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1

Introduction

The global banking world has been transformed by the crisis which commenced in mid-2007 and reached a climax – for the time being! – in October 2008 with a firestorm which brought about the collapse of a number of US and other banking institutions and an entry of government ownership and intervention unprecedented since the 1930s.

The overall objective of this book is to provide insights into what bankers, their regulators, investors, advisors and other constituencies have learned from this traumatic experience with a view to planning for the future. It draws on a series of 25 in-depth interviews with such senior executives as well as the research carried out by official bodies such as the International Monetary Fund, consulting firms and bank analysts.

Written in early 2009, it cannot pretend to draw a line under a crisis whose evolution has consistently confounded the so-called experts. This show will run and run! But bank management must manage for the future on the basis of the evidence available. Some business models are destined for the junk heap, while others may evolve in a different direction. Bank regulators, governments and rating agencies must shape their policies to reflect the new realities. And perhaps most interesting of all, bank investors must review their former growth model for bank stocks, which arguably has been a major driver of the banking crisis.

More specifically, as strategy consultants our focus in this volume will be on strategic models which should stand the test of time in this new banking world. To anchor this analysis in the real world,

2 *Banking in Turmoil*

we profile a number of actual case studies of successful major banking institutions across the world. Each is based on a business model which, in the view of our interviewees, has navigated the crisis to date with success and is likely to continue to do so.

In making this selection, we acknowledge that the current crisis has scarred virtually every possible candidate for inclusion in the list, and experience since 2007 has clearly demonstrated the limitations of projecting past results! Yet we believe that the generic lessons are valid and offer at least the basis on which other banks might ground their own strategy.

We commence the body of this analysis with Chapter 2, which briefly summarizes how the crisis evolved from July 2007 until the end of 2008 with its transformation of banking structures and ownership. Our focus is on the contributing factors, the data which track its evolution and the new insights obtained as the crisis evolves. Avid readers of the financial press, in particular the *Financial Times*, may wish to skip over this chapter, but for others it may be a useful explanation of how losses on a segment of the US mortgage market morphed into the worst global banking and economic crisis since the US meltdown in the 1930s.

The insights from our interview series and data analysis commence with Chapter 3, which provides the answers to a central question with which we opened each interview: ‘what have we learned from this experience which is relevant for future planning?’ Our interview base includes senior bankers (including two chairmen of major global banks), regulators in the US and UK, the major rating agencies, and experienced bank analysts and management consultants from leading firms in major financial centres.

The dominant issue in the ‘turmoil’ has been risk management, and Chapter 4 addresses the lessons of experience since mid-2007. In sum, how might the various constituencies – the banks themselves, investors, rating agencies, governments and regulators – improve their ability to detect and resolve issues which by the end of 2008 have generated over a trillion dollars of losses for the banks alone, quite apart from other financial institutions and investors? While many of these constituencies have yet to agree a new regulatory framework, its possible outlines are beginning to take shape.

Chapter 5 focuses on business models – in effect, the strategic decisions made to allocate resources – as well as perennial issues,

such as that of size and complexity, which now raise new questions in a quasi-nationalized banking world. The three core strategic dimensions – client base, product line and geographic scope – are each addressed on the basis of our interview series.

The related issues of leadership and culture are the focus of Chapter 6. In our earlier books on best practice in bank management, we have found that these ‘soft’ issues are central to bank performance, and the recent turnover of top management in troubled banks has given added meaning to the issue of the ability of senior bankers to manage a large and complex business.

Chapter 7 provides the views of industry analysts and our interviewees on the likely evolution of banking profits and returns on equity over the intermediate term. A number of useful empirical studies, usually based on data from previous banking and economic cycles going back to the 1930s, provide a useful consensus on the intermediate term outlook for bank profits and returns on investment in the new environment. Such views are understandably couched in tentative terms, given the uncertainties in particular for the real world economic impact of the banking crisis in 2009–2010, but also for the issue of valuing the toxic exposures many banks continue to carry on their balance sheets.

Our focus on bank strategies continues with Chapter 8, which profiles a number of banking institutions cited by our interviewees as successful business models which might be relevant for their peers. As indicated above, such past success is no guarantee of future results, but the models may be useful to peer banks and other constituencies. Every effort has been made to select cases from a variety of banks from different sectors and geographies. The format of the case studies includes a brief profile of the bank, analysis of its basic strategy and our views on the possible outlook for the future.

Chapter 9 provides a brief summary of our findings as well as our interviewees’ and our own view of the outlook for the future for banking strategies. A particular effort has been made to identify issues which have not been resolved by this crisis and may reasonably be expected to recur in the future, and those policies and mechanisms which hopefully will be put in place to prevent such a repeat performance.

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