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# The Lehman fallout



By Karen Cho

**The banking industry, post-Lehman Brothers, is going to be quite a different one going forward, because the impact of the banking crisis was so profound that changes are inevitable.**

“I think the subprime crisis is an inflexion point,” says Sir Win Bischoff, chairman of Lloyds Banking Group. “I think it's the first time that there has really been a separation between the developed economies and the emerging markets or the developing economies. Yes, they've been hit also but their banking system funnily enough has not been as hard hit.”

“Yes, some of their banks have been hit while operating in the United States, and so on. But it's really the developed countries' banks that have been hit. South Africa hasn't been hit very hard. Brazilian banks are in good shape. Obviously, Chinese and Indian banks are in reasonable shape, Singaporean and so on,” he told Antonio Fatas, INSEAD Professor of Economics in a recent Leadercast interview.

Other changes that are emerging concern the “reputational aspect” of banking. Where it was once previously regarded as a respectable profession, Bischoff says “it's really right at the bottom,” because banking is currently not all that highly regarded, even though a majority of the people who work

in banks didn't make the decisions that led to the problems.

As such, he adds that it's imperative for banks to win back the trust in the organisation. "Once banking organisations have the trust of the citizens -- and I suspect that may happen if we turn the business around and if governments can actually sell the shares either at a profit, or not at a very large loss -- I think that will be helpful. But before that, I think bankers will go through some difficulties."

Some things, however, won't change. For example, the role of government as financial regulator is something which Bischoff doesn't think will come to pass. "It's not a good thing for a government to be involved. I think no -- whether left of centre, or right of centre -- government really wants to be a shareholder in a bank.

They would like to be able to blame (others) -- because if things go wrong they get blamed. And they don't sit on boards; they don't want to sit on boards. They don't really want to be insiders. So they'd like to have a slightly distant attitude but, of course, they have responsibilities. And that doesn't marry all that easily."

The former chairman of Citigroup is quick to point out though that it was necessary for governments to step in when they did with bailouts and stimulus packages. "If the governments hadn't in fact intervened, not just in those banks which have had to have continuing support from governments but also those who, like Goldmans and so on, have actually repaid, but on the day they needed the money. So I think my own view is that obviously we should try and get to a regime where this is not necessary."

Bischoff also does not believe there will be a move towards the downsizing of financial institutions either, despite some stirrings within the industry about the need to scale down the capacity of banks.

"Our system of course tends to either reward or put forward people who like growing things. I think we don't actually reward people who downsize things. I mean it's not what we do; our system doesn't work that way. And therefore I think to downsize companies by regulatory fiat is going to be quite difficult."

He offers as a more likely scenario, one in which larger institutions will need to have 'proportionately more' capital. "The capital markets may in fact be in the way that they value these institutions, maybe saying to managers,

‘Actually Mr X or Ms Y, CEO of this institution, it is better for your rating and your shareholders to have two companies, A and B, which together have a higher value’ -- and you see this in other industries -- than to have one which has got a different kind of capital regime,” he explains.

But one thing, however, remains clear -- and that is the industry faces many challenges ahead. Bischoff says the intellectual challenge “is very considerable” and that is going to make for very “interesting” times ahead.

He predicts, for example, a move to niche banking, as opposed to the large consolidated banks. “Boutique banks in particular, on the advisory side, will for a time be quite attractive because they’re not associated with all the transactional side of things.”

“Innovation, on the other hand, will still be hugely important in financial services -- to deal with the environment, carbon trading, infrastructure spending, the whole area of pension funding and so on.”

Most of all, banking in general, Bischoff feels, has been much maligned. “Banks are very important transmission mechanisms. They are intermediation institutions and so on. And the citizens of countries find it quite odd that, while politicians criticise the banks, they've actually poured vast sums of taxpayers' money into them. I think it would be better to criticise the bankers. The banks are inanimate objects. I think if they are run well, they are very, very important for us in our system.”

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