Opinion **The FT View**

Metro panic shows need for more proactive regulation

The bank's problems are not comparable to those of Northern Rock

THE EDITORIAL BOARD

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The long queues that formed at several Metro Bank branches in west London on Sunday have been seen by some, especially on social media, as an alarming echo of the days just before Northern Rock's collapse in 2007. The comparison is irresponsible. This lender's problems — a few dozen customers emptying their safety deposit boxes amid unfounded rumours of imminent collapse — cannot be likened to those of a defunct bank whose woes foreshadowed the global financial crisis. Conflating them risks creating a vicious circle of customer panic.

There are crucial differences with Northern Rock in 2007. Its undoing was its reliance for the majority of its funding on volatile bond and commercial paper markets, not deposits. When those markets seized up, afflicted by fears of a global crisis, Northern Rock was very quickly unable to operate. Metro's loan book, by contrast, is fully covered by its customer deposits.

As a backstop, regulators now operate a thorough deposit guarantee scheme, safeguarding up to £85,000 of savers' money, to mitigate the risk of a panicked run on deposits. Back in 2007 only the first £2,000 of savings was fully guaranteed. And as an extra safeguard, banks today are required by regulators to comply with far tougher equity capital demands.

Even if the worst did happen and a bank of Metro's size did fail, it would pose no broader danger. Northern Rock was a top five mortgage lender and its collapse shocked the system. Metro is barely a fifth of its size.

None of the above is any reason to be complacent. There are lessons to learn. As Metro's anchor shareholders, among them Fidelity and Wellington, will be only too aware, being in thrall to a powerful individual such as Metro's co-founder and chairman Vernon Hill is a big risk. Business founders need chutzpah to launch their ideas, but if left unchecked that power and influence can easily turn sour. After an 11 per cent fall on Monday, the share price is down nearly 90 per cent from its high last year. Anyone planning to buy into the £350m capital raising expected this week should do so with their eyes open.

Metro has been its own worst enemy. The root cause of current jitters is the bank's disclosure that it had miscalculated its capital needs, having underestimated the riskiness of some mortgage loans. But analysts had raised suspicions over the issue the previous autumn. If the error was an accident, as Metro Bank has maintained, there are important questions to answer. One is why it took so long for management and regulators to identify it. Another is why nearly four more months elapsed without the bank raising the fresh capital it needs. Finally, why has no one taken responsibility for the error and the other issues that have destroyed the market's faith in this bank?

Beyond these specific issues, regulators have another, more important job to do now — as guarantors of stability. Metro's woes should be a reminder that panic can spread fast, and would be far more dangerous at a major bank. In Northern Rock's days, it happened via television. Social media are far faster and less responsible, and the risk of alarm is that much greater.

Cause for any such alarm today, however, is much less, given the extent of the Financial Services Compensation Scheme's deposit guarantee. Like most global peers, the FSCS and the UK's two main financial regulators — the Bank of England's Prudential Regulation Authority and the Financial Conduct Authority — do limited marketing of the safeguarding work they now do. To preserve financial stability in an age of unfiltered social media, they need to take a far more proactive approach.

Letter in response to this editorial:

Echoes of the US savings and loan industry's collapse / From Alex J Pollock, Distinguished Senior Fellow, R Street Institute, Washington, DC, US