HOUSE OF LORDS

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The Select Committee on Economic Affairs

Inquiry on

THE ECONOMIC IMPLICATIONS FOR THE UNITED KINGDOM OF SCOTTISH INDEPENDENCE

Evidence Session No. 15 *Heard in Public* *Questions 757 - 793*

TUESDAY 13 NOVEMBER 2012

3.35 pm

Witnesses: Sir Philip Hampton and Stephen Boyle

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Members present

Lord Tugendhat (The Chairman)
Lord Hollick
Lord Levene of Portsoken
Lord Lipsey
Lord McFall of Alcluith
Lord Rowe-Beddoe
Lord Shipley
Lord Skidelsky
Lord Smith of Clifton

Examination of Witnesses

Sir Philip Hampton, Chairman of the Royal Bank of Scotland, and **Stephen Boyle**, of the Royal Bank of Scotland, gave evidence.

The Chairman: Sir Philip, welcome to the Economic Affairs Committee. This is the 15th public hearing of our inquiry into the economic implications for the United Kingdom of Scottish independence. Copies are available in the Room of Members' entries in the register of interests which they have been declared as relevant to the inquiry. I do not think it is in any way relevant to the inquiry, but I certainly am a client of one of your subsidiary companies in the ordinary banking relationship way. Please speak loud and clear for the webcast and the shorthand writer, and because I am hard of hearing. Would you like to begin by making an opening statement, or would you like us to go straight into questions?

Sir Philip Hampton: Thank you very much, Lord Tugendhat. I would like to make an opening statement if I may; I will read from a script. I thank you and Members of the Committee for this opportunity to give evidence. We have 14,000 members of staff in Scotland, and RBS is one of the biggest employers north of the border. We have been in business in Scotland since 1727, which makes us one of the oldest businesses in the world in continuous operation. We are very proud of our Scottish roots. We have strong connections to businesses and communities throughout Scotland and are well served by a population that have the skills and education that the bank is looking for. We have always been able to retain and recruit quality staff.

We are monitoring the independence debate but, as I and my colleagues have said many times, we are politically completely neutral. We do not support any political parties or movements. We will respond to whatever voters decide and the Governments agree. Our first job, of course, is to serve our customers and, through that, to reward our shareholders. We are looking forward to getting clarity in the coming months from both the Scottish and the Westminster Governments on the implications of a vote for independence for customers, shareholders and other stakeholders. Clearly, there are issues that we are looking at, all of which, I understand, have been discussed in the Committee before: currency, the application of financial regulation, lender of last resort arrangements and so on. There may also, and probably will, be policy issues which are determined in the aftermath of a yes vote, if that is what happens in the referendum on independence. Obviously, we cannot predict those outcomes. All I can say is that RBS as an organisation will be prepared to the best of our ability for whatever the outcome is.

The chair of our Scotland board is fully engaged with a number of organisations, such as Scottish Financial Enterprise, which are looking at issues for the financial and business sector. Members of the Scotland board and the group board have met leading politicians, including First Minister Alex Salmond and the Scottish Secretary Michael Moore. I note that both the Scottish Government and the UK Government are to produce a number of different policy papers which, of course, we will study very closely.

We are monitoring this against the backdrop of rapid and complex change in the banking sector, particularly for large, systemically important banks, of which RBS is officially one. We have the banking reform Bill, more recently the Liikanen report from Europe, changes globally—particularly in Europe and the United States—and numerous other things going on that are shaping the environment that we work in. This of course all adds to the complexity around the independence debate. However, as I say, we will continue to monitor the debate and engage. Clear plans from us, of course, will require much greater clarity on where the proposals eventually settle.

Q757 The Chairman: Thank you very much. I will ask the first question, and then we will go around. In the event of Scotland becoming an independent nation, there is a widespread expectation that the Scottish Government would opt for the use of sterling as the currency. What do you consider should be the key economic issues weighed up by the Scottish Government when making this decision? Do you think it is feasible for the Scottish Government to use sterling without the agreement of the Government of the rest of the United Kingdom?

Sir Philip Hampton: There are probably two parts to that. Of course, there are countries that use currencies that they do not themselves control. I lived in Liberia, in west Africa, for the best part of a year 30 years ago, where they used the US dollar quite freely as the currency of exchange. It was accepted by everybody in the country. I think that the same is true of Panama, which uses the US dollar. Montenegro uses the euro. None of those countries control those particular currencies. That is possible for Scotland, but I think that Scotland is probably too big and advanced an economy for that sort of arrangement—probably. If there is a proper sterling union, it is a significant question as to what underpins that currency union. Every Member of the Committee, of course, will be acutely aware of the implications of currency union and the stresses and strains it is producing in the eurozone, where you have currency union without fiscal union. Plenty of people have said that in order to keep it together you need fiscal union and then, in due course, political union. Potentially, you sort of come back on yourself.

The short answer to your question is that we do not know. We can see the issues and challenges that are there for Scotland to continue to use sterling without necessarily exercising control over that union, but we would have to see. It would be part of the independence debate and part of the changes that would eventually have to be agreed if there was a currency union in that sort of organised way between the respective Governments. We can see the challenges of it. What sort of solutions might be around that, we do not know.

Sir Philip Hampton: It is an important issue for us. As I suggested in my opening statement, lender of last resort facilities are essential for a bank to have available. I do not know, sitting here at the moment, what arrangements might be put in place in the event of an independent Scotland within some sort of currency union. That would be a matter that would have to be agreed between the two Governments and the Bank of England. From the point of view of RBS, it would be important to know that we had appropriate lender of last resort facilities for our operations.

Q758 Lord Levene of Portsoken: I am sure you must have looked, but do you have any views that you would like to express as to what sort of effect it would have on RBS were an independent Scotland to choose to continue with the pound sterling as its currency as opposed to, say, the euro?

Sir Philip Hampton: It would depend. They could use the Zambian kwacha if they really wanted to. Any currency that is accepted as a means of exchange is a de facto currency that could be used. If there is a vote for independence and the Scottish Government decide that they are going to have sterling as the currency, as I said, they would need to agree the institutional arrangements for that currency union with both the UK Government and the Bank of England. As I say, that gets you into the discussion about the fiscal harmony, and so on, that is eventually necessary to support a currency union.

Lord Levene of Portsoken: As the Bank of England is explicitly indemnified for losses by UK taxpayers, it would be difficult to work out how the taxpayers in one country could guarantee those of another.

Sir Philip Hampton: I take the point entirely, Lord Levene. What the answer is I do not know, but it is obviously an important matter for the Court of Directors of the Bank of England, the Treasury and the UK Government.

Q759 Lord Hollick: It would seem that, absent a lender of last resort, RBS, based in Scotland, would be at a severe competitive disadvantage in the marketplace.

Sir Philip Hampton: It would depend on the arrangements. We should not think that lender of last resort facilities relate only to the top company in any bank. For instance, at the time of the financial crisis in late 2008, because we have substantial operations in the United States, we used the US Federal Reserve as a lender of last resort, providing short-term liquidity when the market completely dried up. The Fed gave us lender of last resort facilities amounting to many tens of billions of dollars. That was because we had a US banking licence and we were operating in the United States. A central bank does not want its banking system to collapse, so it acts for all the banks that are operating in that country.

We have used many central banks as a lender of last resort for the many operations that we have in the many jurisdictions in which we operate. That is a key part of what central banks do in the jurisdictions that they control. Just because there might be an independent Scottish Government does not mean that all our lender of last resort facilities would disappear; they would be continued.

Lord Hollick: You would still continue to benefit from the Bank of England being the lender of last resort for your operations in London, but that would leave Scotland, which is where the holding company is, rather out on a limb.

Sir Philip Hampton: It is important, as I said at the start, for all our operations to have clear, understandable lender of last resort support in the event of another financial crisis—heaven help us, but that is a risk that banks and central banks need to be ready for. If independence and the structural changes associated with that produce a problem, there would have to be a solution.

Q760 The Chairman: Presumably, as you are 80% owned by the UK Government, were that to be the case at the point of separation, one would expect your ownership to be divided in some way between the United Kingdom Government and the Scottish Government.

Sir Philip Hampton: Possibly. I have heard that suggestion but I have not heard it officially—unless this is official.

The Chairman: No, I was seeking information.

Sir Philip Hampton: Clearly at some stage or other there is a "share of the cake" discussion to be had—a share of the cake and a share of the debt—but we have not been approached on that debate yet.

Q761 Lord Rowe-Beddoe: Sir Philip, can we move to the topic of regulation? In the event of an independent Scotland, do you envisage that financial regulation could still be conducted by the PRA as a single pan-UK body?

Sir Philip Hampton: It would be unusual for a regulator in one country to regulate the activities of a bank in another country. It is possibly unprecedented, at least in modern, advanced economies. I have had no indication of what the arrangements would be. Obviously, from our point of view, we would want regulation to be as simple and straightforward as we can have it. We are already dealing with a dazzling array of regulators in different parts of the world, so extra levels and layers of regulation would not be our first choice. Having said that, one regulator dealing with another country's regulatory affairs is also quite complicated. How this would be worked out I do not know.

Lord Rowe-Beddoe: If the PRA, for example, were to regulate Scottish institutions, it would imply, I suppose, that it would have responsibility and therefore liability.

Sir Philip Hampton: I think that there is a difference between responsibility and liability, at least technically or legally. Whether an independent Scottish Government would want to set up their own regulatory infrastructure or effectively make use of an alternative regulatory structure, and whether those other regulators would be ready to supply their services, I do not know; it is premature to guess at that.

Q762 Lord Rowe-Beddoe: What if you were able to have a wish? Would you prefer an independent regulator or a pan-UK regulator?

Sir Philip Hampton: I am not sure I have a strong preference. The overriding preference would be for simplicity, because we already have enormous complexity.

Q763 Lord Levene of Portsoken: Just a supplementary on that. You said, "If the PRA were to regulate Scottish institutions". Presumably you have given some thought to whether you would be a Scottish institution. The company is formally registered in Edinburgh. If Scotland became independent, would you have to look at where the bank was domiciled?

Sir Philip Hampton: The overriding requirement, as I said right at the outset, is to serve our customers and through that to produce the best value that we can for shareholders. We have no intention or plan to relocate from Scotland. We have been asked many times in the wake of the financial crisis whether we should change our name from the Royal Bank of Scotland and whether it is in some way or other damaged by the crisis that the bank went through. Every time we have looked at that we have said, "No. We will remain the Royal Bank of Scotland and we will remain domiciled in Scotland". We are very happy that it is a very effective place for us to do business at the moment.

If, as a result of a vote for independence, we found extra difficulties, cost pressures or whatever, we would have to think about alternatives, but we do not identify any clear rationale for making major domicile changes.

Q764 Lord McFall of Alcluith: Businesspeople have been largely absent from the debate on independence for understandable reasons—except for you, so it is nice to have you along. I was at a dinner last Friday evening with a prominent businessperson who was talking about the uncertainty created presently and in future, if there was an independence vote and negotiations were going on between the Scottish Government in the UK Government. One instance was given to me of one of the research foundations giving grants to universities. They do that on the basis of a five-year planning horizon. That was causing some concern, even at this time. Have any customers raised concerns about the future? If not, is that a possible issue for the future?

Sir Philip Hampton: I have not had that feedback from customers yet, either south or north of the border. I do not think that it has yet come into it. A lot of people expect that the vote will be a no vote—that is what the polls say, anyway—so people do not regard it as a likely issue. I am speculating, but there is probably a general expectation that the difficulties that might arise will be dealt with. Whether that is a reasonable expectation or not it is too soon to know. This is not front-of-mind yet from a customer point of view, not that I have heard.

Q765 Lord McFall of Alcluith: As a businessperson, you have operated on reasonably long planning horizons. Do you see that concept as important to business and one that business will reflect on as the time gets nearer?

Sir Philip Hampton: I am not sure that there are profound customer implications in terms of longevity of doing business. If there is an issue on a long-term horizon, it would be funding arrangements where we take money on a longer term basis. As I have said publicly a few times, domicile can be important to providers of funds. I think that was the question that Lord Hollick was underlining. Again, there is no sign of that happening yet in terms of market activities from our point of view.

Q766 Lord McFall of Alcluith: I am mindful of the situation in the US, where the changes to the functions of Fannie Mae and Freddie Mac to hold an inventory of sub-prime debt arguably changed the effectiveness of financial regulation. If there is a single financial regulator for an independent Scotland and the rest of the UK, how do you envisage the Government being kept in check so as not to pass legislation that would effectively undermine the regulations and therefore increase the risk for one country or the other?

Sir Philip Hampton: Do you mean in terms of regulatory arbitrage between Scotland and the rest of the UK?

Lord McFall of Alcluith: Yes.

Sir Philip Hampton: I do not know. In the event that we have completely independent Governments, I guess that the question of regulatory arbitrage would arise.

Lord McFall of Alcluith: Good, I thought that was your answer.

Sir Philip Hampton: Clearly it might; it does at the moment. It is all subject to single market issues around Europe. There are limits within the European Community to regulatory arbitrage.

Q767 Lord Skidelsky: Although most attention is given to the regulation of banks, in the light of events, how might the regulation of non-bank financial firms be affected by an independent Scotland? For example, in your view is it necessary that insurance companies and banks have the same regulatory body? Would it be necessary for Scottish insurance firms to be regulated by the same body as their counterparts in the rest of the UK? How do you see that situation involving in the light of independence?

Sir Philip Hampton: All these models are evolving in the UK and elsewhere. Our preference would be, because there is so much complexity and so much change in regulatory structures and regulatory drivers affecting banks and insurance companies—we own a large insurance company called Direct Line—for things just to be as uncomplicated and unchanging as they can be. We have an awful lot of fish to fry still in RBS's recovery so, as a general rule, the more recognisable and the simpler the changes, the better from our point of view.

Lord Skidelsky: In other words, independence would be bad for simplicity.

Sir Philip Hampton: Independence adds an extra potential layer of complexity to some of the issues that we address as a bank. As I said in my opening remarks, we already have the Vickers report, which we have to implement, and the Liikanen report, which we may have to implement if the European Commission drives through its proposals. We have quite complex changes still under way in the United States, where we have a substantial retail and commercial business and wholesale banking activities. We have a lot of structural change that we are addressing as a bank, which has implications for all the things we are discussing—whether it is lender of last resort facilities, which operations we have, which lines of business sit in which corporate entities within the group, and so on—so, self-evidently, we are not looking for significant further complexity and change.

Q768 Lord Skidelsky: Once you set up a new border, a lot of consequences follow which make life more difficult, I imagine.

Sir Philip Hampton: Yes, but if that is what voters decide and Governments agree, then we will get on with it.

Q769 The Chairman: I understand the points that you are making about simplicity, clarity and so forth, but if the voters decide on separation, you will then be confronted with a prolonged period of uncertainty while new arrangements are being worked out. You have been subjected to questioning here about what the new arrangements might be, but there will be a period—I do not know how long—when you will not be clear what the arrangements will be, whereas your opposite numbers based in London will be clear because there will be no change for them.

Sir Philip Hampton: True, and there may be no change for us.

The Chairman: There may not be, but there may be.

Sir Philip Hampton: I agree. Certainly, an extra level of uncertainty potentially arises as a result of domicile. That is plain.

Q770 Lord Shipley: You referred earlier, more than once, to the complexity of the independence debate. In the context of whether Scotland should continue with sterling, you said that that would be part of the independence debate. I am not clear whether you think that that debate should be before or after the referendum. Should those voting know what the likely outcome of the vote might be?

Sir Philip Hampton: It is not for me to put proposals to the voters in Scotland. As a general principle, I think it is a pretty good idea, if people are voting for something, that they know the pros and cons of what they are voting for. I should have thought that for most voters, knowing the currency implications of an independent Scotland would be a helpful—indeed, fundamental—piece of information.

Q771 Lord Shipley: Do you think that an independent Scotland, with a smaller tax base and probably a smaller borrowing capacity, would have an effective limit on the size of financial institutions that could be headquartered in Scotland, or would there be a perception that any too-big-to-fail institution would soon become an issue for the rest of the UK, so that the growth of Scottish-based banks would not in practice be constrained by independence?

Sir Philip Hampton: Yes, most of the discussion that we have had so far has been about lender of last resort, which eventually comes down to liquidity, which has been a big issue for banks in recent times. We have become massively more liquid as a bank. We had very little liquidity as we went into the financial crisis. We now have a liquidity portfolio that is £145 billion. We have been transformed in liquidity terms, and in our need for wholesale funding. Our short-term wholesale funding needs are now relatively trivial. Of course, they almost overwhelmed the bank five years ago.

Your question about too big to fail comes into equity rather than liquidity and funding. I said publicly that you tend not to get large banks in small countries, partly because of liquidity, partly because of "too big to fail"—the long-term backstop to equity. Our drive at RBS in the past three or four years—and indeed the whole drive of international regulation, particularly in the UK, because of the scale of our financial crisis—has been to break that link between the sovereign and the bank. It is still a powerful link, particularly in southern Europe and I would not pretend that it is entirely gone from the United Kingdom, but the whole direction of our strategy is to say: this bank must stand on its own feet, regardless of sovereign backing, because we do not want to have access to UK taxpayers any more to sustain our operations. I am sure that UK taxpayers, the UK Government, the Bank of England, the FSA—and, I assume, most Members of the Committee—do not want taxpayers to have to bail out banks in the future. The whole drive of what we are trying to do is to break that link and make sure that we run the business so that it does not need access to any sovereign support from whichever country.

Q772 Lord Shipley: Do you think that an independent Scotland, which could be substantially indebted after inheriting a proportion of UK government debt, will be in a position to provide financial system insurance or might the size of institutions headquartered in Scotland be limited? Do you think that as a consequence there might be some migration of firms across the border, in either direction?

Sir Philip Hampton: The key driver is to make sure that you do not need the sovereign backing. That is what we are trying to do. Scotland is a long established country and a perfectly reasonable place for us to have been domiciled throughout our entire history. We do not see any necessary reason why, in conjunction with our strategy, that should not continue to be the case, but we also need to get to the position where the sovereign link—the potential perception of markets that sovereign backing is important—is decisively broken.

Q773 Lord Lipsey: One of the points of separation is that countries can have different policies. One can imagine certain kinds of policy that could be different either side of the border. For example, in the employment field, one Government could go for the so-called living wage while the other sticks to the minimum wage; or one could have very strict unfair dismissal laws but the other could largely have got rid of them. Do you think that those differences could be fundamental enough to threaten what is effectively the single market between Scotland and England if Scotland did go for independence?

Sir Philip Hampton: Of course, devolution of some economic powers to Scotland and indeed the Welsh Assembly has produced differences, obviously, in what happens north and south of the border. The whole idea of devolution is to give more local powers. That is what has already happened and is in the process of being reinforced anyway. There clearly will be differences, which at some stage or another will impact on people's lives and business drivers. That is part of local devolution. I am assuming—I may be wrong—that over time these things will not be utterly decisive, because the overarching framework, assuming that Scotland and the UK stay within the European Union, is that we have a single market for the main products and services, including financial services. The overriding existence of the

European single market and the presence of a potentially independent Scotland and the United Kingdom within that should trump relatively smaller, effectively regional differences that might arise.

Lord Lipsey: There is also a problem of complexity for an organisation such as yours, with many people working in both countries having to take on an extra set of differences between two major countries in which you are operating.

Sir Philip Hampton: That is the trade-off. There is an argument that a focus on regional autonomy will produce extra growth or wider decision-making or whatever, versus extra complexity.

Q774 Lord Hollick: Sticking with the single market, as you know, the direction of travel in Europe is towards a single financial regulator, from both a prudential point of view and a lender of last resort point of view. Given the significant reservations that the London financial centre has about that structure, is that not likely to push an independent Scotland towards adopting the euro and becoming part of that? Looking at it from the point of view of RBS, an international bank, would that not be a more comfortable place to be?

Sir Philip Hampton: As a bank we deal with loads of currencies all over the world. It is part of what we do. It happens to be part of how we make some of our money. Subject to it being a formal currency union in sterling, which will need institutional arrangements from the Bank of England and the UK Government, if the Scottish Government decide they want to use the euro, we will adjust our business model to take account of that.

Q775 Lord Hollick: On a point of information, what proportion of the bank is in Scotland and what proportion is in the rest of the United Kingdom, particularly in London, by size of balance sheet?

Stephen Boyle: We do not know the size of the balance sheet. We can come back to you on that. We have just short of 100,000 people in the UK, of whom about 14,000 are in Scotland.

Lord Hollick: So if money follows people, you are substantially in London and the rest of the United Kingdom.

Q776 ***Sir Philip Hampton***: National Westminster Bank plc still exists. It is a wholly owned subsidiary of RBS. The National Westminster Bank has a far larger number of customers than RBS does. I think I am right in saying that the number of customers who use RBS as a name, as opposed to Coutts, the National Westminster Bank or the Citizens Bank in the United States, is something like 3% or 4%. So massively the greater part of business is not in Scotland. **Lord Hollick:** You mentioned the word "domiciled" a couple of times, which brings to the fore the question of where the substantive base of your activities would be. From an operational and strategic point of view, I guess you would have to make some judgment in the light of the settlement that came out of this as to where you really wanted to plant your flag for the major part of your business.

Sir Philip Hampton: As I say, we have no intention of changing domicile. In the list of priorities that we are working through as a bank, changing domicile would not figure prominently. We have lots of other things to do.

Q777 Lord Hollick: But it would follow that you would have to look objectively at the situation that followed a vote for independence and, having regard to the fact that the greater part of your business was in what would then be a smaller United Kingdom, you would have to adjust your strategy in the light of that.

Sir Philip Hampton: Self-evidently, if anything happened—a vote for Scottish independence or anything else—that was prejudicial to our customers or shareholders, we would have to think of an appropriate response to it. That may come through the institutional arrangements that are made between the Governments following a vote for independence. If we were not satisfied by those arrangements, we would have to think of an alternative under our own steam.

Q778 The Chairman: We keep coming back to the question of uncertainty; that is the nature of the beast. Of course, you are in a position of great uncertainty because you do not know which way the vote will go, obviously, or what an independent Scottish Government would wish to do on a number of areas. But if you are in a state of perplexity, so too are the customers of your bank outside Scotland. We are approaching the period when a Scotland-based financial institution ought at least to inform its customers outside Scotland that there is now an additional element of uncertainty in the relationship that does not apply to financial institutions that are based south of the border. I think that the requirement is strongest in the case of long-term contracts such as annuities, life assurance and mortgages. But would you not agree that your customers in the rest of the United Kingdom ought to be informed of the uncertainties about which we are talking today?

Sir Philip Hampton: There comes a point in any communication with customers, shareholders and stakeholders generally where risk factors need to be identified. I am sure we are not at that stage yet because there is just too much uncertainty. There is almost nothing to communicate because there are no proposals for anybody to consider and for any issues arising from that to be properly calibrated. Going back to the issue of where our customers sit, overwhelmingly they sit in legal entities that are separately capitalised and licensed, which are not RBS; for example, Coutts and National Westminster Bank. They are banks with their own licences and capital structures. They happen to be owned by RBS, through the ownership chain that we have, largely as a result of the takeover of NatWest in 2000, but they are banks, with their own customers, balance sheets and licences.

The Chairman: None the less, in the light of all that has happened, when people see that a bank is based in a different sovereign area—Ireland, Iceland or India or any of the other countries from which banks offer services in the United Kingdom—people who would not have thought twice about the nationality of a bank before might think twice now about whether they are dealing with a bank that is based in the same country as they are, or a bank that is based in another country or in a place that might become another country.

Sir Philip Hampton: You may be right. As I say, there is no sign of that from our customer base and it is not clear to me that there is any need for customer anxiety at the moment on the basis of the information that we have.

Q779 Lord Levene of Portsoken: As a follow-up to that question—I was thinking along the same lines as Lord Tugendhat—as we have heard, the vast majority of your customers are with subsidiary banks that are not based in Scotland. At present, one would imagine that those customers, to the extent that they know that, are not terribly fussed about it because they are all based in the UK. However, it would be a fundamental change if NatWest, which is presumably the largest in terms of customers, was no longer owned by a UK bank but by a bank in a foreign country. I understand that we are a long way away from that at the moment and it may not happen anyway. But if it did, it would be a huge issue as to how you would communicate that to your customers and what you would say to them, so I imagine you must be giving some thought to that.

Sir Philip Hampton: We have a board meeting of the National Westminster Bank every time we have a board meeting. The board of the National Westminster Bank is the same as the board of RBS. Some of it goes through quite quickly because we have already dealt with the issues on a group basis but nevertheless, the National Westminster Bank is separately licensed, separately capitalised and regulated by the FSA according to all the FSA's requirements. The topco issue is not significant for the safety and soundness of the capital structure of that bank and the security of customers.

Lord Levene of Portsoken: Absolutely, that must be the case. If in due course NatWest's topco was domiciled in a different country, presumably there would a very important issue for your customers as well to consider.

Q780 Lord Smith of Clifton: At one time the Northern Bank in Northern Ireland was a subsidiary of an Australian bank. We can probably find out whether there was any customer drain as a result of that. Having lived there, I did not see any perceptible difference among the customers of the Northern Bank as to whether or not it was owned outside the jurisdiction.

Sir Philip Hampton: I am not saying that this is a non-issue; it is just a question of how you scale it and whether there are any valid causes for concern. Banks all over the world are owned by international banks. We have many subsidiaries in many countries. People may take a different view on the UK or whatever. The same is true for many banks in many different parts of the world. One thing that is happening in the banking industry is that it is almost deglobalising; because of the financial crisis there is much more local control and much more concentration on whether a bank in a particular jurisdiction is appropriately capitalised for that jurisdiction. I have conversations with regulators in different parts of the world and they say, "We don't give two hoots about what is going on in the UK. We want to know that RBS's activities in this jurisdiction are appropriately capitalised, appropriately funded, and able to deal with customers in this jurisdiction. The rest of your international activities are not important to us". You get that in the United States, Singapore—all these jurisdictions. Big international banking groups are focusing much more on local capability, local funding and local capital adequacy, which has been driven largely by fears that regulators in one part of the world cannot necessarily rely on regulation in another part of the world. Of course, the UK has been an important part of that.

Q781 Lord McFall of Alcluith: Sir Phillip, you mentioned that 14,000 people are employed in Scotland out of 100,000. Given the glass palace that is Gogarburn, do you envisage the wind whistling through its empty corridors in years to come?

Sir Philip Hampton: I have not heard it called a glass palace before, but it is certainly an excellent facility. No, Gogarburn is a very good facility. I am not sure that we would build it quite to that standard now; it is of a remarkably high standard and was built at the peak of the profitability of the bank. I think that we would be much more careful now, but it is an excellent facility with an excellent workforce who do a thoroughly professional job. It is not clear that we could find a cheaper or better place to have that facility than in Gogarburn.

Q782 Lord McFall of Alcluith: Lastly, you mentioned apportioning the assets of the Royal Bank of Scotland between the UK and an independent Scotland. Will you save us the bother by 2014 or 2015 by having it fully integrated into the private sector so that that question is redundant?

Sir Philip Hampton: I wish that that could be the case. It is certainly our profound wish to get the Government off the share register as soon as possible. Our hope—I have said publicly that I think it is a reasonable aspiration, but it is not straightforward to do—is that we will have finished the restructuring of RBS in the next couple of years or thereabouts and will be able to present a bank that is properly restructured and can be presented to new investors in order for the Government to begin the process of selling down their shares. Whether they find the price of shares attractive at that stage will be a matter for the Government, but we hope to finish the clean-up, if you like, in the next couple of years.

Q783 Lord Smith of Clifton: Sir Philip, you alluded earlier to the island of Ireland and the two currency regimes operating. My question relates to that. Do you think that an independent Scotland would seek to introduce different corporation tax rates from the rest of the UK? Would independence mean that tax relief could not be claimed on one side of the border for losses made on the other? Would this be an important issue for financial firms which have a headquarters north of the border but carry out much of their business south of the border?

Sir Philip Hampton: These are obviously important issues. As to whether there are different taxation arrangements north and south, these are issues that will have to be thrashed out in whatever separation arrangements are made—as I said, the sharing of the cake and the sharing of the debt. I assume that agreements on things such as taxation will not be that enduring. The whole idea of independence is that you have some flexibility to change those things. They will be matters, in the end, for a Government, not for us.

Lord Smith of Clifton: As you know, it exercises business in Northern Ireland to a considerable extent, bearing in mind the competitiveness with the south, the Republic.

Sir Philip Hampton: Some of the issues arising from this can be very profound. When I was chairman of Sainsbury's, I remember that its busiest store for a long period was in Newry. It was about the 300th largest store but it was the busiest because people from the Republic were queueing for hours and hours when sterling declined. It was significantly cheaper for people to drive halfway across Ireland to get into Newry. Contiguous borders with different cost structures and different currencies will produce opportunities and costs.

Q784 Lord Levene of Portsoken: Do you think that Scottish voters in general and business leaders in particular have enough information about the economic implications of independence to make an informed choice in the referendum? What further information, if any, would be particularly helpful for your institution, the RBS, prior to the referendum?

Sir Philip Hampton: Nobody has enough information. In a sense, that is reflected in the discussion that we are having. There are lots of issues that need to be clarified, but it will be a matter primarily for the Scottish Government to decide what information is eventually put to voters. One should work on the assumption that enough information will be put to voters. It would be premature to say now in relation to RBS what specific information is needed or would be appropriate to put to voters. As I said right at the start, we are engaging with the Scottish Government on these issues. They know the issues that we have and the issues that the Committee has been addressing about currency, regulation, lender of last resort arrangements, and so on. I work on the assumption that in a democracy voters will be given all the necessary information.

Q785 Lord Levene of Portsoken: As a very large business in Scotland, the actions and work of the Scottish Government are clearly very important to you. The decision on whether Scotland should become independent or not will also be very important to you. The Scottish Government have clearly expressed their view that they believe that independence would be a good thing for Scotland. There are always two sides to every story. Does it seem to you, as a large business based in Scotland, that both sides of that argument are putting their case fully across and will it have got fully across, in your opinion, by the time it comes to the referendum?

Sir Philip Hampton: I do not know what information would be given. I just express the hope and expectation that comprehensive information will be given. Clearly, the various parties to this political debate have an objective. That is bound to be reflected in the arguments that they make but hopefully not in terms of the information that is available.

Q786 Lord Hollick: Can you tell us how Scottish business is approaching this problem of uncertainty? Do you meet together? Is there a forum where Scottish companies, large and small, meet together to share their concerns and anxieties? Or is the situation at the moment one where the yes vote can only command one quarter, so this does not look to be a real world problem?

Sir Philip Hampton: Can I ask Stephen Boyle to answer that, because he sees them more than I do?

Stephen Boyle: Thank you, Sir Philip. Certainly, for ourselves and similar companies, we work closely with and through Scottish Financial Enterprise. I know that you have heard from Owen Kelly of Scottish Financial Enterprise. The endeavour there is to obtain as much information as possible from both Governments about their views and plans as to what the future might hold under different outcomes.

Q787 Lord Hollick: Have you received assurances from both London and Scotland that the respective Governments will be in a position to answer your questions in good time for you to weigh up all the issues?

Stephen Boyle: We know that the Scottish Government intend to publish a White Paper in about a year's time, that they have appointed a fiscal commission to deliberate on issues concerning fiscal policy, and that the UK Treasury is also actively engaged in preparing a number of papers on a range of issues. We are hopeful that from both the Governments' endeavours we will secure the kind of information that we require.

Q788 The Chairman: Sir Philip, the Royal Bank of Scotland, in all its various manifestations, has its finger on the pulse on local economies throughout the United Kingdom. It is one of the things that banks such as yours really know about. We sometimes hear from people in Scotland—you mentioned this yourself earlier—that one reason for independence is that it would lead to local decision-making in relation to economic growth and that this will release energies that have hitherto been restrained. Of itself, therefore, independence will lead to an upsurge in economic activity. I suppose, mutatis mutandis, the same probably could be said of England. When you look at England, Wales, Scotland and Northern Ireland, do you feel that a separation of Scotland from the rest will lead to an upsurge in economic activity in England or in Scotland? If so, why, and if not, why not?

Sir Philip Hampton: Stephen, perhaps you could start and I will see if I can add to it.

Stephen Boyle: I have a strongly vested interest in this because I live in Scotland. Thinking about this over the long term and about what makes economies grow quickly or slowly, in the long run it is the ability to promote rapid productivity growth that does or does not give us strong economic growth. I find it difficult to understand why changes in constitutional arrangements, from the ones we have at present to, for example, independence for Scotland, would necessarily lead to faster or slower growth in the long run. If we have either the status quo or Scotland operating as a western democracy respecting property rights and the rule of law, I cannot understand why those two alternatives would yield significantly different economic outcomes in the long run.

Sir Philip Hampton: So there you are: we are economically neutral as well as politically neutral.

Q789 Lord Rowe-Beddoe: Sir Philip, a moment ago you said that your belief in democracy was that the parties that were asked to exercise their vote were properly informed. I am not putting words into your mouth but I think that is the meaning of what you said. I am sure that we all heartily agree with you. This is obviously one of the motives of this inquiry: to inform the people who are about to vote. I hope only that our democratic system will do a better job than the forthcoming election of police commissioners on Thursday.

Q790 Lord McFall of Alcluith: Perhaps we could have another look at that. In terms of the economy, I understand where you are coming from, but different structural issues exist between Scotland and England. Given that Scotland has a higher proportion in the public sector, are there particular issues for Scotland as opposed to England?

Stephen Boyle: I sometimes say to other colleagues that the part of the UK economy that most looks like the UK economy is Scotland. There can be a tendency sometimes to exaggerate what are minor differences. You are correct that the proportion of the Scottish economy accounted for by the public sector is greater than in the rest of the UK. As measured by employment, 22% to 23% of Scotland's workforce is in the public sector and in the UK as a whole it is 20% to 21%. I do not think that the structural differences are substantial.

Q791 Lord McFall of Alcluith: In essence, your answer is productivity. Are you optimistic about Scotland gaining in that productivity with a higher proportion of public sector jobs than in some other areas of the country?

Stephen Boyle: Certainly, if the public sector is very large—perhaps not North Korean large, but very much larger than in Scotland and the UK—it is quite possible that the size of the public sector could constrain growth if it crowds out private sector activity. I do not think that either Scotland or the UK is at that point yet. Therefore, the important thing is to make sure that the public sector plays its role in maximising the productivity of the economy.

Q792 Lord Hollick: You have admirably maintained a position of neutrality. Perhaps I could invite you to consider the consequences of the impending structural changes that are coming about as a result of the Vickers report. Whether it is a ring-fence, a concrete wall or total separation, if that were to apply only south of the border how would you think about that in terms of your location and where you would like to base your capital markets business?

Sir Philip Hampton: Gosh, that is a big question. We have not decided yet—because the legislation is not clear enough yet—exactly where we would draw our ring-fence within our current corporate framework; whether we have a big ring-fence or small ring-fence or something in the middle, we have not finally decided. At the moment the activities of the bank north of the border would nearly all comprise a Vickers-compliant business, because a relatively simple set of retail and commercial activities are undertaken in Scotland. We have got to learn a lot more about what Vickers really means and we have to make our fundamental decisions on which assets go where before we have a good answer to that question.

Lord Hollick: So your treasury operations are based in London?

Sir Philip Hampton: Yes.

Q793 Lord McFall of Alcluith: As a member of the banking commission—your chief executive is giving evidence presently, which people long to hear—we are hearing a number of compelling reasons for separation. Would separation not suit you better if there was an independent Scotland? It would save you the bother of ring-fencing.

Sir Philip Hampton: You mean full separation of the Scottish assets?

Lord McFall of Alcluith: Full separation of retail and investment banks.

Sir Philip Hampton: Possibly. It is premature. One possibility arising from all these proposals, whether Vickers or Liikanen, is that once you have set up completely ring-fenced subsidiaries with their own independent boards of directors, which is the essence of the Vickers proposals, that brings a whole pile of questions about governance and structure and whether or not you have a coherent group or something that really is just two businesses pushed together into a single group, if the subsidiary has really serious independence. That will be a question that all the UK's banks—indeed, all European banks—will have to address with these structural proposals. It is all right having a single group where synergies are allowed to flow, but once you are stopping synergies you wonder why you are part of the same group. That will be a big strategic issue for bank boards in the future, but I think we are a few years away from knowing that because we are a few years away from the introduction of the measures.

The Chairman: Sir Phillip, unless anybody else has any questions, we have come to the end. Thank you very much for appearing before us, and for covering the wide range of issues that we have thrown at you.

Sir Philip Hampton: Thank you very much.