

European Banking Clubs in the 1960s: A Flawed Strategy

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European banking clubs in the 1960s and 1970s began as a movement imbued with the idealism and promise of European integration. The strategic choices which they represented, however, were ultimately doomed to failure. This is so for a number of reasons; they were essentially defensive responses to new competition in traditional as well as new markets, they represented an attempt to rely on cooperation rather than competition in a sophisticated and highly differentiated marketplace, and their constituent institutions eventually realised the potential for individual profit which international banking represented. A recent verdict on the vast gulf between the hopes which attended their formation in one institution and the eventual outcome is that, "there are few examples of such misjudgement" [Gall, Feldman, James, Holtfrench and Buschgen, 1995, p. 752]. This paper will consider some of the reasons for the founding of the banking clubs, and consider their place in the rapidly changing international financial environment of the late 1960s. It will assess the background to, and reasons for, British banks' involvement in these institutions. Using previously unavailable archival material, it will be possible to explore the relationship between the Midland Bank and the first of the clubs, the European Advisory Committee. It will be suggested that the decision to create the relationship was an understandable response to the market conditions which existed at the time, but that the demise was inevitable.

European Banking Strategies in the 1960s

European banks adopted two, related, strategies for developing international business in the 1960s; first, they formed groups or clubs of large commercial banks which were designed to extend the services of their members

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throughout western Europe without the need for direct representation in other countries. These can be understood as early attempts to create cross-border groups, and some of the institutions involved certainly perceived them as representing the first steps on the road to an integrated European bank. The second type was a looser form of arrangement whose antecedents lay in the consortium loans of the international financial markets. This second group provided joint-venture presence in the emerging Euromarkets, often with a particular industrial or geographical emphasis, and they existed in order to channel funds in particular directions [Weismuller, 1974, pp. 203-217]. The heyday of both variants was in the first half of the 1970s. In 1975, *The Banker* suggested that “the next decade will produce great opportunities for the consortium-style operation” [*Banker*, 1975, p. 973]. In a similar vein, Channon was able to discuss the “long term viability” of these institutions, and to conclude that “the future...seems assured for consortium banking” [Channon, 1977, p. 187]. By then, however, they were already dinosaurs of the international banking markets; they declined very quickly in the later half of that decade and were finally put to the sword with the general relaxation of exchange controls in the early 1980s. Joint venture institutions, and the exclusive and inter-temporal relationships which they suggested, gave way to individual transaction-based agreements for the raising of large amounts of capital in the international banking markets. This paper will mostly be concerned with the European banking clubs, since they represented a much more fundamental strategic choice for the internationalization of banking groups. Table 1 contains a listing of the major clubs, and their constituent members in 1974. Table 2 provides details of the London clearing banks’ investments in various consortium banks; these two tables illustrate the differences between the groups, the latter representing joint-venture subsidiaries much more than (however loose) integrated partnerships.

Reasons for the Clubs’ Foundation

There are three inter-related sets of explanations for the founding of the European banking clubs. The first, and perhaps the most important, was as a response to the ongoing process of European cooperation and integration. The momentum for integration tended to be reflected in enthusiasm for the clubs. In constructing the first of these clubs, the “*Club des celibataires*” in 1959, the founders (Banque de la Societe Generale de Belgique, S.A., Deutsche Bank and the Amsterdamsche Bank N.V.) sought to participate in the “economic and perhaps also political integration of Europe.”¹ The formation of this club was kept largely secret, although in 1963 it was announced that the Midland Bank had joined the other three, and the European Advisory Committee (as it was to be known) became public knowledge, “because impending European integration

¹ Midland Bank Archives (hereafter MBA) Management committee files, Box 271; paper prepared by AMRO for the 23rd meeting of the European Advisory Committee.

was seen as a fact" [Gall, *et.al.*, 1975, p. 752]. In this period, the eventual merger of the institutions into a European Bank was very much part of the agenda. The most striking example of this perception is contained in the launching, in 1970, of the Europartners Group. At first a "fusion" of the Banco di Roma, Commerzbank and the Credit Lyonnais, with the Spanish Banco Hispano Americano joining later, this was seen as the most integrated of the clubs. The senior personnel of these institutions sought to take the lead in developing European monetary integration by creating "L'Europe bancaire." For this reason, reported *The Banker*, Signor Ciulli of the Banco di Roma "wanted the triple bank alliance signed in Rome, as was the Treaty of Rome itself" [*The Banker*, 1971, p. 483].

The second important set of explanations for the founding of the European banking clubs was that they were a response to the "American Challenge" of the 1960s. The growing population of American multinational corporations in Europe in this decade was seen as a challenge not just to large European companies, but to European capitalism, culture and society more generally. Servan-Schreiber's view that, by 1967, the "Common Market... is basically American in organization" [Servan-Schreiber, 1968, p. 1] has largely been discredited as hyperbole, [Rowthorn and Hymer, 1971; Balassa, 1966; Holland, 1980] but there is evidence that in banking, the Americans were a powerful and growing competitive presence in European markets. In London alone, total deposits of American banks increased by something approaching twenty times between 1962 and 1969. By 1972, they had captured approximately ten percent of total advances by all banks to UK residents [Pringle, 1973, p.86]. By 1966, Abs of the Deutsche Bank was bemoaning the "forceful and often hardly ethical" tactics of American banks operating in Germany. Similarly, Karsten of Amro stressed the seriousness of the situation and argued that "time is running out for European banks."²

This is related to the third set of explanations for the creation of the banking clubs – joint operations were the only available strategy for exploiting the opportunities and responding to the competitive pressures which the development of international financial markets represented. The correspondent relationships on which banks had formerly relied for delivery of international services and loans were insufficiently flexible or robust to cope with the new demands being made on them. To compete with the Americans, the Europeans had a choice of three strategies; copying their approach of setting up a network of international branches at which full financial services could be offered, merging across national boundaries, and seeking partners with whom they could work in the short term with a view to future integration. The first of these essentially represented the problem. European banks felt themselves to have been left behind by the Americans; they were short of the skills, the time and the resources required to challenge the competitive advantage which the

² MBA Management Committee Papers, Box 190. Eleventh meeting of the European Advisory Committee, Brussels, September 26, 1966.

Americans were exploiting. In seeking to develop their own competitive advantage, however, merger across borders was extremely difficult given the regulatory, tax and legal differences among European banking markets. This was the area in which it was hoped that European integration would have most impact. The only available option, therefore, was the third. A measure of the extent to which international banking was a new departure for them is contained in the comment of *The Banker* to the effect that “the banks which have involved themselves in formal cross-frontier banking groups are those which are particularly thin on the ground outside their home countries” [*The Banker*, 1973, p. 905].

Midland's Grand Design

The British clearing banks suffered from a particular lack of effective international strategy and presence in the 1950s and early 1960s. Realization that a wider perspective on international banking was necessary came with the early 1960s, but the strategic options were, again, constrained by the structure of banking in Britain. Confined largely to domestic retail activity, the clearing banks had little direct overseas representation. Barclays and Lloyds had had subsidiaries which operated in discrete overseas markets, but the extent of cross-border operation was minimal. Jones refers to the “administrative heritage” of the British clearers, by which he means the rigid market segmentation, separation of overseas from domestic banking activity, and the heavy reliance on networks of correspondent relationships to transact international business [Jones, 1993, ch. 10]. The absence of international banking expertise in the clearers imposed serious constraints on their ability to compete effectively with, and to participate in, the expansion of the international banking market in London.

In the early 1960s the Midland Bank had become aware of its own shortcomings in this area and instituted a reappraisal of its strategy. It had become clear that the bank's policy of not having overseas representation was a serious obstacle to its ability to meet the rising demand for international business [Holmes and Green, 1986, p. 252]. Mindful both of its administrative heritage and the constraints under which it operated, the cooperative route was the one which most appealed to the bank. This had two strands; on the one hand the bank was attracted by the prospect of greater cooperation with banks in the Commonwealth, and discussions with the Toronto Dominion, the Commercial Bank of Australia and the Standard Bank of New York, whose business was concerned with Africa, led to the creation in 1964, of Midland and International Banks Ltd, or MAIBL, as it came to be known. MAIBL is generally considered to be the first of the consortium banks, and some of the principles of their operation were established in this bank; it was designed to bring together advisory and technical know how in the constituent institutions, largely for the provision of medium and long term finance for particularly large

or otherwise special or difficult transactions.³ The second aspect of the bank's new strategy involved cooperation with European banks. Explicitly linked to the first UK application to join the common market in 1961, the bank realised that a European dimension was crucial to the development of their opportunities for business finance.⁴ Encouraged by the personal connection between Assistant Chief General Manager E.J.W. Hellmuth and Herman Abs, it was agreed to open negotiations with the Deutsche Bank and Midland was invited to join the *club des celibataires* in 1963. The combination of these two strands was known in the bank as the "Grand Design" and there were a number of important similarities in the two new ventures. In the first place, they were essentially advisory and information sharing collaborations, although Maibl clearly had specific financing goals, and was perceived as being a closer form of relationship.⁵ Secondly, they represented an acknowledgement of particularly close relationships with individual banks which could operate to the disadvantage of other correspondent and international partners. Thirdly, it was accepted that the partners would refrain from any competition with each other in each bank's domestic market.

Midland's "grand design" reflected the general position in which the British banks found themselves; it represented an attempt to confront the difficulties of the administrative inheritance, it was designed to provide a foothold in international banking and finance without requiring enormous commitment of time and resources, and it involved the forging of particular relationships with large and successful banks in each of their domestic markets. The general view of the participants was that "by cooperating together, a group of European banks, each with extensive networks in their own countries, would be able to offer a *superior* European service to their customers"⁶ (original emphasis). The economic characteristics of such an approach, however, are clear. In the first place, sharing of risk involves a concomitant dilution of possible returns; secondly, joint-venture activities can be amicably maintained only for as long as the individual competitive ambitions of the member institutions remain in check; thirdly, since the cooperative approach was essentially a defensive move, it was, in any case, unlikely to deliver sustainable and long-term achievement in international banking markets, unless the member institutions developed a very high degree of commitment to the project.

³ MBA management committee files, 200/289. "Grand Design: record of a meeting of participants" Dec. 5, 1963; Note of Mr Thackstone's talk to the Royal Commonwealth Society Feb. 20, 1964.

⁴ MBA management committee files, 220/52. "Common Market Developments" note by Hellmuth, August 1961.

⁵ MBA management committee files, 200/289. Appendix to Mr Hellmuth's memo on MAIBL, October 1963.

⁶ MBA management committee files 200/749 "The Strategy of Midland Bank Group and International Banking" Memo prepared by R.L. Wyatt, November 1974.

Table 1: *European Banking Clubs (1974)**Associated Banks of Europe*

Banque Nationale de Paris	Paris
Barclays Bank	London
Banca Nazionale del Lavoro	Rome
Dresdner Bank	Frankfurt
Algemene Bank Nederland	Amsterdam
Bayerische Hypotheken und Wechsel Bank	Munich
Banque du Bruxelles	Brussels
Banque Internationale a Luxembourg*	Luxembourg
Osterreichische Landerbank*	Vienna

Europartners

Credit Lyonnais	Paris
Commerzbank	Dusseldorf
Banco di Roma	Rome
Banco Hispano Americano	Madrid

European Banks International Company

Deutsche Bank	Frankfurt
Societe Generale	Paris
Midland Bank	London
Banca Commerciale Italiana	Milan
Amsterdam Rotterdam Bank	Amsterdam
Societe Genreale de Banque	Brussels
Creditanstalt Bankverein	Vienna

Inter-Alpha

Kredietbank	Brussels
Credit Commercial de France	Paris
Berliner Handels-Gessellschaft-Frankfurter Bank	Frankfurt/Berlin
Nederlandsche Middenstandbank	Amsterdam
Williams and Glyn's	London
Banco Ambrosiano	Milan
Privatbanken	Copenhagen

* Associate members

Source: *The Banker* International Banking Annual Review, August 1974.

Table 2: *Clearing Banks' Investments in Consortium Banks, 1977*

	<u>Location</u>	<u>Percentage Shareholding</u>	<u>Specialization</u>
<i>Barclays</i>			
Anglo-Romanian Bank	London	30	East Europe
Banque de la Societe Financiere Europeene	Paris	12	West Europe
Euro-Latinamerican bank	London	5	Latin America
International Energy Bank	London	15	Energy
Iran Overseas Investment Bank	London	6	Iran
<i>Midland</i>			
Banque Europeene de Credit	Brussels	14	
Banque Europeene pour l'Amerique Latine	Brussels	16	Latin America
European-American Bancorp	New York	20	United States
European Arab Holding and subsidiaries	Luxembourg	5	Middle East
European Arab Bank	London		Middle East
European Arab Bank (Brussels)	Brussels		Middle East
Europaische-Arabische Bank	Frankfurt		Middle East
European Asian Bank (branches in Asian centres)	Hamburg	14	Asia
European Asian Finance (Hong Kong)	Hong Kong	10	
European Banking Company	London	14	Merchant bkng
Euro-Pacific Finance Corporation	Melbourne	15	Australia
Iran Overseas Investment Bank	London	6	Iran
Midland and International Banks	London	45	
Ship Mortgage International Bank	Amsterdam	25	Shipping
UBF Bank	London	25	Middle East
<i>National Westminster</i>			
Libra Bank	London	5	Latin America
Orion Bank and its subsidiaries, including Orion Pacific (75%)	London Hong Kong	20	Far East
Roy West Banking Corporation	Nassau	40	
Saudi International Bank	London	5	Merchant bkng
<i>Williams and Glyn's</i>			
Development and Investment Bank of Iran	Teheran	4	Iran
Inter-Alpha Asia	Hong Kong	14	Far East
United International Bank	London	10	

Source: London Clearing Banks *Evidence by the Committee of London Clearing Bankers to the Committee to Review the Functioning of Financial Institutions*, (London, 1979) table 48.

The European Advisory Committee

As noted above, the European Advisory Committee was the first of the banking clubs, and developed from an informal arrangement between three Continental institutions. In the early agreements of the late 1950s, the expressed aim of the club was to participate in the process of European integration. This, it was felt, required closer cooperation between European banks, but the name “club des celibataires” was deliberately chosen to indicate that general partnership or merger was not, for the present, being contemplated. The admittance of Midland Bank in 1964 reflected not only that bank’s international aims, but also the structural changes which it was felt the European markets were undergoing in the early 1960s. The erosion of individual and separate banking constituencies and the beginnings of their replacement with integrated markets required a re-think of the nature of the delivery of banking services. In particular, the Continental banks’ realization of the potential of retail banking occurred contemporaneously with British banks’ need to re-assess their attitude toward corporate lending.⁷ There was, in principle, much that the largest banks of Germany, Belgium, the Netherlands and Britain could gain from each other. It is not clear, however, that these opportunities were fully realised.

The nature of the relationship was primarily information sharing; the original agreement – which was to remain in force for five years – envisaged that

- each bank would endeavour to provide a “special” service to the customers of the other EAC banks;
- each bank would endeavour to pass its European business through the EAC banks (excluding routine payment transfer business); and
- each bank would use the facilities and the branch networks of their partners, and would therefore refrain from opening branches.⁸

There are few concrete measures contained within these aims; indeed, it was the view of *The Economist* that the point of this “novel but puzzling association” was difficult to discern. Regarding the special nature of the banks’ relationships with each other, it also reported that some correspondents had been the recipients of extra business from the participants “to reassure them that they will not be neglected.” [*The Economist*, 1964, p. 851]. On the other hand, Barclays Bank had been upset by Midland’s membership of the club and considerably reduced the volume of business which they were prepared to channel through Deutsche Bank. This disagreement had been quickly sorted out, although the potential for conflict which the publicly-declared special relationships contained was clear.⁹

⁷ Ibid; see also Vittas, Frazer, and Metaxas-Vittas, 1986.

⁸ MBA management committee files 200/749 “The Strategy of Midland Bank Group and International Banking” Memo prepared by R.L. Wyatt, November 1974.

⁹ MBA management committee files, Box 200/190. Third meeting of the European Advisory Committee, Brussels, September 28, 1964. See also MBA management committee

The growth of competition from Americans was a recurrent motif in the discussions of the European Advisory Committee. At their third meeting, the aggressiveness of US banks in Europe was considered. The main culprits were considered to be First National City Bank, followed by Morgan Guaranty Trust, Bank of America and Chase Manhattan. These banks were approaching United States companies and affiliates in Europe, as might have been expected, but they were also targeting local firms, and were able to quote “terms and conditions which make the national banks feel this competition daily.”¹⁰ At the following meeting, further concern was expressed at the Americans’ ability to transfer resources between banks and across borders very cheaply, although it was noted that Midland was less concerned than its continental partners, since the Americans were concentrated in London and were making very few inroads in retail banking activities. The others, because they operated in both retail and investment business, were therefore more open to attack from institutions following their corporate customers into the European market.¹¹

The second area of activity was the creation of a number of study groups, designed to improve the flows of communication and information between the participants. There were originally four of these; the foreign managers’ group, the economic research group, the investment research group and the foreign trade promotion group. These generally met quarterly or half-yearly, and were considered to be “essential to the future of the club”, since they provided “something tangible for the shop window – something we can advertise and offer to our customers.”¹² Differences in the approach of the member banks soon became clear, however; the Midland did not wish to engage in any activity which could be construed as offering investment advice, although they were keen to maintain close links and continue to assist their partners in the preparation of “purely objective” studies; “we are back at the old difference between the complex financial mechanism of London compared with the less sophisticated structures on the Continent.”¹³ This difficulty was eventually resolved by seconding an analyst from the *Investors’ Chronicle* who was able to provide Midland’s input into the Investment Research Group while retaining nominal independence from the bank.

files, box 200/215; aide memoir re club meeting of May 12, 1964, signed by Williamson of the Overseas Branch; “the point which distressed our other banking friends most was the high prominence that was given in our Annual Report to the E.A.C.”

¹⁰ MBA management committee files, box 190. Third meeting of the European Advisory Committee, Brussels, September 28, 1964.

¹¹ MBA management committee files, box 190. Fourth meeting of the European Advisory Committee, London, December 14, 1964. For some evidence that US banks expanded into Europe in order to meet the local needs of American multinationals, see Fieleke, 1977 and Goldberg and Saunders, 1980.

¹² MBA management committee files, Greenwell Papers, box 200/215. Note for meeting of February 19, 1964.

¹³ MBA management committee files, Greenwell Papers, Box 200/215. Note for meeting of May 15, 1964.

The operation of the Foreign Trade group similarly revealed some distinctions between the attitudes of the Midland and its partners; while the former was wary of the conflict with its Overseas branch, and sent along only foreign trade promotion experts, the others sent their banks' overall foreign managers. Not wishing to be pilloried, the Midland quickly suggested raising the profile and seniority of its representatives on this group.¹⁴

Notwithstanding these initial difficulties, however, the work of the many study and information groups was one of the tangible successes of the club concept, and their proliferation provides evidence of the extent to which the goal of information sharing was achieved; groups on such issues as security, marketing, public relations and advertising, legal issues, stock markets, staff training and automation were all convened at some point in the period between 1964 and 1974. The verdict of the training group is typical of most; "by mixing in this way, the EBIC [European Banks' Investment Company – the holding company formed in 1969] men not only learned more about the member banks, but also about each other and about the national characteristics in evidence."¹⁵

The third issue which most concerned the members of the group in its early days was that of expansion; the main business of the first meeting of the club was the admittance to the European Advisory Committee (EAC) of banks in other countries. Possible partners in France, Switzerland, Sweden, and the United States of America were all considered, but for various reasons no decisions could be reached.¹⁶ At the second meeting, Abs suggested that the threat of competition from other groups meant that they had to be on their guard; the weight of argument, however, was against any extension of membership, and in favour of consolidation.¹⁷ By the third meeting, three elements operated to give stability to the group's membership. The first was that the threat of competition had receded; the Banque de Bruxelles had attempted to coordinate a rival group in London, Paris and Amsterdam, but this had come to nothing. Secondly, communications had been received from banks in Sweden and Switzerland indicating that each bank was happy not to be invited to join at the moment, so long as no other from their country was.¹⁸ Third, there was general agreement that the next bank to be invited to join

¹⁴ MBA management committee Files, J.G. Greenwell Papers, Box 200/215. Notes for meeting of December 14, 1964.

¹⁵ MBA management committee files 200/749 "The Strategy of Midland Bank Group and International Banking" Memo prepared by R.L. Wyatt, November 1974. Appendix report on EBIC training group.

¹⁶ MBA Management committee files, 200/190. Minutes of first meeting of EAC, February 19, 1964.

¹⁷ MBA Management Committee Files, 200/190. Minutes of second meeting of EAC, May 15, 1964.

¹⁸ MBA Management Committee Files, 200/190. Minutes of third meeting of EAC, September 28, 1964.

should be French, but the question of cooperation with nationalised institutions raised considerable problems, which it was felt best to leave unexplored.

These issues presented less of a difficulty by 1969, however, when, with the original agreement having expired, the partners undertook a thoroughgoing review of their relationship. The activities of the group had extended beyond European borders, and Holmes and Green describe how the original concept was “developed and transformed” by the creation of a number of joint venture financing companies [Holmes and Green, 1986, pp. 254-5]. The *Banque de Europeene de Credit a Moyen Terme* (BEC) had been established in 1967, to provide medium and long term loans for large European industrial projects. A joint European-American venture had been opened in New York in 1968, and representative offices created in Indonesia and South Africa. All the partners considered greater overseas cooperation was necessary, and that expansion of the membership was a crucial component of this process. A two-pronged strategy was formulated; a holding company for their joint ventures was to be established, “the aim being to give a more effective and recognisable form to the EAC association” and a French and Italian bank should be introduced in order to provide coverage of the EEC countries.¹⁹ Nationalised banks in France (Societe Generale) and Italy (Banca Commerciale Italiana) were invited to join, although the latter originally declined and did not become a member until 1973, and then on the basis of participating only in the European business of the group. In addition, and at the express request of Deutsche Bank, Creditanstalt Bankverein of Austria was invited to join, and to participate in the financing operations of EBIC. In the following two years, EBIC took part in a number of ventures in the Far East, Japan, the Middle East, Australia and the West Coast of the United States of America.

The holding company as a way of integrating the various foreign ventures was chosen as the vehicle for closer cooperation out of necessity; the partners sought to deliver a higher level of international service to their customers, many of whom were multinational corporations, but full integration of the banks was neither desirable nor practically possible. The goal of European integration had receded considerably, and the opportunity for the creation of a single, fully integrated European bank seemed remote. The strategic review also recognised the difficulties which the club concept had experienced; lines of communication, as well as competitive demarcation, were unclear. This was expressed in one of the study group reports in the Midland; “in considering the appropriate content of confidential internal studies, the E[conomics] R[esearch] G[roup] is often torn between relevance to EBIC and relevance to the member banks individually.”²⁰ *The Banker* accurately described the conflict of interest

¹⁹ MBA management committee files 200/749 “The Strategy of Midland Bank Group and International Banking” Memo prepared by R.L. Wyatt, November 1974; p.5.

²⁰ MBA management committee files 200/749. “The Strategy of Midland Bank Group and International Banking” Memo prepared by R.L. Wyatt, November 1974; Appendix on Economic Research.

which might be thought to exist within such an organization; “As long as international cooperation does not result in a real merging of activities...the natural instinct of any bank will always be to keep the most interesting business deals on its own books” [*The Banker*, 1977, p. 87].

A variant of this conflict related to the individual banks’ attitudes towards direct competition with each other. It had always been the case that the individual partners were not to compete in each others’ domestic markets. This principle was reiterated in the review of 1969; but by the early 1970s, such a position was becoming more difficult to maintain. Even Deutsche Bank, “the most committed of our partners”²¹ continued to pursue actively its own international representation, and in particular was, by 1973/4, keen to open its own full service branch in London. Senior executives pointed out that competing groups, such as ABECOR and Europartners, had no such restrictions on competition. It was felt, however, that this “would indicate a significant change in the underlying EBIC philosophy.”²² On a similar level, both Societe General de Banque and Societe Generale (France) were actively developing London merchant banks. This development overlapped considerably with the Midland’s ownership of Samuel Montagu, over which there had been conflict on the setting up of the European merger bureau in 1970.

The Decline of the Clubs

The combination of conflicts of interest and competitive opportunities in the Euro-markets, which began to be fully appreciated only in the mid-1970s, seriously undermined the long-term future of the European banking clubs. This was signalled by EBIC’s acceptance of BCI’s associate status, and a similar decision by the Euro-partners Group (generally regarded as the most tightly organized) with regard to Banco Hispano Americano in 1974. The concept was further eroded by parallel developments such as Eurocheque and SWIFT technology making proprietary or exclusive arrangements obsolete.

The levels of optimism regarding European integration also began to fall in the 1970s. The aim of the Euro-partners group had been to create a “unified banking institution,” but this goal very quickly receded. By 1974, the bolder hopes of these European clubs had foundered on the same rocks which dashed the hopes of all EEC idealists: the absence of progress towards economic and monetary union, continuing exchange controls within the EEC, the yawning gulfs between the discrete tax and legal structures of each country [*The Banker*, 1974, p. 947].

²¹ MBA management committee files 200/749 “The Strategy of Midland Bank Group and International Banking” Memo prepared by R.L. Wyatt, November 1974. p. 14.

²² MBA management committee files 200/749 “The Strategy of Midland Bank Group and International Banking” Memo prepared by R.L. Wyatt, November 1974 p. 9; see also *The Banker*, 1974, p.947.

The banks agreed; the Midland felt that the slow progress towards European economic and monetary union made the idea of a full merger with other EAC members “so improbable that the partner banks should not be affected by it in forming their own individual European and international policies.”²³ This was an important argument, since it contained the assumption that not only were external circumstances making the merger unlikely, but that the individual banks should be free to pursue competitive policies which would in the long term make such merger impossible. In the mid-1970s, the individual banks continued to strengthen their own competitive positions in the European markets [*The Banker*, Aug. 1977, pp. 83-87].

This paper suggests that the European Banking Clubs – and EAC in particular – had been established for three reasons; to participate in the process of European integration, to challenge the Americans in the European market for financing of multinational corporations, and because cooperation was not only their traditional response, but the only strategy available to them. By the mid-1970s, the first of these was no longer operative; as regards the second, the Midland concluded that it had been “difficult to promote, plan or develop an integrated Group marketing programme for the international servicing of multinational enterprises”²⁴ but that some success had been achieved elsewhere via the joint-venture companies operating in Europe, America and the Far East. It is the third aspect of the explanation which poses most questions. In the Midland’s case, having joined the group in the 1960s because it had neither the staff capability nor the experience to develop international banking on its own, the reliance on affiliates and partners to represent the bank meant that ten years later it still did not have an international staff development programme; nor had it learned very much about how to compete effectively in cross-border markets.

In reaching a verdict on the clubs, it is hard not to be critical. Having chosen a rather loose form of cooperation, it is clear that they were unable to resolve the tensions between the individual partners; the level of commitment to the clubs was insufficient either to overcome the competitive instincts of the individual banks or to provide the more tightly integrated organisation which could have offered considerable economies of scale and scope. The loose, confederated strategy may have been appropriate if this had been one of a number of avenues being explored by the banks with a view to seeing how the European integration project developed. But it is clear that in the Midland’s case, at least, there were no other doors being kept open. Ten years later, that bank was back where it started; in rethinking its approach to international banking, it had clearly become impatient with the restrictions implied by cooperation, and took the decision to develop direct overseas representation in

²³ MBA management committee files 200/749 “The Strategy of Midland Bank Group and International Banking” Memo prepared by R.L. Wyatt, November 1974.

²⁴ MBA management committee files 200/749 “The Strategy of Midland Bank Group and International Banking” Memo prepared by R.L. Wyatt, November 1974.

the form of branches, representative offices and a series of acquisitions. [Holmes and Green, 1986, p. 247]. One of these, the purchase of Crocker National in California, may not have been the best choice, however.

Lastly, it may be the case that the opportunities which the banks perceived did not in fact exist. European domestic banking markets remain highly segregated; it is not immediately clear that the activities of the partner banks would have been sufficiently complementary – even if much higher levels of commitment to the club had been forthcoming – to have enabled them to offer a fully integrated service to multinational customers, as they had hoped. It is instructive to note that the successful examples of cooperation to which they could point were in markets and regions in which they had no tradition of operating, and therefore no turf individually to defend.

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