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Book Review

Angel Berges, Mauro F. Guillén, Juan Pedro Moreno, Emilio Ontiveros, *A New Era in Banking. The Landscape After the Battle*, Bibliomotion, Brookline 2014, 186 pages

The recent global financial crisis was primarily a banking crisis. The financial crisis that began in 2007 triggered a break with banking practices of the past. Even as the crisis occurred, a broader set of economic, geopolitical and technological forces were already reshaping the financial industry's transition from the 20th to the 21st century. The collapse of Lehman Brothers was a watershed event for the financial system and for banking in particular. The banking industry faces a period of unprecedented change and an opportunity to re-architect banking businesses to be ready for the future. The financial crisis was the largest and most severe crisis to hit financial services in the era of global market integration, but it was not homogenous in its impact. And while many of the contributing causes were global, such as imbalances in global financial flows and the trends towards market liberalization, the impacts were centered on Western banks and financial markets.

In addition to rebuilding banking after the crisis, the world must adapt to a range of extraordinary changes. Banks must restructure, not to go back to basics but to move forward into uncharted territory. Each change in itself represents a huge challenge and opportunity for banks. Together they signify new rules of the game, new ways of doing

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business and a new competitive landscape. The new landscape is not a static environment. The world is more uncertain and volatile. For banks, future high performance will demand new capabilities and new principles that allow management to face these changes with greater agility. The leaders of banks today have a unique opportunity to remake their institutions for the future. There will be winners and losers. The journey starts with a clear appraisal of the new landscape.

Given the above, the area explored by: Angel Berges (professor of finance and international management at Universidad Autonoma de Madrid), Mauro F. Guillen (professor of international management at the Wharton School of the University of Pennsylvania and the director of the Lauder Institute of Management and International Studies), Juan Pedro Moreno (Accenture's senior managing director, global banking) and Emilio Ontiveros (an economics and business administration professor at the Universidad Autonoma de Madrid) seems all the more interesting and it fills a certain gap in academic research. The main objective is to identify and analyze the main drivers of change at the heart of this wholesale transformation of the financial services industry. The authors dissect demographic, economic, regulatory and technological change in order to assess the consequences for banking business models. They will examine the strengths of the emerging players in the field and also address what incumbent financial institutions have to do if they are to survive in the new landscape. The analysis seeks to untangle the severe mutations that have taken place in the in the banking sector, and to contextualize them within broader trends that go well beyond the strict confines of the crisis. Banks are more vulnerable than ever to the crosscurrents of economic, demographic, regulatory and technological change.

The book is divided into six chapters: **Macro Trends, Regulation, Competition, Legitimacy, Banking and the Digital Transformation, Operating in a New Landscape**. The authors provide analytical insight into the complex mass of trends and events affecting the banking sector. They will highlight the connections among them and show that addressing one factor in isolation is unlikely to provide a solid foundation of sustainable profitability for the banking sector as a whole. The authors dedicate a chapter each: to the issues of global macro trends affecting banking, the trends toward greater regulation, the new competitive dynamics in a fundamentally reshaped industry, the erosion of legitimacy and trust, and the challenge and opportunities in the area of digital banking.

The landscape after the battle is exceedingly complex and mired in uncertainty. The authors summarize the key factors affecting banking at the present time and into the near future. In Chapter 1 they will deal with macro trends affecting banking, including changing demographics, global patterns of economic activity and emerging technology. The four key demographic, economic and technological macro trends the authors have

identified are transforming the banking landscape in game-changing ways. The first has to do with population aging, which is altering market dynamics not only in developed countries but in emerging economies as well, ushering in both a large generation of retirees and a new, brave generation of young millennials. This generation is skeptical about traditional banks and banking practices, if not hostile to them. The second is the phenomenal growth of emerging economies, which have come to account for more than half of global economic activity, and whose financial sectors are expanding fast as well. The third is the rise of the global middle class of consumers, driven by the increasing importance of the emerging world. And the fourth is the revolution in connectivity and mobility enabled by new technology. The confluence of demographic, economic, financial and technological trends poses distinct challenges for banks. Their business model and strategies have been rendered at least partially obsolete, especially with the changes in regulation and competitive dynamics stemming from the global financial crisis.

Perhaps the most debated area of financial services that people associate with the global financial crisis, the one that triggered the Great Recession of 2008–2009, is regulatory failure. Regulation lies at the heart of the banking business because it has a large impact on levels of risk, growth and profitability. Moreover, regulation defines the social contract between the banking system and society. In practical terms, there are six main areas of regulation with the potential to significantly alter the landscape of the financial services industry: new capital requirements in banking; new risk – management approaches; separation of activities; incentives; consumer protection; new taxes on banking and other financial activities. Regulatory changes in each of these fields have already been intense and, more importantly, agreed on at an internationally coordinated basis, laying the foundations for a more level playing field in international banking.

The global banking business is going to face dramatic change in the competitive landscape. The banking industry is also going to be transformed by the emergence of alternative forms of financial intermediation, from shadow banking to peer-to-peer lending. Some of those new finance alternatives, like shadow banking, emerge mainly as a way to eliminate regulations or limitations to traditional banking. Others, like peer-to-peer lending or crowd funding – new developments facilitated by social networks – are keeping banks from performing their lending function for specific borrowers.

In Chapter 4 the authors concentrate on the legitimacy of banks. It has suffered along three distinct dimensions. The first is a decline in the trust that the public, government officials and regulators have traditionally placed in the banks. The second has manifested itself as a criticism of compensation levels and systems for bankers, traders and other bank employees. The entire model of corporate governance has been called into question. The third has to do with the decline in customer loyalty. Banks are peculiar institutions,

as they are built on trust. Savers, depositors, investors, borrowers and people or businesses making payments need banks. In order to leverage themselves, banks need to develop trust in their business model.

In Chapter 5 the authors describe the impact of the digital transformation on the banking. The digital revolution has the potential of transforming every aspect of daily life, and it will most likely lead to a large-scale shakeout in the banking sector. The bank of the future may well be an information-processing company. Telecommunication and information technologies are already changing the ways in which banks relate to their customers and to regulators. Banks are also experimenting with new ways of organizing work internally and networking with other financial and nonfinancial institutions. Information technologies and mobile banking pose a threat to the traditional model of relationship-based and branch-centered banking. Fully taking advantage of the digital revolution will require banks to change their culture as well as significant aspects of their business model. The banking sector has become much more porous than in the past, in the sense that it is easier for competitors (non-bank competitors) to enter the industry. New forms of doing finance and new technology have altered the landscape.

The final chapter is entitled: Operating in a New Landscape. The economic, demographic, technological, competitive, regulatory and reputational challenges faced by banks at the present time cannot be dealt with in a piecemeal fashion because they are inextricably linked to one another. It is the most interesting part of the book. The authors present the five banking strategic dimensions (strategic alignment, incentives, human resources, internal processes, customer interface) in interaction with for drivers of change (macro trends, regulation, competition and legitimacy). Generally speaking, the global banking landscape has already changed, and will continue to undergo massive changes. Banks and financial institutions face a new set of challenges and opportunities.