Universal Banking Post Crisis: Past and Future of International Corporate and Personal Banking

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This paper reviews the characteristics of the international incursions by banks since the early 1990s, examines the implications of the US subprime meltdown crisis and ensuing credit crunch for the pursuit of international banking activities, and provides a strategic framework for the decision making by banks regarding the scope of their international operations in the years to come. We conclude that international banks, while remaining loyal to universal banking in terms of scope of activities, will tend to become much more selective regarding the reach of the chosen set of financial services activities to be pursued internationally.

Field: International Banking

Keywords: wholesale bank, universal bank, personal banking, wealth management.

JEL Classification: G18, G21, G28.

I. INTRODUCTION

The 1990s were a period of fast expansion and re-invention for the banking industry globally. Three main factors affecting the fundamentals of financial intermediation contributed to this: major regulatory changes, an extraordinary acceleration in the use of digital technology, and the explosive growth of the securities markets.

On the regulatory front, substantial changes in favor of financial liberalization came about almost simultaneously on both sides of the Atlantic. In Europe, the Financial Services Action Plan (1999) formalized a series of measures towards a single wholesale financial market and a more open retail market in the European Union, completing a process of gradual reduction of barriers to cross-border financial intermediation initiated ten years prior with the EU Second
Banking Directive of 1989 (Dermine, 2002). In the U.S., over six decades of regulatory obstacles to, both, interstate banking and universal banking were removed. In 1994, The Riegel-Neal Interstate Banking Act revoked the restrictions to interstate mergers among banks which had been put in place by the McFadden Act in 1927; and The Gramm-Leach-Bliley Act (or The Bank Holding Company Act) completed the elimination of regulatory constraints to securities underwriting activities by commercial banks originally set in place by The Glass-Steagall Act in 1933 (Bodie, 2005).

On the technological front, a substantial acceleration of a paper-to-digital trend revolutionized how financial information is assembled and disseminated, how credit risk is assessed, priced and provisioned against, how large volumes of loans could be classified, bundled and securitized, how contractual obligations are established and monitored, and how trades are conducted and settled.

Finally, and very much facilitated by the above - there was an explosive growth of the securities markets, putting downward pressure on the spreads commercial banks could earn on better known credit risks and pushing them, particularly over the past two decades, towards the pursuit of, both, the capital markets activities and higher margin consumer finance endeavors, at home and abroad.

This long period of a purely market driven broadening of scope and geographic reach of activities by leading banks around the globe came to a halt in 2008. The U.S. subprime meltdown crisis and the ensuing global credit crunch triggered, both, a process of government assisted financial industry consolidation in many countries around the world and a re-examination of bank regulation globally towards significantly tighter minimum capital and liquidity requirements for banks in the years to come.
In the following sections, this paper revisits the nature of gains of scale and scope that have driven international corporate and personal banking incursions by leading banks globally over the past twenty years, examine how the recent U.S. subprime meltdown and global credit crunch have affected banks’ pursuit of universal banking strategies globally, and conclude with the outline of a strategic framework for decision making by banks regarding the scope and reach of their international operations.

II. FROM CORPORATE COMMERCIAL TO WHOLESALE BANKING

Other things equal, increased competition for a certain asset class by institutional investors (such as pension funds, insurance companies, asset managers, and hedge funds) puts a downward pressure on the spread banks can charge for taking that credit risk (Crosse et al, 1973). As credit opportunities in one country become also of interest and available to lenders and investors from other countries, credit spreads tend to narrow further (Marshall et al, 1994).

The extraordinary reduction in the costs associated with bridging the information asymmetry between savers and borrowers, brought about by the rapid processes of technological change, financial liberalization and growth of securities markets, had the effect of increasing the competition for the best credit risks. Balance sheet carry of institutional credit risk - the core source of revenues for the traditional corporate commercial bank - gradually became less and less financially rewarding.

The response by most leading corporate commercial lenders was to seek to lever on their access to - and understanding of the credit risk of - institutional clients to pursue the investment banking activities of securities underwriting.
Some banks, such as JPMorgan (JPMorgan, 2012) decided to build the most critical missing piece, access to investors - or securities sales and distribution - from within. Others chose to pursue the acquisition of investment banks, as amply illustrated in Exhibit 1 below.

Exhibit 1 - Commercial Banks’ Acquisitions of Investment Banks, 1989 - 2006

| Year | Acquirer        | Country of Origin | Target            | Country of Origin |
|------|-----------------|-------------------|-------------------|-------------------|
| 1989 | Deutsche Bank   | Germany           | Morgan Grenfell   | U.K.              |
| 1995 | Dresdner Bank   | Germany           | Kleinworth Benson | U.K.              |
| 1995 | ING             | Netherlands       | Barings          | U.K.              |
| 1996 | Credit Suisse   | Switzerland       | First Boston     | U.S.              |
| 1997 | Nations Bank    | U.S.              | Montgomery Secs  | U.S.              |
| 1997 | BancBoston      | U.S.              | R. Stephenson    | U.S.              |
| 1997 | Bankers Trust   | U.S.              | Alex Brown       | U.S.              |
| 1998 | SBC             | Switzerland       | Warburg D. Read  | U.K.              |
| 1998 | Credit Suisse   | Switzerland       | Banco Garantia   | Brazil            |
| 1999 | Chase Manhattan | U.S.              | Hambrecht & Quist| U.S.              |
| 1999 | Deutsche Bank   | Germany           | Bankers Trust    | U.S.              |
| 2000 | Citigroup       | U.S.              | Schroder         | U.K.              |
| 2000 | Credit Suisse   | Switzerland       | DLJ              | U.S.              |
| 2000 | UBS             | Switzerland       | Paine Webber     | U.S.              |
| 2001 | SunTrust        | U.S.              | Robinson Humphrey| U.S.              |
| 2003 | Chase Bank      | U.S.              | R. Flemings      | U.S.              |
| 2003 | Wachovia        | U.S.              | Prudential       | U.S.              |
| 2006 | Wachovia        | U.S.              | A.G. Edwards     | U.S.              |
| 2006 | UBS             | Switzerland       | Banco Pactual    | Brazil            |
| 2006 | Wells Fargo     | U.S.              | Barrington Assoc.| U.S.              |

Since the financial services offered to large corporations are also demanded by government entities and by other financial institutions, most banks have converged to group these institutional customers into a major single coverage umbrella; the wholesale bank (Apostolik et al, 2009), be it called Institutional Clients Group (Citicorp, e.g. Citibank Inc., 2011), Corporate and Investment Bank (BNP Paribas, Deutsche Bank, UniCredit, e.g. UniCredit,
III. FROM DOMESTIC TO INTERNATIONAL PERSONAL BANKING

Until the early 1980’s banks tended to divide the coverage of their individual customer base in, essentially, two major groups: the consumer bank, serving the public-at-large; and the private bank, offering the more personalized attention of specialized banking executives to high net-worth individuals and families (Sinkey, 1998).

Regardless of income level, net worth, or any other cultural and/or geographic consideration, an individual’s need for financial services will always combine the demands for payment services (such as checking accounts and debit cards), credit products (such as overdraft accounts, personal, auto, mortgage and home equity loans, credit card facilities), investment products (such as savings accounts, brokerage services, investment funds), and insurance (such as auto, home, health and retirement). The challenge for the financial institution is to establish and effectively manage the mix of personal banking products that can most efficiently capture the profit potential from its serving of constituencies with different characteristics and priorities (DiVanna, 2004).

In response to this challenge, banks around the world have continuously sought to refine their personal banking segmentation strategies (Venzin, 2009). In consumer banking, sub-segmentation tends to be guided by the customers’ income level, as a proxy for their likely demand for credit and ability to borrow. In private banking, sub-segmentation is primarily determined by the customers’ net-worth, as a proxy for their likely demand for wealth management assistance and willingness to invest.
The explosive growth of the securities markets globally over the past two decades has had the effect of making global wealth management an absolute priority for the private bank. At the same time, rich profit margins from domestic consumer lending led several banks to aggressively pursue the establishment of potentially even more profitable consumer finance abroad franchises overseas.

An examination of the key drivers of and challenges associated with each of these two distinct international personal banking strategies follows.

**INTERNATIONAL PRIVATE BANKING**

Until the late 1980s, high net-worth individuals had sought international private banking relationships with the primary objective of protection of their wealth from domestic turmoil and/or regulatory scrutiny. The fundamental change that occurred over the past two decades in the nature of international private banking was the shift in priorities by high net-worth individuals away from the safe heavens of low yielding deposits with a reliable international bank towards yield and globally diversified portfolios.

This shift, in large part due to the same reasons that transformed corporate and investment banking - lowering of barriers to international capital flows, technological change, and explosive growth of the securities markets - has been further stimulated by specific actions taken by governments around the world to enact and enforce stricter laws and tighter bank regulations against tax evasion and avoidance mechanisms (Croft, 2010, Nov 9).

Today, a private bank’s offering must combine the institution’s own convenience, credit, and investment management products with those of third party providers of asset management and insurance services. Client coverage is typically organized along two main dimensions, region of origin and size of net-worth (Maude, 2005). Other criteria, more directly related to potential revenues to be generated - such as account size and amount of investable assets - help the
financial institution to further sub-segment further (e.g. high, ultra-high and mega-high),
typically allocating a smaller number of customers of higher revenue potential to its more
seasoned private bankers.

Competition for wealth management services is fierce as very much engaged in it are not
only the world’s most well known international banks and non-bank providers of investment
advice and brokerage services but also leading regional private sector banks, such as Nordea
Bank (Nordic countries) and Itaú-Unibanco (Latin America). In addition, tighter regulations -
including the requirement for banks to ascertain the legitimacy of clients’ funds, with criminal
implications for bankers and severe penalties for the institution for failure to doing so - have also
contributed to put downward pressure on volumes and margins in private banking.

These factors have combined to provide two major incentives for cooperation between
private banking and investment banking divisions: first, cost sharing of support functions (such
as compliance and marketing); and second, business origination, as private bankers and
investment bankers are rewarded for the cross-sell of their respective capabilities and their joint
reinforcement of the institutional brand for sophisticated financial services. Recent public
statements by the leading global Swiss private banks, UBS and Credit Suisse, as quoted below,
provide evidence of this trend:

The Investment Bank is critical to the success of UBS’s strategy... We are repositioning the Investment Bank
to align our businesses more closely with the needs of our core clients and the wealth management franchise
and to address economic and regulatory changes that affect the entire industry (UBS AG. 2011. Form 20-F
Annual Report of 2011, pp. 77).

Due to the capabilities of our integrated business model, the ultra-high-net-worth client segment represents a
key growth area for Credit Suisse... In investment banking, we have also taken steps to evolve our business
model: We are investing in growing businesses where we have clear competitive advantages and can exploit
synergies with our Private Banking and asset Management businesses (Credit Suisse Group AG. 2011. Form
20-F Annual Report of 2011, Letter to shareholder).

INTERNATIONAL CONSUMER BANKING
The main obstacle for a bank considering entry into a foreign consumer banking market is the existence of well entrenched financial institutions that may already enjoy the advantages of significant distribution networks, already well entrenched and trusted brands, and cultural integration with the customer base.

Differently from, both, wholesale and private banking - where the customer perceives the foreign bank as a passport to the world - going abroad in consumer banking requires from the incoming financial institution to become operationally domestic overseas. Not surprisingly, entry by a consumer bank institution into a new market typically takes place through the acquisition of a local franchise.

Three major factors have contributed to a more aggressive international stance by certain banks towards consumer banking abroad: (i) technological breakthroughs, which have facilitated automated contracting, settlement and control of financial transactions, therefore allowing for much lower distribution cost of retail banking services; (ii) the combination of attractive margins with the apparent reliability of consumer behavior and credit models (Mays, 2004); and (iii) the lowering in many countries of regulatory restrictions to the acquisition of major domestic consumer banking franchises by foreign banks, therefore facilitating entry at economically viable scale of operations.

This balancing act between the attractiveness of margins versus the challenge associated with the establishment of viable scale operations overseas has led most banks to take regional approaches (Fiordelini, 2009) to international consumer banking (such as Commerzbank from Germany and UniCredit from Italy towards Central European countries or BBVA/Spain and Itau-Unibanco/Brazil towards Latin America).
The few banks that have chosen to pursue a more global approach to consumer banking have typically begun to move aggressively into a new region only after consolidating viable scales of operation in previous ones. These were the cases of HSBC/UK (Patil et al, 2007) towards the Americas from the late 1990s onwards, after having achieved strong competitive positions in many countries in Asia, of Banco Santander/Spain (Ghemawat et al, 2006) towards the U.S. and the U.K. in the early 2000s, after consolidating of strong consumer banking positions in many countries in Latin America, and of Citibank’s acquisition in 2001 of BANAMEX (Gelsi, 2001), a leading full-fledged commercial banking franchise in a neighboring and NAFTA member country.

As a final point, very low funding costs for banks between 2001 and 2006 (resulting, primarily, from historically low interest rates in the U.S.) combined with historically high rates of growth in consumer credit demand (fueled by an apparently sustainable global economic boom) to further entice the appetite of banks for consumer lending. Important transactions from this period were the acquisitions of Household Finance (U.S.) and Losango (Brazil) by HSBC in 2002 (HSBC Holding plc., 2002) and of Abbey National (U.K.) by Banco Santander in 2004 (Banco Santander S.A., 2004).

This long period of aggressive market driven pursuit by leading commercial banks around the world of, both, broader scope of activities (from commercial corporate and personal banking to universal banking, encompassing corporate banking, investment banking, private banking, asset management, commercial retail banking, consumer finance, and, in some cases, insurance) and greater geographic reach (from domestic to regional to increasingly international to, possibly, global) would come to a jolt in 2008 with the advent of the U.S. subprime meltdown, epitomized by the Lehman Brothers filing for Chapter 11 on September 15, and the ensuing
global credit crunch and economic recession. Lack of confidence by financial institutions around the world on each others’ financial health froze interbank credit, severely affecting credit availability to businesses and consumers as well as the fixed income and equity markets globally.

One indicator of the magnitude of the credit contraction globally was the abysmal drop in syndicated loan volume in OECD countries, from US$ 1.2 trillion in the third quarter of 2007 to under US$ 400 billion in the first quarter of 2009 (Chui, 2010).

IV. GOVERNMENT RESPONSE TO THE CRISIS

IMMEDIATE RESPONSE (2008-2009)

The immediate response by governments around the world to avoid the collapse of their financial systems was a combination of increased government backing of bank deposits, liquidity assistance by central banks to financial institutions (FIs) in their jurisdictions (US Fed’s agile liquidity support to other central banks via currency swaps facilitated this process) and, where immediately necessary, direct intervention by national treasuries - at tax payers’ expense - to assist major severely affected institutions.

This treasury backed assistance to major severely affected FIs - later to be characterized under Basel III as either systemically important financial institution (SIFIs) or domestic systemically important financial institutions (D-SIFIs) - took fundamentally two forms:

a) Recapitalization of troubled financial institutions - typically through purchase by national treasuries of convertible preferred stock - with de facto takeover of management control, such as: Fannie Mae, Freddie Mac and AIG in the US (September 2008); Royal Bank of Scotland (RBS), Lloyds Bank and HBOS in the UK (October 2008); Allied Irish Bank, Bank of
Ireland and Anglo Irish Bank, Ireland’s three largest banks (February 2009); Kaupthing, Glitnir and Landsbanki, Iceland’s three largest banks (October 2008).

b) Recapitalization of troubled financial institutions without a government takeover of management control, among which: US banks under its Troubled Assets Relief Program (TARP - approved by Congress in October 2008), most ostensibly, Citibank (November 2008) and Bank of America (early 2009); UBS (Switzerland, October 2008); ING (Deutschland, October 2008); and Commerzbank (Germany, Nov 2008).

REGULATORY DEVELOPMENTS (2009-current)

Recognition globally that excessive leverage, over-reliance on short-term funding and inadequate supervision by bank regulators had been at the root of the quasi collapse of the financial system led to a major revamping - not yet fully concluded - of bank regulation.

The new regulations already issued and in force, proposed and/or under discussion can all be bundled in two major categories: Basel III and Beyond Basel III norms.

Basel III, proposed in June 2011 by the Basel Committee on Bank Supervision (BCBS), represented a severe tightening of the previously prevailing Basel II regulatory standards. In addition, it imposed two new financial standards, minimum liquidity and maximum nominal leverage (BIS, June 2011).

Under Basel III, the set of financial requirements for banks to be implemented by regulators around the world in their individual geographic jurisdictions until 2019 can be summarized as follows:

(i) minimum common equity as a percentage of total risk weighted assets of 7% (up from 2% under Basel II), plus up to 2.5% of TRWA (as a minimum
countercyclical buffer to be imposed at the discretion of individual jurisdictions on internationally active banks under their supervision, plus an additional loss absorbency capacity of up to 3.5% of TRWA for systemically important financial institutions (SIFIs), as such identified by the BCBS upon consideration of five characteristics - size, cross jurisdictional activity, interconnectedness, substitutability, and complexity (BIS, November 2011).

(ii) minimum Liquidity Coverage Ratio (LCR), aimed at ensuring banks’ resilience to survive a 30-day stress scenario of eroded liquidity, and minimum Net Stable Funding Ratio, aimed at limiting banks’ over-reliance on potentially unstable short-term funding;

(iii) higher capital charges for off-balance sheet and derivatives exposures; and

(iv) maximum leverage constraint, through the requirement of minimum equity of 3% of total non-risk weighted assets.

In addition, with the goal of ending too big to fail - defined as a situation when a financial institution has to be bailed-out at tax payers’ expense - additional specific legislation has been developed and seeking to curb certain risk taking activities by banks and to facilitate timely intervention and orderly liquidation of SIFIs. The measures, currently being implemented or under advanced stage of debate for final ruling on both sides of the Atlantic, can be summarized as follows:

(i) restrictions to over-the-counter (OTC) derivatives trading that go beyond Basel III’s higher capital requirements for derivatives positions to force certain types of trades to be conducted only via central clearing platforms (CCPs);
(ii) explicit limitations to proprietary trading by banks (Volcker Rule in the U.S., Separate Legal Entity in EU; Ring Fence in the UK;)

(iii) Frequent (at least annual) stress-testing of SIFIs’ capital adequacy by their respective central banks (stress testing of capital adequacy is a recommendation to jurisdictional supervisors under the Basel III framework);

(iv) obligation for SIFIs to develop and maintain a *living wills* that provide regulators with a roadmap of how the bank’s management perceives the company could be orderly liquidated without disruption to the financial system;

(v) establishment of specific legislation empowering regulators to unilaterally place a SIFI in orderly liquidation and to conduct this process, beginning with the ousting of the company’s management and board and the wiping out of its equity holders.

While final rule making on several of these measures is still under debate, the consequences for SIFIS are clear: substantially higher capital requirements overall and for securities trading and off-balance sheet exposures in particular; severally regulatory restrictions to proprietary trading; and, last but not least, much closer regulatory scrutiny and supervision.

**V. PRIVATE SECTOR RESPONSE TO THE CRISIS**

The private sector banking industry response to-date to the crisis has been characterized by two distinct waves.

The first wave (2008-2009) comprehended emergency initiatives for recapitalization without loss of management control and opportunistic takeovers of weakened banks by healthier ones, the latter typically with some sort of material government (central bank liquidity support and/or treasury-backed guarantees for bad assets).
In the U.S., the two most visible private sector recapitalizations were of the investment banks Goldman Sachs and Morgan Stanley by, respectively, Berkshire Hathaway (U.S.) and Mitsubishi-UFJ (Japan). These transactions took place in the aftermath of the Lehman Brothers’ failure in September 2008, but only after the boards of directors of each of these two leading investment banks had unanimously acted to convert the legal status of their companies from *broker-dealers* into *bank holding companies*, as such, under Fed supervision and potential liquidity protection. The most important outright takeovers were of Bear Stearns (investment bank) and Washington Mutual (mortgage lender) by JPMorgan, of Countrywide (mortgage lender) and Merrill Lynch (investment bank) by Bank of America, and of Wachovia Bank (which had acquired Golden West in 2006) by Wells Fargo, all in 2008.

In Europe, the largest domestic transactions were the acquisitions of Dresdner Bank by Commerzbank in Germany (September 2008) and of HBOS by Lloyds Bank in the UK (January 2009). Important cross-border takeovers also occurred, such as the purchase of Citicorp’s consumer finance operations in Germany by France’s Credit Mutuel, of Fortis in Belgium by BNP Paribas (March 2009), and of the UK mortgage lenders Alliance & Leicester and Bradford & Bingley by Banco Santander (October 2008).

The second wave, begun in 2010, has been characterized by purely market driven initiatives by financial institutions globally to restore and/or strengthen capital via either divestment of non-core business activities, typically overseas, and by equity offerings, when viable.

Clear examples of such non-core overseas divestments by SIFIs were those of HSBC, of its retail banking franchises in Russia, Poland, Japan and Thailand and its domestic credit card operation in the U.S. (sold to Capital One); by Citibank, of its domestic credit card franchise in
Brazil (sold to Itaú-Unibanco) and of its equity stakes in HDFC (India) and Akbank (Turkey); and by ING (Holland) of its ING-Direct franchises in the U.S. (to Capital One) and in the U.K. (to Barclays), the latter also driven by target capital adequacy commitments made by ING to the Dutch treasury upon the granting of government support in 2008.

Bank valuations have to-date pushed banks to prioritize balance sheet de-risking coupled with low dividend pay-out ratios over shareholders’ dilution via equity offerings. Still, when viable the opportunity to tap the public has not been missed, as evidenced by Banco Santander’s listings of its Brazilian (Reuters, 2009) and Mexican subsidiaries (Merced, 2012). Through these well timed offerings, which involved double listings in the NYSE and in the domestic stock exchange of each subsidiary, Banco Santander (Spain) managed to raise over US$ 12 billion in fresh equity without loss of ownership control of these operations.

VI. PROSPECTIVE VIEW

The combination of government and private sector responses to-date to the crisis has resulted in an acceleration of the purely market driven process of concentration of the banking industry globally.

It has also reinforced the trend for banks of different jurisdictions around the world towards universal banking - including the U.S. where leading independent mortgage lenders and investment banks have been absorbed by universal banks, exception made to-date to Goldman Sachs and Morgan Stanley - now bank holding companies but not (yet?) also commercial banks.

Looking forward, the combination of new regulatory restrictions and lessons learned from the crisis should push SIFIs’ and D-SIFIs’ managements and boards of directors to have their
companies pursue much more carefully assessed and selective value driven business strategies in terms of, both, scope of activities and geographic presence.

In the Eurozone, once surpassed the ongoing sovereign debt turmoil, we should expect international mergers to accelerate, as stronger banks in one country begin to more aggressively pursue beyond their borders, both, gains of scale and stability of funding in Euros.

Greater internationalization is also likely via acquisitions by leading banks from countries less affected by the 2008 global financial crisis, such as financial institutions from Japan, China, Australia, Canada and Brazil that have seen their relative valuations vis-à-vis European and U.S. banks improve materially since 2008.

Generally speaking, the years ahead should be characterized by the obsessive pursuit by banks of reliable revenue growth at maximum efficiency, with renewed focus on client - personal and institutional retention and share of wallet maximization. The challenge before the boards of directors of banks around the world is to properly assess their companies’ strengths and weaknesses across the full spectrum of their institutions’ financial services offerings vis-à-vis those of their stronger competitors in each geographic arena under consideration, so that market shares can be achieved that ensure acceptable and sustainable returns on thoroughly determined economic capital allocated for each initiative at each jurisdiction. In other words - and as illustrated in Exhibit 2 - to be capable of putting in place and sustaining, an organization that can successfully achieve strong market positions - with virtually assured acceptable profitability - in all it chooses to do.

For major banks of countries around the world, this will most likely imply in continued domestic pursuit of leading positions across the spectrum of financial services to individual and
institutional clients in their home jurisdictions; but international ambition in a narrower second, and global reach only in an even narrower third set of financial service activities.

| Exhibit 2 - Strategic Framework for Banks |
|------------------------------------------|
| **Scope**                                | **Geography** | **Scale/Market Share** |
| Retail Banking                           | Domestic      | Leadership             |
| Commercial                               |               |                         |
| Consumer Finance                         |               |                         |
| SMEs Commercial                          |               |                         |
| Wholesale Banking                        | Regional      | Significant            |
| Corporate Commercial                     |               |                         |
| Transaction Services                     | Multi-regional|                         |
| Investment Banking                       |               | Participant            |
| Private Banking                          | Global        |                         |
| Asset Management                         |               |                         |
| Insurance                                |               |                         |

**VII. CONCLUDING REMARKS**

Over the past three decades three major factors have combined to bring about fast expansion and a re-invention of the financial services globally: (i) major regulatory changes, facilitating the broadening of scope of activities of banks and their internationalization; (ii) the extraordinary technological evolution of the means through which financial transactions are contracted and settled; and (iii) the explosive growth of securities markets.

These forces caused *corporate commercial banks* to aggressively pursue *investment banking activities*, made *global wealth management* an absolute priority for the *private bank*, and also created incentives for much closer cooperation between *private* and *investment banking* in
terms of, both, cost sharing of support functions and cross-sell of financial services. In addition, increasingly attractive margins of consumer financing activities - resulting from particularly low funding costs for financial intermediaries and global economic growth between 2002 and 2007 - caused banks to also pursue the acquisition of major consumer finance companies and/or mortgage lenders at home and abroad.

Most of the fundamental drivers of the trend towards universal banking observed in the almost three decades that preceded the 2008 U.S. subprime meltdown crisis and global credit crunch, in particular the synergies between institutional lending and securities underwriting and between investment banking and private banking, remain in place.

On the other hand, lessons learned by banks’ boards of directors and significantly tighter regulations will force banks to pursue much more carefully assessed and selective value driven business strategies in terms of, both, scope of activities and geographic presence).

The challenge for banks around the world is to properly assess their companies’ strengths and weaknesses across the full spectrum of their institutions’ financial services offerings vis-à-vis those of the stronger competitors in each geographic arena under consideration, so that economically viable market shares can be achieved. In other words, to be capable of putting in place and sustaining an organization that can successfully pursue strong market positions - with virtually assured acceptable profitability - in all it chooses to do.

For major banks of countries around the world, this will most likely imply in continued domestic pursuit of leading positions across the spectrum of financial services to individual and institutional clients in their home jurisdictions; but international ambition in a narrower second, and global reach only in an even narrower third set of financial service activities.
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