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Don't expect queues around the block to buy the Clydesdale and Yorkshire banks

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Damn, forgot my PIN. George Redgrave, CC BY-SA

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It came as no great surprise when David Thorburn announced this week that he was stepping down as chief executive of the troubled Clydesdale and Yorkshire banks. Having joined Clydesdale in the 1970s as a graduate trainee and been chief executive since 2011, he described it as "the right time" – and nobody disagreed.

From a strictly professional point of view, there was precious little for him to stick around for. It's no secret, after all, that National Australia Bank (NAB), the increasingly disenchanted owner of both Clydesdale and Yorkshire, is desperate to exit the UK market.

What went wrong

The writing was on the wall for NAB in the UK from the onset of the financial crisis. As the Australian economy and banking sector sidestepped the major effects of the crisis, bank profits at NAB continued to grow. In contrast, the failing UK economy and poor judgements combined to derail performance at both Clydesdale and Yorkshire banks and put a drag on NAB's stronger operations.

The harsh business reality is that Thorburn, who oversaw a strategic review as a reaction to head-office concerns, did what so many have done before: cut costs by making redundancies and closing branches, in a basic attempt to increase performance. In his defence he shouldered the burden of the tough decisions and played his part in increasing performance and readying the brand for sell-off.

David Thorburn with Alex Salmond in 2009. David Cheskin/PA

As Clydesdale chairman Jim Pettigrew put it in bidding him a typically fond farewell, Thorburn helped "identify the changes needed to deliver sustainable and satisfactory returns". In other words, he took the unpleasant decisions that may yet render Clydesdale and Yorkshire vaguely attractive to would-be buyers and investors in the event of a seemingly inevitable flotation or sale. Job done; exit stage left.

Only yesterday …

It's difficult to believe that as recently as four years ago NAB – which bought Clydesdale in 1987 and Yorkshire in 1990 – was regarded as a budding rival to the UK's established high street banking giants. It was seen as a potential buyer of other branch networks and was heavily linked with a move for hundreds of Lloyds outlets, having apparently evaded the major effects of the crisis.

The warning signs became clear in early 2012 a year after Thorburn's elevation, when rumours of redundancies and a sell-off of the UK operation began to circulate. It was not longer before NAB noted that "difficult conditions have adversely affected the performance of UK banking".

With shareholders beginning to twitch at the prospect of the results at the Melbourne head office being dragged down, the restructuring plans were unveiled shortly after – infamously during Australian working hours when most of those who would lose their jobs in the UK were asleep.

Clydesdale and Yorkshire nevertheless set out to distance themselves from the ranks of "broken" banks. They had no wish to be lumped in with the likes of RBS and Northern Rock. They had a point insofar as no bailouts were needed, but theirs was hardly a glowing achievement either.

More recently, the apparent conservative approach enacted by Clydesdale and Yorkshire has also begun to show cracks. Hefty charges to compensate victims of mis-sold payment protection insurance and business hedging products added to the storm, as did a raft of costly IT problems.

With this serving as extra drag on sluggish overall performance, NAB issued a profit warning last autumn and stepped up efforts to dispose of legacy issues and concentrate on its core domestic markets. The focus, in business parlance, has firmly been on "consolidation". So what happens now?

Sale prospects

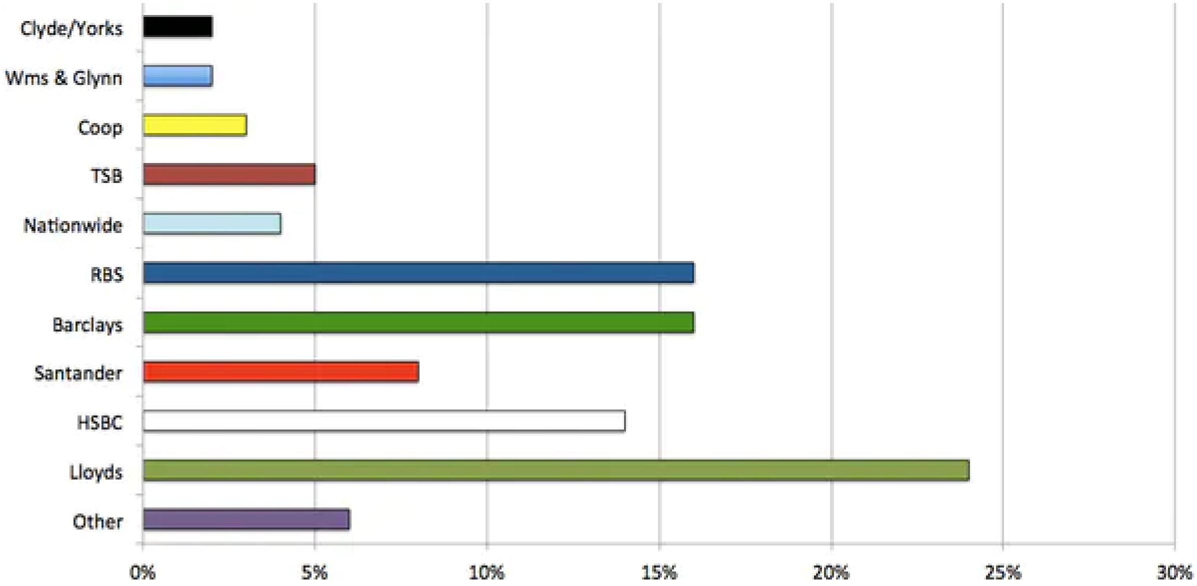
Jim Pettigrew said this week that Clydesdale and Yorkshire are "in much better shape". "Much better" isn't the same as "good", of course, but there has unquestionably been an improvement. A flotation or sale is a now far more realistic prospect than it was two or three years ago, when no-one in their right mind would have touched these banks. As NAB chief executive Andrew Thorburn (no relation) remarked last year in discussing the "absolute priority" of quitting the UK: "We think there's an opportunity now that probably wasn't there before."

Bank flotations have proved something of a mixed bag of late, however. TSB was able to spin off from Lloyds with next-to no trouble. Virgin Money delayed its public listing in light of stock-market volatility. Aldermore, a challenger bank specialising in small businesses, scrapped its planned listing altogether. It may be worth noting the emerging consensus that 2015 will be a year of some turbulence.

The fact is that banking relies on a sort of natural oligopoly. We live in an age in which the importance of the branch has declined, staffing levels have plummeted, the internet has completely reshaped the landscape and complex instruments are increasingly used both to source funding and to manage risk. And yet the costs of entry remain high and the chances of success low.

This being the case, extraordinary shocks aside, the big players tend to dominate in perpetuity. Having more branches, being high up in the hierarchy and facing limited competition enables outflows and inflows to be calculated with more certainty. Large banks are thus assured that they can maintain most of the money in circulation among themselves.

UK retail banking market shares 2013



BBA/OFT 2013

This doesn't make a smaller concern such as Clydesdale/Yorkshire particularly appealing. Yet they are still comparatively solid brands, despite the travails of recent years. They never have been viewed as genuinely "broken". For a parent bank with a strong commitment to the UK, whose shareholders don't see a presence in Britain as an eternal thorn in their collective side, they may still hold some appeal.

So Clydesdale and Yorkshire may yet bounce back in style. But it seems reasonable to suggest that when one of the world's largest banks openly dreams of the day it can escape the UK – regardless of its reasons or motivations – optimism should be kept firmly in check.

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