

RBS excludes thousands of small businesses from compensation Financial Times

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Definition of which customers qualify differs from FCA findings



Employees leave Royal Bank of Scotland Group Plc offices in London, U.K., on Wednesday, Feb. 15, 2017.

RBS is preparing to cut more than 1 billion pounds (\$1.25 billion) of annual operating costs by eliminating jobs and closing branches as it seeks to bolster profitability, said a person with knowledge of the

Royal Bank of Scotland, the taxpayer-backed bank, has excluded potentially thousands of small businesses from a £400m compensation scheme set up in response to a long-running scandal over alleged mistreatment of customers. RBS launched the compensation scheme last year following allegations that its now defunct Global Restructuring Group mistreated 12,000 companies it was meant to help.

The allegations are the subject of a probe by the Financial Conduct Authority, which has garnered its own share of criticism over the affair after refusing to publish the results of an independent report it commissioned to look at what

happened at GRG. But RBS's definition of which customers qualify for its compensation scheme, which was set up to pay back complex or unfair fees, differs in a key respect from the definition the FCA used for GRG customers as recently as January 2016.

In 2014, when the FCA first commissioned Promontory Financial, the consultancy, to undertake the independent review, the FCA said GRG customers included those in the Specialised Relationship Management Unit, or SRM, according to a document the FCA released after a Freedom of Information request. SRM customers were also included in the FCA's official definition of GRG customers as recently as January 2016, just 10 months before RBS launched its voluntary compensation scheme.

But RBS's own definition of GRG customers for the scheme includes only a small subset of SRM customers, and the bank maintains that the whole SRM unit was never part of GRG. The bank's estimates put the number of SRM small business owners excluded from the compensation scheme at about 8,000. Another 4,500 SRM customers were allowed into the scheme because they had a credit line managed by another GRG-related unit, called the SMU, or Strategic Management Unit. GRG is one of the key legacy issues hanging over RBS as the UK government plans to reprivatise the bank, 10 years after the start of the financial crisis.

Recommended MPs threaten to force publication of critical RBS report RBS sets aside £400m to compensate small businesses Small businesses gear up for RBS legal action The 361-page Promontory Financial report into GRG was leaked this summer to the BBC, which reported that 92 per cent of viable businesses put into GRG had experienced "inappropriate action" such as unnecessary fees. Only 10 per cent of companies returned to the main bank from GRG, according to the BBC report.

The FCA is now weighing whether to launch its own enforcement action against RBS. The regulator has said it will publish a detailed summary of the Promontory report later this year, after putting out a shorter summary last November. But the Commons Treasury select committee said this week that it had instructed a heavyweight barrister and critic of the regulator to make sure that the FCA's summary is consistent with Promontory's original findings. RBS

said in a statement: “The voluntary steps we announced in November were designed to address accepted shortcomings by the bank. The population was defined in full knowledge of the scope and conclusions of Promontory’s investigation.

The FCA agreed these steps were appropriate.” The FCA said that while it approved the concept of the compensation scheme as appropriate, it was up to the bank to determine which customers qualified. The compensation scheme automatically refunds complex fees. GRG customers can also make complaints in a process overseen by William Blackburne, a retired judge.

If their complaints are upheld, customers can then be refunded for direct losses deemed to have been caused by RBS. RBS has set aside £400m to compensate GRG customers and said that nearly 3,500 customers would be refunded complex fees. So far, the bank has made offers of just over £100m. Sir William’s team has reviewed roughly 100 of the 847 complaints it has received.