June 2016 marks the 50th anniversary of one of the great milestones in British banking: the launch of Barclaycard. This small piece of plastic was Britain’s first foray into the world of credit cards and it marked a dramatic innovation in an industry that had changed little in the previous 100 years. But the longer term impact of this event on British banking – and on the UK economy as a whole – was just as large and is still being felt in many ways.

Back in 1966, the British banking industry was still rooted in the past but showing the first signs of change. The Big Four banks: Barclays, National Westminster, Midland and Lloyds, dominated the scene, running more than 12,000 branches around the country and offering a uniform and staid range of services. Although the level of attention was high – you got to see your bank manager if you wanted anything – it was also very much on the banks’ terms. Imagine a world where you could only get cash by writing a cheque at a bank counter that shut at 3pm and was closed on Saturdays. It was patronising and inefficient and designed to make you feel lucky to have a bank account at all.

The urge to change was driven by the new generation of bank managers who followed those who had seen the banks through the war years. Some of them attended business school or went on secondment to banks abroad, which sparked a more competitive spirit and greater independence of mind. This was particularly true of Barclays, which had a more elite character than the other three and gave its managers freer rein.

One of them was Derek Wilde who had been to the US and seen the emergence of Diners Club and American Express. These were not strictly credit cards but so-called travel and entertainment cards to charge for hotels and air tickets. The organisations behind them were not banks but companies in the payment services business, which meant they did not offer credit: you paid off your charges at the end of the month, or you lost your card. But in California, Bank of America had taken the idea a step further by launching a card that could be used to pay for a much wider range of goods and services and – more importantly – on credit: there was no requirement to settle monthly.

This idea pricked Wilde’s interest because he saw it giving Barclays a useful competitive edge, and potentially automating a large part of the business. In the autumn of 1965, he travelled to San Francisco and negotiated a deal with Bank of America to license their software (for a mere £20,000). Back in London he drew up a business plan to put to his board. His recommendations, amazingly by today’s standards, were only six pages long, and the timetable he envisaged for launching the new product, even more amazingly, was only six months. Wilde’s conclusions read: “We are fortunate in having full information about a system which has been developed during six years of testing and is now working very successfully indeed.” The board approved and the project went ahead.

The Wilde plan envisaged signing up 1m cardholders and 50,000 outlets to take the card, backed by a huge advertising budget and Britain’s first mass mailing by a bank. The deal offered to cardholders was that the card was “free”: no membership fee, no charge for using it. The cost was borne by the retailer who took a 3-5 per cent discount. The card could be used for purchases up to £25, or to withdraw the same amount in cash from any Barclays branch. The link with Bank of America even meant it could be used abroad.

What happened over the next six months was either a reckless gamble or one of the most brilliant coups in British post-war banking. Without a detailed business plan, without market research, without a pilot or even a computer capable of handling the business, and armed with the knowledge that Bank of America had lost heavily in the early years, Barclays forged ahead. It bought a derelict boot factory in Northampton and transformed it into its processing centre. It booked computer capacity in Sweden and Germany until its own computers were ready
and placed orders across Europe for imprinting machines, forms, envelopes and marketing material. Two hundred staff were recruited and trained in Northampton, and on June 27, 1966, the city’s mayor snipped the ribbon to declare Barclaycard in business.

But the plan ran into huge resistance, in the first instance from retailers who resented having to pay the discount, and then from customers who disliked being bombarded with unsolicited cards (or not being offered one), and not least from the bank branches, which saw business being taken out of their hands. Wilde had decided that Barclaycard would be an independent operation and that card issuance would be centralised: all decisions about who would get the card, and what credit limit they should have, would be taken in Northampton.

The venture also posed a dilemma for the government and the Bank of England because Britain was, at the time, in the grip of one of its periodic economic crises: the pound was under siege, credit controls had been re-imposed and the government had gone cap in hand to the International Monetary Fund. But the authorities took no steps to hold Barclaycard back, partly, it seems, because no one believed that it would make much difference. Barclays estimated it would account for only 1 per cent of all consumer indebtedness.

However, this resistance did mean that it took longer than planned – more than five years – before the card made a profit, although after that it became a huge money-spinner for Barclays, and put it well ahead of its rivals, had they wanted to follow, which they did not. The other three banks pooh-poohed the card, claiming that the future lay with traditional methods such as cheques. But after Barclaycard signed up more than 15m holders and 75,000 retailers, their resistance began to crumble. In 1972, they clubbed together to launch Access, a Barclaycard look-alike that eventually became today’s Mastercard.

Credit cards received official endorsement from the 1971 government-commissioned Crowther Report into consumer credit, which concluded that the credit card was “beneficial since it makes a useful contribution to living standards and the economic and social well-being of the majority of the British people”. Whether that view would hold today after the massive increase in consumer debt is a matter of debate.

Unquestionably, credit card borrowing has become one of the driving forces behind economic growth in the UK, albeit it at the price of high consumer debt. According to the UK Cards Association, the industry’s trade group, there are now more than 160m credit and debit cards in issue in the UK, with more than £62bn owing on them. Many of these, of course, are not issued by UK banks, and not even by banks, meaning that even if the authorities had wanted to rein in credit cards, they could only have done so with great difficulty.

Aside from its macro-economic impact, Barclaycard also saw the start of a massive shake-up in British banking. As we have seen, Barclaycard was a centralised operation that took business and responsibility away from the branches. This delivered a huge gain in efficiency, but it also drained life out of street-level banking. Managers no longer had control of client relationships and they lost much of their lending business. Centralisation also took place over the coming years: the management of customer accounts and statements was transferred out of the hands of branch clerks to headquarters’ computers. In the 1970s, credit scoring – another American innovation – was introduced. This form of automated lending killed off what little initiative the branch manager still had. By 1980, managers began to realise – to their disbelief – that there was no longer any major role for them.

The depersonalisation of the banking business became a big issue for bank customers. Instead of receiving communications from the local manager, whom they knew in person, they started receiving computer-generated letters signed by someone in a far-off place they had never heard of. They also learnt, the hard way, that automated credit control is much less forgiving than the branch manager’s eyebrows. This made the banks unpopular, and took some of the shine off their attempts at innovation.

Cultural change also appeared in another form: marketing. The last thing a bank manager saw himself as was a salesman “touting” for business. But Wilde’s plan for Barclaycard contained a £350,000 budget for the largest advertising campaign ever conducted by a bank. To their horror, managers were told to go out and sell, a departure that added insult to an already very injured persona. From that time, marketing became central to the banking business, as did a number of new business school ideas, such as management by objectives and return on equity.

Wilde also opened up another Pandora’s box: the rapid technological evolution of the UK card business: electronic terminals, magnetic strips, debit cards, cash machines, chip and PIN, cashback, contactless cards...the story goes on and on.

(See box: next page)
a good thing. It certainly brought about much-needed modernisation and efficiency, but at the price of the loss of the personal touch and credit judgment.

The replacement of a non-competitive business where profit did not matter (true profits were not reported) by one driven by bonuses and sales targets has introduced new levels of risk, often with disastrous consequences. Many people want to turn the clock back, but given the scale of change over the last half century, that will never be possible.

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