Dear Nicky,

Thank you for your letter of 27 February that set out a number of additional points for consideration. I have taken each of your points in turn.

**Consequential Loss**
The bank intends to publish detailed outcomes data on its website ([www.rbs.com/GRG](http://www.rbs.com/GRG)), which will be regularly updated. Indeed, we have already provided a number of updates and we are committed to a high degree of transparency in our reporting. The bank will ensure that it keeps the Committee updated, on quarterly basis, in parallel with our website update, of the outcomes of complaints considered under the GRG Complaints Process. This information will include data on both direct loss and, in due course, consequential loss outcomes. Additional information is, of course, provided in the quarterly reports you have already seen from the Independent Third Party, Sir William Blackburne.

You are correct that RBS has, to date, paid out approximately £1m in direct loss claims. In addition to the £115m in automatic complex fee refunds (AFR) which, in many cases, already compensates for the direct loss claimed. It is, however, difficult to predict trends, as each complaint is complex and will be determined on its own merits. Multiplying the average direct loss payment received by the first cohort of complainants by the number of total complainants is therefore not necessarily a reliable means of estimating the total direct loss payments that may be made under the scheme. We also note that, as the Skilled Person observed in its Report, “In a significant majority of cases, it was likely that the inappropriate actions did not result in material financial distress to customers.”

In relation to consequential loss claims, we note the Committee’s concerns and can confirm that the bank has published a detailed note on its website to provide further clarity and guidance to complainants. As you are aware, in order to make a claim for consequential loss, the customer’s complaint must first have been upheld. That complaint will therefore have already been through the GRG Complaints Process and will have been subject to oversight by and, if applicable, appeal to Sir William. This Process was developed after discussion with both Sir William and with the FCA who agreed that it was an appropriate step for the bank to take.

In addition, the bank has already agreed to meet the customer’s reasonable costs of a meeting with a professional loss assessor, solicitor or accountant in order to assist the customer in establishing whether they may have suffered a consequential loss and, if so, whether it is the type of loss that can be adequately evidenced.
The bank will assess all consequential loss claims received by reference to the same, established, legal principles that would be applied by a court when assessing such claims. These principles, which will no doubt also have been considered by the customer’s independent loss assessor or solicitor when advising the customer at the outset of such a claim, are summarised on the bank’s website.

We are also making it clear to customers on our website that, where their complaints have been upheld under the GRG Complaints Process, customers will not be required to demonstrate a breach of a legal duty by the bank in order to proceed with their claims for consequential loss.

In Andrew Bailey’s letter of 28 November 2017, he informed you that he had “...discussed with Sir William Blackburne the challenges of dealing with consequential loss claims. Such claims, which are often high value and introduce complex technical arguments, may need expert evidence. Being realistic the courts may be the most appropriate place to consider each side’s arguments and their evidence.”

Notwithstanding Andrew Bailey’s comment, I have, as requested, reconsidered whether it would be practicable or appropriate to build a third-party assurance and appeals process to provide oversight of the decisions reached by the bank on consequential loss. Ultimately, my view remains aligned with that of Sir William and the FCA. For numerous reasons, including the complex legal and technical nature of consequential loss claims, the nature and scale of the evidence that may accompany them, and the assessment process that would be required to test them, we do not believe that consequential loss claims are suitable for extra-judicial appeals or oversight.

This does not mean that customers have no right of recourse if they are unsuccessful in their claim for consequential loss. Ultimately, they remain free to pursue their claims through the courts, where they will receive independent judicial oversight. Additionally, customers who are eligible to refer complaints to the Financial Ombudsman Service remain free to do so, where again those complaints will be independently assessed.

Appeals
In relation to appeals, subject to a discretion clause to ensure that the appeals process is used appropriately, the GRG complaints website will be updated to reflect the position as set out by Howard Davies to the Committee.

Banking Standards Board
I understand the sentiment behind your point and, through our regular reporting cycle, and especially through our Annual Report, we will continue to provide detailed commentary around the progress we are making in changing the culture of the bank. Our most recent staff survey, Our View, reported the highest employee engagement levels in ten years. We also recently won the ‘Diverse Company of the Year’ at the National Diversity Awards. This demonstrates that the culture is continuing to improve and that we are moving in the right direction.

Schedule of Charges
My letter of 16 February 2018 set out a schedule of the different types of charges that were applied in that period. You are correct that there was no single “charging schedule” applicable during the 2008 - 2013 period; as we said there was “no mandatory pricing matrix that set out specific fees and pricing for SME customers in GRG”. The bank acknowledged in November 2016 that complex fees were not always properly communicated or explained clearly enough and therefore took the decision to implement the AFR in relation to complex fees.
IFT Principles
The Code of Conduct to which you refer was superseded by the IFT’s Principles. The IFT published a report in March 2014, which included a recommended code of conduct. Following consultation with several leading UK banks, including RBS, this was enshrined in the IFT’s "Statement of Principles for the UK 'Business Support Units of Banks” in October 2014. RBS has previously confirmed that it supports the IFT Principles and has incorporated them into its own policies and procedures in relation to SME customers in financial difficulty.

Management
As a bank we continue to embed our desired culture, values and standards, and our approach to customer treatment, including in Restructuring. Key changes relevant to training and performance objectives include:

- Restructuring staff have been fully engaged in the bank’s cultural evolution and associated training programmes, with significant focus on required behaviours in line with the bank’s values. The bank’s “Our Code” sets out the bank-wide standards of conduct and behaviour expected of all employees and emphasises that customers’ best interests should be at the heart of our decision making.

- Since the start of 2015, there have been no income budgets, targets or objectives for Restructuring as a whole or for any office, team or individual (there were no individual targets in the 2008-2014 period). Consistent with the rest of the bank, all staff in Restructuring have a balanced set of objectives that include customer, conduct and risk objectives. Objectives are cascaded down from the Chief Risk Officer. Performance is evaluated against behaviours (in line with the bank’s values) as well as outcomes achieved. The performance management process is subject to extensive oversight by HR and input and challenge from the Risk and Conduct function.

- There has been an extensive training programme for staff in Restructuring, including:

  - A new induction programme for all joiners or those returning from extended leave, which ensures all new joiners receive bespoke conduct and compliance training within two weeks of their start date.

  - Mandatory training in ethics, conduct and compliance for all Restructuring staff in 2015, reinforced by annual attestation of the Compliance Manual which incorporates Our Code, the YES check as well as a chapter on “Conduct Towards our Customers” addressing Treating Customers Fairly, communications with customers, complaints, customers in vulnerable situations and conflicts.

  - Mandatory training for all SME relationship managers on working with customers in vulnerable situations, viability assessments, use of the new, simplified pricing tools and managing customer relationships.
All material decisions impacting a customer in Restructuring, including any changes to terms and conditions of facilities, require explicit consideration and documentation of the impact on the customer and whether the proposed course of action is consistent with treating the customer fairly. In addition, such material decisions also require to be approved by the Credit function as a second line of defence, before being implemented.

Restructuring's risk culture plan has been rated as "satisfactory" (the highest rating) by the bank's Risk Culture team. Restructuring's risk culture scores are amongst the highest in the bank.

The changes made in Restructuring go beyond training/performance objectives. Many changes were already complete or in progress by the bank prior to the bank having sight of the Skilled Person's recommendations in 2016. As indicated in our letter dated 16 February 2018, there has been a significant transformation programme, with extensive changes to culture, policies and practices over the past 4 years. Restructuring now operates with a fundamentally different operating model.

Fair Treatment of Customers
The relevant principles and the intent of the FCA's six consumer outcomes are incorporated into Restructuring's Treating Customers Fairly guidance. These are set out in the Compliance Manual to which we have referred earlier in this letter, which states:

"Fair treatment of our customers is central to the behaviours and values of the bank. You must ensure that all agreements, products and services are centred around the fair treatment of our customers and that the provision of products and services to customers is undertaken fairly and meet the bank's standards and the customers' requirements and level of financial sophistication. In particular, you must:

1. Provide clear and transparent information to customers throughout the Customer Lifecycle;

2. Obtain sufficient information from the customer to enable you to determine the extent to which options are appropriate for them;

3. Ensure pricing, fees and charges are reasonable, justifiable and proportionate, transparent to customers and align to the restructuring pricing proposition; and

4. Provide transparency to the customers on the potential risks."

These principles are given effect through relevant bank-wide Policies and specific Restructuring procedures, which are subject to regular review and testing by the first, second and third lines of defence to ensure that they are implemented and embedded effectively.
In order that you and the Committee can have confidence in the extensive changes made to our Restructuring model and culture and the complaints process itself, I would therefore like to invite you to come to our offices to meet the Restructuring leadership team and to inspect the Complaints Process in operation. You may also wish to meet Sir William and his team to hear from him about their work in conducting assurance of the complaints process and in hearing complaint appeals.

Yours sincerely

Ross McEwan

Cc: Andrew Bailey, Chief Executive Office – Financial Conduct Authority