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Sir Howard Davies
Chairman, Board of Directors
The Royal Bank of Scotland
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15 January 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 fourth 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 document 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')**

Overall observations on RBS's Complaints Process

There is no change in my opinion, set out in previous quarterly reports, that RBS has put in place a rigorous Complaints Process. It is designed to carefully collect and consider the evidence relevant to Customers' Complaints with a view to delivering fair and reasonable outcomes. I have continued to provide feedback to RBS on what I see to be potential improvements to the process, and the Bank has continued to engage constructively in our discussions.

Most complaints are complex. The combination of unique circumstances and differing financial arrangements means that no two Complaints are the same. Reaching a reasonable outcome on an individual Complaint generally requires collecting, synthesising, and considering a significant amount of information, usually spanning a long time period. It also requires input from many people drawn from across the Complaints team, including from those responsible for applying the appropriate checks and balances. This is invariably a time-consuming process.

Although my responsibilities do not embrace overseeing the speed at which the Complaints Process operates, I appreciate that its pace is of concern to many Customers. In that regard, I note that since the date of my last report, RBS has now substantially increased the output of the Complaints Process. In the fourth quarter of 2017, the RBS team assessed 218 Complaints and delivered 144 outcome letters to Customers, compared to the third quarter during which 137 Complaints were assessed and 62 outcome letters were delivered.

This increase in throughput has largely been achieved by adding more resources to all parts of the Complaints team – from the Helpdesk team that responds to initial Customer enquiries through to the Letter Writing team that lays out in some detail RBS's formal response to each Complaint. This has enabled – and, if maintained, will continue to enable – RBS to tackle the backlog of Complaints faster.

So far, this improvement in output does not appear to have resulted in any noticeable decline in quality at any stage of the process. I will of course continue to verify this through the Assurance Process (see below).

In October last year, RBS publicly committed to ensuring that the vast majority of Customers who had already submitted a Complaint would receive a response by the end of the first quarter of this year. RBS has assured me that it will add further staff to its Complaints team should it prove necessary to achieve this target.

Assurance

For our Assurance sample to remain statistically robust, my team's Assurance activities must necessarily keep pace with the Complaints Process. We are now at various stages of assuring the Complaints that we have randomly selected for Assurance so far. By year-end, we had assured 45 of these Complaints at the critical Decision Committee step. Some of the Complaints Process steps, for example Information Gathering, can be complex and time-consuming; Assuring them requires commensurate effort.

As I have noted previously, it is not part of the Assurance Process to second-guess the outcome of those Complaints selected for Assurance. Rather, I seek to satisfy myself that, overall, the outcome reached by RBS is one that was reasonably open to the Bank to reach. In this regard, it is irrelevant whether, had I been the decision-maker, the outcome is one that *I would have* reached. My view of the outcome *I would have* reached only becomes relevant should the Customer choose to Appeal against their Complaint outcome.

I continue to determine an Assurance outcome for a sample Complaint at two levels – at each step of the Complaints Process, and, more importantly, at an overall Complaint level. A Complaint may fail Assurance at one or more steps of the Complaints Process, but pass Assurance *overall* if the Complaint Outcome was one that was reasonably open to RBS to reach.

Of the sample of 45 Complaints observed at Decision Committee by year-end, I have concluded that only 1 Complaint fails Assurance at the overall level – and none since my last quarterly report. The Complaint in question has been re-heard by Decision Committee, which arrived at a reasonable outcome.

In another 10 of the 45 sample Complaints assured up to the Decision Committee step, I 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.

- In 8 of the 10 Complaints, my team found fault in the preparation of materials for Decision Committee (for example, incorrect calculations or analysis in assessing the reasonableness of pricing decisions). Five of these observations are new since my last quarterly report. In each case, RBS identified these errors during subsequent steps of the Complaints Process without my team needing to intervene – giving me some comfort that the checks and balances in the process are working as intended.
- In another 2 of the 10 Complaints, my team observed a fault at the Information Gathering stage of the Complaint Process; 1 of these observations was made since my last report. In these cases, RBS failed to search for potentially relevant emails across what I thought to be a sufficiently wide date range or for all potentially relevant individuals.

I provide RBS with detailed Assurance observations on a regular basis. Standing back, I am encouraged by the fact that, while (given the size and complexity of the task) RBS does make occasional errors at individual steps of the Complaints Process, so far all but one material error has been self-corrected by the bank – meaning that the Complaint outcomes were reasonably open for RBS to reach.

While we continue to try to make the Assurance Process as efficient as possible, there are no short-cuts in Assurance. Each Complaint is unique, so each sample Complaint must be meticulously assured at each step of the Complaints Process. This continues to represent a very significant undertaking, but one that is necessary for me to gain comfort that RBS is adhering to the agreed Complaints Process.

Appeals

By the end of 2017, I had received 27 in-scope Appeals, and had decided the outcome of 14. Since year-end, I have determined a number of other outcomes. These will be covered in my next quarterly report.

Given the small number of Appeals in 2017, I caution against reading too much into Appeals statistics at this stage. Nevertheless, of the 14 Appeals concluded by year-end, I dismissed 12, partially upheld 1 and fully upheld 1. These 14 Appeal outcomes consist of 32 in-scope allegations, of which I upheld 2.

Given the unique nature of each Complaint and Appeal, and the small number that have so far come before me, I am not yet able to distil my findings on Appeals into distinct 'themes' about the overall Appeals population. I hope to do so in my next quarterly report.

Reflecting RBS's experience of Complaints, my early impression of Appeals is that they are more complex to assess than I had originally envisaged. To provide each Appeal due consideration requires more time and effort than anticipated – both from me and from my team.

Given the significant increase in the flow of Complaint outcomes now forecast over the first quarter, assuming the current appeal rate remains constant, I expect a significant increase in Appeal volumes. This anticipated spike in volumes will challenge my ability and that of my Delegates to determine Appeals as quickly as we receive them. I expect, therefore, that I will soon have a stock of Appeals waiting to be determined. I will, of course, continue to do all I can to effectively manage this increase in volumes, while according proper consideration to each Appeal.

I have continued to enhance the Appeals Process, both in terms of the steps undertaken and the materials produced. Most notably, I have chosen to extend the deadline for submission of Appeals from 28 days to 56 days for all eligible Complainants. No Customers have been in any way disadvantaged by this decision. Those who had 'timed out' under the original 28 day deadline were given a further 56 days in which to lodge an Appeal, if they so wished. I will no doubt continue to make other improvements in the light of experience.

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
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