

Outlook

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The burning question for Co-op depositors

Co-op's beleaguered bank is often held up as proof that things have changed in the world of financial services. Here, it has been said by many eminent people, an institution that was broken has been put on its feet again without recourse to public funds.

Unfortunately the good news story on which so many were pinning their hopes needs to be put on hold because the Co-operative Bank is not co-operating. It's back on the critical list.

Another £400m has to be raised from investors to keep the show on the road after the new management found a JCB-full of dirt that we didn't previously know about.

The problems range from simple lapses in record-keeping, to the need for more funds to cover compensation for those mis-sold interest rate swaps, to "technical" breaches of the Consumer Credit Act. Oops.

The bank's new boss, Niall Booker, said his "jaw dropped" when people started to put costs on issues like this, which have been identified by the bank's "liability management exercise".

His is not the only jaw on the

floor. Using such a bland corporate term for this appalling mess is akin to describing radiation as magic moonbeams.

What should be keeping Mr Booker and his regulators awake at night is the question of what happens if the hedge funds who bailed the thing out last time decide not to throw good money after bad.

It's not as if the Co-operative

6 Finding a new home for your money has never been easier thanks to the new account switching service

Group is flush with cash it could throw into its bank's hat, and who else in their right mind would invest in a ship that has a hole below the waterline that everyone thought (and were told) had been more or less plugged?

There's a similarly burning ques-

tion for Co-op's depositors, and that should be just as worrying for the men at the top: why hang around and put your money at risk while they sort this one out?

It's true that the bank's key stakeholders are a way from throwing in the towel, and even were that to happen, there is a compensation scheme covering nearly all deposits.

But do its customers really want to rely on that, when finding a new home for their money has never been easier thanks to the shiny new account switching service that the Payments Council is overseeing?

There are many Co-op depositors who may feel that the rational decision is to put it to the test.

All the evidence suggests that switching accounts is now very much easier than it used to be.

Co-op and its regulators need to be alive to the unintended consequences of that.