

# Ross McEwan's speech to the BBA's Annual Banking Conference

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Thursday, 16 October 2014

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When I arrived in this country in 2012, it seemed that my new colleagues and peers were dealing with one scandal after another related to past performance. And while I arrived with my eyes wide open about the scale of the challenges facing RBS and this sector, I arrived with a fundamental optimism about what we could achieve in this business.

And after a year as CEO, that optimism is stronger than ever.

As I studied closely the services and products we were providing to customers - four years after the point of crisis - I realised we weren't facing a raft of unrelated problems with hundreds of different solutions to come up with. We as an industry are in fact grappling with one big problem – a failure to put the customers' interest at the heart of our business and its culture.

I have spoken to most of the Bank CEOs over the last year and I know every one of us is making changes to our businesses to put what went wrong in the past right for our customers going forward.

Today I want to talk about how we are fixing that problem at RBS.

In February I placed trust at the heart of my new strategy for our bank. The reason is obvious but is also worth repeating. We aren't trusted enough by people who rely on us to help them manage their personal and business lives...and on whom, in turn, we rely for our business success. And in banking trust is not a 'nice to have' – it is a commercial essential.

Customers want to have trust in their bank's basic competence to safely manage their money in a convenient way. They want to trust the character of the company they bank with – that the people from the branch staff to the CEO seem like people they can do business with. And they want to have trust in their bank's overall intent – that their bank only wants to succeed through the success of its customers.

Banks, like all financial institutions, rely on two very important things – the first is financial strength and the second is their reputation.

The first step in the journey for us has been to build on the important progress made in recent years in removing any remaining doubts about our fundamental strength and stability. Last year we announced plans to further reduce our assets and float our US retail bank and we are

delivering on this plan. As we announced at the end of September, we are selling the assets from our 'bad bank' more quickly and at better prices than forecast. The first tranche of Citizens has been successfully offered on the New York Stock Exchange in what was the biggest banking IPO in US history.

So, we are on our way to becoming a much stronger bank, but also quite a different bank. The days when global domination mattered more to RBS than basic customer service are well and truly over.

We are becoming a smarter and simpler bank; we are slimming down from seven divisions to three over the last six months and reducing waste, duplication and inefficiency as we do so. We will meet our target of taking one billion pounds of costs out of the bank this year and have announced plans to invest over two billion pounds in our UK personal, private and commercial customer businesses. This focus is allowing us to deliver an increase in support to customers.

In the second quarter gross lending to SME customers was up thirty eight per cent year on year and our stock of lending to mortgage customers had grown four per cent.

So, the core questions of trust in a bank; is your house in order, are you safe and strong and focused and able to support customers and the economy? RBS can now answer in the affirmative. But, we cannot expect to get credit from customers for rectifying things which shouldn't have been open to question in the first place. The chance to really make progress is in removing any doubt about what our intent is. Are we here to serve ourselves or our customers? That is the question the financial crisis and the years that followed have put in lights for our customers.

They are worried that too often we treated our relationship with them as a zero sum game – we cannot win unless they lose somehow. But, it is our ability to resolve this question of intent that gives me optimism about the real opportunity we have to re-earn the trust of our customers.

If we can decide today to compete with each other on proving that we are worthy of trust and on demonstrating that we know that long-term profits are only driven by long-term, high quality customer relationships, then we can begin to reverse the decades of reputational decline which have cost us, as an industry, so much. I am confident that as an industry that is what we all are increasingly trying to do.

I've travelled a lot around the country in recent months. And like most bankers, I meet a lot of sceptics as I do so. Too many people worry that as the economy recovers it could be easy for big banks - including RBS - to do nothing different, and yet still make good money. And of course they might be right.

Even when the financial crisis was at its most severe - with house prices crashing in the UK by twenty two per cent and unemployment soaring by sixty per cent - banks were still making an average Return on Equity of 9 per cent from their retail operations.

And our margins were broadly unaffected.

Our customers saw that most banks could still scrape by even when they were losing their homes and their businesses. And of course they saw that those who couldn't scrape by - like RBS - were bailed out at the public's expense. So the logic might go that as the economy recovers, we can all count our lucky stars that we've made it through, and just get back to business as usual.

I just don't see it that way, the people of this country don't see it that way and - if you haven't noticed - the people who regulate this market don't see it that way. If we don't change the fundamentals and improve for our customers then our business will be eaten away. That might be through greater competition, increased scrutiny from regulators, or through intensifying innovation, or a combination of all of these.

We have spent far too long arguing about regulation, defending poor customer service, and refusing to recognise that putting customers first should be treated like a fiduciary responsibility in banking. The risk is that the big banks get left behind.

But, I don't see this as a threat. I see this as an opportunity and an invitation to do things differently.

So, in February, I announced that RBS would become the first to change our competitive positioning. We are no longer competing with other banks in a number of areas. For example, we are not competing with those who offer zero per cent balance transfers on credit cards that trap over sixty per cent of your customers in spirals of ever increasing debt. We are no longer offending our loyal customers by offering teaser rates on any products to try to steal customers from you. We are no longer competing with any of you to design new products so clever that they require pages and pages of small print to even begin to understand. We are eliminating hundreds of products and working to explain all of our terms and conditions for personal and SME customers on one side of an A4 page.

We have much more work to do. One thing that as an industry we must focus on is confronting and ending our complacency around complaints. In just the first half of this year 2.5 million customer complaints were filed in UK banking. That is nothing short of appalling – any other industry would regard this as a crisis and that is the seriousness with which we should regard it. We need to consider radical options to fairly clear the backlog of complaints so we can turn our attention on tackling the drivers of complaints in the first place.

As the economic conditions improve, we also need to do more to show we are open for business. To do this, RBS and NatWest will be launching a network of eight new business accelerator hubs around the country to provide thousands of SMEs with the offer of free workspace, hands on mentoring and a free programme of advice and support.

To help businesses grow and diversify we have launched a one billion pound Small Business Fund split between eleven different areas across the UK, offering businesses new fixed rate loans with no arrangement fee. Furthermore, we have proactively contacted three hundred thousand SME customers offering over twelve billion pounds in additional funding.

By the end of the year, eighty four per cent of our business banking frontline staff will be based in or above a branch. We have three hundred and ninety business specialists and relationship managers in branches today, which will increase to four hundred and seventeen by the end of 2014.

We are speeding up lending decisions and account opening processes – with all but the most complex of lending decisions being made within five days and the majority of accounts opened in forty eight hours.

We also know that a vital part of re-earning the faith of our customers will be the way we handle key moments of trust – how we interact with them when it matters most. Customers don't have a strong sense that bankers are thinking ahead and looking out for them. But that is one of the things they should expect of us. The sector faces one of these moments of trust with our

customers as the economy recovers.

While the combination of falling unemployment and falling inflation makes calling the timing of any increase in the base rate very difficult, we know it is something very much on the minds of our customers. Recent speculation that rate rises may be pushed back will not remove worry.

In particular we know that our mortgage customers are seeing conflicting reports about the timing of interest rate rises and they are concerned that they might not be able to balance their household budgets when the day comes, even if that is some time well into the future. This anxiety comes despite the fact that like most banks RBS and NatWest have stress tested our customers' affordability in the event of a significant rise in interest rates up to seven per cent.

But, when you consider that:

- we haven't had a rate increase since 2007, and
- you consider that over half of our RBS and NatWest mortgage customers have never experienced a base rate increase with us, and
- you realise that industry wide there are over 1.5 million borrowers who bought their house after 2007 and have never experienced a rate increase,

then you can understand where this anxiety comes from.

Our customers expect us to handle this issue with transparency and with thoughtfulness. That is what our bank intends to do and what I think we as the UK banking industry need to do.

Let's use this moment to earn back some much needed trust.

So, I am signalling to our customers that in the months ahead we will listen to your concerns. We want to talk to you about the state of your finances. And we will do all we can to explain to our customers well in advance how we intend to manage rate increases for both borrowers and the UK's very patient savers. We will return to this topic in the months ahead.

RBS and NatWest will also sponsor a major piece of research into how the public access, assess, and act on information about interest rates in the economy. We know that there is a huge amount of noise and commentary around rates and their potential impact on households and businesses. And we know that many customers are left without a great deal of clarity on what might happen and what impact changes in rates may have on them. This causes understandable anxiety which adds further strain to the relationships banks have with their customers. We want to explore these issues in detail and we will share our findings with the FCA and with consumer groups for the benefit of the wider industry, before the end of the year.

Before I conclude, let me say that there will be plenty of bumps in the road ahead as RBS tries to re-earn the trust of our customers.

When I took this job just over a year ago, one eager staff member suggested a one hundred day plan during which all past problems, practices and related fines could be rooted out so that everyone could get on with a focus on better everyday customer service. Nothing would make me happier and I understand why colleagues feel that way.

But, the truth is that I need a five hundred day plan for that. I can't draw the line until we know the line will hold. We must get through a slate of conduct and litigation issues at RBS, relating to

foreign exchange, our 2012 IT problems, US mortgage backed securities, and our treatment of distressed SME customers.

And none of us have yet found a way to grapple with the great weight on our reputation - the way we pay our employees. We have already announced that short-term bonuses will no longer be paid to me or any member of my executive committee, but, I believe more work is needed to challenge the bonus culture that has done such great damage to the image and conduct of retail and commercial banking in the UK.

We cannot re-write the past as an industry, or as a bank, but we can chart a different future. We can do so by showing the public that we have not forgotten the values that lie at the heart of banking and by behaving as a bank that puts customers' interests first and seeks to earn their trust every day. And as leaders in this industry we can do that by showing our staff once again that banking is a profession that can make a valuable contribution to our communities.

I know we can do this and look forward to sharing our progress with you in the years to come.