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# Changing Fortunes of the Co-operative Bank

by Dr Adrian Wilkinson

This article explores the experiences of the Co-operative Bank from its beginnings to the present day. In particular, it examines the transition of the Bank from being essentially banker to the consumer Co-operative movement to becoming a fully fledged bank in its own right. It also looks at the experience of the Bank in the fast changing and increasingly competitive environment of the present day and at its attempts to find itself a niche. It suggests that the Bank has changed track from its 1970s strategy of competing with the major banks on all fronts to one of revisiting the inheritance of the movement, redefined for current times.

## 1. Early Days

The Co-operative Bank was established in 1872 under the name of *Loan and Deposit Department of the Co-operative Wholesale Society*, itself set up to supply the needs of retail Co-operatives in the UK and incorporated in 1863.

The main impetus behind the movement to establish a bank was the growth in the number of societies in the 1850s and the consequent problems relating to this. Thus Redfern recounts in *The New History of the C.W.S.*, (1938), how the treasurer of a Co-operative society in Stockport 'took up the board of the bedroom floor and hid the money as far underneath as he could reach.'

After lengthy debate as to the form and structure of a bank, it commenced business under the name of Loan and Deposit Department, legal restrictions preventing the term banking being part of its name until a consolidating and amending Industrial and Provident Societies Act removed the ban on banking by Co-operatives. The Bank hence became known as the Co-operative Wholesale Society (CWS) Bank.

## 2. Consolidation and Expansion

The Bank made steady progress in the early years although it had limited ambitions, serving largely as banker to the movement, keeping balances and making loans to Co-operatives. However, after the First World War trade union business was taken on, and the first branches were opened. The aftermath of the Second World War brought about what Richardson in *The CWS in War and Peace 1938-1976* (1977) describes as an accelerated pace of development and the Bank was particularly successful in attracting business in the public sector with local authorities.

### **3. A Bank in its own Right**

In 1971 the Board of the CWS agreed to establish the Bank as a separate legal entity under the Companies Act. Parliament passed the Co-operative Bank Act in 1971. The whole purpose was to mark out the Bank as a full member of the banking community and thus a 'real bank.' In 1972 the Bank became a member of the British Bankers Association and in 1974 became the first new member of the Clearing House for thirty years.

Ambition characterised these years - the Bank promoted itself as the third force in British banking after the London Clearing Banks and the public sector banks, competing on a wide front and acting as a thorn in the side of these Goliath banking institutions. A great deal of resources were devoted to the infrastructure necessary for a national clearing bank. During this period the bank established a reputation for innovation, particularly with the introduction of 'free banking' (commission-free banking for account-holders in credit) in 1973, but also with interest-bearing current accounts and with pioneering links with building societies.

Richardson characterises strategy in these days as an emphasis on comprehensive financial services, on a wide distribution network with 4,000 banking points (the largest in-store network in Europe) and finally on being very much a personal bank.

The Bank grew strongly in these years, albeit from a small base, reaching one million accounts by 1981 and reducing the dependence on Co-operative societies which by the mid 1980s represented only ten per cent of the Bank's deposits. These years also saw it possible to expand market share without poaching as "the unbanked" were nearly forty per cent of all adults in the UK.

### **4. The Co-operative Bank in a Cold Climate**

By the mid 1980s the context had changed dramatically, with the financial service revolution. Deregulation had removed barriers to entry, e.g. the Building Societies Act 1986 enabled building societies to offer personal banking accounts with cheque books and other facilities, and to make unsecured loans; new technology had altered the basis of competition and the consumer had become more sophisticated. There was an increase in competition both between the banks hitherto described as soporific and within the financial sector as a whole.

Bad debt abroad also led to a refocus of the major clearers on the domestic market and what one commentator referred to as a herd-like push into the retail markets. This took place alongside a slowing in the natural expansion of the traditional market with the great unbanked having become a myth. In sum,

retail banking was no longer the ugly duckling of the banking world and indeed retail stores began to show an interest in this area. Banks began to see themselves as retailers and became interested in designer banking, making banks fun places, rather than the equivalent of a dental visit.

### *New Challenges*

It was against this backcloth that the Bank's apparently successful transformation from being the banking arm of the movement to a clearing bank in its own right became threatened. While the Bank had regarded itself as an alternative force in UK banking, the concept of free banking, its main flagship or source of differentiation, was lost when the other banks introduced free banking in 1984-85. While the Bank had experienced rapid growth in the 1970s, market share began to fall in a number of areas and the Bank suffered several years of stagnant profits and low return on assets.

Furthermore cost pressures resulting from the heavy investment in infrastructure associated with the trappings of a clearing bank - a customer service centre, bullion centre, clearing house, etc.- previously disguised by strong growth, began to bite, the so-called 'creeping overheads.' One of the problems which the Bank was now facing was that the Bank's expansion in the 1970s had been achieved in years of high inflation with consequent effects on payroll costs and development and infrastructure costs. The early 1980s saw the bank hit by a windfall profit tax and losses in its consumer credit subsidiary.

In the 1980s retail banks abandoned the hitherto adopted strategy of the universal market concept, which saw competition in terms of mass production and the number of branches, and turned to a more selective positioning strategy. With the loss of free banking as a major source of differentiation, this placed the Co-operative Bank at a major competitive disadvantage because of the high awareness the other banks enjoyed through size, high street presence, and advertising expenditure. Furthermore the building societies' encroachment on traditional banking territory meant that the Bank was, in the words of one manager: '*Stuck between the Big Four and the Building societies and lost.*'

### **5. New Directions**

Bank strategy in the late 1980s began to emphasise, first, that the Bank could no longer compete across all fronts and be all things to all men; secondly that a rapid growth in the customer base was necessary to ensure long term survival; and thirdly that the Bank needed to find itself a niche or secure a long term positioning strategy.

It was clear that the Bank was not in a position to be an inovaztor because of high capital costs associated with such a strategy. Similarly cost structure was

such that it could not compete on price. However, this was not necessarily a major weakness since the financial services sector had never been very innovative and furthermore any significant differentiation in products tended to be short lived. Image and presentation were therefore of vital importance.

Clearly the Bank had to avoid being seen as a smaller version of the Big Four Banks, and did not want to pitch its tent in the middle of a battlefield of multinational banks. However, whilst it would be true to say that no differentiation would result in no survival, what form would this differentiation take?

### *"Revisiting our Inheritance"*

A new Managing Director began to point the way to new directions and suggest that the Bank ought to re-assert the philosophical approach of the Co-operative movement. Thus 'revisiting our inheritance' could help provide the differentiation the Bank sought, and was something of a reversal of policy from the 1970s when projecting itself as a bank in its own right led to some complaints that there was little Co-operative about the Bank except its name. This was not a return to the flat cap image of the past, which in some respects had hindered the Bank's efforts, but a re-interpretation of the Co-operative philosophy. The Bank could promote itself as a proponent of people's capitalism, an ethical bank in contrast to the images of the big banks tainted by association with Third World Debt, South African involvement, City scandals and huge profits.

The Bank launched an ethical savings account, introduced affinity cards supporting the RSPB and, more controversially, the Labour Party, and established Unity Trust, a trades union bank, providing half the voting stock and supplying the senior management. Unity Trust promoted employee share ownership schemes (ESOPS) to facilitate employees acquiring shares in their company in a tax-efficient way.

## **6. Mission Statement**

These all formed part of the Bank's attempt to re-define a Co-operative ethos in a different era and also led to the following Mission Statement in 1988:-

"We, the Co-operative Bank Group will continue to develop a successful and innovative financial institution by providing our customers with high quality financial services whilst promoting the underlying principles of co-operation which are:

### *Quality and Excellence*

to offer all our customers consistent high quality and good value services and strive for excellence in all that we do.

### *Participation*

to introduce and promote the concept of full participation to all our customers and staff

### *Retentions*

to manage the business effectively and efficiently, attracting investment and maintaining sufficient surplus funds to ensure the continued development of the Group.

### *Education and Training*

to act as a caring and responsible employer encouraging the development and training of all our staff and encourage commitment and pride in each other and the Group.

### *Co-operation*

to develop a close affinity with organisations which promote fellowship between workers, customers, members and employers.

### *Quality of Life*

to be a responsible member of society by promoting an environment where the needs of local communities can be met now and in the future.

### *Freedom of Association*

to be non-partisan in all social, political, racial and religious matters.

### *Integrity*

to act at all times with honesty and integrity and within legislative and regulatory requirements."

This approach of working with partnerships of owners and workers, customers and members also enabled the Bank to return to its roots and emphasise its regional strengths (with the Bank's image displaying wide variance by region - a strong retail Co-operative presence being supportive). This route had the advantage of being sustainable in the long run as it was one other banks would find it difficult to replicate.

Finally, whilst this appeared to suggest that the Bank had turned its back on its attempt to portray itself as a national bank, this did not mean it had limited its ambitions to expand, and this was reflected in the bid for Girobank in 1988 and the preference share issue in 1989 enabling the Bank to raise money and expand the balance sheet without having to call upon the CWS.

## **7. Conclusions**

While a constant in this story is the ownership of the Bank by the CWS, this

article has explored its changing approach over the years, from its early days as banker to the CWS to its gradual development into a bank in its own right. The 1970s were the years of ambition and expansion, but the 1980s brought a harsher climate to which the Bank struggled to adapt. However, by the late 1980s the Bank appeared to have marked out a new strategy based on developing an identity as the people's bank, promoting the principles of Co-operation redefined for the modern day.

### **The Author**

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### **In Passing**

*"Needs of Co-operators"*

*"Plenty of desire towards all men to be just  
Plenty of cash dealings but very few on trust"*

*E. Vansittart Neale*

*"He thought he saw a Banker's Clerk  
Descending from the bus:  
He looked again and found it was  
A Hippopotamus  
'If this should stay to dine' he said,  
'There won't be much for us'*

*Lewis Carroll – Sylvie and Bruno*