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**Royal Bank of Scotland ('RBS'): Review of treatment of SME customers
by Global Restructuring Group ('GRG')**

This is my fifth quarterly report on my Assurance and Appeals roles in relation to the RBS GRG Complaints process.

Overall observations on RBS's Complaints Process

I remain of the view that RBS has put in place a rigorous Complaints Process. It is designed to carefully collect and consider the evidence relevant to Customers' Complaints, and to deliver fair and reasonable outcomes. As in prior quarters, I have provided feedback to RBS on what I see to be potential improvements to the process, and RBS has continued to engage with me constructively. These interventions have become more infrequent as the Complaints Process has matured.

In previous reports I have described the significant effort and time required to assess each Complaint. No two Complaints are the same, and so they require careful, individual consideration. This has led to a backlog of Complaints waiting for review.

Whilst overseeing the pace of the Complaints Process is outside of my responsibilities, I am aware that it continues to be of great interest to Customers awaiting the outcome of their Complaint. Since my last report, RBS has grown further the resources deployed in assessing and responding to Customer Complaints, enabling a substantial increase in the throughput of the Complaints Process in the first quarter of this year. The number of outcome letters issued more than doubled compared to the previous quarter. Specifically, RBS assessed 334 Complaints over the period and delivered 304 outcome letters to Customers. This compares to 215 Complaints assessed and 144 outcome letters delivered in the fourth quarter of 2017.

I previously noted that RBS had publicly committed in October last year to ensuring that the vast majority of Customers who had already submitted a Complaint would receive a response by the end of the first quarter of this year. I have observed the scale of effort undertaken by RBS in its attempt to achieve this target. Whilst the bank may have fallen short of its goal, the progress I describe above represents a substantial improvement on previous quarters.

Notwithstanding the increase in throughput, RBS shows every sign of maintaining an appropriate level of quality at every stage of the Complaints Process. I will continue to verify this through the Assurance Process.

Assurance

Achieving a statistically robust sample requires the Assurance of approximately 10% or 150 (whichever is greater) of the in-scope Complaints received by RBS. The complaints that are assured are selected at random by my team. In this respect, and as RBS's throughput has increased, my team's Assurance activities have kept pace with the Complaints Process. As of the end of this quarter, we have assured 72 Complaints at the critical Decision Committee step, representing approximately half of the required minimum Assurance sample size. We have also made progress in assuring later phases of the process, including reviewing 23 outcome letters. With the recent increase in the number of outcome letters despatched to Customers, I expect to add significantly to the number of Complaints in my Assurance sample that we will have assured end-to-end.

In Assuring the Complaints Process, I assess a sample Complaint at two levels – at each step of the Complaints Process, and, more importantly, at an overall Complaint level. A Complaint may fail Assurance at one or more steps of the Complaints Process, but still pass Assurance *overall* if the Complaint outcome was one that was reasonably open for RBS to reach.

Of the 72 Complaints observed at Decision Committee to date, only 1 Complaint has failed Assurance at the overall level – and none since my last quarterly report. As previously noted, the Complaint in question was subsequently re-heard by Decision Committee - which reached a reasonable outcome.

In a further 12 of the 72 sample Complaints assured up to the Decision Committee step, my team identified faults at individual steps of the Complaints Process that, if not corrected at later stages of the process, could have had a material impact on the overall Complaint outcome. Two of these are new since my last quarterly report. In both new cases, my team found some fault with the preparation of materials for Decision Committee. In the first, RBS identified the error during a subsequent step of the Complaints Process. In the second, although RBS did not identify and correct the error, this did not prove critical given the particular circumstances of the Complaint as I was able to conclude that the overall outcome was one that was reasonably open to RBS to reach.

13 faults out of 72 Complaints can seem like a high error rate. But set against the comprehensiveness and volume of the information required for appropriate consideration of a Complaint, and taking into account individual Complaint analyses that can run into hundreds of pages and the scope therefore for faults to occur, I am reassured that almost all faults are identified and corrected by the Bank as individual Complaints run their course.

I continue to provide RBS with detailed Assurance observations on a regular basis, and I note that the bank continues to take this feedback constructively. I am further reassured that whilst RBS has significantly increased the scale of the Complaints Process in recent months, I have observed no deterioration in the quality of output at each stage of the process. Indeed, as the bank continues to refine its Complaints Process, my team is observing a decrease in the frequency of individual step faults.

Appeals

By the end of the first quarter of 2018, I had received 75 in-scope Appeals, of which 48 were received since the start of the year. I have now sent letters communicating an Appeal outcome to 30 Customers, and I have also decided, but not yet communicated, the outcome of a further 17 Appeals. Of the 30 outcomes I have shared with Customers, I have fully or partially upheld 6 Appeals, dismissing the other 24 Appeals.

Most Appeals comprise several allegations, albeit with wide variation in the exact number. I consider the uphold rate by allegation to be a particularly helpful measure because it more accurately reflects the disposition of a Customer's Complaint. In this vein, to date I have upheld 8 out of a total of 80 in-scope allegations assessed, representing an allegation uphold rate of 10%. These data should be treated with care given the small size of the Appeal sample to date.

The allegation uphold rate does not mean that the Bank is approaching its task in a manner that merits criticism. When considering an Appeal, I conduct an independent review of the Complaint, relying on relevant source documentation gathered as part of the bank's original Complaint assessment – irrespective of whether the bank considered it or not. It is not a review of the correctness of the bank's decision. Complaints typically call for the exercise of careful judgment, and opinions may reasonably differ on the appropriate outcome given the circumstances of an individual Complaint. It is not surprising therefore that I sometimes come to a different conclusion to that reached by the bank.

For any allegation that I uphold, I then assess whether there is compensation for Direct Loss owed to the Customer as a result of RBS's actions during the relevant period. Direct Loss is defined as either sums of money paid by a Customer to RBS or a Customer's out-of-pocket costs of meeting the bank's requirements. I have awarded such financial redress in 3 of the 8 allegations upheld on Appeal amounting to £20,033, on top of which £7,674 of interest is owed. This sum excludes the value of any payments already made to appellants under the Automatic Fee Refund process covering complex fees. It also excludes any sums that may subsequently be paid to compensate Customers for Consequential Loss or as goodwill payments (both of which fall outside the scope of my role). Finally, it also reflects the fact that some fees the bank sought to charge and which I have judged to be unreasonable were not, in the event, levied by RBS – and so, although wrong in principle, no compensation for Direct Loss is due.

Unsurprisingly, the themes that I have so far observed on Appeal reflect the themes of the overall Complaints population received by RBS. Approximately 35% of allegations fall into the broad category of unfair treatment, primarily the imposition of 3rd parties (for example, an Independent Business Review) and the costs associated with these. Provision of finance and pricing each account for around 20% of the allegations considered. Of the remaining 25% of allegations, most relate to the transfer into GRG or staff behaviour. It is too early to say whether the allegations that I uphold on Appeal will reflect these overall proportions.

Each Appeal is unique, and requires me carefully to interrogate the facts in order to reach a decision. In my last quarterly report, I noted that Appeals are proving more complex to assess than I had anticipated. This remains the case. In light of this, and the increasing volume of Appeals, I envisage that the timeframe in which I am able to respond to Appeals will be a matter of months rather than weeks. I have already expanded my team to enable the scaling up of the Appeals Process, and am taking steps - including adding further capacity - in order to mitigate this issue as far as possible. However, my priority remains delivering a fair outcome to Customers, and I will not lower the quality and thoroughness of my assessment in order to achieve greater throughput.

I hope this report is helpful in setting out the key activities of the last quarter, and the progress made to date.

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