

12 October 2018

Rt. Hon. Nicky Morgan MP
Chair of the Treasury Select Committee
House of Commons
Committee Office
London
SW1A 0AA

Gogarburn
Edinburgh
EH12 1HQ


www.rbs.com

Dear Chair,

Thank you for your letter of 12 September 2018 regarding the oral evidence I gave during my appearance before the Committee in January.

I fully accept your comment that the Committee expects clarity and openness from the witnesses who appear before it. I can assure you that it was never my intention to be anything less than entirely candid and open in my answers and I very much regret that the Committee considers that any of my responses fell short of the expected standard.

As I set out in my letter of 16 August 2018, I answered Mr Jack's question Q130 (*'Do you think that there has been any criminal activity within the bank by your staff?'*) in good faith and in what I understood to be the context of the hearing before the Committee, namely the allegations made against GRG in relation to its treatment of SME customers during the 2008-13 period, which had been the subject of the FCA's long-running investigation. I also gave my answer in the specific context of Mr Jack's line of questioning at that part of the hearing – summarised by Mr Jack at Q120 as *'Moving to the main business, this is regarding the findings that were serious but not widespread: the FCA conclusion...'*. Indeed, the Promontory report was specifically referenced in Mr Jack's subsequent question (Q132) about whether the bank had made any criminal notifications to the relevant authorities.

In that context, I noted that neither the Skilled Person nor the FCA had identified any criminal misconduct by any bank staff in the course of their investigations, nor was the bank aware of any police investigation relating to those matters. That being the case, I answered what I understood to be the question that Mr Jack had in mind, which was to ascertain whether we were aware of any criminality unearthed by the Skilled Person's report or the FCA in its s166 investigation of GRG.

As I am sure the Committee will appreciate, within an organisation of the size and geographical reach of RBS, which currently employs c.70,000 staff, there will unfortunately be very occasional incidents of misconduct by employees, some of which it may be appropriate to refer to the police for further investigation. However, had I considered Mr Jack's question from a broader perspective – that is, as asking more generally about whether I was aware of any incidents of criminal misconduct by staff in RBS – I accept that my response to the Committee would have been broader than the one that I gave. I apologise for that and any confusion that my answer has caused. I would like to reiterate that I did not intend in any respect to mislead the Committee.

The criminal investigation that was the subject of reports in *The Times* on 28 July 2018 relates to allegations by a customer that were first brought to our attention in May 2017. We immediately recognised the seriousness of the allegations and our Legal team commenced an internal investigation. This led to the bank referring the matter to the FCA and Police Scotland in June and July 2017 respectively. Police Scotland's investigation is still ongoing and the bank continues to fully co-operate with it. Given the ongoing police investigation, I remain constrained in the level of detail that I am able to disclose publicly about this case but, as I have previously made clear, I am willing to provide the Committee with fuller information in due course.

Building a customer focused culture

The culture of the bank is an area I feel strongly about. Changing the culture of any organisation, but particularly one as large and complex as RBS, is never simple. However, it is an area where I believe we have made good progress. The bank's long-term success depends on the creation of a healthy culture and in creating an organisation that is both safe and sound and customer-focused. The cultural rewiring of the bank started in 2012 when we set out a clear purpose for the bank – 'To serve customers well'. Alongside that purpose we redefined our organisational values; these have been consistent ever since.

We have continued to build on these foundations and, as we have made progress, we have further refined our specific goals in relation to culture and risk. Indeed, in the last 12 months our aspirations for the future and embracing new ways of working have really come to the forefront as we resolve past issues. Our most recent colleague survey, *Our View*, reported the highest engagement levels in ten years.

We are also building a more inclusive and transparent culture where everyone is encouraged to bring the best of themselves to work. We are being recognised externally for the work we are doing, not only on gender, but also on diversity and inclusion in race, disability, LGBT and for working families. Underpinning this we are having far more open conversations about sensitive issues in a way we have never had before.

The 2018 BSB survey results show continued progress in culture, historically and against our peers. Compared to all banks taking part in the survey, we were in the second quartile across all categories (last year we were spread between third and second quartiles). Compared to our large bank peers we are now top quartile in three categories and second quartile in the remainder. The Board has discussed both of the previous BSB Annual Reports and it has received a presentation from the BSB. The BSB Annual Report for 2018 will also be discussed in detail at the November Board meeting and the Board's Sustainable Banking Committee takes an extremely active interest in this area. In addition, Alison Cottrell, Chief Executive of the Banking Standards Board will present to our Non-Executive Directors later this year.

The Competition and Markets Authority (CMA) service quality survey also showed that we have more work to do in order to improve our service standards and deliver a better experience for our customers. That is why we are continuing to focus on building a customer obsessed culture and initiatives like our closed loop feedback programme allow us to listen, learn and act on customer feedback far more effectively. This is underpinned by our continued investment in improving the products and services we offer such as the UK's first paperless mortgage or ESME, our digital lending platform for SMEs, all of which are helping us deliver better customer service.

From Global Restructuring Group ('GRG') to RBS Restructuring

The Restructuring mandate, operating model and culture have changed considerably in recent years. Since the period under review by the Skilled Person (2008 – 2013), there has been a significant transformation programme, with extensive changes to culture, policies and practices. The function was relaunched in December 2014 as "RBS Restructuring" to reflect the changes in its scope and the reduced scale of its activities. The Executive approved the revised strategy and the Board and its Committees have received regular updates on the progress of the transformation.

Changes had already been made to the way in which the bank works with customers in financial distress in response to the Sir Andrew Large report and Clifford Chance review. These and other significant changes under the transformation programme were already complete or in progress prior to receipt of the Skilled Person's report during 2016. To the extent the recommendations contained in the report remained relevant to the new Restructuring operating model, the changes made are closely aligned to the Skilled Person's recommendations. The Restructuring operating model is also fully aligned with the Institute for Turnaround's "Statement of Principles for the UK Business Support Units of Banks" and all employees in Restructuring have been fully engaged in the bank's cultural evolution and associated training programmes.

In closing, the bank unquestionably made mistakes in the past, at a time when our customers were going through what was a difficult and traumatic experience. It is right that we have apologised for those shortcomings. However, I believe that the steps we have taken, with the engagement of the FCA, in terms of the GRG Complaints Process and the Automatic Fee Refund, represent significant progress towards addressing the issues of the past. The GRG Complaints Process gives past and present customers the ability to raise complaints about their treatment whilst in GRG during the relevant period with the benefit of an appeal process overseen by an Independent Third Party, Sir William Blackburne.

I would hope that the focus on those issues, whilst very significant for those customers who were impacted by them, does not obscure the genuine transformation in the performance, structure, strategy and culture of the bank that has been the result of the hard work of tens of thousands of colleagues over nearly ten years. We are conscious of the expectations that are placed upon us by having received taxpayer support and it is my intention that, over time, we earn back the trust that we have lost.



I would be happy for any members of the Committee to spend time with me, colleagues in Restructuring and some of the teams from across the bank, so you can see how we support our customers, and by extension the UK economy, on a day to day basis.

Yours sincerely

A handwritten signature in black ink that reads 'Ross McEwan'. The signature is fluid and cursive, with a large initial 'R'.

Ross McEwan
Chief Executive