

Change Management – The Price Of Getting It Wrong

Medium Fintech Edition — Why Growth Without Commensurate Governance Investment Is A Named Regulatory Failure

A Charterhouse Consultants white paper by Bridget Convey, August 2025.

Executive Summary

This paper makes one claim, applied to medium-scale fintech and challenger banks specifically. The exact phrase UK regulators used to describe Metro Bank's 2019 accounting crisis should be read as a diagnosis that applies far beyond one bank: the firm pursued a rapid growth and expansion plan without ensuring the commensurate development of, and investment in, governance arrangements and systems and controls. In January 2019, Metro Bank admitted it had misclassified around £900 million of commercial loans, understating their risk by as much as 65 percent. The bank's market value fell by roughly £1.2 billion, it was forced into a £350 million emergency equity raise, both its CEO and founder ultimately departed, and years of regulatory fines followed. This paper argues that at medium scale, exactly the stage where a fintech or challenger bank has proven its model and is scaling fast, the temptation to let governance lag behind growth is strongest, and the consequences of doing so are now precisely documented.

The Premise: The Gap Is The Danger, Not The Growth Itself

Metro Bank, founded in 2010, pursued an aggressive branch expansion and customer growth strategy built around a genuinely differentiated model, prioritising in-branch customer service at a time when competitors were closing branches. That growth strategy was not the problem. The Bank of England's own enforcement findings are explicit about what was: in the years before the 2019 crisis, Metro Bank increased its branch network, its customer base, and its lending and deposit volumes, but failed to ensure its regulatory reporting governance and controls developed at a matching pace. The specific technical failure, applying a 35 percent risk weighting to certain commercial real estate loans that should have carried a 100 percent weighting, understated the bank's true risk exposure by 65 percent for years before anyone caught it.

This is the mechanism this paper is built on, described almost exactly in the regulator's own language. A medium-sized, fast-growing financial institution accumulates operational and reporting complexity as it scales, and if governance investment does not scale at the same pace, the gap between what the institution's systems can accurately report and what is actually happening inside the business widens quietly, for years, until an external party, in Metro Bank's case the Bank of England itself, rather than the bank's own internal review, discovers it first.

What The Gap Between Growth And Governance Actually Cost

The immediate market reaction was severe. Metro Bank's share price fell 40 percent on the day the error was disclosed, and the bank's overall market capitalisation dropped by an estimated £1.2 billion in the aftermath. The bank was forced to raise £350 million in emergency equity financing to cover the regulatory capital shortfall the misclassified loans had created. In a separate but related governance controversy the same year, the bank severed ties with an architecture firm owned by the wife of its founder and chairman, Vernon Hill, after criticism over £25 million in payments made to the firm, and Hill resigned from the bank entirely by October 2019 as both controversies compounded.

The regulatory consequences continued accumulating for years after the initial crisis. In December 2021, the Bank of England's Prudential Regulation Authority fined Metro Bank £5.4 million specifically for failures in regulatory reporting governance and controls, finding the bank had presented an inaccurate picture of its regulatory capital position for nearly three years, between May 2016 and January 2019. In December 2022, the Financial Conduct Authority fined the bank a further £10 million for breaching Listing Rules by publishing incorrect information to investors, with the former Chief Executive and Chief Financial Officer personally fined £223,100 and £134,600 respectively. By October 2023, the bank required a further rescue deal worth £925 million combined in new debt and equity financing, alongside a strategic pivot away from its original high-street branch expansion model entirely.

The Evidence: This Is A Named, Recurring Pattern At Medium Scale

Regulators Have Now Formally Documented The Mechanism

The Bank of England's own enforcement notice against Metro Bank does not describe an unforeseeable technical accident. It describes a company that pursued a rapid growth and expansion plan and increased its number of high-street branches and customers, growing core deposits and lending, while failing to ensure the commensurate development of, and investment in, governance arrangements and systems and controls relating to its regulatory reporting. This is, in effect, a regulator formally naming the exact mechanism this paper series has documented across every sector: growth as change, governance failing to change at the same pace.

The Governance Gap At Medium Scale Is Particularly Dangerous Because It Is Least Visible

Medium-scale fintechs and challenger banks occupy a specific danger zone: large enough to attract genuine regulatory and market scrutiny, but often still operating governance functions sized for an earlier, smaller stage of growth. Metro Bank's own COREP regulatory reporting failures persisted for nearly three years, between 2016 and 2019, before being caught, and critically, were identified by the regulator itself rather than by the bank's own internal controls, directly contradicting Metro Bank's initial public claim that the error had been found through internal review. That detail matters specifically for governance credibility: a firm whose own account of how a problem was discovered later proves inaccurate faces a compounded trust deficit on top of the original technical failure.

Medium Fintech In Three Horizons: The Gap Closes Or It Does Not?

Two Years: 2026 To 2028

What happens everywhere: medium-scale fintechs and challenger banks continue rapid growth phases, frequently prioritising customer acquisition and branch or product expansion metrics over matching governance investment.

- Thrive path. Firms build a formal, board-level trigger requiring governance and controls investment to scale in direct proportion to defined growth milestones, following the specific gap the Bank of England identified at Metro Bank.
- Die path. Firms continue treating governance investment as a cost to be deferred until growth slows, and a comparable multi-year reporting gap, caught eventually by a regulator rather than internally, recurs at another medium-scale institution.

Five Years: 2028 To 2031

What happens everywhere: regulators, having documented the Metro Bank pattern explicitly, increasingly scrutinise medium-scale institutions' governance investment specifically against their growth trajectory, not just their absolute size.

- Thrive path. Firms that proactively demonstrate governance investment scaling with growth are rewarded with lighter-touch supervision and faster regulatory approval for further expansion, converting governance discipline into genuine commercial advantage.
- Die path. Firms that cannot demonstrate this proportionality face increasingly intrusive supervision, slowing the very growth their under-investment in governance was originally intended to protect.

Ten Years: 2031 To 2036

What happens everywhere: the medium-fintech growth stage becomes formally recognised, in regulatory and investor practice alike, as the highest-risk point in an institution's lifecycle for exactly the governance-lag reasons Metro Bank's case established.

- Thrive path. Firms that closed the gap early are the ones that successfully graduate to large-fintech scale with governance credibility intact, avoiding the compounded reputational cost of a public regulatory finding.
- Die path. Firms that never closed the gap either stall permanently at medium scale, unable to gain the trust needed for further growth, or repeat Metro Bank's pattern of crisis, emergency capital raise, and strategic retrenchment.

What I Am Recommending To Medium Fintech And Challenger Bank Boards

- Formally link governance and controls investment to growth milestones, so that a defined increase in branches, customers, or lending volume automatically triggers a corresponding governance capacity review, rather than leaving the decision to informal judgement.
- Ensure regulatory reporting controls are independently tested, not solely self-assessed, given that Metro Bank's own claim about how its error was discovered later proved inaccurate, and the discrepancy itself became a further point of regulatory and market concern.
- Treat any founder or leadership-adjacent related-party arrangement with the same governance rigour applied to unrelated transactions, since Metro Bank's separate architecture firm controversy compounded rather than existed independently of the core accounting crisis.

Conclusion

Metro Bank's crisis is, in the regulator's own words, a textbook case of growth outpacing governance, and it is precisely because that description came directly from the Bank of England's formal enforcement action that this paper treats it as the clearest available evidence for medium-scale fintech risk anywhere in this series. Nine hundred million pounds in misclassified risk, £1.2 billion in lost market value, £350 million in emergency capital, and £15 million in combined regulatory fines were not the cost of Metro Bank's growth ambition. They were the cost of governance that did not grow at the same pace as that ambition, discovered not by the bank itself but by the regulator supervising it. For every medium-scale fintech currently in a genuine growth phase, that is not a historical case study. It is a live description of the exact risk currently accumulating, quietly, inside the business.