Banking, Regulation, and Politics: Recent Developments from a Global Perspective

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The global financial architecture
International Banking  (Economist Survey, May 2005)  
Title: “Open wider”. Some headlines:

- Uneven regulation and protectionist practices are holding back international competition in banking
- America’s banking patchwork holds together, but only just
- European banking integration is slow and imperfect
- Banks want to keep their payment systems to themselves
- Is greed good? Sometimes banks can seem too profitable
- Indian defense: How bank regulators keep out competition
- Crusader castles - Building impregnable banks carries its own dangers
International Banking  (Economist Survey, May 2006)
Title: “Thinking big”. Some headlines:

- Banks the world over are scrambling to become larger, whether by organic growth or by mergers and acquisitions. But does size matter?
- When banks go wrong, the biggest come off worst. But that doesn’t stop the scramble for growth
- One Basel leads to another
- What single market? But western European banks are at last beginning to do more cross-border business
- International banking:
  - Austrian banks have led the way in eastern Europe
  - Russian banks worth having are few and far between
  - Brazil’s banks charge startling rates to private customers
  - Overprotected it may be, but India’s banking sector is going from strength to strength
  - Financial services in China are set for huge growth, but there is no easy way in
  - Japan’s banks have restructured and consolidated. Now they must find new ways of making money
International Banking (Economist Special Report, May 2007)

Title: “Risk and Reward”. Some headlines:

- Global investment banks are taking ever more risk, and are devising ever more sophisticated ways of spreading it
- Investment banks’ inventions for transforming risks are ingenious, but hard to fathom
- Relentless competition is forcing financial firms to take more risks with their own capital
- Advising on, financing and investing in buy-outs is a great business. But banks should not be too greedy
- Investment banks are scouring the globe for new business
- In Asia, banks have to try harder
- Regulators are doing their best to ensure financial stability, but they don’t have all the answers
- Investment banks are a high-wire act. How good are the safety-nets?
- Is risk ending up in the right places?
Title: “Paradise lost”. Some headlines:

- Banks are bound to fail from time to time. But does the fallout have to be so painful?
- Securitization has its flaws, but many of them can be mitigated
- Risk managers take a hard look at themselves
- An accounting standard comes under the microscope
- Bankers’ pay is an easy target. Is it the right one?
- Managers of banks face a tricky balancing-act
- Regulators need to counterbalance the cycle, not accentuate it
- A simple way of curbing banks’ greed
- The crisis may have chastened the industry, but for how long?
- Cross-border supervision needs more attention
Title: “Rebuilding the Banks”. Some headlines:

- Exit right (the contract between society and banks will get stricter)
- Don’t blame Canada (a country that got things right)
- From asset to liability (the shifting shape of bank balance-sheets)
- Too big to swallow (the future of securitisation is the industry’s most pressing question)
- Opportunity gently knocks (who will gain from the crisis?)
- The revolution within (the way banks manage risks will change - as will the way they reward managers)
- Back at the branch (more Swedish lessons for the banking industry)
- From great to good (banks will still make money, just less of it)
The Big Questions in Banking / Financial Services

• Future regulation of financial services industry
  • What to regulate: Scale / Scope
  • Who regulates: Regulator / Central Bank
  • Who to regulate: Banks / other financial institutions
  • How / how much to regulate: Risk management
• What to do with the „too big to fail“ Mega-Banks
  • With/without bail-out money
• What to do with executive compensation
  • Bonus / Salary
• How to position the financial centers
  • Taxation
  • Secrecy/Privacy
### Changing places ... in terms of market capitalizations

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<tr>
<td>1</td>
<td>Citibank</td>
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<td>Bank of Tokyo Mitsubishi UFJ</td>
<td>Goldman Sachs</td>
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<td>US Bancorp.</td>
<td>Commonwealth Bank of Australia</td>
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The successful bank of the next years …

- Right choices in
  - Activity domains (based on size, growth, competitive structure, contestability)
  - Client domains (value creation for banks AND clients)
  - Geographic domains

- **Right approach towards risk**
  - Disciplined, risk-return-based approach to internal capital allocation
  - Keep the long term view
  - **Don’t gamble with the “black swans” if your business model is based on trust**

- Right communication / leadership
  - Communicate what you do (good, bad, ugly)
  - Keep strong emphasis on brand/franchise/culture
  - Be consequent in your approach. Talk is cheap, execution is crucial