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Sir Howard Davies
Chairman, Board of Directors
The Royal Bank of Scotland
RBS Gogarburn
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5 October 2018

Dear Sir Howard,

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

I am pleased to provide you with the seventh quarterly report on my Assurance and Appeals roles in relation to the RBS GRG Complaints process. A copy of this report has also been provided to the Financial Conduct Authority.

As in previous reports, this report sets out my overall observations on the Complaints Process, as well as a more specific update on both Assurance and Appeals.

I do hope this report is helpful in informing you of my progress to date.

Yours sincerely,



Sir William Blackburne
Independent Third Party

Enclosure

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

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

Overall observations on RBS's Complaints Process

Since my last quarterly report, RBS has continued to operate a robust Complaints Process that is designed to collect and consider carefully the evidence relevant to Customers' Complaints. As I have noted in previous reports, these Complaints are complex to assess and require considerable effort and resources to do so at scale.

RBS has maintained an appropriate level of quality at each stage of the Complaints Process, with the number of Assurance issues identified declining further by comparison with previous quarters. In addition, RBS has continued to work constructively to refine its operations in areas where I have identified opportunities to do so. I will continue to verify the quality of the Complaints Process through my Assurance role.

I know that the pace of Complaint resolution is of great interest to Customers awaiting the outcome of their Complaints. The number of Outcome Letters issued to Customers in the most recent quarter was 239, against 258 in the previous quarter. I am told that activity is expected to remain at around this level until the backlog of Complaints has been addressed.

Decisions have now been communicated to Customers in relation to almost two thirds of Complaints received by RBS to date. Notwithstanding the reduction in the backlog in recent quarters, a number of Customers have been waiting for a substantial time to have their Complaints reviewed. I continue to engage with RBS on this point, and am reassured that the bank is still actively seeking ways to address those Complaints that have been outstanding for the longest period.

Assurance

My team conducts a thorough and detailed scrutiny of a sample of Complaints as they pass through each step of the RBS Complaints Process. This scrutiny is broad in scope, encompassing any interactions between the RBS Helpdesk and the Customer, the bank's subsequent interpretation and formulation of the allegations, the evidence base underpinning the assessment of the Complaint, the logic and judgment applied in arriving at a Complaint outcome, and the quality of communication to the Customer.

I assess in-sample Complaints at two levels: as they pass through each step of the 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 given the specific circumstances of the case.

Achieving a statistically robust sample requires the Assurance of approximately 10% 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 115 Complaints up to and including the critical Decision Committee step, 62 of which we have now assured to the final Outcome Letter step. This represents scrutiny of hundreds of individual allegations, across what amounts to 925 discrete steps in the Complaints Process.

Of 115 Complaints assessed so far, 113 have passed Assurance. Both of the Complaints that failed Assurance at an overall Complaint level were described in previous quarterly reports. No Complaints assured during the last quarter have failed at the overall level.

In a further 14¹ of the 115 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 the first instance, RBS made a calculation error in the course of its assessment of a Complaint that would have materially affected the outcome if left uncorrected. However, this error was identified and corrected by the bank at a later stage in the Process and therefore did not influence the final outcome. In the second instance, the bank failed to fully consider a particular allegation when dismissing it, due to the misapplication of an internal policy. However, having reviewed the case I concluded that, notwithstanding the policy error, the outcome was one that was reasonably open to RBS to reach, so the Complaint did not fail Assurance overall.

Of the 62 Complaints assured end-to-end thus far, only one has failed a step of the Complaints Process subsequent to the Decision Committee, and this was described in my last quarterly report. No Complaints assured end-to-end during the last quarter have failed at this step of the Process.

The RBS Complaints Process is a large-scale endeavour involving hundreds of people searching through vast amounts of detailed information as they execute a complex process covering an extended period. I am not surprised that my team's rigorous interrogation of the process has identified some faults. I am reassured that almost all such faults are identified and corrected by RBS itself as individual Complaints run their course. Nevertheless, 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.

¹ This figure has been reduced by 1 since my last quarterly report, following further review of one of the Assurance step faults I reported earlier this year. I have since concluded that no fault occurred.

Appeals

By the end of the third quarter of 2018, I had received 253 in-scope Appeals, of which 84 were received since my last quarterly report. I have now sent letters communicating an Appeal outcome to 92 Customers, and have also decided, but not yet communicated, the outcome of a further 29 Appeals. Of the 92 Appeal outcomes shared with Customers, I have fully or partially upheld 28 (30%) Appeals. This is consistent with the previous quarter. I have also had one Customer withdraw an Appeal after submission.

Table 1. Summary of Appeals received to date

Eligible Appeals Received ²	253	
Decisions communicated to Customers	92	
Decisions made, awaiting communication to Customers	29	
Appeals Awaiting Decision	128	
Appeals Closed ³	4	
Appeals fully or partially upheld ⁴	28 of 92	30%

As I have noted in previous reports, most Appeals comprise several allegations. I consider the uphold rate by allegation to be a better measure because it more accurately reflects the disposition of a Customer's Complaint. Across the 92 Appeal outcomes shared with Customers, I have assessed 335 allegations, of which I have upheld 37, representing an allegation uphold rate of 11%. This rate has also remained steady since the last quarter.

The themes that I have so far observed on Appeal continue to reflect the themes of the overall Complaints population received by RBS. 38% of allegations fall into the broad category of unfair treatment - primarily the imposition of 3rd parties (for example, RBS requiring the customer to undertake an Independent Business Review) and the costs associated with these. Provision of finance and pricing each account for around 20% of the allegations considered on appeal. Of the rest, most relate to the transfer into GRG or staff behaviour. I have upheld allegations relating to pricing in 19% of such Appeals; my uphold rates for all other allegation themes are lower.

Table 2. Summary of allegation outcomes communicated to Customers⁵

Allegation theme	Number of Allegations	Number upheld	Uphold rate
Transfer In/Out of GRG	38	1	3%
Pricing	73	14	19%
Valuations	7	0	0%
West Register	1	0	0%
Unfair Treatment	126	11	9%
Provision of Finance	64	8	13%
RM Behaviour	26	3	12%
Total	335	37	11%

In considering each Appeal on a *de novo* basis, I am not pronouncing on the reasonableness of the bank's determination under the Complaints Process. Each Appeal outcome requires

² Total number eligible Appeals received by the ITP. Excludes Appeals which have been remitted to the Bank due to the inclusion of new allegations

³ Number of Appeals closed for other reasons (two identified as out of scope and two withdrawn by the appellant)

⁴ Uphold rate of decisions communicated to Customers

⁵ Allegations associated with the 92 Appeal decisions communicated to Customers

detailed consideration of the allegation and often relies on a matter of careful judgement as to what constituted a reasonable action on the part of GRG at the time. This means that I may reach different conclusions to those of the bank based on my interpretation of the specific circumstances of a case. In many of the instances in which my conclusions have differed from those of RBS, my decisions have rested on a finely balanced exercise of judgement.

For any allegation that I uphold, I then assess whether there is compensation due to the customer for Direct Loss resulting from 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. Any Direct Loss I award is in addition to payments already made by the bank to Customers - either i) under the Automatic Fee Refund (AFR) scheme for complex fees, or ii) awards for Direct Loss made by RBS following the bank's consideration of the Complaint.

The compensation I award on appeal is impacted by the fact that certain 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 financial redress for Direct Loss is due. I should also point out that any award I make at this stage excludes sums that may subsequently be claimed by Customers as goodwill payments (which fall outside the scope of my role) or for Consequential Loss. With regard to the latter, I have now agreed to hear Appeals in relation to claims for Consequential Loss. The detailed process for making initial claims for Consequential Loss - and then, if appropriate, an Appeal - is still being finalised.

In the 92 Appeals for which I have already communicated my decision, payments totalling £1.4m had already been made by the bank under the AFR scheme, with further Direct Loss awards from the bank of £379,000 (excluding 8% interest). I upheld 37 allegations on appeal, awarding further financial redress for Direct Loss in 10 cases, amounting to approximately £75,000⁶ with 8% simple interest also payable on this sum.

I have previously described the highly complex nature of many of the Appeals I receive. It is not unusual for an Appeal to contain between 5-10 distinct allegations, to encompass multiple legal entities, or for the relevant events to span a five year period in which several Relationship Managers were involved. This complexity, and the ever increasing volume of Appeals, means it is taking me longer to respond to Appeals. I have scaled up my team over the last quarter in order to mitigate this issue as far as possible and I will continue to look for further process efficiencies. 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.

Sir William Blackburne
Independent Third Party

⁶ The amount of redress associated with one of the ten allegations awarded direct loss is not included in this figure as I was unable to calculate the specific loss suffered without additional information from the appellant.