BUSINESS INTERVIEW: Sir Jeremy Morse

Uncertainty marks the end of an era at Lloyds

The outgoing chairman of Lloyds Bank looks back on his career and tells **Neil Bennett** of his fears for the future

Sir Jeremy Morse ought to be basking in the warm twilight of an illustrious career. Instead, he is worried about leaving an industry, on February 5, after almost 40 years, when its reputation is near an all-time low and its future is uncertain.

He voiced his fears in his presidential address to the Chartered Institute of Bankers last week, and in an interview as he prepared his message. The speech was titled "In praise of banking", but was anything but upbeat.

Sir Jeremy attacked the technological revolution in the industry, which, he said, had increased errors, unsettled staff and alienated the public. He reminisced about the days of cross-subsidisation, when customers unwittingly paid for their banking services by keeping interest-free funds in the current accounts. Finally, he called for an emphasis on fundamental values of honesty, reliability, fairness and professional competence.

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What makes this Luddite rallying cry more remarkable is that it comes from the chairman of a bank that has spearheaded innovation within the industry. Lloyds was the first bank to offer interest on current accounts, to charge an annual fee on credit cards, and, most important, was one of the earliest to plunge into the life assurance market with the acquisition of Abbey Life.

Now, Sir Jeremy questions many of these changes, and even says Lloyds is too concentrated on the British market, even though it has spent most of a decade shedding its overseas interests. If this is not a conversion on the road to Damascus, Sir Jeremy is certainly pausing at the threshold of his office as he leaves.

At first meeting, Sir Jeremy comes across as an amiable buffer who needs to be humoured. But he is nothing of the kind. Underneath is an implacable manager who issues orders in the most mellow tones but never leaves room for uncertainty or argument.

This combination has allowed him to tread the delicate line between government and commerce that every bank chairman must do. After 15 years, he is the longest-standing chairman of the world's top 50 banks and has served opposite five chairman at Midland and four at Barclays.

He has much to be proud of from his leadership of Lloyds. He steered the bank away from near-destruction at the height of the Latin American debt crisis in the early-eighties. Then he avoided many of the pitfalls of the eighties and concentrated on solid, low-risk businesses such as life assurance. Today, by a mixture of luck and sound management, Lloyds is the country's most profitable bank, ahead of both Barclays and National Westminster, which are more than twice the size.

Sir Jeremy said: "I have had quite a long enough stint for the bank and I am happy to have seen the Latin American debt affair through to where you can see a conclusion. My great disappointment is to be leaving when things are so gloomy, when it is such a hard time for people in the branches." In his address, he made it clear how low the reputation of the banking system has sunk because of the recession and the upheaval in its basic service. "The two have produced the biggest wave of anti-bank sentiment in Britain since the 1930s. As then, the government has been happy to find someone else to share the blame for the hardships in the economy."

Perhaps Sir Jeremy's most surprising attack is against the technology Lloyds and the other banks have invested in so heavily. "Our service has deteriorated, there are errors and it sometimes seems impersonal. When I began, there was almost a handwritten system that had very few errors because it was run by highly intelligent people. An awful lot of our errors occur today through the interaction between men and machines."

The technology, he feels, has devalued the bank's staff, forced some to switch unwillingly from processing payments to selling products, and made thousands of others surplus to requirements. "In branches and supporting departments, staff work harder than their predecessors and have less job security . . . The overall impact has been too big to manage without damaging both customer relationships and the public image of banking."

Just as unexpected is Sir Jeremy's admission that as chairman of an organisation that has spent hundreds of millions of pounds on technology, he does not know how to use a word processor; one of his ambitions for retirement is that his wife will teach him.

Sir Jeremy's criticisms of the trend in banks towards selling products rather than providing an all-encompassing service also stands in stark contrast to the developments in Lloyds in the past five years. In his address to the institute, he seemed to question the product expansion, particuarly into life assurance and pensions, which all the banks, particularly Lloyds, have pursued since the mid-eighties.

"Some [additions] are no more than conventional diversifications but others are avowed attempts to move away from banking towards other financial services which are perceived as more profitable or less risky. The traditional banker who is fairly well inured to being attacked from outside . . . has also to face this attack from within."

Although Sir Jeremy obviously pines for a return to some of the traditional values of banking, he is not uncritical of the past. When he joined Lloyds as deputy chairman in 1975, the board had more than 30 directors and had to deal with all domestic matters and take reports from the international board. "The agenda was wildly confused. We would move from a report on the Pacific to a discussion about the Wolverhampton branch," he said. The most fundamental change he has witnessed in banking is that its management now treat it as a business. "When I arrived, there was not enough profit-consciousness. Half of the people in the domestic bank thought it was a public service."

But while he has strived to introduce greater commercial awareness in the bank throughout his chairmanship, he now stresses that banking has some special qualities and that its managers must be as aware of those differences as they understand commercial reality.

"There are very few special qualities, but the most important is that bankers deal in other people's money. People expect more from those who handle their money."

Nevertheless, Lloyds has prospered by being run as a business. Its success stems from its greatest disaster, the Latin American debt crisis in 1982, five years after Sir Jeremy took office. Today, he is unrepentant about Lloyds' lending in Latin America, which left the bank with bad sovereign loans of more than £4 billion and, in 1990, plunged the bank to a loss of £715 million, the largest ever at a British bank. "I don't feel any shame about that because we were the bank on the ground," he said. Lloyds lent through the Bank of Latin and South America, its subsidiary.

"Our dollar lending in those countries had a far higher proportion of good customers who could have repaid in local currency. When the market went belly up, we got double our share of bad loans. But we got the strategy right," he said.

Sir Jeremy admits that, at the height of the Latin American debt crisis, he feared it would destroy Lloyds. "I was worried we would not keep our name in the market. But you can never be a good banker unless you have felt that. You cannot be a good rider unless you have fallen off." The board realised the only way it could ever provide against the loans was to generate profits from personal and small companies banking, its core businesses. "We knew we had better not take any risks elsewhere, and we missed all sorts of bunkers by that decision, like stockbroking and property lending." Admittedly, some bunkers were missed by luck rather than judgment, such as the bank's failed bid for Standard Chartered in 1986.

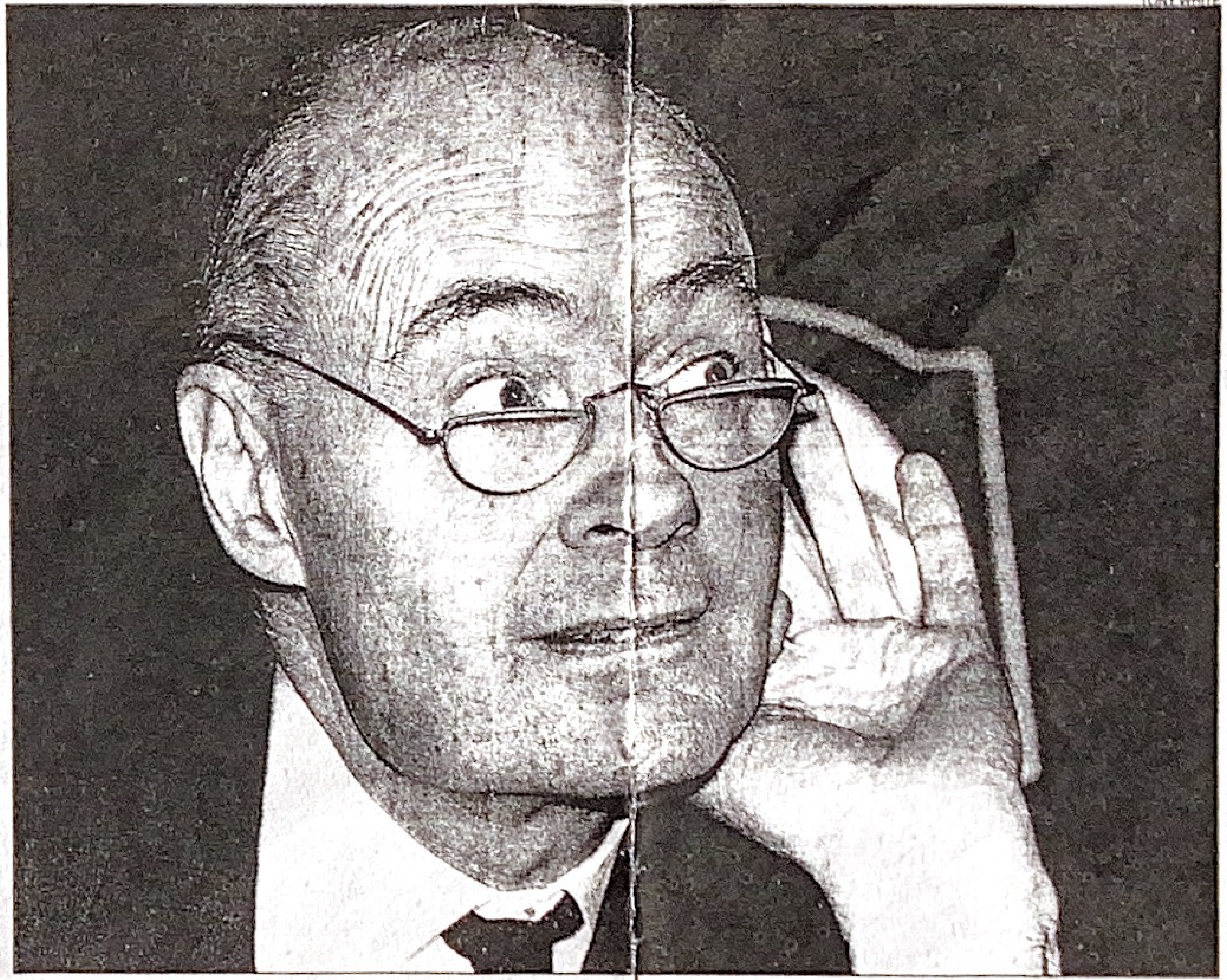
Lloyds became a pre-eminent personal bank, and earned the reserves to provide against its sovereign loans — but only just. It made the main provisions in 1990, as the domestic recession was already gathering pace and domestic bad debts were climbing. If the recession had begun a year earlier, the bank would have struggled.

Throughout Lloyds' recovery, Sir Jeremy was partnered by Brian Pitman, the bank's hard-nosed but brilliant chief executive. Sir Jeremy is a strong believer that any large bank needs two leaders. "I have always worked on the 'two hands on the tiller' principle. It does not matter what the people are called or the division of their duties but they should both bring a contribution to the strategy. A duo works particularly well for a bank because there are so many pitfalls to avoid."

Sir Jeremy is the aesthetic, the academic strategist, while Mr Pitman is a follower of popular culture, a jazz saxophonist with a voracity for statistics and detail. The duo has been immensely productive, but there has never been much personal warmth between them. At times they have clashed on fundamental issues. "There is a tension of ideas between us. But if you are different you get enormous strength in bringing different points together."

The key of Sir Jeremy's farewell message is a call for more balance and moderation in the banking industry. Balance between the interests of customers and shareholders, balance between innovation and service and, above all, moderation in lending.

He summed up his speech in the Merchant Taylor's Hall last week with acknowledgment of the many contradictions in banking that must be tackled by his successors. "Banking combines elements of trade and profession, art and science, of tradition and innovation. It is more concerned with people and less with figures than other financial callings . . . I am proud to have been a banker for almost 40 years."



TONY WHITE

Listening in to grass-roots opinion: Sir Jeremy Morse is well aware of what the public says about Lloyds and other banks