Abstract: In January 1998, the British weekly The Economist called the British bank Lloyds a “money machine”. Such an outcome was far from inevitable for a bank that had been one of the hardest hit victims of the 1982 sovereign debt crisis, when most developing countries found themselves unable to repay debts accumulated over the course of the 1970s. Having overextended itself in the developing world, it took Lloyds more than a decade to return to profitability. This result was the consequence of a complete transformation of the bank’s business and management model. Branches and international loans were side-lined, as was the investment banking business, deciding to focus its activities on domestic banking. The article analyses the reasons behind the transformation of Lloyds Bank from a national bank to an international power in the 1970s and, therefore, the reverse process between the 1980s and 1990s following the sovereign debt crisis. Thanks to the examination of archival documents recently opened for consultation, the article sheds new light on various issues analysed from banking and business history, in particular on how risk is calculated, how innovative decisions are made in a context of crisis and on the role of managers in shaping and changing the culture of these institutions.

JEL-Codes: F 34, G 01, G 21

Keywords: Multinational banking, oil crisis, debt crisis, internationalization, Multinationale Banken, Ölkrise, Schuldenkrise, Internationalisierung

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When Lloyds sought to acquire the rival bank Standard Chartered in April 1986, Standard’s chief executive Michael McWilliam contemptuously observed: “Lloyds has a dismal record in managing overseas banking and we are particularly proud of the way we have managed our international business”.¹ This judgment was not the result of chance. In the late 1960s and early 1980s, Lloyds went from being a large – but essentially domestic – bank to a large multinational corporation with operations around the world. The results were mixed to say the least as new international business and new clientele brought with them new challenges and risks.

Immediately after the sovereign debt crisis, which exploded with Mexico’s announcement to service its debts in August 1982², Lloyds was, together with its competitor Midland Bank, the most exposed of the large British clearing banks. Ultimately, the Standard Chartered bid was rejected and Lloyds continued its process of major reconfigurations under the joint leadership of chairman Sir Jeremy Morse and chief executive Sir Brian Pitman, who would later restore Lloyds to the top of the banking elite in the mid to late 1990s becoming the most profitable bank in the world.

This article presents an analysis, albeit preliminary – due to limitations in accessing the archives – of the surprising turnaround of Lloyds Bank before and after the Debt Crisis of the 1980s. This analysis will contribute to the literature on postwar banking history by extending the debate on the banking internationalization of British commercial banks beyond the period analysed by, for example, Geoffrey Jones, including new archival sources. The article is structured as follows. The first section introduces the business of Lloyds in the postwar period up to the late 1960s. The second section presents the rapid pace of the internationalization of Lloyds in the 1970s and early 1980s. The third section illustrates the difficult period after the 1982 debt crisis and the major reconfiguration of the bank based on documents recently opened for consultation.

1 Lloyds Bank in the Postwar Period

Of the major post-World War II British banks, Lloyds was Barclays Bank’s closest competitor with regards to international ventures having created Lloyds Bank (France) in 1911, renamed Lloyds Bank (Europe) in 1955, and having acquired a stake in the London and River Plate Bank in 1918.3 The London and River Plate Bank was merged in 1923 with the London and Brazilian Bank to form the Bank of London and South America (BOLSA). Lloyds Bank (Europe) was particularly active in France, Switzerland and Belgium, while BOLSA had a strong presence in most Latin American countries, especially Brazil, Argentina, Uruguay, Colombia and Paraguay and also had branches in London, Paris, Antwerp, Lisbon and New York.

The third component of Lloyds’ international business was the Bank of London and Montreal (BOLAM), a bank created in 1958 by Sir George Bolton’s BOLSA and the Bank of Montreal to operate in Central and Latin America. BOLAM was created as a joint venture between BOLSA and the Bank of Montreal “to explore banking possibilities in the West Indies and to maximize the branch network Bolsa already had in Central America and adjacent South America”.4 The activities of the three banks which would later become part of Lloyds Bank International (LBI) were still limited to regional and retail banking and therefore cannot properly be regarded as examples of global banking. Until the late 1960s, Lloyds therefore had no international presence and was essentially a national bank controlling the National Bank of New Zealand and with a 25 percent minority stake in National & Grindlays, which had the majority of its offices in Africa and India, and a 19 percent minority stake in BOLSA, which had most of its offices in Latin America.

With the emergence and development of the Eurodollar market, US dollar deposits at bank branches located outside the United States,5 the expansion of

international investment and increased competition from US banks,\textsuperscript{7} the European banking sector began to change and reconfigure itself after many years of lethargy during the Bretton Woods years. At the continental level two related strategies were adopted: the first consisted of the so-called banking clubs, free associations of international banks created with the aim of expanding abroad by pooling resources and knowledge. The second strategy consisted of so-called bank consortia, joint ventures created to operate in specific markets or sectors.\textsuperscript{8} Interestingly, Lloyds was not interested in either strategy and decided to pursue its own unique path into international banking.

The originality of Lloyds’ approach was evident early on when Lloyds chairman Eric Faulkner decided to seek help from an outsider rather than internally. Financial columnist, and later chairman of the \textit{Invisibles Committee}, William M. Clarke, was asked to prepare a report on the international banking landscape. The report took eight weeks to complete and was presented to the Council in November 1968. According to Clarke the time constraint had forced him to use questionable data and exclude interviews with international staff, so the report had to be considered an “outsider’s report”. Clarke himself probably would not have gambled on the lasting legacy his report would have on Lloyds’ international expansion for more than two decades after its publication. Clarke’s report underlined four main conclusions. First, the international presence of UK clearing banks was limited to Europe. Second, the rapid international expansion of US banks in the form of holdings and acquisitions around the world of institutions capable of providing “international rather than local retail banking services”. Third, Clarke recognised a profound transformation of world trade and multinational activity that required a “shift from passive servicing of world trade to active international financing in all its aspects”. Finally, the report compared the overseas structures of the Big Four (Britain’s four major commercial banks) and noted that Lloyds’ overseas structure, largely through Lloyds Bank Europe, had

\textsuperscript{7} S. Battilossi/Y. Cassis. (Eds.), European Banks and the American Challenge, Oxford 2002.
“better potential than any bank except Barclays, but the current business is smaller than others”. \textsuperscript{9} It emphasized however that:

“This admirable spread of interest conceals the fact that in most cases the Lloyds direct interest is relatively small. The only internationally important subsidiary where it has a full controlling interest is National Bank of New Zealand. While National & Grindlays and Bolsa may have complementary world branch networks, Lloyds cannot yet think of these branches as part of a world-wide group as can Barclays.”\textsuperscript{10}

Based on these conclusions, Clarke suggested several possible strategic decisions. In particular, the priorities were: to strengthen the reach of Lloyds Bank Europe; increase cooperation between Lloyds and its associates in the Eurodollar market; finally, to consider possible vertical mergers bringing together overseas banks and investment banks.

The report deeply affected Eric Faulkner and Lloyds top management. The banking world was changing rapidly after 40 years of (enforced) hibernation and decisions had to be made as soon as possible to avoid the risk of losing its status as a major bank in the UK and Europe. Two months after receiving the report, Faulkner decided to create an \textit{International Banking Committee} composed of six high-ranking managers to study the practical implications for Lloyds’ international strategy. The first meeting of the Committee took place in February 1969 and Clarke also attended. The issues discussed were the “American challenge”, the merits of a possible participation in banking consortia and a reflection on the four priorities mentioned by Clarke. A paper on each of these issues was commissioned from the respective departments. During the second meeting, in March, the creation or participation in a consortium was ruled out because “it offered nothing that we did not already enjoy and our participation could not be justified”. \textsuperscript{11} At the same meeting, a crucial decision was made. Great growth potential was recognised for Latin American countries as potential suppliers of capital to European banks. To take advantage of these developments, it was agreed that Lloyds Bank Europe and BOLSA should jointly extend their operations in the region. The two banks should have explored how to broaden their experience in placing Eurobonds (debenture loans issued outside the United

\textsuperscript{11} Minutes of the International Banking Committee, 04.03.1969, in: LBA, HO/D/Int/1.
States) in order not to be forced to rely on specialized brokers. The committee decided that:

“[...] priority must be given to deciding whether we should proceed alone in expanding our international business, or jointly with Barclays, forming a Lloyds-Barclays International Bank, which could incorporate Barclays DCO and Bolsa [...] if we proceed alone, it would be initially by the development of Lloyds Bank Europe and the exploitation of Bolsa and we should consider the practicability of acquiring the whole of the Bolsa equity held by the public. Cost would be a decisive factor and an investigation will now be made to determine this.”\(^\text{12}\)

The committee, in subsequent meetings, decided that a merger with the much larger Barclays was too risky a gamble and that operational independence would become the strategy to be pursued by Lloyds in international ventures. The members of the Committee wasted no time and exploratory talks were initiated with the management of BOLSA; a mission was sent to South America but the results were decidedly mixed. J.I. Kennan, who headed the mission, reported at the Committee’s third meeting in April 1969 that “Bolsa was in no way aware of the substantial shareholding in Lloyds Bank and did not consider itself in any way part of the 'Lloyds Bank Group'”.\(^\text{13}\)

The committee decided to contact BOLSA chairman Sir George Bolton directly. The decision to focus on BOLSA was motivated by internal factors (the need to expand its representation abroad to counter American expansion) but external factors also played a key role. In the late 1960s, BOLSA had decided to expand its operations outside its traditional area of business (Central and Latin America) and enter the European continent, on the other hand Barclays, Lloyds’ most feared competitor, was eager to expand into Latin America. With this double threat, the only viable option was to acquire full control of BOLSA or, at least, joint control with the US Mellon Bank, the second largest shareholder.

The negotiation was long and complex as different parties were involved each with a distinct philosophy, more speculative in the case of BOLSA and more conservative in the case of Lloyds. Partial control was the first step in Lloyds’ path to multinational banking expansion. Lloyds & BOLSA International Bank Limited was created in 1971, Lloyds being the majority shareholder with approximately 52.7 percent (55 percent when Lloyds acquired the shares in Barclays DCO and Barclays Limited in May 1971) of the shares while Mellon by 10.1 percent.

\(^{12}\) Idem.

\(^{13}\) Minutes of the International Banking Committee, 08.04.1969, in: LBA, HO/D/Int/1.
The partial ownership quickly showed several strategic and management drawbacks, such as overlaps between the activities of Lloyds’ overseas activities department and LBI, lack of strength to negotiate Lloyds’ overseas activities, and Mellon’s involvement preventing expansion in the United States.

The decision was therefore taken to buy out all the minority shareholdings and to transform Lloyds & BOLSA International Bank Limited into a subsidiary. Complete control was gained a few years later when a fully owned international subsidiary called Lloyds Bank International (LBI) was created in 1974. From then on Lloyds entered a new phase in its corporate history: the prudence of the post-World War II years was set aside and the aggressive ethic of BOLSA won over the spirits of LBI. In this regard, the word of the first president of LBI was prophetic when he stated in the first annual report that: “the relatively slow process of merging into a homogeneous ethos of the skills, accumulated experiences and different objectives of our banks [...] is only at the beginning”.14

2 The 1970s and the International Expansion

The creation of LBI occurred at a time of great change in the world economy. After three decades, the Bretton Woods system was collapsing while the world was experiencing the worst economic crisis since the Great Depression following the first oil crisis for which the Yom Kippur War served as a pretext.15 These two elements ultimately served international banks well as international capital flows were facilitated by the disappearance of capital controls and the availability of investment capital accumulated by oil-producing countries, the so-called petrodollars.16

The developing world was on its way to becoming the preferred client of international bankers and LBI was well placed to benefit from global monetary imbalances and act as an important intermediary between the oil-producing countries and the deficit countries of Latin America and Asia. LBI could count on the presence of BOLSA in South America (30 branches in Argentina, 14 branches

14 LBI Annual Report 1971, Statement by the Chairman, in: LBA, F1/SS/Sec/5.
in Brazil, 18 branches in Colombia in 1974) and on the presence of BOLAM in Central America. A second important region for LBI was East Asia and it is largely in this region that the first efforts were concentrated in the mid-1970s. The Middle East represented a third pole of expansion after the first oil crisis, a representative office was opened in Beirut in 1974, and subsequently closed in 1976 due to the civil war; an office was opened in Tehran in 1976; an offshore branch was established in Bahrain in 1977; a branch in Dubai in 1977 and a branch in Cairo that same year. As for East Asia, LBI management emphasized that “we should have maximum physical presence in the area as soon as possible, regardless of whether all investments can be immediately profitable” and that “the opportunities are enormous and the risks are acceptable, except for the risk of not being present and seeing our position as a major international bank seriously eroded.”

The efforts led to several openings throughout East Asia. A representative office was opened in Singapore in 1973 and a representative office already existed in Tokyo, but apart from these two limited efforts, Asia was totally unexplored. In 1974, things began to change rapidly. The Singapore office was transformed into an offshore branch and quickly became a centre of trade and monetary transactions in the region; the Tokyo office was transformed into a fully functional branch while a new representative office was opened in Manila and a finance company in Hong Kong.

In Singapore, Lloyds managers praised the “anti-communist” and “pro-business” attitude of the ruling People’s Action Party, led by Lee Kuan Yew described as “a charismatic leader”. In 1976, a new representative office was opened in Kuala Lumpur, in 1977, a new branch was opened in Seoul while the Manila office was transformed into an offshore branch under the new banking legislation of 1976. Overall, between 1973 and 1977 15 new representations abroad (representative offices and branches) were opened. Of these, six were in East and South Asia, the rest in the Arab world, the United States and Canada, Europe and the Soviet Union (Table 1).
In 1980, excluding Europe, the most important regions for LBI were Central and South America, which accounted for 26 percent of total assets, North America (16 percent of total assets), and the Far East (13 percent of total assets).

On the surface, international operations appeared to be progressing well for LBI. Despite being the smallest of the Big Four, the bank was expanding overseas at a particularly rapid pace. In 1981 LBI reached new all-time highs, profits before tax leapt by 87 percent from £65m to £121m and assets from £7.4bn to £12.1bn.

However, this new approach was based on an increasing leverage ratio (measured as the ratio of average total assets to average equity), which rose from 27.1 in the first quarter of 1979 to 31.5 in the fourth quarter of 1980, and rising commercial loans, which rose from 37 percent of total assets in the last quarter of 1978 to 57 percent in the first quarter of 1980. One region in particular became the epicentre of many troubles: Latin America. Indeed, despite expanding outside of BOLSA’s territory, LBI had remained highly dependent on Latin American countries which accounted for 40 percent of LBI’s pre-tax profits. Furthermore, the division that covered Argentina, Bolivia, Brazil, Chile, Paraguay, Peru and Uruguay was highly decentralized. One director general in São Paulo covered Brazil and another in Buenos Aires covered all the remaining countries except Chile and Bolivia.

The growth of Lloyds’ international activities in these years is in any case impressive, as we can see from Table 2. If, until 1972, domestic activities made the main contribution to the growth of Lloyds’ assets, from 1973 Lloyds started to look really an international, or global, bank, mainly thanks to the contribution of the activities of LBI.

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### Table 1: LBI International Expansion, 1973–1977.

<table>
<thead>
<tr>
<th>Year</th>
<th>Representative Offices</th>
<th>Branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973</td>
<td>Hong Kong (Finance Company, Branch in 1978)</td>
<td>Singapore, Tokyo</td>
</tr>
<tr>
<td>1974</td>
<td>Manila</td>
<td>Chicago</td>
</tr>
<tr>
<td>1975</td>
<td>Toronto, Moscow, Cairo</td>
<td>Düsseldorf, Bahrain</td>
</tr>
<tr>
<td>1976</td>
<td>Teheran, Kuala Lumpur</td>
<td>Cairo, Dubai, Seoul</td>
</tr>
<tr>
<td>1977</td>
<td>Houston</td>
<td></td>
</tr>
</tbody>
</table>

Source: LBI Annual Reports.

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20 LBI-Objectives and Performance, June 1980, in: LBA, F/1/D/Boa/2.5.
According to the 1976 Annual Report, the bank had more than 11,000 employees in over 40 countries, including 7,000 in Latin America, 320 in North America, 2,000 in Continental Europe, 1,400 in the United Kingdom and 100 in East and Australasia.

**Tab. 2:** Lloyds Bank Asset Composition, 1971–1981.

<table>
<thead>
<tr>
<th>Year</th>
<th>Assets Group £ bn</th>
<th>Domestic %</th>
<th>International %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971</td>
<td>3.8</td>
<td>63</td>
<td>37</td>
</tr>
<tr>
<td>1972</td>
<td>5.1</td>
<td>65</td>
<td>35</td>
</tr>
<tr>
<td>1973</td>
<td>6.7</td>
<td>55</td>
<td>45</td>
</tr>
<tr>
<td>1974</td>
<td>8.3</td>
<td>48</td>
<td>52</td>
</tr>
<tr>
<td>1975</td>
<td>9.4</td>
<td>46</td>
<td>54</td>
</tr>
<tr>
<td>1976</td>
<td>10.8</td>
<td>43</td>
<td>57</td>
</tr>
<tr>
<td>1977</td>
<td>12.6</td>
<td>40</td>
<td>60</td>
</tr>
<tr>
<td>1978</td>
<td>14.1</td>
<td>38</td>
<td>62</td>
</tr>
<tr>
<td>1979</td>
<td>16.2</td>
<td>41</td>
<td>59</td>
</tr>
<tr>
<td>1980</td>
<td>19.5</td>
<td>43</td>
<td>57</td>
</tr>
<tr>
<td>1981</td>
<td>24.5</td>
<td>38</td>
<td>62</td>
</tr>
</tbody>
</table>


The London headquarters team consisted of just 14 members led by Guy Huntrods, who visited Latin America on average once a year. This geographical distance became a source of growing risks in the region. A special team consisting of a director general and several senior inspectors was sent in October 1980 to Buenos Aires together with the chief inspector. There were errors in credit assessments, lapses in judgment and an unprepared workforce; some managers were reassigned or fired. Also, the lending guidelines were changed to be more stringent. Huntrods noted that despite the excesses of the Argentine business, “the aggressive marketing policy of the last five years has led to many bad debts but has also produced [...] a sizable profit of $31 million [...].”

New regions such as East Asia also showed signs of rapid but risky expansion as bad debt provisions rose from £572 million in June 1981 to £984 million in June 1982 and Re-

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21 Internal document from the Director of the Latin American Division, Guy Huntrods, to the Chairman’s Committee, 15.01.1981, in: LBA, F/1/D/Boa/3.1.
turn on Assets (ROA) decreased from 0.9 percent to 0.7.\textsuperscript{22} The problem was that LBI was extremely exposed to a limited number of countries, mostly in Latin America. Between 1978 and 1981 the aggregate exposure to Brazil and Argentina had grown from about £1 billion to about £1.6 billion; these two countries accounted for more than a quarter of LBI’s total income. Over the same period, euro-currency loans had grown at an average growth rate of 37.7 percent.

LBI’s CEO was not unaware of the many challenges brought about by the bank’s rapid expansion. An exceptional circular was issued in April 1982, in which Eric Whittle stated that the scope for increasing overall cross-border lending was “very limited” and that “the emphasis must now shift from growth to consolidation, from quantity to quality of earnings”\textsuperscript{23}. Unfortunately, the message arrived too late. In October 1982 LBI was one of Argentina’s major public sector creditors with approximately £271 million. This amount placed LBI in the same category as much larger banks such as the Bank of Tokyo, Chase Manhattan or Credit Lyonnais.\textsuperscript{24}

In 1982, the developing world was entering the perfect storm as commodity prices slowed and American interest rates increased. As a result, profits fell to £71 million during 1982, while bad debt provisions increased from £44 million to £115 million.

3 Sovereign Debt Crisis and Strategic Reconfiguration

As anticipated, a few decades after the sovereign debt crisis of the 1980s – which almost led to the bankruptcy of Lloyds – the Economist headlined “The Lloyds Money Machine” to indicate the fact that, despite being only the fourth UK bank by size, Lloyds Bank had become, globally, the first bank by market capitalization (£42.1 billion) surpassing giants such as Citicorp, Bank of Tokyo or HSBC.

Given the situation of LBI and Lloyds during the debt crisis of the 1980s, this state of affairs was far from inevitable. For example, another of the Big Four, Midland Bank, was finally acquired by HSBC in 1992 due to its poor per-

\textsuperscript{22} Far East Division-Report to the Board, in: LBA, F/1/D/Boa/3.3.
\textsuperscript{23} Policy Guidance 1982-83 from the Chief Executive, April 1982, in: LBA, F/1/Ce/Off/2.2.
\textsuperscript{24} Acreedores Financieros Privados Externos del Sector Publico Argentino, 29.10.1982, in: LBA, F/1/Bd/Lat/1.
formance during the 1980s and accumulated losses in developing markets. Lloyds could easily have followed the same path as the similarities between the two historic banks are many. Both Midland and Lloyds were the two smallest of the Big Four; both banks had acquired a largely unprofitable bank in California (Crocker National Bank in the case of Midland and First Western Bank in the case of Lloyds); both banks had expanded vigorously into developing countries in the 1970s and early 1980s. So why didn’t Lloyds disappear like Midland? How did Lloyds escape bankruptcy and become the most profitable bank in the world? In the following section we will illustrate for the first time the dynamics that led the bank to reconsider its strategy and to implement a radical strategic change of course. Despite the relevance for business and banking history, these changes have not yet been analysed by the existing literature due to limitations in accessing the archives which have only recently been opened for consultation.

The transformations that occurred at Lloyds Bank in the 1980s are largely linked to a key manager who spent most of his career at Lloyds Bank: Brian Pitman. Pitman was appointed Deputy Chief Executive Officer for Corporate Services in 1973 and became Chief Executive Officer for London Banking in 1975. In 1976 he was appointed Chief Executive Officer of Lloyds Bank International; in that capacity he was responsible for the UK and Asia Pacific regions and served as bank director in Australia, California and Hong Kong. In 1978 he became deputy managing director of Lloyds Bank International. In 1981 he was appointed deputy managing director of the group.

A year after this appointment, Pitman presided over the first major strategic reconfiguration of the 1980s, which occurred in May 1984 (an initial strategy review had occurred before his appointment in December 1982 but achieved no significant results). Pitman acknowledged that Lloyds had been, until the early 1970s, a “domestic bank with few overseas business interests.” The expansion, as we have illustrated above, had come in the early 1970s and had been greatly accelerated by the two oil crises “largely reflecting a debt explosion”. Pitman’s analysis is revealing, as it testifies to a period of great transformation in the banking sector from the perspective of an insider. Banking, Pitman continued, had profoundly changed from “short-term lending of short-term retail deposits” to a growing dependence on wholesale funds and medium-term funds. These elements had forced the bank to bear greater maturity and interest rate risks. Unfortunately, Pitman continued, “the increased risks have not been compensated by an increase in earnings”, this state of affairs required “a re-examination of our Group and its strategy”. The main result of this first strategic review was the

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recognition of shareholder value\textsuperscript{26} as the “primary objective” of the Group. Pitman was revolutionizing existing management practices at Lloyds by putting what became known as shareholder value at the heart of the bank’s priorities. Shareholder value was not important in itself but served the purpose of driving up Lloyds’ share price and attracting equity capital to finance the bank’s activities. As Pitman pointed out: “We depend largely on retained earnings for capital generation because our share price remains too low for us to attract equity capital at acceptable costs.” A second aspect intimately related to shareholder value was cost rationalization to improve profitability otherwise “we will face a constraint on asset growth or further erosion of our capital ratios”.

Focusing on shareholder value involved eliminating some non-traditional foreign assets and allocating resources elsewhere, optimizing capital allocation and identifying possible acquisitions. Cost-cutting, with assistance from US consultancy McKinsey, continued throughout 1985 and 1986, when it appeared in the Financial Times that Lloyds was planning a 40 percent cost reduction across the Group.\textsuperscript{27} The cost-cutting process involved the sale of many parts of the foreign business; among these, the sale of Lloyds Banks California occupied a special place. What later became Lloyds Bank California was acquired in 1974 by World Airways for US$118 million and was known as First Western Bank. The bank had expanded domestically but also in developing countries reaching a loan portfolio of approximately US$160 million (out of a total of US$250 million).\textsuperscript{28} As part of Pitman’s strategy, the bank was sold to Japanese bank Sanwa for US$263 million in June 1986, one week before Midland Bank had sold its California branch in Wells Fargo. Just one week after the sale of Lloyds Bank California, the Manila offshore banking unit was shut down.\textsuperscript{29} In 1986 Lloyds Bank International was integrated into Lloyds Bank ending once and for all the international ambitions that began in the late 1960s.

In subsequent years, many other representations would be closed in Malaysia, New Zealand, Sri Lanka, Italy, Costa Rica, Puerto Rico, El Salvador, Nicaragua, Peru, Indonesia, the Philippines, Bahrain. Shareholder value was now firmly established as one of the principles of Lloyds’ corporate philosophy but more time was needed before the second principle – location – was adopted.


\textsuperscript{28} \textit{Financial Times}, “Lloyds Bank California Sold to Sanwa”, 15.02.1986.

\textsuperscript{29} \textit{Financial Times}, “Lloyds Closes Manila Unit”, 20.02.1986.
Indeed, starting in the late 1980s almost all international ambitions were abandoned at Lloyds. In this respect, 1987 was a turning point as Lloyds surprised the City of London by reporting a massive loss of £697 million in its interim results while Latin America continued to be a huge source of worry and debt. More than £1 billion in losses had already been set aside, Pitman stated quite bluntly referring to Latin America: “We have put the kitchen sink in there”.

**Tab. 3: Pre-tax Profits Before Provisions and Loan Provisions of the Big Four, June 1987.**

<table>
<thead>
<tr>
<th></th>
<th>NatWest</th>
<th>Barclays</th>
<th>Lloyds</th>
<th>Midland</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-tax profits before provisions (£m)</td>
<td>747</td>
<td>530</td>
<td>369</td>
<td>251</td>
</tr>
<tr>
<td>Growth on comparable period of previous year (%)</td>
<td>54</td>
<td>22</td>
<td>10</td>
<td>29</td>
</tr>
<tr>
<td>Provisions (£m)</td>
<td>496</td>
<td>570</td>
<td>1066</td>
<td>916</td>
</tr>
</tbody>
</table>


More needed to be done to save Lloyds, focusing on shareholder value seemed a sensible first step but apparently not sufficient to secure Lloyds’ future as revenues grew less than direct competitors while debt provisions continued to increase. In July 1987, Sir Jeremy Morse and Pitman set up a working group on international strategy, comprising a total of four other members. After three months the conclusions were clearly in favour of a “localisation” of Lloyds: “We believe that our international business must primarily derive from our customer base and market share in the UK.”

The working group was to last six weeks until mid-September. Weeks 2 and 3 were to be devoted to considering visions within the bank and gathering early draft reports, weeks 5 and 6 would involve gathering views from top managers. The studies which served as talking points for the working group analysed Lloyds’ international activity over the last 20 years since the Clarke Report and highlighted the many limitations of the group’s international strategy over the last two decades. Until 1977 there was “little or no control” over international exposure; even when a risk control system was in place “the desire for growth was allowed to exceed existing limits during the period of general and dramatic

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expansion of cross-border lending from 1977 to 1982”. Furthermore, “the concept of country risk was not yet fully defined”. As in most other banks, cross-border lending growth appeared to be manageable until the second oil crisis in 1979, after which date total lending reached “levels which now pose a potential threat to the bank”. So until 1987, and despite the renewed focus on shareholder value, Lloyds was still on the verge of bankruptcy. The time was ripe for a definitive reorientation of Lloyds’ activities.

More than five years after Mexico’s 1982 default, which triggered the developing world’s debt crisis, Lloyds’ board met in November 1987 and made a major decision for the bank, based largely on testimony provided by high-ranking executives to the International Strategy Working Party between August and September 1987. Sir Jeremy Morse stated that over the past twenty years “our international business in the aggregate has used more resources and made significantly less profit than our domestic business”, then Sir Jeremy continued, “our international business should primarily derive from our customer base and market share in the UK”. This new strategic vision was essentially a U-turn in Lloyds’ post-Clarke Report experience. Additionally, the model of international representations “would differ from our current coverage” with less focus on full-service yet functional subsidiaries rather than geographic areas of operation. According to Morse, the decision to expand overseas had been based on several errors of judgement. First, the overseas expansion had been driven by a desire for a global presence, which at the time was thought to result in greater profit potential and greater risk protection. Lloyds Bank had inevitably been influenced by the activity of its competitors and had followed other banks in international diversification. Secondly, the importance of a strong competitive position and the need for market share in new markets had been little or nothing appreciated. Third, the banks had been encouraged in their expansion, particularly in developing countries, by the view shared by the authorities that this constituted a necessary mechanism for laundering the petrodollars accumulated by the oil-exporting countries. Lloyds was cutting its ties with the old LBI in a bid to become a national bank with very limited overseas exposure.

The failure of the aforementioned bid to buy Standard Chartered undoubtedly played a major role in Lloyds’ decision to focus exclusively on local opportunities.

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32 Here and in the following: Strategic Planning Unit, Lloyds’ Bank Expansion of Foreign Business, 07.09.1987, in: LBA, HO/Ch/Mor/30.
33 Secret Note for the Board, Restructuring International Banking Division, 18.03.1988, in: LBA, HO/Ch/Mor/30.
In early 1988, A. L. Kingshott, Director of International Banking, drafted a proposal to restructure Lloyds’ international division into five functional lines of business that would replace the old geographic lines of previous years: independent businesses; financial market; international private banking; debt management and business issues.


<table>
<thead>
<tr>
<th>Year</th>
<th>Group £ bn</th>
<th>Domestic %</th>
<th>Assets</th>
<th>International %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td>31.1</td>
<td>39</td>
<td>61</td>
<td></td>
</tr>
<tr>
<td>1983</td>
<td>37.2</td>
<td>40</td>
<td>60</td>
<td></td>
</tr>
<tr>
<td>1984</td>
<td>43.0</td>
<td>38</td>
<td>62</td>
<td></td>
</tr>
<tr>
<td>1985</td>
<td>42.8</td>
<td>43</td>
<td>57</td>
<td></td>
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<tr>
<td>1986</td>
<td>46.4</td>
<td>45</td>
<td>55</td>
<td></td>
</tr>
<tr>
<td>1987</td>
<td>48.2</td>
<td>51</td>
<td>49</td>
<td></td>
</tr>
</tbody>
</table>


Thanks to the shareholder value and localization strategy, the years that followed were years of absolute success, especially for the bank’s shareholders. The return on equity in 1996 was 33 percent, in the first months of 1997 it reached more than 40 percent. The results were so impressive that Pitman was knighted in 1995, now regarded as the greatest banker of his generation. After 15 years as managing director he was appointed chairman of Lloyds. It was the culmination of one of the most dramatic transformations in contemporary European banking history. The focus on shareholder value enabled Lloyds to acquire several businesses in the 1990s. Lloyds was the first British bank to acquire a building society, Cheltenham & Gloucester in 1994, they then successfully bid for a little-known bank, Trustee Savings Bank (TSB), often nicknamed That Sorry Bank, which however ran a profitable telephone banking business; Lloyds was also the first British bank to acquire an insurance company, Abbey Life in 1996. In this whirlwind of acquisitions and innovations Pitman always kept his distance from one specific business, investment banking, a business which, as he liked to recall, “he would never even touch with a stick”.34

The history of Lloyds as an example of a well-managed and risk-averse bank changed in the early 2000s with the £12.2 billion acquisition of Scottish bank HBOS in September 2008, at the height of the subprime crisis. Partly as a result of the takeover of HBOS and its toxic assets, Lloyds Banking Group obtained £30.3 billion from the British government and became de facto nationalised.

4 Conclusion

As we have illustrated, Lloyds was a colonial bank with an extremely limited presence in foreign markets until the late 1960s. Between the end of the 1960s and the outbreak of the first oil crisis in 1973, the bank undertook a formidable expansion on a global scale still little studied in the literature.

The bank was completely transformed in just a decade, but the expansion also entailed several risks, especially in Latin America. Eventually, the bank suffered acutely from its international exposure and thanks to the vision of Sir Brian Pitman and Sir Jeremy Morse it decided to radically transform its strategy from the second half of the 1980s, abandoning its international activities and of investment bank. In the history of business and banking, such a radical change is extremely rare since this transformation required an enormous corporate reconfiguration that radically questioned almost 20 years of international expansion.

In this sense, the history of LBI allows us to reflect on various issues faced by the history of banking and business: primarily on the concept of creative response identified by Schumpeter as “something else [...] something that is outside the range of existing practice”. Surely, the decision to disinvest from international banking and concentrate on a domestic expansion must be seen as an extraordinary response in a historical context, the late 1980s and early 1990s, in which the fall of the Berlin Wall opened up new potential scenarios for international growth. The inversion of strategy also allows us to re-evaluate the merits of so-called boring banking, the low-risk banking that characterized the finance profession for decades, from the Great Depression to the first oil crisis. In recent years, and before the Covid-19 crisis, large US commercial banks such as JPMorgan Chase and Bank of America have outperformed investment banks by far to such an extent that the Financial Times headlined in April 2019 that

“Boring banking is exciting again in the US”. 36 When at the end of the 2000s Lloyds ceased to be the boring bank that had allowed it to become one of the most profitable banks in the world and decided to acquire HBOS it was forced to accumulate losses and request the intervention of the British government.

Secondly, the history of LBI prompts us, as business historians, to reflect on the importance of failure. As indicated by Edmondson, the importance of failure in the learning process is incontrovertible but organizations capable of doing so are extremely rare.37 Furthermore, the literature on corporate and entrepreneurial failure is still incomplete.38 Pitman and Morse were able to learn from mistakes and change the course of Lloyds because they were able to make decisions against the tide. This ability certainly derived from a great intellectual preparation and a profound knowledge of the organisation in which they operated after having spent several decades within it, occupying various managerial functions. In this regard, this compares with the competitor Midland Bank which, in 1987, called the deputy governor of the Bank of England, Kit McMahon, as chairman. Under his leadership, the bank did not abandon international activities, let alone investment banking; those businesses were simply reorganized resulting in continued losses which led to the bank finally being acquired by HSBC in the early 1990s.39 Finally, the history of the internationalization and subsequent localization of Lloyds allows us to reflect on the expansion that the banking and financial sector has experienced since the 1970s and 1980s – a process known and studied under the name of financialisation40 – and on the prospects that this process will go through following the crisis triggered by the Covid-19. After experiencing exponential growth in the last quarter of the last century, the banking sector has experienced, since the Great Recession of 2007-09, a period of transition and refocusing on domestic markets. 41 In this sense, we can find on the surface a similarity to the Lloyds experience in the 1980s. Lloyds refocused on domestic markets following the debt crisis that began in August 1982, however this similarity should not obscure the important divergences between

41 IMF, Global Financial Stability Report (April 2015), Chapter 2: International Banking after the Crisis: Increasingly Local and Safer?
the current historical period and the period analysed in this article. The first difference is represented by the European political context, secondly the macroeconomic context and finally the sectoral context. The European political context of the 1980s was a favourable context for Lloyds’ localization strategy as the continent was rapidly advancing towards the creation of the European Union and there was a generalized opening up of domestic markets. In such a context, the abandonment of most of the international markets could easily be compensated by an increase in European and domestic activities. Secondly, the macroeconomic context in Europe and the United States was marked by the presence of positive interest rates as opposed to the situation currently experienced by Western banks marked by negative interest rates which put great stress on balance sheets. Finally, the current context of the banking and financial sector is marked by increased competition from non-banking players, in particular from the Big Tech sector (Google, Apple, to cite the best known examples) and Fintech. On the one hand, these transformations make the Lloyds case extremely topical as an example of a successful strategy in a context of rapid political and sectoral change but, on the other hand, they make its application in the current context extremely complex.

Bionote

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