

# The fall of the universal bank

## Exit the rock-star bosses

Before the great crash of 2008, the universal banks swaggered around London, Hong Kong and New York. Barclays, Citigroup, Credit Suisse, Deutsche and UBS imagined they could be all things to investors in (almost) all corners of the globe. Five years on, in 2013, such ambitions will seem quaint as the American and European banks find themselves either shrinking further or increasingly marginalised.

Far from competing in every category from asset management to equity derivatives and fixed income, the universal banks will abandon businesses and locations, through forced disposals or severe cost-cutting. From the ruins, a new order will emerge: one with different capital structures, new credit channels and a continued shift in power towards Asian institutions, some of which will be either partly or wholly government-owned.

The decline of the universal bank will pass unlamented. The promise of the cross-selling financial supermarket has long been eclipsed by the destruction of shareholder value after the crash. Sandy Weill, universal banking's evangelist-in-chief when at the helm of Citigroup, recanted publicly in 2012. In 2013, combining stolid utility banking and bonus-hungry investment banking under one roof will look even more questionable. As one City of London veteran says: "It's like putting Tesco together with Harrods—it doesn't work."

The new banking order in 2013 will not be fashioned by a son-of-Glass Steagall, the Depression-era act which separated commercial lending and investment banking. There will be little appetite for a giant legislative overhaul, coming on top of America's Dodd-Frank act and Britain's Vickers commission. Instead, the power of universal banks will be eroded by market forces driven by the new Basel 3 rules on capital ratios as well as a more intangible but vital factor: culture.

In 2012 universal bankers and, more importantly, their clients at last realised that financial capitalism had moved too far towards transaction banking at the expense of "relationship banking". Politicians and regulators won the argument. Bankers came to understand that in a world of lower leverage—using money borrowed on the wholesale markets to invest—the old turbo-charged transaction model no longer worked. The libor rate-fixing scandal was the final straw.

The power of universal banks will be eroded by market forces

In 2013 the rock-star banking CEO typified by Bob Diamond at Barclays will be consigned temporarily to the Hall of Infamy. Power will either be shared (at Deutsche, Anshu Jain, a high-flying Indian investment banker, serves as co-CEO alongside Jürgen Fitschen, an older German) or invested in a low-profile CEO like Antony Jenkins, a sober retail banker who has succeeded the abrasive Mr Diamond at Barclays, or like Michael Corbat, who has succeeded Vikram Pandit at Citigroup. Expect further moves at the universal banks, with Brady Dougan at Credit Suisse among the vulnerable.

Naturally, some masters of the universe will insist that nothing has changed. Jamie Dimon of JPMorgan Chase, unbowed despite the “London Whale” trading loss of 2012, has invested too much in the universal-banking model to retreat. But Mr Dimon will remain a quintessentially American banker with little desire to expand in emerging markets such as Africa, Latin America or the Middle East. Even HSBC, which touted its “global-local” footprint from every airport billboard, is pulling back under its new CEO, Stuart Gulliver, with the exception being an expansion by the bank in China.

#### Beginning and endings

In 2013 most universal banks will continue to narrow their focus. UBS will concentrate on wealth management. Others will follow RBS and UniCredit in exiting or rebalancing their investment-heavy equities business. Another casualty will be infrastructure lending, which is toxic under the Basel 3 capital rules. As a senior Goldman Sachs executive notes: “Under Basel 1 (in the 1980s) banks were rewarded for being a diversified financial institution; under Basel 3, the reverse is true. You actually get penalised.”

As the investment banks adopt a “capital-lite” model and syndicate risk, new players will grow in size and importance. We will hear a lot more about Asian infrastructure lenders such as the China Development Bank, Japan’s Bank for International Co-operation and South Korea’s Eximbank. Their rise will signal a transfer of power from private-sector actors to state-controlled entities, as well as a geographic shift. The West-to-East shift in financial power in 2013 may prove as significant as any geopolitical moves in, say, the South China Sea.

In 2012, thanks to the euro-zone crisis, burning the junior and senior bondholders went from the unimaginable to the possible to the assumed. In 2013 the sovereign-debt crisis will smoulder on. Banks once assumed to be too big to fail will remain heavily exposed to troubled euro-zone countries’ sovereign debt, whatever the palliative operations of the European Central Bank. In these circumstances, other players will enter the fray. Watch out for GSO, the credit arm of Blackstone, a private-equity firm. With over \$50 billion under management it is already the single biggest player in sub-senior debt in Europe (though the cost of capital will rise for these non-banks, with no access to cheap deposits).

For over a decade, starting with the IPO of Goldman Sachs and the end of the partnership, investment banks bossed the City and The Street. In 2013 the money and talent will go elsewhere. To paraphrase Winston Churchill, it will not be the end of the universal bank, but it will most certainly mark the beginning of the end.

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