



PHILIP AUGAR

# The Bank *that* Lived a Little

*Barclays in the Age of the  
Very Free Market*



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FINANCIAL TIMES

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THE BANK THAT LIVED A LITTLE

Philip Augar, a former banker with a doctorate in history, is the author of several previous books including the celebrated *The Death of Gentlemanly Capitalism* (Allen Lane, 2000). He has held numerous public and private sector directorships, and in 2018–19 chaired the panel reviewing higher and further education for the UK government. He contributes regularly to the *Financial Times* and the BBC.



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and to my supporters, with love*



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## *Author's Note*

It was in 1978, forty years ago this year that I started in the City: I spent twenty years working there and (so far) have spent twenty more writing about it. I was at the centre of the action as City institutions and people seized the commanding heights of the economy and then from a different vantage point I watched it all go wrong. I never meant it to be like this but a fascination with the City and what it stands for has become who I am.

I think of my forty working years as four distinct decades. When I began as a trainee investment analyst in the late 1970s (with aviator glasses, hair slightly too long and just one suit), stockbroking, which was mainly what the City did then, was thought to be a genteel pastime. To the person in the street, stockbrokers wore bowler hats and pinstripes, drank a bit too much and lived in big houses in Surrey. Not much of that was true, but it didn't really matter because the City was a quiet corner of national life and kept itself to itself.

That changed in my second decade, after the financial deregulation in 1986 known as Big Bang. Perceptions of the pink-cheeked, gin and tonic brigade were replaced by images of excitable young men in striped shirts and braces yelling into their phones as markets raged. It was good television, but away from the cameras something less visual and more dangerous was happening. Smart investment bankers were pulling the strings in corporate and institutional boardrooms and encouraging governments to let market forces rip. The culture of money and the marketplace took hold of national life and the City was in charge. I doubted it would have a happy ending so in 1999 I left, and instead started describing it in books and articles and on television and radio.

In my third decade, as I wrote my first books, markets were in their pomp. These were years of steady growth and low inflation and the liberated financial markets, created by Margaret Thatcher and John Major and sustained by Tony Blair and Gordon Brown, were credited with being responsible for the economic miracle. Bankers proclaimed that risk had been transformed and encouraged financial institutions, governments, businesses and households to load up with debt. The City of London became the world's international financial services capital and was praised as a shining light for the UK economy.

That changed in 2008, the beginning of my fourth decade, with the banking crisis and the subsequent years of austerity. The poster child became a demon and popular discontent with the unequal distribution of wealth and opportunity was expressed in volatile and unexpected election results in the victim economies.

This book is the story of that rise and fall told through the fortunes of one institution, and I see it as a paradigm for what happened to banking, the City and the British economy during my working life. Barclays' journey from an old Quaker bank to a full-throttle capitalist machine makes it a perfect example of my underlying theme but the truth is I stumbled upon it. I never worked there myself but spent a few years at its less grand rival NatWest. After I left the City, my interest in Barclays was piqued in 2000 by Martin Vander Weyer's memoir *Falling Eagle*. As a writer and commentator I followed with – let me simply say – great interest, the bank's frequent changes in strategy and chief executive. Then in 2013 at a dinner organized by the Centre for the Study of Financial Innovation, I fell into an argument with Bob Diamond, who had been deposed as Barclays' chief executive the year before. We continued the discussion afterwards, which prompted me to explore how Barclays had got into such a mess. This book is the result.

A word on sources and methodology. I have dramatized events and reconstructed dialogue based on more than 400 hours of interviews with over one hundred people closely involved in the story described. Many have also shared material from their personal archives, including file notes, emails, internal presentations and contemporaneous notes of meetings. Most of those who spoke to me did so on condition that they could not be identified as a source. Out of deference to

their wishes and to avoid giving undue emphasis to others, interviews are not individually referenced. Readers should not assume that I have spoken to everyone mentioned in the book, or that the persons whose words, thoughts, actions or feelings are described were necessarily the source of that information. In many cases they were, but sometimes other people – present either in person or on the call or who were briefed afterwards – provided me with information. Statements given to parliament, official reports, court records, memoirs, articles, other books and my personal experience as a practitioner, non-executive board member, adviser and writer have also been used to supplement interviews. Citations to written sources are given in the Notes at the end of the book.

A number of individuals met and talked to me, sometimes extensively, on condition that their names did not appear in the book. Charles Bycroft and Karl Edwards are pseudonyms for two of them. Both are still practising in their respective fields and may be identifiable to some of those who know them; if so, I hope that their wish for privacy will be respected. Roger and Carol are pseudonyms for middle-ranking Barclays' employees who appear in the story and it will be obvious to the reader why their names have been changed. 'The Thinker', William, is intended to represent a type of investor and is based on conversations with a hedge fund manager who spoke to me on the condition of strict anonymity. I also spoke to a close colleague of William's and used my knowledge of the hedge fund sector to complete the picture. I have respected these interviewees' wishes by changing many details, including locations and appearances.

I am deeply grateful to all of those who spoke to me but a number of people deserve special thanks. Margaret Roddan has been a constructive influence throughout, correcting drafts, offering me ideas and pushing me into new directions. Rachel Hopcroft and Richard Wyatt have given me insight and expertise into their respective fields. Sarah White's eye for detail has been invaluable. The research skills of Dominic Lindley and Abbie Edwards have unearthed important evidence I would otherwise have missed. I am deeply appreciative of the painstaking work of my copy-editor, Bela Cunha, and the resourcefulness of my image editor, Cecilia Mackay. Martin Vander Weyer commented on a draft with wit, wisdom and a deep knowledge of the

AUTHOR'S NOTE

subject. The book would not have happened without Stuart Proffitt and Ben Sinyor, his diligent number two at Penguin. Stuart combines patience and persistence with deep insights into a wide range of subjects. I think of him as André Previn to my Eric Morecambe in the sketch in which the exasperated conductor tells the ham-fisted pianist: 'You're playing all the wrong notes.' The great comedian replies: 'I'm playing all the right notes. But not necessarily in the right order.' Stuart, I am eternally grateful to you for teaching me both the notes and the order. Finally, I wish to thank those close to me for sharing their lives with me and with Barclays these past few years; your love and support kept me going.

*Philip Augar*  
*Cambridge, 2018*

PART I

The Rise and Fall of BZW,  
1983-97



# I

## Lord Camoys' Dream, 1983

29 JULY – IBIZA

On a sweltering evening in July 1983 a battered Land Rover bumped round the coast road and stopped in San Antonio on the west side of the island. The driver, a stocky middle-aged man wearing a bush shirt and crumpled chinos, mopped his brow and crossed into the cool interior of the Bar Don Quijote, a white stucco building on the corner of the street. The German barman greeted him warmly: Ralph Thomas Campion George Sherman Stonor, seventh Baron Camoys – Tom to his friends – was a regular.

Camoys and his young family had been spending summer holidays at his mother-in-law's house in the nearby hamlet of Casa Galera since 1967. The clubbing crowds had not yet discovered Ibiza. Cheap travel, broadband and mobile phones were still to come and the island was a perfect retreat for those who knew about its picturesque charms.

The previous day's English papers had just arrived. Sitting at his favourite corner table, Camoys ordered a glass of white wine. In the absence of the *Financial Times*, off the streets since 1 June because of industrial action, *The Times* was his main source of business news. The headline that day was: 'Stock Exchange reforms may end legal action' and the article below reported an agreement between the Stock Exchange and Margaret Thatcher's recently re-elected Conservative government. He lit a cigarette and read: 'The Government has said it would call off the legal action against the Stock Exchange in return for reforms which will alter the way stocks and shares are bought and sold in Britain.'<sup>1</sup>

Faced with a government that disliked anti-competitive price agreements and the threat of a Restrictive Practices Court case, the Exchange had dramatically agreed to abolish its tariff of fixed commissions on share dealing by the end of 1986. In the cosy world of bankers and brokers in which Camoys worked, this was sensational news. But neither he nor anyone else realized then that it would have bigger consequences for British society than any change in business practices since the Industrial Revolution 200 years before.

This agreement, the blue touchpaper that lit the explosion which became known as Big Bang, changed the City of London from a tired old lion into a roaring dragon. It breathed fire into the economy but later burned it badly. In a quarter of a century it transformed culture, values and attitudes to money throughout the whole country. It fuelled a housing boom, created unprecedented prosperity but then blew it all away. It made governments' reputations before leaving them in ruins. Its heroes made millions, yet many ended up in disgrace. And the bank that Camoys worked for was at the heart of it all.

Camoys was a modern English aristocrat. He was a distant descendant of King Charles II but had neither the inclination nor the means to live a life of idleness. Educated at Eton and Balliol College, Oxford, with a keen brain but little money – at least by the standards of many of his class – he needed a career of his own, and banking ran in the family. His great-great-grandfather Watts Sherman had been a partner in a New York bank that in 1858 had taken on one John Pierpont Morgan as a junior banker. Watts Sherman quickly decided that the ambitious young man's risk appetite was too much for the firm and suggested he find other employment. Disappointed but undeterred, J. P. Morgan moved on, returning later to recruit Sherman's finance partner. The bank he founded would come regularly in and out of the Barclays story over the period covered in this book.\*

By the time Tom Camoys inherited the title in 1976 and bought Stonor Park, the crumbling family seat from his impoverished father's executors, he was a well-established banker, whose aristocratic

\* Between 1959 and 1989, the bank was known as Morgan Guaranty but is referred to as J. P. Morgan throughout this book.

background gave no indication of his bustling energy. He had run Rothschild's money markets department, a business that involved trading based on interest rate movements. He went on to become chief executive of Amex Bank Ltd after it bought Rothschild's euro-market interests. In that capacity he got to know the most senior Englishman on Wall Street, Dennis Weatherstone, chairman of J. P. Morgan's executive committee. The English aristocrat and the son of a London Transport clerk were a contrasting pair but ironically, given his great-great-grandfather's history, it was from the J. P. Morgan man that Camoys learned how modern international banks worked. In 1978 Barclays, the grandest of Britain's High Street banks, recruited him to be managing director of its merchant banking subsidiary, a position he still held in 1983.

Barclays was a curious mixture of tradition and adventure. It had been founded as a joint stock bank in 1896 through the amalgamation of twenty country banks, many of them owned by Quaker landowners, and the families' influence remained strong.<sup>2</sup> When Camoys joined, the chairman was Anthony Favill Tuke, son and grandson of previous chairmen, and there was a strong reverence for tradition.<sup>3</sup> Lord Carrington, who first became a non-executive director at Barclays in 1967, left when he became a cabinet minister in 1970 and rejoined in 1982, described board meetings as 'High mass without the vestments'.<sup>4</sup> This characteristically pithy remark encapsulated the formality, grandeur and ritual of a great British institution. The head office, 54 Lombard Street, although completed only in 1969, felt like a time warp. Inside were portraits of the founders and East Anglian landscapes. There were squash courts and even a rifle range in the basement.<sup>5</sup> Trusted retainers and descendants of the bank's founding fathers discreetly enforced arcane dining-room protocols. In Tuke's time, board meetings lasted only an hour and were followed by lunch ('damned good lunches', recalled one family member many years later) before the directors disappeared back to the country.

Tuke's board included representatives of five other founding families, among them his successor as chairman, Sir Timothy Bevan.<sup>6</sup> Although Barclays had been a quoted company since 1902, they treated it as though it was still all their own, with a directors' flat in

Pall Mall and privileges for those in the ‘Special List’ of family members and their circle.

It was wonderfully genteel and not at all like the business Camoys wanted it to be. He let his frustration show, pressing colleagues for action and answers. Soon after he arrived, a senior director was sent to have a word with him. ‘Tom, we’re slightly worried about you. You don’t seem to realize that you have joined a club. We are all very nice to one another here.’

However, Barclays was not simply a timeless relic; it had always been a bank that lived a little. Before the Second World War a judge in Chancery reprimanded it for pursuing its own interests as a lender at the expense of clients for whom it was a trustee. In the same period Barclays allowed branch managers to keep the commissions it received for selling insurance policies to customers. It was a perquisite that enabled Barclays to keep down the cost of their salaries and pensions but which presented branch managers with a conflict of interest that had uncomfortable echoes several decades later.<sup>7</sup> In the 1970s and 80s, its involvement in apartheid-practising South Africa made Barclays a target for protesters in the UK and although public pressure eventually forced it to withdraw, the perception remained that it had stayed on as long as was commercially convenient.

There was, however, a more attractive side to living a little because Barclays could also be commercially innovative and daring. In 1925 it had diversified abroad by forming Barclays Bank – Dominion, Colonial and Overseas (DCO) – an imperial foray described by the *Financial Times* as a ‘bold and inspiring conception’.<sup>8</sup> By 1980, the overseas bank contributed a fifth of group profits and employed over a third of Barclays’ staff in its 2,000 branches.<sup>9</sup> This entrepreneurial spirit popped up time and time again throughout Barclays’ history. In 1966 it was the first British bank to introduce a credit card, Barclaycard, which proved to be an important source of profits for the bank and transformed consumer credit in the UK. A year later it installed Britain’s first cash machine, outside a Barclays branch in Enfield, north London.

The formation of the merchant bank in 1975 came in the midst of a great upheaval in the banking sector, and was another example of Barclays’ determination to keep up with the times. Until the 1970s

banking was a very comfortable business. Between the end of the Second World War and 1970, Barclays' average annual return on shareholders' funds was a fat 4 per cent above the Bank of England's base rate, and it didn't have to work very hard to achieve it.<sup>10</sup> The odd cash machine apart, banks looked much as they had in the 1950s. There were no laptops, no internet, no telephone banking – that started in 1984 – and staff spent the days filing and entering data onto ledgers. Lending was based on the manager's personal knowledge of the customer, fees were charged for operating current accounts and deposit rates were generous. Opening hours were short and the same at every bank, none opened at the weekends and banks politely declined to compete too hard with each other or even to advertise on that racy modern medium, television.

The explanation for this easy way of life was a tacit understanding between the authorities and the banks. The Bank of England capped the amount banks could lend and made them hold capital as a contingency against bad debts, but in return the banks were effectively allowed to collude over interest rates and conceal their true profits. No one rocked the boat.

This changed after the 1970 general election in which Edward Heath's Conservative Party unexpectedly ousted Harold Wilson's Labour government. With his chancellor of the exchequer, Anthony Barber, the new prime minister embarked on a 'dash for growth', cutting taxes and interest rates. Banks became an instrument of this policy and to encourage them to lend more, controls on lending and capital requirements were eased in 1971. In return, the banks agreed to end collusion on interest rates and to publish more informative financial statements.<sup>11</sup> The end of the cartel shattered the industry's equilibrium. Competitive pricing and a push for market share replaced friendly rivalry: in 1972 bank advertisements finally appeared on television.<sup>12</sup>

The consequences for both the economy and the banking sector were disastrous. The 'Barber boom' led to inflation, while freedom from control led the banks to lend wildly to credit-hungry consumers and businesses. The government slammed on the brakes to slow down the economy and in 1973 introduced emergency measures for banks – known as 'the corset' – to bring bank lending back under

control. But it was too late to save either the government, the economy or the banks. A major oil crisis – crude oil rose from \$3 to \$12 a barrel – added to the inflationary pressures and property prices collapsed. The economy plunged into recession and Labour returned to power in the general elections of February and October 1974 to face recession, trade union problems and inflation running at 16 per cent.

Twenty-six secondary banks had to be rescued between 1974 and 1978 in a Bank of England organized operation dubbed ‘the lifeboat’.<sup>13</sup> NatWest, one of the big four clearing banks, had to issue a statement to quell rumours that it was in trouble.\* Barclays, which was the biggest UK bank and not itself in difficulty, was required as a good citizen to contribute a quarter of the total lifeboat funds in line with its market share.<sup>14</sup>

Responsible citizenship aside, banks were now competing more vigorously than ever before and also faced a challenge from a different quarter. Innovative banks such as Morgan Stanley, Warburg and the Industrial Bank of Japan were raising funds for clients in capital markets through bond issues – parcels of debt that could be traded by investors. This new form of finance was marketed as a cheaper alternative to conventional loans from banks’ balance sheets, and it directly threatened corporate banking, a very profitable part of their business.

Sir Anthony Tuke – he was knighted in 1979 – Barclays’ chairman between 1973 and 1981, therefore had to deal with more competition, closer scrutiny from shareholders who could now see exactly how much or how little the bank was making, a weak economy and erratic government policy. It was a daunting list for a man who had grown up in more stable times but who in many respects personified the contrast between Barclays’ style and substance.

Tuke was a shy man but his reserved demeanour concealed an impatient streak. He hated lengthy discussions at board meetings and was intolerant of delay, for example, preferring to be driven hundreds of miles if his flight was delayed because he liked to be on the move. It was the same in business. In retail banking, he cut the UK branch

\* It was called the National Westminster Bank until the 1990s when it changed to NatWest. The latter is used throughout this book.

network to save costs but grew the domestic loan book to maintain market share. Overseas, he simply expanded aggressively, adding staff, opening branches and increasing the balance sheet.

In corporate banking, to replace the lending business lost to the capital markets, he set up Barclays Merchant Bank in 1975, pulling together corporate finance activities from various parts of the bank. Charles Ball, a senior corporate financier, was hired from Kleinwort Benson to run it in 1976, but Tuke didn't drive through the organizational changes necessary to support him. Perhaps reflecting Barclays' origins as an amalgamation of many smaller banks, its culture was tribal. Local head offices guarded their clients from the corporate lending division in London, which in turn denied access to the merchant bank. It was all very political. Ball left after little more than a year, saying there were 'too many signs around the place saying "keep off the grass"'.<sup>15</sup> Camoys was recruited to replace him in 1978.

In most parts of the business, Tuke's aggressive strategy paid off. Profits took a hit in the recession years of 1974-6, but the crucial average annual return on shareholders' funds remained 4 per cent above the Bank of England's base rate in the 1970s, just as it had been in the days of the cosy cartel.<sup>16</sup> Flattering comparisons were drawn with Walter Wriston's fast-growing US banking conglomerate, Citigroup, already aspiring to be a universal bank selling every kind of financial service to blue chip clients, and Wriston acknowledged the British bank as a serious global competitor. Tuke appeared on the cover of the American magazine *Business Week* – an accolade usually reserved for go-getting chief executives of the modern age – photographed in front of the antique-looking brass doors of 54 Lombard Street.

It was a fitting image. To Camoys' frustration, Barclays never quite knew whether it was part of the new age or the old and his merchant bank was caught in the dilemma. Barclays' traditional corporate bankers ignored the threat from the capital markets and just hoped it would go away. They seemed happy to offer loans from the bank's own resources at ever decreasing margins and regarded 'Bumble', as the merchant bank was nicknamed, with hostility, guarding Barclays' clients and balance sheet for their own business.

Camoys was sure the capital markets were here to stay. With a

career to build and a dilapidated stately home to restore, he had no time to waste. On that July 1983 evening in Ibiza, he decided that his moment had come. He put down his newspaper, walked over to the bar's single telephone and gave his London office instructions to prepare a report on the Stock Exchange's deal with the government, ready for his return.

### THE BANKER, THE BREWER AND THE BARON

It was only when Camoys got back to London a few days later that he discovered the City had already concluded that reform would go much further than the abolition of minimum commissions. A distinctive characteristic of the London Stock Exchange was that market makers in shares – known as jobbers – were not allowed to talk directly to investors. That was the preserve of agents – known as brokers – who were not allowed to make markets themselves. The latter would be commercially unviable with lower commissions and this would surely lead to the end of 'single capacity' firms. City bars and restaurants were agog with speculation and excitement, but behind closed doors in boardrooms and round partners' tables, serious plans were being laid.

Merchant banks such as Morgan Grenfell and Kleinwort intended to expand their existing business of lending money and advising corporate clients by opening trading arms to buy and sell securities to investors. Such banks, combining trading securities with advice to corporations and governments, already existed in the US where they were called investment banks and the business they were in was investment banking. Even staid British High Street clearing banks such as Barclays' deadly rival NatWest, liked the look of this business which would soon be open to them for the first time. Revolution was in the air and Camoys was determined that Barclays would not get left behind.

As the summer turned into early autumn, Camoys developed a plan to transform Bumble. Why not jump over the pack by doing things bigger, better, faster and sooner? It would require acquisitions,

capital and an increase in Barclays' risk appetite. Would the bank go for such a daring strategy?

Camoy's first presented his plan to Deryk Vander Weyer, the bank's deputy chairman, a man he knew to be a progressive banker and clever strategic thinker. Vander Weyer had joined Barclays at the age of sixteen and had been a candidate to take over from Tuke as chairman in 1981. He had a lot of support from Barclays' insiders but a succession agreement had been fixed some years earlier and the family-dominated board appointed the Eton-educated, ex-Welsh Guardsman Timothy Bevan, great-grandson of Barclays' first chairman, who had been at Barclays since 1950. The consolation prize of UK chairman and group deputy chairman was not enough for a man of Vander Weyer's talents and by the time Camoy's approached him, he was close to joining British Telecom as deputy chairman.<sup>17</sup>

Intrigued by Camoy's plan but knowing he was likely to leave the company soon, Vander Weyer told him to see Bevan. That meeting would shape the next crucial phase of Camoy's career. As he navigated the corridors connecting Barclays Merchant Bank offices in Gracechurch Street with Barclays' imposing head office at 54 Lombard Street, he was wary.

Bevan currently had a lot of problems to deal with. When he had taken over from Tuke – who remained on the board as a non-executive director – another wave of banking deregulation was already underway. It had begun immediately after the general election in 1979. The abolition of foreign exchange controls under the new prime minister, Margaret Thatcher, and chancellor of the exchequer, Geoffrey Howe, allowed British institutions to invest more easily overseas and made London a more attractive place for foreign banks, but that meant more competition for Barclays. The emergency corset restraint on bank lending imposed in 1973 was ended in 1980 and the year after that, in Bevan's first year, the Bank of England further eased controls on banks' balance sheets. Hire purchase controls were ended in 1982 and an interest rate cartel among member-owned building societies was ended in 1983.

Competition was bursting out everywhere, and as a market leader Barclays had a lot to lose. Bevan's task was made harder by a global recession and a Latin American debt crisis. The results, now all too

plain for people to see with transparent reporting, were poor and in his first full year pre-tax profits fell; it would be 1984 before they exceeded the £539 million earned in 1981.

Little, if any, of this was Bevan's fault. He illustrated both the strengths and weaknesses of family leadership. He was imperious in manner, dismissive of his board and protective of the Barclays' families, but for all this he had the bank's long-term interests at heart. His hobbies included ocean sailing, parachute jumping and plunging head first down the icy Cresta Run, but in business he was cautious, with the single aim of handing the bank on to his successors intact. Instead of trying to match the push for market share being made by other clearing banks and building societies, Bevan warned his bankers not to lower credit standards and stood his ground.

Camoys and Bevan moved in the same circles but did not know each other particularly well. As Camoys took the lift to the sixth floor and was shown into the chairman's fusty office, he knew he would have to judge this conversation carefully. Bevan was unpredictable, swore a lot and could be abrupt under pressure. Camoys explained that he wanted to create an investment bank at Barclays along the lines of Wall Street houses such as Goldman Sachs, Merrill Lynch and Morgan Stanley. He said this would enable Barclays to raise money for clients on the capital markets by selling and trading debt and equity securities to investors. This was how investment banks were challenging the traditional lending business of banks such as Barclays. His plan would be a defence against such predators and if it worked would compensate for any decline in corporate lending, just as Tuke had intended when Bumble was first formed eight years before.

Bevan listened carefully, occasionally jotting down notes in fountain pen on the large blotter on his desk. The way Camoys told it, this would not be a huge gamble. The sums involved would be relatively small for a bank still making profits of £500 million a year and if everyone else was doing it, Barclays would look foolish to be left behind. But Camoys already had a reputation within the bank for impatience and Bevan did not yet trust his judgement. He looked round for someone he knew better to give a second opinion and chose Barclays' UK managing director, Andrew Buxton.

Buxton was forty-four at the time, a year older than Camoys, and like him, an experienced banker. He had joined Barclays, in 1963 with a classic Barclays' background: Winchester, Oxford and the Grenadier Guards. Although brewing not banking was the Buxton family business, reassuringly for Bevan, Buxton had a distant Quaker family connection with Barclays. His family had helped Barclays rescue the failed Gurney bank in 1866. His stepfather was a regional director at Barclays, and within the bank Buxton was regarded as 'core' family.

Thus it was that these three scions of the British upper class, the banker, the brewer and the baron, with backgrounds from public schools, ancient universities and the best British regiments, came together to pit their wits against Wall Street's sharpest talent.

Once again, Camoys went through his pitch. He explained to Buxton that his idea was to replicate the American investment banks' model by adding trading and corporate advice to Barclays' traditional business of lending. The previously separate activities of market making and agency broking would soon be combined and Camoys planned to buy both a jobber and a broker and merge them with Barclays Merchant Bank. As head of banking for Barclays' big business customers, Buxton had seen for himself the threat that the capital markets posed. He endorsed Camoys' plan and recommended it to Bevan, who, after several meetings, told them: 'I've decided that we should do it.' Camoys would be chief executive but Bevan considered it improper for him to negotiate financial terms when hiring the people he would be leading; that would be done by Buxton.

The Barclays board at this time numbered over thirty – all men – including family members, a smattering of the great and the good, the heads of the regional head offices and a few senior professional bankers. Quite what they would have made of the exotic new world conceived by Camoys and Buxton is hard to imagine but they were never given an opportunity to express an opinion. Bevan reported the decision to go into securities trading at a hastily convened board meeting. The move would soon transform Barclays' business model, risk profile and culture but the board were simply told about what would turn out to be the biggest change in the bank's corporate life. It was an innocent misjudgement of the complexity and consequences of the path down which they were starting.

Between 1983, when the agreement between government and City was first struck, and 1986, when Big Bang was implemented, there was a scramble to buy up Stock Exchange firms. At the time, the Stock Exchange was a village community of barely a hundred firms, employing fewer than 20,000 people in total.<sup>18</sup> The largest firms had only a few hundred staff each and most were much smaller than that, using what would soon come to look like tiny amounts of capital. When the big banks came calling, the partners of these little brokers and dealers could scarcely believe their luck. Many of them had nearly gone out of business during the oil crisis and stock market slump in 1973-4 and now they were being courted from all sides. They entered frenetic negotiations, usually selling themselves to the highest bidder, the most senior partners making a million or two pounds each - quite a lot of money in the mid-1980s.

The prize catch was the prestigious broking firm Cazenove, whose blue-blooded partners listened politely to pitches from Barclays and other banks before deciding to remain independent. In the merry-go-round of mergers and acquisitions the merchant bank Warburg pulled ahead with the strongest line of acquisitions, but by Big Bang day, 27 October 1986, Barclays was not far behind. It bought two of the larger Stock Exchange partnerships, Wedd Durlacher (which made markets in securities) and De Zoete & Bevan (which advised financial institutions and corporations but did no trading of its own) for a total of £129 million, merged them with Bumble into a new investment bank and called it Barclays De Zoete Wedd - BZW.<sup>19</sup> Barclays had seen off serious competition, secured two of the best firms available and sewn them into its own merchant bank. What could possibly go wrong?

‘ONE OF THE SMARTEST MEN YOU’LL  
EVER MEET’

In Manhattan, 3,000 miles from Ibiza, another bank had also been having big ideas in the summer of 1983. Morgan Stanley was the kind of business Tom Camoys wanted Barclays’ merchant bank to be. It was an integrated investment bank, combining trading in securities

markets for wealthy individuals and financial institutions, advising big corporations on financial and strategic matters and raising money for them in the capital markets. Like J. P. Morgan, the bank from which it had evolved, it too laid claim to the slogan 'first-class business in a first-class way'.

In 1983, Morgan Stanley was still a partnership and had just navigated a turbulent decade following Wall Street's own version of Big Bang on 1 May 1975. With the loss of fixed commissions, the industry-wide tariff of set prices for buying and selling securities, the traditionally genteel world of white shoe investment banking (named after the light buckskin footwear popular in Ivy League colleges and with their Wall Street alumni) got much more competitive. Commissions on share trading were slashed and the industry's business model was ripped up. But under the leadership between 1973 and 1982 of Robert Baldwin, a decisive man who wanted no truck with the old white shoe ways, Morgan Stanley quickly adapted.<sup>20</sup>

As May Day 1975 loomed, banks that had never poached each other's clients or staff suddenly competed head on. Morgan Stanley had broken one of Wall Street's taboos in 1974 when it became the first bank to lead a hostile takeover of one major company, Electric Storage Battery, by another, International Nickel. Later, it was on the receiving end of another break with tradition when one of its main clients, IBM, snubbed it as lead adviser by choosing Merrill Lynch and Salomon Brothers to run its first bond issue. It was a rare setback for a bank that was constantly searching for new opportunities.

As Camoys pored over his day-old *Times* in San Antonio town, a little-known 44-year-old New Yorker, William Bernard Cook, was toiling away deep inside Morgan Stanley's operations building at 55 Water Street in Manhattan's financial district. Cook was a computer expert who had helped a Connecticut medical equipment firm, US Surgical Corporation, grow rapidly, until in 1979 he had caught the eye of a Morgan Stanley managing partner, Thomas C. Melzer.

Melzer, himself a graduate in electrical engineering, was in charge of trading securities issued by the US government and saw that computers could give Morgan Stanley an edge. He persuaded Robert Baldwin that they needed a technologist who really knew what he was about and hired Cook as the firm's global head of technology. It

was a big call to make on a man with no experience of Wall Street but, as we shall see, it paid off in more ways than one. By 1983, Cook was in the final stages of developing TAPS (Trade Analysis and Processing System), a computer system that automated parts of share trading and settlement.

This was at a time when traders in the City of London were still doing deals on a handshake and recording the details in pencil in notebooks. It is doubtful whether Camoys, Bevan or Buxton had ever seen a computer, let alone had one on their fine mahogany desks. Even while they were laying their plans, their understanding of investment banking was out of date. Technology would soon turbocharge the developments in financial services brought about by Big Bang. The world Barclays was intent on entering was about to become unimaginably complex and the paths of Bill Cook and Barclays would cross during the next two decades in a surprising way.

In 1977, Cook, who had already gained a reputation at US Surgical for developing bright graduate talent, went back to his alma mater, the University of Connecticut, on a hiring trip. There he met a young economics lecturer who was planning an academic career. Robert E. Diamond was the second of seven surviving children born to second-generation Irish immigrants. He was a New England boy born and bred but definitely not white shoe. The son of a mathematics teacher, he spent his early years in Westport, Connecticut, and then moved to Concord, Massachusetts, when his father became a school principal there.

It was a step up for the family. They moved into a detached home in a nice part of town. Bob walked every day to Concord-Carlisle high school, where he worked hard and played hard. But money was tight and his father worked as a milkman during the school holiday to make ends meet. If the boy wanted a new baseball bat, he had to buy it himself, so he cleared snow, mowed lawns and baby-sat for neighbours.

Much was expected of the eldest son of an American family in the 1960s. At school Bob was good with numbers so he decided to aim above the state universities his parents had attended and won a place at Colby, a small private liberal arts college up in Maine. Diamond's father told him that he would have to pay his own way. He received

some financial aid and loans from Colby and topped this up with work in the campus library, bartending in town and mending roads back home in Concord.

Colby is one of those idyllic colleges set in a beautiful wooded campus with spacious lawns separating the college buildings from the residential fraternity houses, where young Americans who are clever and fortunate enough to go there learn about life, each other and themselves. He was a model student: well organized and hard-working, he played in the football and baseball teams and excelled at his major, economics.

After graduating in 1974, Diamond moved to the University of Connecticut, where he came top of his MBA class. He wanted to do a doctorate on organizational behaviour but first he needed to pay his debts and get some real-world experience. He started reading the employment pages of the *Wall Street Journal* and saw Cook's US Surgical advertising for smart, confident graduates looking for a challenge. He attended the firm's recruiting roadshow, where he heard Cook make an unusual pitch to the prospective applicants: 'It will be tough. You will work in the computer room punching cards from midnight till eight a.m. You can have eight hours to sleep and then I want you back here at four p.m. for another eight hours in the classroom. Half of you won't make it. Those that do will be all set for a career in the computer industry.' This was the kind of challenge the young Diamond relished.

With a shared interest in management and a passion for sports, Cook and Diamond hit it off. Diamond cancelled interviews at IBM and joined Cook's team at US Surgical for the modest salary of \$10,800. Diamond was methodical, accurate and disciplined, well cut out for Cook's boot camp. The other guys liked him and after six months Cook put him in charge of the computer room. Diamond's academic plans were already receding when eighteen months later Cook took him aside and told him he was leaving US Surgical to build a technology platform for Morgan Stanley. Diamond knew little about Wall Street but he was intrigued by Cook's description and persuaded Cook to recruit him for the second time.

The move from Main Street to Wall Street was a big shock. US Surgical was not exactly sleepy hollow – some managers at the firm later

had to give back bonuses earned on overstated sales figures going back to 1979 – but it was a world away from investment banking. Morgan Stanley was in Manhattan not Connecticut. People started work earlier, shouted louder and got paid more. They were quick to judge and had no time for losers. The winners made a lot of money.

They dressed differently too. US Surgical computer staff worked in shirts, ties and slacks but rarely business suits. Diamond had always liked to dress nicely but his wardrobe didn't have the right clothes for Wall Street. He took himself off to Richards of Greenwich, his local family-run tailor, and bought two blue suits to wear at Morgan Stanley, the place where in August 1979 his Wall Street career began.

On his first day, he left the rented house he shared with friends in Greenwich, took the sixty-minute train ride to Grand Central Station and then the downtown 4 train to Wall Street. It was shaping up to be another hot summer's day and Diamond was nervous. As the train pulled in, a smart young man looked at him and asked if it was his first day. Diamond was taken aback. Was it so obvious? He admitted it was. 'Then you should probably take the price tags off your jacket.' Welcome to Wall Street.

Diamond was a born leader. Just as at US Surgical, he was put in charge of the computer room, and it wasn't long before he was offered a job working for Jerry Lloyd, Morgan Stanley's chief administrative and operations officer. Diamond thought carefully before accepting. The CAO was an important man who sat on the bank's executive committee but Administration and Operations was unglamorous. Trading was where the money and excitement were and he was now nearly thirty years old. If he was going to move into trading it would need to be soon. So he struck a deal: another year in Operations and then he could become a trader. The promise was kept and at the end of 1981 he moved into bond trading as a junior trader, working for Thomas C. Melzer, the man who had hired Cook.

Cook's star was also rising. Baldwin introduced modern management techniques into an industry in which management was something the rainmakers did in their spare time. Cook thrived and became known within the firm as 'one of the smartest men you'll ever meet'. Cook persuaded Morgan Stanley to invest heavily in graduate recruiting. Dick Fisher, Baldwin's successor as Morgan Stanley's president in

1984, told the magazine *Business Week* that Cook was responsible for a stream of the best and brightest young talent arriving at the firm. According to another Wall Street big hitter, David E. Shaw, founder of the eponymous investment business, Cook was 'a remarkable manager . . . He combined active guidance and candid critical feedback with a kind and supportive demeanor and a contagious enjoyment of his work.'<sup>21</sup>

Cook was not only a talented manager and hirer: his TAPS computer system paid for itself within a couple of years. Other Wall Street firms rushed to copy it. Between 1979, when he joined Morgan Stanley, and 1986, when he left to join one of the new breed of dynamic investment houses known as hedge funds, Cook and a few like-minded souls transformed Wall Street. Computers were programmed to execute trades automatically when pre-drawn lines were crossed. Sophisticated risk models supplemented traders' feel for markets. Trade processing became automated and paper was on the way out. Faster communications linked America with the rest of the world. At the same time, Ronald Reagan, tax cuts, deregulation and a squeeze on inflation rebooted the American economy and the US financial services industry boomed.

For British firms like Barclays the timing was very unfortunate. Between July 1983, when the run-up to Big Bang started, and October 1986, when it ended, the Americans moved the finishing line. As 1986 dawned, Morgan Stanley announced that it would be getting a stock market listing to enable it to raise more capital. It and many of the other big Wall Street firms were already becoming well-capitalized forerunners of modern investment banks, with professional management, rapidly developing technology and a global reach, while Barclays and the other British banks were still on the starting grid.

## The Golden Ticket: BZW, 1985–95

### ‘IS THIS KIND OF THING LEGAL?’

Charles Bycroft lowered his long, lean frame into seat 21A. It was just before six in the evening of Monday 19 February 1996 and flight BA 179 to New York’s JFK airport would be taking off shortly. He watched the cabin crew hang his suit carrier in the centre aisle locker and glanced at the *Evening Standard* as the last few passengers passed through Club Class on their way to the back of the plane.

He declined the pre-flight champagne but asked for a glass of wine to be brought to him after take-off, a familiar drill for a man who had been plying his trade between London and New York for over a decade. As the plane taxied across the runway and then climbed over the west London suburbs, he pulled out his briefing notes.

After leaving public school, the quick-witted but academically uninterested Bycroft had started work in 1972 as a junior dealer at the London Stock Exchange, on whose cavernous floor between Old Broad Street and Throgmorton Street all trading in British stocks and shares had to take place. It was a man’s world, full of jolly japes, cigarette smoke and the whiff of boozy lunches, but amid the banter serious work was done too. At hectic moments the senior dealers would shout ‘Blue!’ and young men like Bycroft, wearing the Blue Button badge signifying their junior dealer status, would be dispatched to carry messages between their firms’ hexagonal trading booths. It required a quick brain, fleetness of foot and a degree of physical strength to force a way through the crowds clustered around the pitches when trade was busy. But after the oil crisis and through-out the 1974 recession the market floor was quiet. It turned out to be

a horrendous year for the stock market. In November, the *Financial Times* index of leading shares, the FT30, which had peaked at 544 in 1972, stood at just 150. Investment business dried up and the Stock Exchange firms laid off staff.<sup>1</sup>

Bycroft was one of the many who lost their jobs, but as one career door closed another opened. Young men of his type had an adventurous streak. Africa called, first of all in the form of a big mining company and then with a British bank in South Africa. In the 1980s, however, upper-class Englishmen fell from favour in colonially rooted banks now seeking to leave their pasts behind. So it was back to London and a career crisis. What could a well-connected young man with enterprise and social skills but few formal qualifications do in Prime Minister Thatcher's get-ahead, survival-of-the-fittest Britain? He was in a tight spot but got lucky: he was introduced by a friend to an American executive search firm opening up in the UK, became their sixth employee in London and was told to specialize in financial services.

Executive search was well established in the US but British industry was only just emerging from its long post-war slumber. In the sedate world of men in grey suits, jobs were for the boys and for life. Young executives had to use their connections and wait their turn. The idea that you might hire a search firm to fill a vacancy rarely occurred to British business leaders in the early 1980s.

Bycroft and his firm helped to break this mould. He was one of the pioneers of executive search in Britain, patiently building his contacts and explaining his trade to a bemused audience. Once he was asked, 'Is this kind of thing legal?' But as British industry in the 1980s deregulated, de-unionized and became more results orientated, hiring and firing became routine and search took off.

One sector above all depended on head hunters to find qualified staff. As we have seen, the end of the Stock Exchange's closed shop triggered a scramble for qualified people among the many financial institutions trying to build investment banks. The partner-run firms that would seed these new trading factories were tiny relative to the ambitions of the banks. The big banks bolted the partnerships together between 1983 and 1986 but they were still too small. As the powerful new owners raided rivals in a desperate attempt to bring themselves up

to critical mass there was a hiring frenzy. Analysts who researched investment ideas, sales people who passed those ideas on to investors, traders who used their firm's own money to meet client orders – demand for them all far outstripped supply. Corporate financiers with access to the boardrooms of big companies wanting to raise capital were also much sought after. Pay rates were bid higher and higher. Signing-on fees – golden hellos – were sometimes used to induce staff to jump ship.

It was an easy sell for the recruiters. The paternalistic bond between the City's employers and employees had been broken by the mass redundancies of 1974, and the search firms that sprang up at the time of Big Bang found a receptive audience among the brokers and dealers. The 'marzipan' layer of talented young women and men just below partnership level, so called because they were below the icing but above the cake, were especially keen to talk. Expectations of big bucks, lock-ins and incentives replaced gratitude for a 10 per cent bonus and a turkey at Christmas. The executive search industry whipped up the fervour and bagged its fees – often a third of a successfully placed candidate's first-year compensation.

Bycroft was the right man in the right place at the right time. He built a portfolio of banking clients but did not act for one client against another. Ambitious banks with an appetite for hiring were particularly prized and Bycroft's firm carefully nurtured a relationship with Barclays as they felt their way into investment banking.

His first involvement had been back in 1985 and came direct from Camoys, by this time chief executive of the new investment bank. Camoys had spent the previous year and a half with Buxton negotiating the purchase of Wedd Durlacher and De Zoete & Bevan. Integrating the two was a torturous process because people who had run their own businesses found it hard to adapt to corporate life, and Camoys had to settle frequent turf wars between warring tribes. Technology systems, client coverage and reporting lines – the brokers, traders and bankers – would argue about everything. It was energy sapping and time consuming and deflected management from keeping up with developments across the Atlantic, where Bill Cook at Morgan Stanley and other Bill Cooks at other Wall Street firms were

busy developing the computer-based trading systems that would raise the bar for the rest of the world.

Camoys needed help, ideally a chairman of BZW who could deal with clients and regulators and keep track of the ever-changing industry. He raised the idea with Bevan, who said: 'You are quite right. As it happens, I've already approached someone.' Camoys was affronted: 'Without speaking to me first? Who is it?' Bevan mentioned the name of a leading businessman and Camoys snapped back: 'He's not an investment banker. I can't run the business and teach a novice.' He told Bevan that if the proposed appointment went ahead, he would leave. It was a threat that would be used often by Camoys' successors without being meant but this headstrong aristocrat clearly did mean every word. It was only a year until Big Bang and for Barclays to lose the architect of the investment bank at this stage would be a disaster. Bevan backed down and told Camoys to come up with some ideas of his own.

It was a situation tailor made for Bycroft's firm. Top of their list was a former tax barrister, Sir Martin Jacomb.<sup>2</sup> Jacomb was fifty-five, already a City grandee, vice-chairman of Kleinwort Benson, an adviser to the governor of the Bank of England and a recent member of the Takeover Panel, the City's most prestigious regulator. They knew that he was disappointed to have been passed over for Kleinwort's chairmanship two years previously.

Jacomb was a shrewd reader of the banking industry. Like Bevan and Camoys, he could see the tide flowing from old-style lending to the bond markets. He also appreciated that only the best-capitalized investment banks had a chance of competing in this new world and that simply by virtue of its size, Barclays had some advantages over Kleinwort. On 21 May 1985 Jacomb's appointment as chairman of BZW and deputy chairman of Barclays plc was announced. He started work on 1 July.

It had been a sweet moment, plucking a man of Jacomb's eminence from a blue-blooded house like Kleinwort and slotting him into a clearing bank. Bank watchers said it showed that Barclays, not to mention Bycroft and his firm, were forces to be reckoned with in the new world of investment banking. But on 12 July, not a fortnight

after Jacomb started at Barclays, the old City adage 'If you can't take a joke, don't work in the stock market' came into play and this time the joke was on him, Bycroft's firm and Barclays.

The day started innocuously enough. Jacomb was still finding his feet in his new office when he received a telephone call from Michael Hawkes, the veteran banker who had beaten him to the chairman's job at Kleinwort. Hawkes asked if they could have a chat that morning, there being something that Jacomb ought to know. It was a five-minute walk between Kleinwort's offices near Fenchurch Street station and Gracechurch Street, where Jacomb was based. To the casual observer Hawkes looked every inch the sober banker he was, silver-grey hair, silk tie and pressed handkerchief peeping from the breast pocket of his beautifully tailored suit, but closer inspection would have revealed a spring in his step.<sup>3</sup> For while Jacomb had been on garden leave in June, Kleinwort had been negotiating with several partners of Wedd Durlacher, the trading firm Barclays had just bought. The previous day negotiations had been completed and Kleinwort had signed them up.

This was the most dramatic raid on one bank's staff by another that the City had ever known. Trading skills were crucial to the successful transition from old-style lending to modern-day investment banking: that was why Barclays had bought Wedd. Kleinwort had been priced out of the auction for Wedd but they now simply marched in and recruited eight of their most able traders. It was a stunning reply to those who had regarded Jacomb's departure to a bigger rival as a sign that Kleinwort could not compete with the big investment banks that were being formed.

Hawkes had joined Kleinwort straight from Gray's Inn in 1954, when men wore bowler hats in the City streets and rival firms treated each other with respect. In his world, gentlemen dealt with each other face-to-face and Hawkes felt that on a matter of this sensitivity a chairman-to-chairman discussion was appropriate.<sup>4</sup> It must have been an irony-clad meeting. The two lawyers turned financiers, only recently competing as colleagues for the chairmanship of Kleinwort, were now meeting as representatives of rival firms a matter of weeks after one of them had told the other of his own departure.

Word quickly spread through Barclays that an enormous hole had

been knocked into its trading operation. BZW's top management, including Jacomb, were summoned to Lombard Street to explain what had happened and Barclays insisted on renegotiating the price they were to pay for Wedd from £100 million down to £80 million.<sup>5</sup>

The Kleinwort raid showed how fluid able people could be in the fast deregulating City. Big Bang was now little more than a year away. No one knew quite what to expect as trading moved from direct contact on the Stock Exchange floor into the anonymous electronic dealing rooms that banks such as Barclays now had to design and construct. Fortunately for Bycroft, there were plenty of teams to build and for head hunters with his connections, these were prosperous years.

## 27 OCTOBER 1986

Tension was high at BZW on the first day of trading under the new system. Parties had been held the previous Friday to mark the end of dealing on the Stock Exchange floor, and after weekends of rehearsals all the technology was in place. Now it was for real. From now on, deals would be done over the telephone and by computers: face-to-face trading where people elbowed each other across the floor and could see each other's expressions ended very suddenly. With it went some of the trust, obligation and long-term relationships which had sustained the sleepy City of London for decades.

On the first day of Big Bang, BZW's staff were told to be ready for work at seven in the morning, an hour and a half earlier than before. Timetables were studied to check out the early trains, hotel rooms were booked and commuters from the outer suburbs wondered if they would have to move closer to London. As the day developed, it all became real and the teams Camoys had put together started to function as one. De Zoete's salespeople had to negotiate commission rates with clients and then persuade Wedd's traders to buy or sell at a competitive rate. It was less clubby and more aggressive, but people learned quickly.

Lower dealing costs, government privatizations of state-owned industries, a cut in stamp duty in the 1986 budget and the Thatcher-Reagan

feel good factor boosted stock market turnover. The value of shares traded doubled and then trebled in the months after Big Bang. The markets and the technology coped with the revolution, the City was euphoric and the business Tom Camoys had built immediately established itself as one of the leading firms.

It was all going smoothly when in June 1987 BZW had some terrible news. The strain and the lifestyle had told on Camoys and at the age of forty-seven, he suffered a stroke. It was a great shock to both the firm and the family. Stonor Park was not yet paying its way, BZW was at a critical stage and both businesses required Camoys' attention, but he had to step down as chief executive of BZW, later to return as deputy chair. A new chief executive was urgently required, and Jacomb turned to Bycroft's firm for help.

Camoys' illness left a huge gap but it also presented an opportunity to bring in a banker with different skills. Many corporate clients still regarded Barclays principally as a lending bank and preferred to use more established investment banks – Goldman Sachs, Morgan Stanley and Merrill Lynch, for example – to raise money in capital markets and the old City merchant banks such as Warburg, Kleinwort and Schroders for corporate finance advice. Although BZW was functioning well, Barclays was actually not much nearer solving the strategic problem that had first drawn it into investment banking. The next chief executive would need to be someone who could persuade big corporate clients to do capital markets business with Barclays as well as being able to manage the trading business.

It was still only a year after Big Bang. British corporate financiers had little direct experience of capital markets since the merchant banks where they learned their craft had until 1986 been prevented by Stock Exchange rules from working directly in securities markets. As a result, they lacked first-hand knowledge of running a capital markets deal. American investment bankers understood exactly how such markets worked but few of them knew their way around the City or the UK's corporate boardrooms. Bycroft needed to find someone familiar with both the City and the capital markets. It was a small field but he thought he knew just the man.

David Band was the son of an Edinburgh doctor, educated in the

1950s at Rugby, the English public school made famous by *Tom Brown's Schooldays*, and emerging with confidence and good connections to study French and German at Oxford. From there he joined J. P. Morgan in London in 1964 and soon demonstrated an ease with clients and an instinctive feel for the bond markets. His star rose rapidly. By 1976, he was running J. P. Morgan's South-east Asian operations from Singapore. He moved as general manager to Paris and then to New York as a senior vice-president in charge of international capital markets. In 1987, when Bycroft came calling, he was running J. P. Morgan in London.<sup>6</sup>

It was quite an honour. The great John Pierpont Morgan and the bank he founded dominated American corporate and banking life in the late nineteenth and early twentieth centuries and was still a force to be reckoned with. It chose both its clients and its staff carefully. J. P. Morgan exuded discreet power. The bank's traditional headquarters at 23 Wall Street bore no name; everyone knew the building simply as the House of Morgan. The culture was calm, considered and meticulous. Trainees of a previous generation were taught the rudiments of banking and even how to fold the *Wall Street Journal* lengthwise on a crowded subway train to be able to read it while other travellers sweated away. To become a J. P. Morgan client said something about a firm's quality; to become an employee suggested you were a person of integrity and discretion.

Senior people rarely left J. P. Morgan but Bycroft had noticed that Band had lost out in a management reshuffle at the end of 1986 and thought that he was worth approaching. If Band could be tempted to leave J. P. Morgan, BZW would capture a man reputed to have the skills it needed to make the next step in investment banking.

Band was a keen skier and tennis player, stayed slim and tanned and was always beautifully dressed in expensive shirts and suits. With bright eyes, a Roman nose and light brown swept-back hair, he cut an impressive figure. He proved to be an easier hire than Bycroft or Jacomb expected. Band enjoyed a drink, which did not sit well with J. P. Morgan's discreet style, and his career there had already peaked. They politely expressed their regrets at his resignation but did not get in the way. On 10 February 1988 BZW announced Band's appointment as its new chief executive.

## ‘LOOK AT MY WAD!’

The late 1980s and early 90s were the years when most of the British public first became aware of the City. Prime Minister Thatcher’s vision of a share-owning democracy had led to the privatization of state-owned enterprises such as British Telecom and British Gas. Millions of people became stock market investors for the first time, lured by the prospect of shares at a discount and television advertisements exhorting them to let their friends in on the story: ‘If you see Sid, tell him,’ ran the punchline of a famous commercial for British Gas shares.

Global stock markets ripped up and down as the British and American governments’ deregulation of business and markets and reduced taxation of personal and corporate income allowed the animal spirits to run loose. It was the age of the yuppies and their Sloane Ranger girlfriends. They drank and they drove Flaming Ferraris. News bulletins showed agitated young men in fashionable striped shirts and braces yelling down their phones in dealing rooms the size of football fields. The action was gripping, especially at moments such as Black Monday, 19 October 1987, when after an unexpected rise in US interest rates from 8.75 to 9.75 per cent – with London paralysed after freak winds – markets fell by nearly a quarter in two days.

Publicized by the government’s privatizations, the drama of volatile markets and the theatre of the dealing room, the City infiltrated popular culture. Buying and selling, working hard and playing hard, looking after number one replaced old-fashioned attitudes such as loyalty, commitment and community. In pre-Thatcher, pre-Big Bang Britain, it was poor form to speak openly about money; after Big Bang, it was exactly what everyone was talking about. In 1988 the comedian Harry Enfield’s first words as a plasterer on the topical satire show *Friday Night Live* were: ‘Look at that! Look at my wad! I’ve got loadsamoney.’ The phrase promptly entered the national lexicon.<sup>7</sup>

It was exciting, racy and looked very glamorous. But after a promising first year, Big Bang stopped working for the firms that were trying to take advantage of it. Lower charges encouraged investors to

deal more but the increase in trading volume was not enough to compensate for the reduction in commission on each share traded, nor was market making the profitable business the new firms hoped it would be. Combined with rising staff costs and expensive technology this meant that few of the businesses that had been put together made money and BZW was no exception. Between 1987 and 1991, it barely covered its costs. It never made an acceptable return on the £1 billion of capital it employed, let alone justified the amount of time that Barclays' senior management had to spend on it. In 1991, under pressure from the board and shareholders, Band took an axe to the sprawling BZW empire, closing some businesses, including the only recently expanded US equities operation, and laying off 10 per cent of the staff.<sup>8</sup>

This surgery was accompanied by the transfer of all of Barclays' money market and treasury operations from the clearing bank into BZW, a sleight of hand that made the investment bank look better and briefly took the pressure off. Treasury and money markets involved low-risk trading of IOUs issued by governments and financial institutions in return for short-term cash. It was an old bank business, staffed by old City dealing types and more akin to traditional banking than new investment banking and the gift of such a profitable business increased the hostility felt by the traditional corporate bankers towards BZW. But the move had the effect of boosting BZW's published results for 1992 to £304 million, more than the total it had earned during the rest of its existence, and BZW suddenly felt good about itself. It felt even better in 1993, when favourable markets, privatization work and some clever corporate finance deals helped it to profits of £501 million and a return on capital of over 40 per cent.<sup>9</sup> These were spectacular results: every £100 that had been invested in the business produced a return of £40 that year. If that could be sustained, BZW would have paid everything back to shareholders in a couple more years.

Band had a slight Scots accent with an American euro-banker drawl and a manner of speaking in mangled sentences that sometimes baffled his audience but he knew his way around the UK corporate circuit. He had a good instinct for customers' needs and understood the bond markets. His vision for BZW, like that of its

founder Camoys, was for it to become a global bank like J. P. Morgan, and by the end of 1993 it looked as though he had pulled it off.

If the story had stopped then, everyone would have been happy. Band, although now drinking heavily, was delivering. Barclays' board was enjoying the plaudits from shareholders for sticking with investment banking. BZW's staff had grown from 1,300 at the time of Big Bang to nearly 6,000 and shared a £100 million bonus pool; Bycroft's firm had recruited over one hundred of them. Search had become a big business and Bycroft and his ilk had used the demand for qualified people to ratchet up pay in the City. In the 1970s, partners lived in nice houses in Kent and took holidays in Tuscany; others travelled in from the suburbs and went on package holidays. In the 1990s, twenty-somethings with three years' experience were demanding six-figure compensation and thought nothing of flying off to Vegas for a stag weekend, while their bosses now lived in Chelsea and holidayed in yachts off the Côte d'Azur. For those on the inside, be they brokers, bankers or the search consultants who placed them, every ticket was golden.