

# FINANCIAL NEWS

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## Banks need to stand out from the crowd

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The brand power of Morgan Stanley, Bank of America Merrill Lynch, JP Morgan Chase and Wells Fargo has declined since 2008, according to CoreBrand, a US-based research firm. CoreBrand places a value on a company's brand after developing quantitative data by surveying executives across the US. Merrill Lynch's brand power has declined the most, from a rating of 71 (out of 100) in the first quarter of 2008 to just 50 in the second quarter of 2011.

Aside from trading scandals and sky-high bonuses, a key factor in the reputational decline of banks was overexpansion. James Gregory, chief executive of CoreBrand, said: "I don't think that there will be the big 'do-it-all' banks of the past. They are going to have to focus on what they do best."

Investors are shunning banks. The KBX Bank index, consisting of 24 global banks, is down 28% year to date as of December 12. By contrast, the MSCI World index is down 9%.

While investors and clients have changed the way they view banks, the banking industry is also painting a new self-portrait of itself after a dire 2011. Headcount has dropped at nearly every bank, and the Volcker Rule and Basel regulations are forcing banks to shore up their balance sheets and exit unprofitable businesses.

Todd Berman, co-head of investment banking at Troika Dialog, said: "The crisis we have been living through has forced all financial institutions to look at their strategies to make sure they are able to create shareholder value."

European banks have been hit particularly hard. According to a Morgan Stanley report in November, European banks may have to deleverage by up to €2.5 trillion over the next 18 months to deal with increased funding and solvency pressures.

### The new normal

The regulatory and economic headwinds have forced banks to face up to unwelcome facts of 2011. Kinner Lakhani, a banking analyst at Citigroup, said: "The revenue pools for investment banks have been weaker than they expected and, as a result, the industry restructuring that most people thought would happen two to three years from now, has already begun."

Banks are now deciding on what remains profitable. Andrew Lim, banking analyst at Espirito Santo, said: “The top-tier banks should share the theme of retrenchment towards agency flow-driven businesses which are not too capital intensive.”

Deutsche Bank is doing just that. The German bank is the largest European investment bank in terms of revenue, and offers one of the widest ranges of products to its clients. It is sometimes called a flow monster – a bank that has a dominant position in sales and trading.

But, in November, it placed its asset management arm, one of the most capital-intensive businesses, under strategic review. According to one banking analyst who declined to be named, “the bank has also withdrawn from trading the more esoteric-driven but capital-intensive markets such as residential mortgage-backed securities”. Deutsche Bank did not respond to requests for comment.

Deutsche Bank’s smaller European rivals are struggling to let go. Despite cutting large swathes of capital-intensive businesses, such as shutting its commercial mortgage-backed securities business in November, Lim argues Credit Suisse is trying to hang on to others. He said: “They are a big player in RMBS trading. But trying to hang on to this may be a strategic mistake, because other peers are pulling out, leading to a withdrawal of liquidity, in turn resulting in pricing and valuation issues for those who remain in the business.”

Credit Suisse declined to comment.

In contrast to Deutsche Bank, UBS, Credit Suisse’s local rival, has turned towards its asset management business.

Lim said: “The Swiss bank is becoming a service centre for the key wealth management operations. They are cutting out capital-intensive trading business and concentrating on equities and debt capital markets, and plain vanilla fixed-income trading.”

## Products and clients

Seb Walker, partner at UK consultant Tricumen, said: “While it is true to say banks have fallen back on their core business in 2011, this is partly because cost constraints and volatile markets have made this the year where caution is the watchword.”

While Deutsche Bank is concentrating on flow, others have remained focused on client servicing. Lakhani said: “There will be a differentiation between banks that are product and client-led leaders globally, and for the second tier it will be a question of finding the right client-driven presence. There will always be a place for banks that have strong corporate relationships. Standard Chartered and HSBC are good examples of those types of banks.”

Despite the turmoil at the top, the global banks are unlikely to see any new competition. Barney Reynolds, head of financial institutions and regulation at law firm Shearman & Sterling, said: “Modern banking requires hugely complex and expensive infrastructure to be put in place with massive barriers to entry, so the Citis, JP Morgans, Barclays and Bank of Americas and the like have a significant advantage to capitalise upon.”

One banking analyst, who declined to be named, said Citi, Goldman Sachs, JP Morgan, Bank of America Merrill Lynch, Deutsche Bank and Barclays Capital were set to dominate the global investment banking industry in the coming years.

It is the banks stuck between the large global investment banks and the nimble boutiques that face the bleakest future. One vice-chairman at an investment bank said: “There will be a continued

polarisation between capital-hungry, full-service investment banks, capital-lite boutiques, and maybe not very much in the middle.”

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