.

Q123 **Mr Jack:** Not at all?

Ross McEwan: No.

Q124 **Mr Jack:** You are absolutely sure of that.

Ross McEwan: They were based on income out of their own portfolios. The GRG team had a team-based income, not an individual-based income. Again, there was conflict because of the income piece of that, which no longer exists today.

Q125 **Mr Jack:** The other serious allegation that RBS stated was not upheld was the practice of RBS acting as shadow director, but the review found eight cases, which was 4% of the sample, where this occurred. Do you agree with that?

Ross McEwan: In those circumstances, there were cases where it found there was a relationship that looked like a shadow director relationship, so we have to accept that that is the case. On the other hand, it was also saying in the report that we were not hands-on enough. Again, there were some areas where we did not manage that well enough. Were we clear enough, when we were taking equity positions, on what our relationship would be? I do not think it was clear enough, and the same where we probably were not hands-on enough. That was the other accusation made, quite rightly.

Q126 **Mr Jack:** Did you report those cases to the Insolvency Service, so that it could investigate whether those individuals had been acting inappropriately?



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Ross McEwan: We have not done so. No, we have not.

Q127 **Mr Jack:** You would agree that any instances where an RBS employee was acting as a shadow director are potentially very serious.

Ross McEwan: Yes. The report itself said that it was not widespread, but, if there were any cases where people think that we were acting as the shadow director, we would like to hear about those cases, please.

Sir Howard Davies: That would be something that the complaints scheme could look at.

Q128 **Mr Jack:** You know that Promontory found eight cases, so there is a good start for you. Another serious allegation, which RBS stated was not upheld, was requesting personal guarantees when GRG had determined that it had no intention of supporting the business, but Promontory found three examples of that. Would you agree that that is also very serious?

Ross McEwan: We would have to look at each individual case before I can make that assessment, and that is why we have the process here, because each individual case is very, very complex. Even the last quarterly report by the independent party, Sir William Blackburne, said that every one of these cases was very, very complex. We would have to look at the individual cases before I could make a comment on that.

Q129 **Mr Jack:** When Promontory finds instances of transfer of business for the potential value of assets, RBS acting as a shadow director and personal guarantees being requested despite not wanting to support the business, would you not agree that for the response of RBS to be that these allegations have not been upheld is just misleading?

Ross McEwan: We acknowledged that we did not get a lot of things right in here, but the core accusations were much broader than the number of cases you are talking about. The broad accusations made by Dr Tomlinson made it look as though we had done that in every case. This report showed that there were cases, and we accept and acknowledge those. That is why the complaints process is in place for all customers to go through, so that we can address any cases where we were found to be wanting. We would like to see those cases, please.

Q130 **Mr Jack:** Do you think that there has been any criminal activity within the bank by your staff?

Ross McEwan: Not that we have seen or had reported, and certainly none that the police or the Serious Fraud Office are looking at, to our knowledge.

Q131 **Mr Jack:** How many cases have you passed to the Serious Fraud Office?

Ross McEwan: We have not passed cases to the Serious Fraud Office.

Mr Jack: It probably has not made a decision on them.



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Ross McEwan: Well, other parties have said that they were putting cases to the police. We do not yet have any knowledge that—

Q132 **Mr Jack:** If you know that people have done illegal things within the bank from the Promontory report, why would you not pass them on?

Ross McEwan: We have not seen illegal activity. If we did, we would have put those forward.

Q133 **Mr Jack:** You have no evidence of that.

Ross McEwan: We have no evidence of that.

Q134 **Chair:** In your reaction to the report, you used the word “fraud” in one of the statements. You talked about the Tomlinson Report having alleged that RBS had “set out to deliberately defraud our business customers”. Fraud is a criminal activity, but the Tomlinson Report did not allege fraud, did it? You set up a straw man to knock it down as something that had not happened, because it had not happened.

Ross McEwan: A number of accusations were made. Some of these were right for Dr Tomlinson to have put forward, but many of the ones that were put forward were not found to be to the extent that Dr Tomlinson put. Any cases that we got wrong we want to go through the complaints process, so that we can get them right.

Q135 **Catherine McKinnell:** Promontory found instances of transfer of businesses to GRG based on their potential value, of RBS acting as a shadow director and of personal guarantees being requested. I think the statement you made was that all the right businesses were put into GRG. Do you still maintain that that was the case?

Ross McEwan: That was against the comments that were made in the skilled-person report. That is where I made my comments, against those. “SME customers transferred to GRG were exhibiting clear signs of financial difficulty” was one of the statements. That is what I based my statement on.

Q136 **Catherine McKinnell:** On the basis of the statement that I have just made, do you still maintain that all the right businesses were put into GRG?

Ross McEwan: Against what we have seen, yes, but, if there are cases where customers feel that it was wrong, we would like to see them in the complaints process.

Q137 **Catherine McKinnell:** Do you still maintain that those allegations are not upheld?

Ross McEwan: The report itself said that there was no widespread or systematic inappropriate treatment of customers.

Q138 **Catherine McKinnell:** Even if it was not widespread or systematic, the Promontory report states that it occurred. Therefore, if that occurred, do



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you still maintain that all the right businesses were moved into GRG?

Sir Howard Davies: There is a difference between whether the businesses were appropriately moved into GRG and whether they were appropriately dealt with when they were in GRG.

Catherine McKinnell: I am asking about the first.

Sir Howard Davies: On the first point, we believe that the process was not right, in that it was for GRG itself to determine who went into GRG, and at that point they left the relationship manager.

Q139 **Catherine McKinnell:** You accept that all the right businesses were not necessarily moved into GRG.

Sir Howard Davies: It is difficult to be certain of that, but we certainly think that the process was not an appropriate process. That is why we have changed the process.

Q140 **Catherine McKinnell:** Therefore, you cannot make that statement. You cannot really make the statement that all the right businesses were moved into GRG.

Sir Howard Davies: We believe that there were good reasons in each case for them to be moved into GRG, because they had breached a covenant or whatever.

Q141 **Catherine McKinnell:** Good reasons for whom? For the bank, or for the customer?

Sir Howard Davies: For both.

Ross McEwan: My commentary on that was related to the outworkings of the FCA summary report. If there was any misinterpretation or wrongness about that, I apologise, but it was taken against the context of this here. There are many areas that we got wrong, but what this clearly shows is that there are many areas that we may not have got wrong. Every one of these is an independent judgment. This is not black and white in any of these cases. 207 files were pulled. As Promontory said, they were pulled from all around the organisation because they were not in one place, but the smallest of these was a complete boxful, and the largest was 60 boxes.

Catherine McKinnell: We are asking you specifically about the instances identified in the Promontory report, and the examples that have been given of transfers of businesses to GRG based on their value, of RBS acting as a shadow director and of personal guarantees being requested, despite GRG having no intention of supporting the business.

Sir Howard Davies: The report says, "It was not evident that RBS had a pre-determined strategy to withdraw support at the time the personal guarantee or cash injection occurred". That is one of the things: "no widespread or systematic practice under which RBS misrepresented its



true intentions to the customer with the object of obtaining further funds or guarantees". This was not a systematic case. If there were individual cases where the customer and Promontory believe that this has gone wrong, that was why we set in place a process through which those individual cases can be assessed.

Q142 **Catherine McKinnell:** During a recent parliamentary debate, it was suggested that the full FCA/Promontory report into GRG includes a conclusion that "management knew or should have known that this was an intended and co-ordinated strategy and that the mistreatment of business customers was a result of that". Do you agree with that outcome?

Sir Howard Davies: It is very difficult for us to comment on that, because the FCA is carrying out—as it has said, I think, in response to questions from this Committee—a focused investigation, which in a sense is what could have been part 2 of the Promontory report. It is looking at the root cause of these issues: at management responsibility, both collective and individual. In those circumstances, it is not possible for us to answer questions on that.

Q143 **Chair:** On the complaints mechanism, you mentioned a couple of times that those who feel they were wronged should make a complaint. How many of those complaints have been upheld?

Sir Howard Davies: Something like 1,000 complaints have been put through. The bank reviews those complaints. The independent process run by the retired High Court judge has an assurance process that runs alongside and says, "Is the bank looking at all the right things and conducting itself properly?" Then, the bank determines a response and sends it back to the customer.

If the customer does not like it and does not agree that the bank has responded appropriately to the complaint, the next phase is that it goes back to the High Court judge. Not many have got to that point. I think 14 have got to that point in this process. So far, the judge has upheld two of those 14, but they are complaints about the handling of the complaint, if you see what I mean. That is where we have got to, but he will be reporting on a quarterly basis, as you will have seen, so that all those data will be in the public domain as we go forward.

Q144 **Catherine McKinnell:** I just wanted to ask one further question about the current status of GRG, because my understanding from what has been said is that it no longer exists.

Ross McEwan: It no longer exists.

Q145 **Catherine McKinnell:** It no longer exists, yet somebody following today's proceedings has put on social media that his business received a letter on GRG-headed paper in the summer of 2017. Would that be correct? Did it exist in the summer of 2017? Does it no longer exist, or does it actually still exist?



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Ross McEwan: No, it no longer exists. We do, like every other bank, have a restructuring unit, which operates quite differently to the way GRG does in many, many aspects of it. This has come out relating to this exercise, because we wrote out to 60,000 businesses, cases and customer groupings to make them aware of this process.

Q146 **Catherine McKinnell:** On GRG-headed paper?

Ross McEwan: It should not have gone out on GRG-headed paper, so I would be very interested to see that.

Chair: Perhaps whoever has put it on, if they are watching, might be able to take a picture and put it on before the end of the session. We would all be very interested to see it.

Ross McEwan: I would be, too.

Q147 **John Mann:** Mr McEwan, what ethical values do you share with Thomas Smith?

Ross McEwan: Sorry, with whom?

John Mann: Thomas Smith.

Ross McEwan: I am struggling to connect, Mr Mann, sorry. Help me out, please.

John Mann: Sir Howard, could you help your chief executive out?

Sir Howard Davies: I could not, actually. Which Thomas Smith?

John Mann: The one who founded your bank.

Sir Howard Davies: There were a number of different founders of the bank, in the background to the royal charter of 1727.

John Mann: No, Smith's Bank was the original: Smith's Bank of Nottingham.

Sir Howard Davies: That is part of NatWest, yes.

Q148 **John Mann:** What ethical values do you share with Thomas Smith?

Ross McEwan: Sorry, Mr Mann, I am not aware of those. We have done something like 93 acquisitions. That is one part of it. There was a charter back in 1727.

Sir Howard Davies: Smith was actually a textile manufacturer, who started lending to his customers because he thought that that was helpful. He was financing his customers.

Q149 **John Mann:** On his memorial, Sir Howard, it just has two words for his ethical values: "exact integrity". When your people came in front of this committee in 2014—Mr Sach, for example, and I think Sullivan was the other—did they show exact integrity with their answers, Sir Howard?



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Sir Howard Davies: The answer to that is no.

Q150 **John Mann:** The people running GRG, coming in front of Parliament, did not show exact integrity. I will use the polite term: they misled Parliament. Others would say "lied", but I will be polite. The people running GRG misled Parliament, did they not?

Sir Howard Davies: My predecessor, Philip Hampton, wrote to the Committee after that session to correct some of the answers they had given.

Q151 **John Mann:** The people running GRG misled Parliament. You said, Sir Howard, earlier in this hearing that customers could not understand the GRG charges. Do you understand the schedule of GRG charges?

Sir Howard Davies: I could understand the logic. I cannot tell you, Mr Mann, that I have gone through the detail of the GRG charges from 2009 to 2013.

Q152 **John Mann:** There was no schedule, was there?

Sir Howard Davies: Different schedules of charges were offered to customers, I believe.

Q153 **John Mann:** Can we have a copy of the different schedules, then?

Sir Howard Davies: They were developed in the course of practice.

Q154 **John Mann:** We are talking about exact integrity. That is not a schedule. You say that there were different schedules. Can we have a copy, please, of the schedules of charges of GRG?

Ross McEwan: Mr Mann, we will get you the charging schedules that were applicable for that period of time.

Q155 **John Mann:** We can then examine whether they are understandable or not.

Ross McEwan: They were clearly not. We absolutely admit that. They were far too confusing. They were not communicated well to customers, and some of them were very inappropriate. We accept that.

Q156 **John Mann:** It was a cash cow, was it not, Sir Howard? That is the best term for it: "cash cow".

Sir Howard Davies: We accept that it had two objectives: recovery for the bank and turnaround.

John Mann: Let us look at the internal documents.

Sir Howard Davies: Promontory's description of the way in which this was worked was appropriate, and it pointed out that these objectives were not balanced appropriately by the bank. We accept that conclusion.

Q157 **John Mann:** Let us look at two of the internal documents: "just hit



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budget” and “16 ways to generate income”. Are you happy with those documents?

Sir Howard Davies: I am acutely embarrassed by those documents. They were found by the bank itself in the course of the review and handed over to Promontory. They are the stuff of which nightmares are made, as far as a chairman or a chief executive is concerned. It is quite hard to believe how people could have written in such a way about a customer and about customers. We can do nothing but abase ourselves as far as that is concerned. It is absolutely awful.

Q158 **John Mann:** Those two documents are core to the ethics of GRG, are they not?

Ross McEwan: Can I maybe make a point?

John Mann: Sorry, I am asking Sir Howard. Sir Howard’s reputation is on the line in relation to these issues. He has been around for a long time. These two documents are core to what was going on with the ethics within GRG, are they not?

Sir Howard Davies: On that, Mr Boorman gave his answers to you a little bit earlier, and I would accept his answers. He pointed out that that memorandum—the “just hit budget” memorandum—had originated in one regional office, and had possibly been circulated to another regional office. There is some doubt about whether that really occurred or not. Therefore, it was not widespread. It was not a policy that was being followed across the organisation, but he said that the fact that a memo of that kind could be written did say something about the culture within that organisation. I think that is fair enough.

Q159 **John Mann:** Let me quote from what RBS staff are told in these documents. “Rope: sometimes you just need to let customers hang themselves”. That has happened, has it not, Sir Howard?

Ross McEwan: These documents were inappropriate.

Q160 **John Mann:** That has happened, has it not, Sir Howard?

Chair: Mr McEwan, Sir Howard is being asked the question, and he will answer it.

Sir Howard Davies: We looked into the cases that had been handled by the individual who wrote that memorandum, to try to identify whether there had been disproportionate activity, and whether this flowery language that he had used had translated into businesses being damaged in the way that he had suggested. We could not find that.

Q161 **John Mann:** This is about ethics and culture, and the business model that was there. Those documents did not exist in isolation, did they? Exact integrity, as Thomas Smith would put it: you have these documents; you have the key people lying to Parliament, sat in the seats that you are now in; and you have many decent people’s livelihoods,



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businesses and lives ruined. Sir Howard, are you going to give, on behalf of this bank, unequivocally and exactly, without any side categorisation, an apology to everyone concerned? Can those people directly impacted by this rotten part of your bank expect proper justice?

Sir Howard Davies: Yes, I can apologise to those people who were badly affected by this bank. I can assure them that there is now an independent complaints process through which their complaints can be heard.

Q162 **John Mann:** That was not quite the exact integrity answer. Others will ask questions, but an independent complaints process can mean many different things, can it not? That can lead to people not receiving full compensation. Any system like that can. Others will ask about the detail, but I am talking about your integrity, this bank's integrity, in public. Can we have a categorical assurance that those who have lost out by this appalling set of events and the lack of ethical base in this unit will receive proper justice and indeed compensation?

Sir Howard Davies: I can assure you that we have put in place an independent complaints scheme run by a former judge of high integrity. Andrew Bailey of the FCA has confirmed that he is a robust and independent individual. We have put ourselves in his hands, and I think that is the right response.

Q163 **Catherine McKinnell:** Is it the case that GRG still exists in everything but name, and has just been rebadged as the RBS recovery unit?

Ross McEwan: No. We, over the last four years, since we had the Clifford Chance report and as we have been going through the s. 166, have made dramatic changes to the way this unit operates and the way that customers get helped by this unit. They do not move into our restructuring operation. They are left with the relationship manager, and somebody from restructuring works alongside the relationship manager and the business owner to help them get into a better shape or make the determination that this business will not go forward. That is just one of them.

All the structures that we have been talking about have been completely changed. We have taken away more complex arrangements around equity participation and property participation for smaller players. We have simplified the fee structure. We have made the communication of it very clear. We have also delayed any changes to fees while we are doing the review process with customers. All our staff have gone through exacting training around how to deal with customers and the ethics of dealing with these issues, so there have been major changes in this.

There are no remuneration issues relating to any income for any of our staff in our restructuring operation. We have taken the learnings out of this exercise from our own reviews, but also this review, and we did not wait until the summary report came out. We have been making those changes over the last four years.



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This comes to the question of this organisation. We want this to be a great organisation. We were appalled when we saw that letter, absolutely appalled. The difference that I saw in 2014 when our team found that letter, which was written in 2009, was that we did not hide it. We did not just give it to the skilled person. We went back and said, "What consequence did this have on all those customers in those two units?" 14,000 documents were gone through to find out what happened here. Was there any difference? Did it impact those customers? That is the organisation I run. That is the difference between today and 2008 to 2013. That is why it hurts us and our organisation

Every morning, I have 70,000 people who get out and try to make this a great organisation. We are living with this history that we are trying to put right. We have done a number of things, as Howard has said. We want customers to go through this process. That is why we have written to them.

Chair: They are finding it difficult to go through, but we will come back to that in a moment.

Q164 **Rushanara Ali:** In the letter, you said it needs to be viewed in context and it was a junior member of staff who is no longer there. Sir Howard has described it as your worst nightmare, and we can all appreciate that feeling. Can you say a bit about what kind of appraisal system was in place, in terms of oversight of staff like that? What do you have in place to avoid such freelancing—if it is freelancing—happening now?

Ross McEwan: There was a process of review of every staff member back in those days, and it was supposed to be a balanced arrangement. The fact that income was in there was seen by us today as something that should not be in a review process or attributed to any area or individual. Those are the changes that we have been making to that process to make sure that there are not the conflicts that were quite evident in this report. The conflicts were in here. We have tried to take all those out.

Rushanara Ali: In that case, nobody else picked it up in appraisals or in any regular oversight by managers at the time. You did not find any evidence of that.

Ross McEwan: Not that I am aware of. They would have gone through a process in those days, but I am not aware of any of that.

Rushanara Ali: You are confident that, going forward, you have safeguards in place for that not to happen; you have middle managers who can pick up on these matters, so that these kinds of memos and this sort of response do not happen.

Ross McEwan: To the best of my knowledge, we have made dramatic changes to the way this operates, but I run a large town/small city of 71,000 people. It is the ability to pick that up quickly, and have a culture that is open and at the same time challenging, so that when we see those



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things coming out our staff say, "Hey, this is inappropriate". That is the culture we are building. Can I guarantee you? No, I cannot.

Q165 **Catherine McKinnell:** Is it the same staff retrained or have you had significant turnover since?

Chair: We are going to come on to that in a moment.

Ross McEwan: There have been significant changes in the people who run it and are operating within it.

Q166 **Charlie Elphicke:** Mr McEwan, you have come in after all this business to clean up this terrible mess, have you not?

Ross McEwan: Yes, I joined the organisation in 2012 to take over the retail business, and at the end of 2013 to run the full organisation.

Q167 **Charlie Elphicke:** Who do you think is ultimately accountable for all the failings of behaviour in GRG, in how they treated small businesses?

Ross McEwan: It has to be the senior executive of that operation who takes the accountability.

Q168 **Charlie Elphicke:** How many people have been subject to internal disciplinary action as a result of conduct?

Ross McEwan: We have a number of people whose pay and long-term pay has been suspended while these reviews go on and while the FCA does its review.

Q169 **Charlie Elphicke:** Are you aware of any circumstances where any national auditing practice has warned RBS against the strategies being employed by RBS GRG?

Ross McEwan: I would have to come back to you. I am not aware, but I would not like to mislead on that. I would have to come back to you on that.

Charlie Elphicke: You are not aware.

Ross McEwan: I am personally not aware, but I would have to come back to you.

Chair: You can write to the Committee.

Ross McEwan: We can write to the Committee on that. Thank you.

Q170 **Charlie Elphicke:** Are you aware of any national audit practices warning about matters that are potentially crimes that were perhaps being committed by officers of GRG?

Ross McEwan: Again, I would have to come back to you, because I do not want to mislead the Committee.

Sir Howard Davies: We have no current knowledge of that.



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Ross McEwan: I have no knowledge, but I would rather come back to the Committee.

Q171 **Charlie Elphicke:** I would be grateful if you could enlighten me on that. Are you aware of any gagging agreements or non-disclosure agreements—call them what you will—that GRG entered into with its customers, so as to limit third-party knowledge of the strategies that had been employed?

Ross McEwan: There would have been cases where confidentiality agreements were entered into by both parties on settlement.

Q172 **Charlie Elphicke:** You come in as a new broom to clean it all up. You have given a very public apology on the whole matter to do with GRG practices during this period. Would you be prepared to free parties from any non-disclosure agreements or gagging agreements, so that they can speak out, tell the truth and be a witness to what happened?

Ross McEwan: My view on this is, if they have a difficulty that comes through our complaints process, I would like to see if they have problems with what happened. There are commercial arrangements put in place here between parties, and we should honour those. If they have major concerns with any of the aspects of it, I would like to see those through the complaints process, so they are recorded.

Q173 **Charlie Elphicke:** You are telling us you are the new broom in RBS, coming to clean it up and bring it all to light. Why do you need these non-disclosure agreements any more?

Ross McEwan: These were settlement agreements with parties. I am saying that, if there are concerns from parties about that, I would like to see those through the complaints process, so we can record them and see them.

Q174 **Charlie Elphicke:** Will you release people from the non-disclosure elements of those settlement agreements—yes or no?

Ross McEwan: My answer today is no, but that is—

Q175 **Charlie Elphicke:** Why?

Ross McEwan: We have confidential agreements with parties. Those should be honoured. We cannot just walk away from agreements that have been written.

Q176 **Charlie Elphicke:** No, you can allow them to say what was in those agreements. Why are you trying to cover that up?

Ross McEwan: I have just said it. Put them through the complaints process, please.

Q177 **Mr Jack:** Did any of the staff you made redundant on their settlement package sign non-disclosure agreements?

Ross McEwan: I do not know the answer to that.



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Chair: Could you write to us with that? We all strongly suspect what the answer will be. Presumably your lawyers will be able to advise on that and you will be able to write to us.

Ross McEwan: I would rather advise you on that.

Q178 **Charlie Elphicke:** Given the confidential nature of many settlements entered into by the now disgraced GRG team at the time, are you prepared to personally review specific cases where this Committee, Ministers or perhaps respected industry service providers consider a full review of circumstances is warranted where that has previously been rejected?

Ross McEwan: I personally am not qualified to go through those cases. Those cases are best to go through the complaints process. I am very comfortable with the process itself. It is absolutely thorough, and we have an independent party sitting on the top of it to judge that as well. He has made suggestions about how it should run, so that is the best place for them, as opposed to me. If you have any cases, I am very happy for those to go through the complaints process.

Q179 **Charlie Elphicke:** Can you advise how much progress has been made on correcting the wrongs of the past and explaining why RBS has not chosen to review the treatment of larger customer accounts and their complaints?

Ross McEwan: The situation we had here was around SME customers, and that was the group that deserved the review to see if things went wrong. Other customer groupings above this are very large corporates and have the ability to stand for themselves. Most of the parties beyond this will have had a CEO and a CFO, and been able to take their own advice. This is the group that was the most vulnerable.

Q180 **Charlie Elphicke:** I have a case here, mentioned earlier, of a man who was doing a development on his farm in Buckinghamshire. "A senior manager involved in my case ended up buying the barn that my wife and family were supposed to retain. A good friend of his told me that he had been eyeing it up for some time". Do you think that is acceptable?

Ross McEwan: I would like to see that case, because I would like to see anywhere you think there is a conflict—

Q181 **Mr Jack:** We can give it to you. He sent it to all of us this morning.

Ross McEwan: Yes, I heard this when you were talking to Mr Boorman and I am very interested to have a review of that case.

Q182 **Charlie Elphicke:** If what he says is true, do you think that was a significant and worrying conflict of interest?

Ross McEwan: I would like to see the circumstances.

Q183 **Charlie Elphicke:** Finally, where customers say they have been forced into signing agreements where they cannot say what happened, why is it



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that you will not release them from the non-disclosure aspects, so they can tell the truth and be a witness to what happened?

Ross McEwan: As I have said, put them through the complaints process. You are starting to—

Q184 **Charlie Elphicke:** No, that is not answering the question. Why will you not release them from the non-disclosure?

Ross McEwan: We have legal documents with these people.

Q185 **Charlie Elphicke:** Why not? You have not explained why not. Why can you not tell the truth?

Ross McEwan: You are not going to get a different answer from me, sorry.

Q186 **Chair:** We are going to come on and find out exactly why they will not go through the complaints process. I want to ask you one other thing. Mr Jack has just handed you an email. This Committee as individual members has been bombarded, both via social media and via emails, with accounts from customers, as have all the MPs who spoke in the debate, as I suspect have all MPs on behalf of their constituents. How do both of you read individual cases and emails? Do you see those emails? Do you open the letters, or accounts that people have written? Do your offices give them to you? Presumably if they have written to us they have written to both of you too.

Ross McEwan: I see a number of those. I also see a number of the files and ask for a number of files, so that I can have a look at what is coming through to make sure that the process that we have is working properly.

Q187 **Chair:** What do you feel when you see those cases?

Ross McEwan: Every one of them is a completely individual case. We get hit with certain amounts of detail where, on the face of it, you say, "My goodness, that is horrific". They all need to be looked at in a lot more detail, and that is why I sincerely say the complaints process is there so that they can be looked at in detail.

Q188 **Chair:** Sir Howard, how many of these emails and letters do you read?

Sir Howard Davies: I see a certain number of them, but what is perhaps more important is that, since the Tomlinson report, then the Andrew Large report and the Clifford Chance report appeared, the board has a board oversight committee for GRG, which has met I believe now 20 times. This was set up by my predecessor. It is not chaired by me. It is chaired by the chair of our audit committee.

It went through a large number of individual cases with the assistance of insolvency specialists, accountants, et cetera, to look at the way in which these cases had been handled. Its conclusion from that was rather similar in a way to the conclusions of the 166. There were fewer of those



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cases where we felt, on the basis of that advice, people had been badly handled, but there undoubtedly were some. We felt that the ones that were most obviously mistaken in terms of the way the bank had handled it were the ones that related to complex fees and complex charging structures.

That informed our decision to work up a complaints scheme. As we have perhaps not mentioned, as part of the complaints scheme there is an automatic refund of fees in these areas, so we are not asking people even to complain about those. We are just saying, "We will repay you", and we have made offers of £115 million for those. That is what we felt.

When you look at individual cases, as Ross has said, some of them seem very difficult and difficult to justify, and those cases are going through the complaints scheme. In other cases, you find other facts and, when you look at both sides of the argument and the facts that the relationship manager brings forward, you take a slightly different view, but that is in the nature of individual cases.

Chair: We have heard a lot about the complaints process. I may come back to exactly whom refunds get paid to in a moment.

Q189 **Wes Streeting:** The complaints process has been used as a crutch throughout much of your evidence this morning. "Do not worry, because the complaints process covers it" is the gist of it, but the complaints process does not entirely cover it, does it? The complaints process and the ITP appeals process will not consider complaints that have previously been subject of full and final settlement of litigation, litigation threatened in a letter before claim, a decision by FOS and FSO or a decision of the courts.

Sir Howard, earlier you were asked if victims will get justice and redress by Mr Mann. You said there is a system in place: the complaints process. That is because you know that, for some of the victims, there will not be justice or redress, because there are enough loopholes, caveats and "get out of jail free" cards to make sure that not all victims receive the redress and the justice that they deserve.

Sir Howard Davies: I find it difficult to perceive a scheme for which we have had to provide £400 million from the bank, which is not a cap—it is an estimate of what we think this process will cost, and if it costs more it costs more—as a crutch. This was a difficult decision made by the board. We have to weigh up the cases brought to us by customers, and we have to weigh up our obligations to shareholders, 70% of whom are British taxpayers, to determine what is right and appropriate, given our assessment of the kinds of cases that are brought to us. If you regard it as a crutch, I do not really quite see that analogy.

As far as what you say about the eligibility is concerned, if a case has been settled in the courts, it is difficult to go over that. Similarly, if it has been settled by an independent person in the form of the ombudsman



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where that has been appropriate, to reopen that would be rather peculiar with our own complaints mechanism.

Ross McEwan: If the outworking of our process is a result that the customer does not like, it is to the courts that they can go. Where the court has had one, two or three bites at it and determined against the customer, for them to come back through a process that we have put in place seems a bit strange, because the process goes through our complaints process to a High Court judge, and then, if they are not comfortable, they can go forward. That is not strange at all.

Q190 **Wes Streeting:** The reason I started off on this line of questioning was because, in response to Mr Elphicke, that was the assurance that was given: "Do not worry; it is the complaints process". I have just given examples of why that does not quite stack up.

Ross McEwan: Mr Streeting, sorry, if it has gone through a complaints process and then gone to the court, if the court has already seen it, in some cases, three times and ruled against the customer on three occasions, why would it come back through the process?

Q191 **Wes Streeting:** I am asking because that was the response given to Mr Elphicke. We can knock that reply down, because that does not stack up. Let me go on to the issue of consequential loss. Presumably you will not find it controversial to agree that consequential loss often exceeds direct loss—correct?

Ross McEwan: It can.

Q192 **Wes Streeting:** Great. Given its importance, why is this part of the scheme not being overseen by an independent third party?

Ross McEwan: When we had the conversation with the FCA and the third party, the third party did not believe that they were the appropriate or right person to do consequential loss. We need to understand that these are incredibly complex cases when you get into consequential loss, and in most cases they need to be dealt with by the courts. If we can find a solution as we go through the complaints process, that is fine, but if we cannot the independent third party said himself he did not believe he was qualified to deal with those, and should not and would not.

Q193 **Wes Streeting:** The independent third party may not think that this is something that they want to do. My question was about an independent third party. It is all very well saying this will end up in court. I am sure that is not a problem for RBS and your team of lawyers, but for people seeking justice and redress there are significant financial risks incurred in taking you to court. People may not be able to do that, particularly if they have already been cleaned out by the grubby practices of GRG. Courts may well work for you, but they are not going to work very well for people who are already people pretty badly off because of what has happened to them as a result of your scheme.



My question would be: for consequential loss, what are you now going to do to make sure that some independence is brought to bear on that part of what we are talking about today, in order to avoid victims of GRG—victims of your bank—having to take up legal redress through the courts?

Sir Howard Davies: The approach on consequential loss, which, as I say, the FCA has regarded as appropriate, is that, if the independent third party rules that the bank's actions delivered material distress in this case, the bank has said that it will fund advice from an independent loss adjuster to the individual, to try to assess what that consequential loss might have been. In the light of that, we will consider making a payment. If the individual does not accept that view, it is open to them finally to go to the courts, but that is the way that the process will work.

Q194 **Wes Streeting:** I know how the process works. That is why I am asking the question, because I am not satisfied with the process and I do not think victims ought to be. There is still time to change your arrangements, so that they can be overseen by an independent third party. Will you commit to doing so? It seems to me at the moment, even with the assurance you have just given of some independence in the valuation aspect, we are still having to place some trust in RBS to do the right thing. "Do the right thing" was conveniently forgotten earlier in the session, when it came to a simple question about the four principles.

I am afraid to say that so much of what we are discussing here is about the culture of the bank: not just historic culture, but culture now. The responses to Ms Ali's simple and straightforward questions about whether or not RBS accepts the findings of a report that has already been done very thoroughly, when we heard evidence from you this morning, point to a culture that has not fundamentally changed. RBS at every single stage has had to be dragged through this process. Even when it comes to looking at the findings at the end, we still do not get simple, straightforward answers, accepting independence in the report. Why on earth should we put trust in any judgment and decent judgment for RBS to do the right thing at this stage of the process?

Sir Howard Davies: There was a question at the beginning of that about whether we would change the approach on consequential loss. At this point we do not plan to do that and, indeed, the FCA has said that our approach—

Wes Streeting: Do not hide behind the FCA.

Sir Howard Davies: It is our regulator. It is appropriate for us to take its views into account.

Wes Streeting: I am asking you to do the right thing. Let us move on to culture.

Sir Howard Davies: That is my answer there. As for the culture point, we do believe that we have made significant changes in the culture of the organisation through a whole variety of measures, which Ross has referred to. I have to emphasise that we are dealing with the



consequences of actions taken at a different time under different management. I am sorry if we have not been able to convince you this morning. We have tried as hard as we can to convince you, but I can only assert that, from the board's point of view, we believe that there has been a significant cultural change in this organisation already.

Q195 **Wes Streeting:** I have a couple of final questions on process, then. Most small businesses in GRG either entered insolvency or stayed within RBS's restructuring function, so redress payments in these cases would go back to the bank or other creditors, would they not?

Ross McEwan: We have said on the fee structure they go back to the bank or whoever in the insolvency process was looking after it. Any other claims or parts of claims would look to go back to the company itself, and we are open to that. The fee piece did go back to either the bank if the money was owing or, if it was in insolvency, to the party that was looking after it. If there was any other claim beyond that, we were happy for that to be looked at going back to the customer.

Q196 **Wes Streeting:** Of the population of potentially eligible complainants, how many does this apply to?

Ross McEwan: There are about 6,500—

Wes Streeting: We are talking about small businesses that either entered insolvency or stayed within RBS's restructuring function.

Ross McEwan: I do not have that number. I would have to get that back to you.

Wes Streeting: We would like you to write to us on that please.

Ross McEwan: It would be around 34%, because that was the number that the FCA looked at where, as they came in, they were in an insolvent position. Our latest stats show it is about 41% of those up until today, so it is somewhere between 34% and 41%.

Q197 **Wes Streeting:** Coming back to my point about justice and redress, is it not a failure of the complaints scheme that it cannot make payments to the very individuals who might have been most seriously affected by GRG's actions because their businesses have been pushed into insolvency? You can see how the money flows around the system, it seems, to everyone other than the people who have been completely done over by GRG.

Ross McEwan: It depends on the outworkings of the review as to where that money should go, because for a number of these businesses, as we have seen here in the report, the financial distress was not an RBS issue. The businesses themselves were having difficulty. As I have just said, the fee structure goes one way, but we have been open to making any money through the complaints process go to the individuals. There is also insolvency practice and law that we have to abide by here.



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Chair: To a person who lost their house, their business and in some cases their sanity—

Mr Jack: Or their life. Some people took their lives.

Q198 **Chair:** Exactly. Somebody has lost a major asset; they have nothing. That has happened to many people. The money really should go back to them. It is their lives that have been completely steamrolled by GRG and RBS.

Ross McEwan: If the complaints process showed that the situation was that it should have gone somewhere else, other than the fee piece, we are looking to see whether we can get it back to the customer. We have already stated that.

Chair: I had a constituent who did not even know about the complaints process until he sat in my constituency surgery and I told him about it.

Ross McEwan: We have done full-page advertising. We have gone out to 60,000 accounts and 6,500 customers. We have gone out to—

Chair: He cannot be a customer because he lost his business.

Ross McEwan: We did our best to manage that.

Chair: I can assure you that he is not going to be opening an account with RBS anytime soon.

Ross McEwan: That is why we have gone out with the advertising as well, a full page, to try to get to these customers or ex-customers.

Q199 **Wes Streeting:** I have a final question around the process. In February 2017, RBS changed the principles governing the complaints process adding to paragraph 4.7 that, "Any offer made by the Bank will lapse immediately upon any appeal against the decision being made to the independent third party". Do you agree that this might discourage appeals on the basis that customers may worry they will get a less favourable offer if they go to appeal? Why have you designed this disincentive to appeal into your process?

Ross McEwan: The appeal process there is where they are just not comfortable with what they are being offered. It is up to them to take it.

Wes Streeting: They appeal and then the offer is dropped.

Sir Howard Davies: I would be prepared to say, with the benefit of advice perhaps, that I cannot see that we would withdraw the offer having made it. This is only if people win.

Wes Streeting: I am just reading from your own principles.

Sir Howard Davies: Mr Streeting, I am very happy to look at it, but I would be very astonished if there was any question—

Chair: Could you write to us, please, and say whether that principle has been accurately recorded or not?



Sir Howard Davies: Yes.

Wes Streeting: You can watch any courtroom drama on Netflix and you will see the plea bargaining behind the scenes, where some victim has to decide whether or not to leave it to the jury, in this case the independent third party, or settle with the offer on the table from the prosecutor.

Sir Howard Davies: That is not the interpretation that I would put on it.

Wes Streeting: Great. Let us try to clear that up and hopefully you will have some good news to write back to us with.

Q200 **Stewart Hosie:** Mr McEwan, following the publication of the FCA summary on 23 October, you said in relation to GRG being replaced by RBS Restructuring, "To give greater clarity, the bank's restructuring function has a single clear purpose: to protect the bank's capital". Is part of the reform that has been put in place simply to make explicit RBS's commercial objective, to de-emphasise or remove what any layperson would consider a turnaround function?

Ross McEwan: That lines up with the group that works through for the industry what the insolvency practice and restructuring operations should have. That is what we picked up from that group, the overarching body, the Institute for Turnaround. That is what it described as the objective for a restructuring unit and that is what we picked up on. We are happy to send you a copy of that as well.

Q201 **Stewart Hosie:** You described earlier in the hearing—it has been said many times—that GRG had at least nominally twin objectives. What we have in place now is an understanding that would prevent customers from being led to believe that RBS will do what it can to turn them around, but what you have now in RBS Restructuring will not necessarily lead to better or different outcomes for a customer than GRG did, will it?

Sir Howard Davies: Sorry I was shoving around paper. I was listening to your question. The Institute for Turnaround is the industry body that tries to establish good practice in this area. We have incorporated the statement of principles that it has produced for what it refers to as business support units. That says, "The primary focus of business support units is to protect the bank's capital by working consensually with customers to promote and support viable recovery strategies". That is the objective, so it encompasses your point.

Q202 **Stewart Hosie:** Indeed, and I have the version of the words that were said on 30 October 2017. I am not disputing that there is a big caveat at the end. The key bit of that sentence says, "To give greater clarity, the bank's restructuring function has a single clear purpose". Yes, it will do it in a number of ways, but I am just trying to make sure there is absolutely no dubiety any more. There are no twin objectives. There is no helping the bank and trying to help the customer. It is about preserving bank capital. If it can be done by saving a business, that is well and good. If it cannot, it does not matter, because the objective is now single and clear.



Ross McEwan: Mr Hosie, can I just raise an issue here? There is no incentive for a bank to not do the right thing here with customers, because we end up wearing the losses and, therefore, the hit to our capital if we do the wrong thing. If the right thing is to help the customer and get that business back into a viable shape again, by putting more lending into it or restructuring in some shape or form, that is in everybody's interest, including the customer and the bank. If the situation is that that business is thought to be not a viable business in the short term or long term, it is not in the bank's interest, which is our first one, to put more capital into it.

Q203 **Stewart Hosie:** I understand that. In normal times, that would be a normal and rational banking decision. But, as you know and, Sir Howard, you know, and as we heard in the debate a week or so ago there are still too many cases in every constituency in the country where businesses will say, "They did not help me turn around, which could have helped the bank. Rather, they simply pulled the plug". I am not going to go over that again, but there is a chasm between what might be a reasonable commercial decision and the actuality in the minds of constituents, businesses and Members of Parliament.

Ross McEwan: You are right.

Q204 **Stewart Hosie:** Let me move on. When GRG was shut down in August 2014, you appointed the former head of GRG UK, Laura Barlow, as the head of RBS's new restructuring function. Does that appointment not rather undermine the claim made in your letter to the Chair that the culture, structure and the way RBS operates today have changed fundamentally since the days of GRG?

Ross McEwan: No. Laura Barlow is a fantastic leader of high integrity and is doing a sensational job of turning this business operation around. I have full confidence in her, the job that she has done and the changes that she has made to this business. This is a tough job. This is probably one of the toughest jobs in the bank. When things are not going right for customers, they are certainly at that point not going well for the bank. Laura is a superior executive and doing a great job of turning this business around.

Stewart Hosie: She is still in post.

Ross McEwan: Yes, she is.

Q205 **Stewart Hosie:** Excluding her as an individual, what proportion of the staff at a senior manager grade and above at RBS Restructuring previously worked at GRG?

Ross McEwan: To my understanding, there are only two, including the head of restructuring.

Q206 **Stewart Hosie:** You are convinced that there has been a fundamental change to the culture within that.



Ross McEwan: Yes, I am.

Q207 **Stewart Hosie:** Sir Howard, GRG has been wound up, but nothing has changed in terms of the regulatory protections offered to small businesses. It is the case, is it not, that in legal terms small business borrowers are in no better a position than they were before? A GRG or equivalent could happen again. We are simply being asked to take it on trust that RBS has changed its ways, because there is precisely no additional statutory or regulatory cover for small businesses.

Sir Howard Davies: Yes, Mr Hosie, that is true. The report makes the point several times that this is largely an unregulated activity. That is part of the reason why there can be disagreements between different people looking at the same cases, because there is no regulatory rulebook you can look at and say, "How should this have been done?" It is not set out. The 166 report largely judged RBS against the standards that we had set out for treating customers fairly, et cetera. It is outwith the regulatory perimeter.

This was something that I was quite familiar with, because I was chairman of the FSA when the Financial Services and Markets Act was put in place in 2000. Consideration was given to this at the time. At the time, the judgment made by the Government was that to paint small business banking with a regulatory paintbrush might make provision of services more costly, make might the whole market seize up, because the regulatory controls around know your customer, treating customers fairly and all that would impede the small business market. A decision was made at that time, which still remains the case, that small business lending should not be part of the regulated activity.

Given what happened with us and to some extent with other banks as well, but I am not excusing RBS in this case, this has been looked at again. The latest proposal from the FCA is that the FOS ombudsman scheme should be extended to cover smaller businesses, which is not in itself erecting a regulatory framework, but the FOS's case law would over time give guidance to banks as to how they should treat small business customers, because clearly they would not want to have their decisions regularly overturned by the FOS.

That is probably the most practical way of bringing some greater certainty to how small businesses should be dealt with, which probably would be overall helpful to the market, but that is subject to consultation at the moment. We will be responding to that consultation, but that is the way I would see it.

Q208 **Stewart Hosie:** You said, and you are right, that there is no regulatory list you can look through. You make the point that the FOS case law could expand, so that banks would understand how to treat small customers. Without regulation right now, however, the FCA will not even look at a mis-selling case, even when there is *carte blanche prima facie* evidence of mis-selling. A non-sophisticated investor was sold a



sophisticated product. It is clearly mis-sold, but the FCA will not touch that with a bargepole. Let me ask two questions. Have the bank not published a code or a statement of ethical standards about how RBS should treat their small customers? Why should we not bring that sort of lending into the regulatory framework, so that at the very least if someone is mis-sold they have a legal basis for a complaint?

Sir Howard Davies: It is not quite right that the FCA does not deal with mis-selling at all, because the interest rate swap exercise was effectively a mis-selling case and it did an industry-wide review.

Q209 **Stewart Hosie:** There was no provision for a customer to go to the FCA and say to bank X, Y or Z, "I have been mis-sold". "Sorry, it is not regulated. We cannot touch it". It was a review.

Sir Howard Davies: I agree with you. The industry has tried to set out good practice: the Institute of Turnaround practice that we have referred to. We follow that and we put ourselves under that. This is not me answering as chairman of RBS, but you say, "Why not put it into a regulatory framework?" The difficulty is to work out precisely what regulatory framework you put it under, because with a retail customer, if you are going to lend to somebody, you look at affordability. If you came to us for a mortgage, we would look at your salary and your monthly outgoings, and we would make a decision as to how much we would be prepared to lend to you.

If you paint that kind of regulation on small businesses, the risk is that you effectively constrain small business lending to quite a high degree, because you come and I say, "Mr Hosie, this might be a brilliant idea for a new business, but look at what you have earned in the last year. There is no basis on which we are going to lend you that, because that looks as though it is prohibited by the regulations". You have to be very clear as to how you define what the regulatory structure around small business lending would be.

Q210 **Stewart Hosie:** I have one final question. I understand that, but nobody is suggesting that we overlay a personal consumer set of know your customer rules on top. I would simply make one observation: you are saying that that might be difficult for reasons like affordability, but right at the very beginning, with previous witnesses, we had a discussion, which centred on the bank putting people in the GRG on the basis of non-payment of a contractual debt to anybody, not necessarily the bank. The bank itself looked at affordability when it was deciding whether to put people into GRG or not. If it was able to do that, surely to goodness it is able to include a version of that in terms of a regulatory buffer.

Sir Howard Davies: It is an interesting point.

Ross McEwan: We have been very clear. We are very happy to help with that, whether it is the FOS or a completely different arrangement through a tribunal. The experience we have unfortunately had has



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probably put us in a good position to be helpful with a process of at least starting things up.

Q211 **Chair:** I have two final questions for you. Mr McEwan, are you confident after all the reports—Tomlinson, Large, Clifford Chance and the Promontory reviews—that we have got to the bottom? You have 25 years' experience in this sector. Have we got to the bottom or have the investigators got to the bottom of what happened at GRG?

Ross McEwan: The report itself gives very clear indications of what happened here. This is not an excuse, but these are very complex cases. Every one of the 207 is very complex. The conclusions that they have come to here are pretty much a basis of what happened here. In light of what was going on in the industry at the time and probably the 10 years leading into it, this was an outworking that nobody really wanted to happen, and it did. The report itself we accept, and we accept the recommendations. We want to get on, put it right with customers and make this a great business.

Chair: Creating a culture in which there is a memo like the one we have discussed is not that complex.

Ross McEwan: It is totally unacceptable.

Q212 **Chair:** You will know that, as we discussed earlier on, one of your core values is thinking long term. One of the underlying values is: "We, RBS, do business in an open, direct and sustainable way". You will know that the Section 166 report has been leaked to various media outlets and potentially others. Will you give permission to the FCA for the whole of the Section 166 report to be published?

Sir Howard Davies: We have not been asked that.

Q213 **Chair:** I am asking you now.

Sir Howard Davies: It is not a decision for us. The FCA, in describing why it has not published, explained that it was to do with its further investigation into management individuals, and not an obstacle from the bank. From our point of view, we would not be the people objecting to the publication.

Q214 **Chair:** Will you write from today's hearing to the FCA, and copy me in, saying that you have no objection to the whole Section 166 report being published?

Sir Howard Davies: That is not its objection.

Q215 **Chair:** Forgive me, I am not asking that question. You are absolutely deliberately ignoring the point. I am asking whether RBS, Mr McEwan, you will write to the FCA and say that you have no objection to the publication of the whole report. What the FCA decides to do with that letter and how it gets itself comfortable about publication is not a matter for you, RBS, to have the final say on. I fully accept that, but will you



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ask for the whole report to be published?

Ross McEwan: Can I just go the other way for clarity? Should the FCA want to report it, we will not object.

Q216 **Chair:** Will you, therefore, write a letter in those terms to the FCA and copy me in?

Ross McEwan: We will let Andrew Bailey know that as well. Should the FCA wish to publish the full report, we will not object. It is its decision. It is its tool.

Chair: You, RBS, will have no objections if it decides to publish the whole Section 166 report.

Ross McEwan: We have not had any objection to the reports that have been put in front of any party. We had no objections. We were the ones who put the "just hit budget" email in. We put 1.5 million pages in. We put 270,000 emails in. We have had 500 of our front-line staff and 60 staff full-time on this job.

Q217 **Chair:** As a final question, following up from Charlie's point of view, if there are former members of RBS staff who are bound by some form of confidentiality or non-disclosure agreements, which would give them an excuse to say no to publication, would you agree to release those members of staff from their non-disclosure obligations?

Sir Howard Davies: Is that to do with the publication of the 166? We were not aware that that was an issue.

Ross McEwan: I was not aware that that was an issue. The issue will be the Maxwellisation process, which is not to do with us. That is to do with the FCA.

Chair: No, I understand that, but there may be those perhaps who have left RBS, in whatever circumstances, who might have signed some form of settlement agreement.

Sir Howard Davies: We agreed to write to you on that point, but I am not aware that that is anything to do with the 166 publication.

Chair: Thank you very much indeed for your time this morning.