OnLine Case 8.1

Strategic issues and high-street banking

During the 1990s, and following the worldwide economic recession and the ensuing bad debts, the UK high-street clearing banks changed their strategies as a response to a number of key challenges and issues.

Strategic issues

- They faced a need to switch from a position of high overheads with an extensive branch infrastructure and the associated high-risk lending (required to cover the overheads) to one where their (lower) cost base was in equilibrium with the type and volume of lower risk business that could be more readily justified.
- Information technology, exploited effectively, offered opportunities for providing new and more efficient services without sacrificing either quality or reliability. In addition, the Internet was being forecast to attract up to 10 million personal accounts by 2003.

Both of these issues implied restructuring and job losses, although there was always the possibility that once the banks had re-established strong controls and truly efficient systems they would reconsider taking higher risks again.

- The entry of new competitors, particularly linked to Internet banking (Prudential's Egg, for example) and savings accounts (the leading supermarkets).
- A prediction that many personal customers would switch emphasis from borrowing to saving as the economy strengthened. The high-street banks were not perceived to be good for savers, offering relatively low rates of interest in comparison to the building societies and PEP-linked (subsequently ISA-linked) unit trusts.
- A possibility that customers would be more willing to switch bank accounts than had generally been the case historically. The reasoning was that the Internet was making everything, including comparable interest rates, much more visible.
- Changes in capital markets were taking away some of the bank's leading corporate customers.

New strategies

- High-street banks now typically offer a wider range of financial services, which they promote aggressively, often using their extensive databases for direct-mail campaigns.
- The nature of competition between high street banks and building societies has changed as the banks have increased their presence in the mortgage market and some ex-mutual building societies have become banks.
- Attempts by certain banks to charge customers from other banks who use their 'hole-in-the-wall' automated teller machines (ATMs) – this strategy provoked considerable controversy.
- Efforts to reinforce brand names and strengthen reputations – difficult for some who faced customer resistance to branch closures.
- Stronger credit controls for more effective loan management – implying both improved information and tracking and a reduction in the number of loans.
- Computerized credit and loan assessments to link charges with risks more closely than in the past. This changed the role of individual bank managers and, for some businesses, made borrowing more difficult. Many designated business managers now offer counselling and advice rather than negotiate and track loans.
- A tighter focus on specific market segments, looking for positions of strength, rather than 'being involved in everything'. In particular, UK banks reviewed their overseas exposure –

with some of them more enthusiastic than others to grow. The Royal Bank of Scotland became heavily involved in the US, for example – a move it would later regret.
- A search for more attractive savings products in an increasingly competitive environment.
- New forms of service. Following the pioneering work of First Direct (a subsidiary of the old Midland, acquired by HSBC) other clearing banks introduced telephone banking services. The merged Halifax and Bank of Scotland Group (HBOS) started to offer Intelligent Finance banking on line. This would not have been possible without information technology.
- Mergers between banks, building societies and insurance companies to create a more comprehensive financial services corporation. The systematic amalgamation of Lloyds, TSB, Cheltenham & Gloucester and Scottish Widows is an excellent example of this – before it acquired HBOS, itself a merger between Halifax merger and the Bank of Scotland.

Of the major clearing banks a few years ago, structurally only Barclays remains roughly as it was. NatWest was acquired by Royal Bank of Scotland (and so is now nationalised), Lloyds acquired others, as we have seen, and Midland became part of HSBC (Hong Kong and Shanghai Banking Corporation). Overall the banks closed some 22% of their branches between 1995 and 2003, but in recent years some of the High Street banks have chosen to open new high street branches – they would probably argue this is a strategy of better sites and 'privileged selling locations' rather than a U-turn! But the picture is inconsistent.HBOS had more branches in 2007 than it did in 2000, but still less than 1995.Abbey National (part of the Spanish bank, Santander) has fewer than it did in 2000 but more than in 1995. RBS is the same. Many customers will now experience a very different layout and feel than in the past.

Until 2007 one bank that was opening a lage number of branches was Northern Rock – but it was expanding too quickly with high-risk mortgage lending and had to be rescued by the government. The more recent credit crunch (with banks reluctant to lend money to each other) has caused the High Street banks to re-examine a number of their strategies once again.

question: From your own experiences, what changes have you noticed in the service and the range of services offered by your bank?