Banking on the customer

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A new case study by IESE professors Alejandro Lago and Philip Moscoso questions the advisability of launching a new retail bank, not only in the midst of a deep recession, but also to be the first to do so in a century.

Vernon Hill is no newcomer to banking. In establishing Metro Bank, he was seeking to replicate the success of Commerce Bank, a U.S.-based retail bank that he founded in 1973 at the age of 27 with a handful of employees and $1.5 million in capital.

Under the motto "America's most convenient bank," Commerce Bank grew rapidly to become the country's eighth largest bank, with 450 branches and revenues of $1.93 billion. Hill was confident he could replicate the same high-service model in Britain, despite the different cultural context and the deep recession the country was in.

In launching Metro Bank, Hill partnered with Anthony Thomson, who had built and sold CFM, Europe's largest financial marketing services firm. They hired Craig Donaldson to be CEO.

In their case study, "Metro Bank: The British Banking Revolution Begins," IESE's Alejandro Lago and Philip Moscoso explore the challenges and opportunities Hill faced in establishing a customer-friendly bank in one of the world's financial capitals.

Back to banking basics

Metro Bank's inaugural branch opened in central London in July 2010, the first of 200 branches the firm plans to open by 2020.

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While the country's established retail banks were shutting branches and restricting access, Metro Bank offered seven-day banking, on-the-spot accounts and bank cards, safe deposit boxes free to customers with a minimum balance in their accounts, a round-the-clock London-based call center, and online banking.

It even let customers bring dogs into branches, where there were water bowls and dog biscuits on hand.

Metro Bank presented customers with a simplified, stripped-down product range. This stood in stark contrast to other retail banks, which typically offer 50 or more different types of current, checking and savings accounts.

It also waived extra commissions on most of its savings and deposit accounts, although interest on savings was slightly below that of the competition.

The only explicit condition to have access to credit was that borrowers needed a minimum deposit with the bank. Hill had always stressed that the real value for a bank was in its deposit base rather than its loan base. With this policy, lending would supposedly be wholly funded by deposits.

Putting the "personal" back into banking

Metro Bank also wanted to emphasize a personal relationship with each client, even if there were more client visits per branch than in any other bank.

Metro Bank mirrors Commerce Bank's service culture, which had been institutionalized primarily through a company-wide program called "Managing for WOW!" This established branch goals and performance measurement based on employee behavior. As such, each employee knew what was expected of him or her. The program was supported by a formal employee selection and training program, which all new employees had to go through.

Trainees were taught how to greet customers, smile and shake hands. These sessions were part training, part indoctrination, but always had a fun and showman-like component.

Performance matters

Finally, service to both external and internal customers was monitored and rewarded on a permanent basis. Commerce Bank, for example, looked at the collective efforts of a branch, rather than focusing on individual sales performance.

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Branch performance was assessed through the use of hundreds of "mystery shoppers" — i.e., fake customers who evaluated all aspects of service.

Salary increases and bonuses were based on "mystery shopping" ratings, rather than on the assessments of the boss. Top performers were rewarded at glitzy annual awards ceremonies.

Whether this culture would take off in recession-gripped Britain was an open question.

Several major retail banks had been wholly or partially nationalized as a result of the financial crisis. The banks that had been bailed out by the U.K. government were being forced to sell significant chunks of their retail branch network to satisfy concerns over competition in the marketplace.

Exploiting anti-bank sentiment

In Metro Bank's favor was the overall public perception that banks offered very poor service. This view was held by as many as 80 percent of customers toward some banks.

Of the 1.2 million retail bank customers who switched banks each year, 65 percent said they had done so not because a rival bank had enticed them away with a more attractive offer, but simply because of negative experiences with their current bank, such as being wrongly charged for services.

There was also a move away from branches toward more online banking. However, this didn't necessarily mean that branches were destined to disappear, but rather that they would have to evolve.

Metro Bank also planned to reach out to SMEs, which have seen their credit supply from large banks dwindle since the crisis. Metro Bank believed that business clients would eventually make up 50 percent of its customer base.

The bank aimed to capture at least 5 percent of the estimated £700 billion London deposit market within 10 years. It targeted a customer base of seven million people, of which 4 out of 5 customers would come from the Greater London Area.

Does Metro Bank really represent a banking revolution? Will it be successful, or was it just an eccentric American idea that would never fly in a crisis-bitten British context.

If it did succeed, how would the incumbent banks react and compete against it?

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