

Case Studies on  
**Global Banking Industry: The New Horizons**

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## OVERVIEW

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In a period of 10 years, the global banking industry, one of the most important and profitable industries of the world economy, has witnessed innumerable trends. Among them, few are significant and worth mentioning.

The first one has been competition. As a result of deregulation and technological evolution across the banking industries in prominent nations, competition increased manifold. Marketable instruments started competing with loans and demand deposits, thus squeezing the margins of commercial banks. While it was common for banks to generate 90% revenue from interest income in the 1990s, in 2000 interest income contributed only 60% and sometimes even 40%.<sup>1</sup>

To increase top line growth, many banks had to shift gears. They began focusing on businesses like pensions, insurance, asset management and investment banking. In the United States many banks even began referring to themselves as financial service companies. Diversification emerged as one of the most significant trend in the global banking industry, leading to a key question – what is a bank today?

As barriers between financial service sub-industries disappeared, the concept of banking has transformed. Traditionally, banks used to offer restricted services like safeguarding money and valuables, providing loans, credit, and payment services such as checking accounts, money orders and cashier's checks. This old-fashioned concept of banks, where transaction management was the only core activity and extensive brand network, front end people and huge back offices were the only core assets, is soon dying out and a new scenario is emerging.

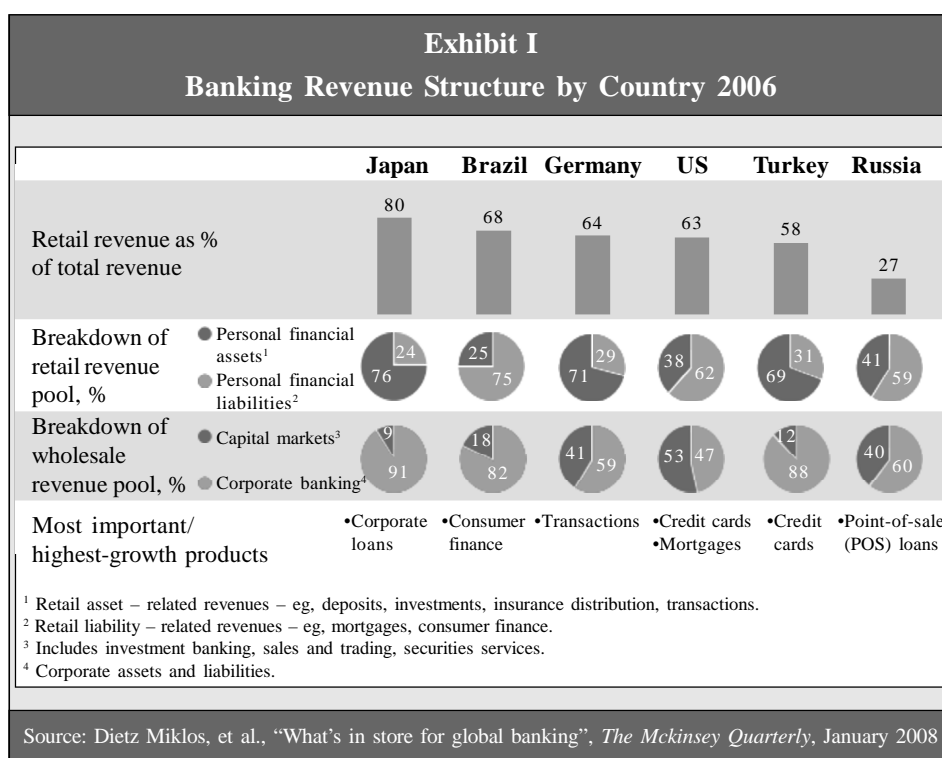
In the new scenario, profits along with risks have multiplied. As capital markets play an all important role, banks generate a major chunk of their income from fees for investment services and derivatives. Apart from that, private banking and investment banking have emerged as the most profitable segments. Through private banking, banks have been offering services including asset management to aristocrats. On the other hand, investment banking offers services like identifying possible merger targets, financing acquisitions of other companies, dealing in security underwritings, providing strategic advice and offering hedging services against market risk to multinational corporations. With new risks inherently seeping in, the importance of financial risk management has become overwhelming for banks. However, diversification has not always proved to be an effective strategy. Banks that cannot withstand the pressure, concentrate on a specialised area. For example, in the UK, retail banking still generates remarkable profits.

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<sup>1</sup> "Global Banking Industry", [http://media.wiley.com/product\\_data/excerpt/34/04713931/0471393134.pdf](http://media.wiley.com/product_data/excerpt/34/04713931/0471393134.pdf)

Unlike such banks, others who desired to be global players reinvented themselves many times. The long-term success of the banking industry depends on being in the right place at the right time. Moreover, a critical success factor for banks is the size. As costs increased and margins decreased, banks have invariably tried to expand their size. Evidence suggests that the bigger the bank the lower is the per unit transaction cost ratio. This temptation has resulted in consolidation in the global banking industry. For example, in 1996 the US banking industry witnessed a consolidation boom. A year later, with the merger between UBS and Swiss bank corporation (SBC), the European banking industry consolidated into one of the largest banks in the world. Apart from economies of scale, consolidation provided access to distribution channels, broader range of products, wider customer base and opportunities to enter new geographical markets.

While these trends have impacted banking industries worldwide, none of the banking industries are converging around a single structure or following the same market dynamics (Exhibit I). With a striking difference in banking around the world, banking has emerged as an interesting as well as a puzzling industry. In spite of the fact that it is the most profitable industry, there have been events like the Black Monday in 1987 and the dot com debacle in 2001.



This book unveils the mystery of banking industry. Through cases that cover each and every aspect of banks from branding to mergers and acquisitions, this book answers how banks have tried to grow successfully or unsuccessfully. After years of following its traditional banking style, Bank of Baroda transformed its brand image successfully in a short span of 53 days. How did the bank achieve it? Moreover while Kaupthing, an Icelandic bank, concentrated on expanding through fast-paced acquisitions, Citigroup pursued a contrarian approach of slower growth through small-scale acquisitions. What are the reasons and logic? Which strategy is better? Moreover, why did a bank in Japan face a crisis, while at the same time another bank in the US was growing? By unfolding dramas of such real time bank scenarios, this book enables readers to learn the nitty gritty of the global banking industry.