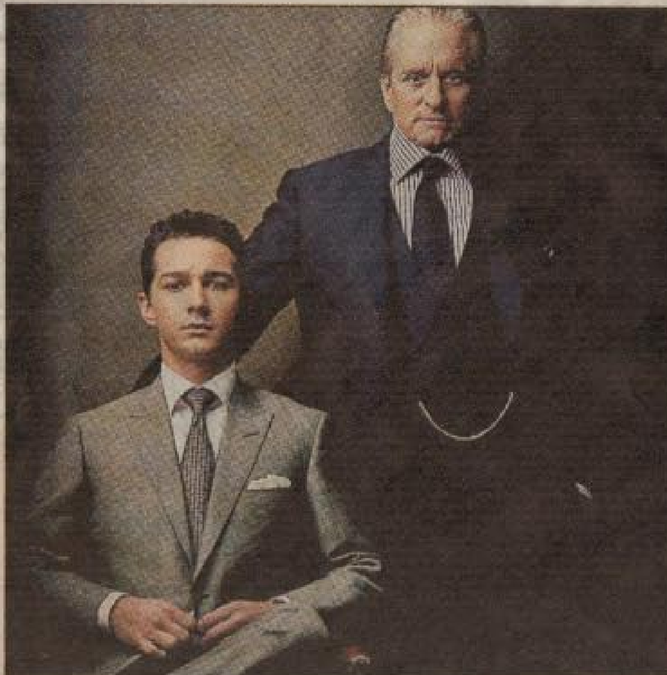

Bad role models: Michael Douglas as Gordon Gekko and Shia LaBeouf as Jacob Moore in Wall Street: Money Never Sleeps

Proof banks don't have to be run the Gordon Gekko way

While competitors refuse to learn from their mistakes one outfit is still profiting from old-fashioned virtues

Ian Birrell

SO HERE we go again. More sound and fury over the banks. Last week began with the controversial results of the Vickers review and ended with more banker-bashing. Now some of Britain's most hated men must stand up and justify their giant bonuses to shareholders.

First up is Stephen Hester, helmsman at the Royal Bank of Scotland, who is explaining today why he deserves £7.7 million to run the bank that blew its inheritance. He is also telling his annual meeting why his part-nationalised operation must offer staff new incentive schemes of four times their salaries. Oh yes, and why 323 workers in risk-sensitive roles deserved to share £375 million. Nice work if you can get it.

He will be followed by the other unrepentant bank chiefs justifying the indecent perks of their jobs. Doubtless they will continue to stress that they are sensitive to public concerns, that they are listening to calls for restraint and that, regrettably of course, there is no option but to take massive rewards because of competition in the market.

The one consolation is that things in this country have not quite reached the obscenity of the United States, where it was recently revealed that 25 hedge fund managers took home £22 billion last year, even though hedge funds on average performed worse than the global index of stocks. A decade ago, the top 25 earned $5 billion.

But there remains justified public outrage at bailed-out bankers hanging on to bonuses while the country suffers £81 billion of cuts and tax rises partly as a result of their folly. To make matters worse, as every business knows to its cost, the key obstacle to growth is the banks' obstinate refusal to lend, throttling healthy firms to death and choking those trying to expand.

To rub our faces in it, the head of high-street banking at Santander has just been lured to Lloyds to join her former boss. Nothing demonstrates better the industry focus on short-term rewards to shareholders and staff instead of long-term service to customers; Santander may be adored in the City but it comes bottom of customer satisfaction ratings compiled by Which?

Amid all this, politicians joust to look as tough as possible in public while privately accepting the importance of bank tax receipts, voters refuse to accept their own responsibility for the debt bubble, and the banks, threatened with moderate new regulations, make empty threats to move abroad. All very depressing.

The banks' strategy is to portray themselves as fall guys. When Northern Rock collapsed in 2008, a press release claimed it was the "victim of the global financial crisis" rather than run by cowboys chasing market share. Last weekend, one top banker was overheard at a conference saying: "We were just the waiters at the party." Most waiters don't get drunk and wreck the restaurant.

But there is an alternative. It comes in the shape of a folksy Swedish bank that has quietly come here, is building up its presence fast and whose success undermines every claim made by those myopic bankers in their Bentleys.

The bank is called Handelsbanken. It is one of the biggest banks in Europe and will soon open its 100th branch in Britain, but since it does not spend a fortune on vainglorious ad campaigns you probably haven't noticed its arrival. There are several reasons why you should.

First, it does not pay its top brass bonuses. Yes, you read that correct. The bank takes the unfashionable view that executives should be motivated by a rewarding job rather than pots of gold. Its annual report hammers this home, saying rightly that long-term confidence does not sit alongside short-term rewards. And its staff tend to stick around, in defiance of the City mantra that if you don't pay up you lose your talent.

Second, it operates what is known internally as the "church tower principle", which translates as only doing business with people you can see from the local church tower. This means credit decisions – and, critically, responsibility – is taken at branch level. There are no targets, no rewards for high volume loans, no profit goals – and it employs friendly people to answer its phones, not annoying machines.

Local managers deal with all customers, whether penniless students, high-worth families or corporate giants. Instead of applying nationally-set formulas, they decide on 98 per cent of loans. And if something goes wrong, they pick up the pieces instead of having specialist central teams sort out the problems, as happens at rivals.

And third, a complicated incentive scheme ensures that if the bank does well, all staff get rewarded. They get an equal share, whether chairman or cashier – but it only gets paid upon retirement, to encourage loyalty and long-termism.

The creator of this system was a far-sighted chief executive in the 1970s called Jan Wallander, who believed that bonuses were destabilising and divisive. Instead, he thought the bank would thrive if staff were given entrepreneurial freedom and decent career prospects. His simple methods, relying on trust and job satisfaction, have proved visionary.

The proof is the ease with which Handelsbanken sailed through two banking crises that felled brasher rivals. It was the only major domestic lender to avoid state aid during the terrible Swedish banking crisis at the start of the 1990s, then posted record results even as Lehman Brothers crashed three years ago. For nearly four decades it has consistently delivered better than average returns.

Amid the furore over bank bonuses and governance, could the solution be something as revolutionary as old-fashioned banking? One man who thinks so is Niels Kroner, a former McKinsey consultant, who wrote a book about Handelsbanken called A Blueprint for Better Banking. "It has never made a loss and is more profitable than its competitors," he says. "So much for the bankers' argument that you cannot run a bank without bonuses."

This combination of trust, transparency and devolution is a remarkably up-to-date philosophy, in tune with the best modern practices. But it is gratifying to learn that greed is not good – and that bankers should start looking more to the likes of Captain Mainwaring than to Gordon Gekko.

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