Scandal-hit unit at RBS ‘pressured by Treasury’

Agency wanted to sell businesses, says executive

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Derek Sach said that Treasury staff were keen to manage assets

The government pressured Royal Bank of Scotland to foreclose on business customers and acquire their properties, according to the executive who ran the bank’s disgraced restructuring unit.

Derek Sach, former head of RBS’s Global Restructuring Group, told the High Court yesterday that a Treasury agency had tried to influence many of the decisions taken by the division.

In his first public appearance in five years, Mr Sach, 71, said that the government’s asset protection agency, which insured RBS’s toxic loans after the financial crisis struck, had no interest in customers and would have preferred the bank to have “flogged” businesses to secure the government’s objectives.

Mr Sach was appearing as a witness in a legal battle between Oliver Morley, 48, a property developer, and RBS. Mr Morley, from Manchester, claims that GRG placed him under "economic duress", which resulted in the acquisition of some of his assets by West Register, the bank's property division, in 2010.

RBS says that Mr Morley's claims have no merit. The Treasury, which is not a party to the proceedings, has said that it does not comment on private litigation but that the agency had helped to safeguard the bank's stability.

Customers were told that GRG aimed to help them to improve their financial position. An investigation commissioned by the Financial Conduct Authority found that between 2008 and 2013 the division focused on extracting money from thousands of companies. Many business owners handled by the unit claim that RBS damaged their livelihoods. The asset protection agency required "every move" made by GRG's relationship managers for assets that it covered to be reported to Treasury staff, Mr Sach said, placing significant pressure on the bank. "They were quite keen, some of them, to manage the assets themselves," Mr Sach said of the agency's staff. "They thought it looked quite exciting."

He said that the agency was "quite keen on the idea of assets ending up in West Register", which acquired billions of pounds' worth of distressed customers' assets. Mr Sach said that West Register was only ever a "bidder of last resort . . . The last thing [RBS] wanted to do was own properties."

The Treasury created the asset protection agency in 2009 and oversaw it until it was wound up in 2012. The unit effectively ran a large state insurance scheme to underwrite bad assets. It covered as much as £65 billion-worth of the £80 billion of assets within GRG, including small and medium-sized companies, and the bank was contractually obliged to follow its rules.

Mr Sach said that a communication from the asset protection agency, which invited GRG to use revaluations of customers' assets to gain "influence", was a "fairly typical" example of how it tried to intervene in GRG. He told the court that he and his GRG colleagues had resisted pressure from the Treasury agency to alter the way customers were treated, claiming that the bank always preferred forbearance over foreclosure, while the agency was "at the foreclosure end of the spectrum". He said: "It did create some tensions but . . . we resisted where we thought they were getting it wrong and generally common sense and our view prevailed."

Asked whether it was in the bank's interests to foreclose on customers to clean up its balance sheet, Mr Sach said that insolvency was "always bottom of the list [of our preferences] regardless of the capital structure". Nearly one in three small businesses that went into GRG ended up in insolvency. The civil case is due to conclude next week.