

## **Lafferty foresees the break-up of conglomerate banks**

### ***Calls for retail banks to 'flourish as independent organisations'***

*Kuala Lumpur, 8 April 2008*

Speaking to an audience of senior Malaysian bankers in Kuala Lumpur today, Michael Lafferty, Chairman of Lafferty Group, declared that conglomerate banking groups with an integrated structure combining investment banking, private banking, corporate banking and retail banking will not be sustainable in future.

In some instances these groups, which hold sway across Europe and the US, may not survive the current credit crisis, Mr Lafferty, an acknowledged global banking expert, warned.

The underlying cause of the current crisis was “the recurrent form of systemic risk brought into the global financial system by a toxic combination of investment banking and proprietary trading” and that investment banks had proved dangerous serial offenders in creating an unsustainable “house of cards”, he added.

Latest estimates are that, worldwide, as much as \$460 billion related to US subprime mortgage lending may have to be written off by banks and other financial intermediaries.

Mr Lafferty explained that the investment banks' behaviour had involved huge levels of leverage. This was compounded when the investment bank operated within a large international conglomerate and used resources from the commercial banking side to “gear up their bets”.

In a stinging criticism of investment banking as it is typically practiced today, he said that personal aggrandisement lay behind much of the banks' ethos and that relentless pressure for performance inevitably led to speculation and risk-taking. He also said that few at the very top of the large banking conglomerates or universal banks fully comprehend the complex scale of risk being undertaken or have suitable risk management procedures in place.

“There is a growing realisation that the uncontrolled conglomerate banking group, the global behemoths formed by recurrent mergers over the last two decades, may not be sustainable in the future. In a controlled manner, large universal banks must be de-integrated, with their investment banking arms hived off into highly disciplined subsidiaries subject to stricter capital controls and more robust management.

“The casino-trading mentality, with no thought for the soundness and integrity of the host institution must be reversed as a matter of urgency” said Mr Lafferty, who believes banks across Asia should avoid the same conglomerate structures which pose huge conflicts of interest for bankers in serving their customers.

Looking to the future for retail banks, he stressed “We must let retail banks flourish as independent operations and not as a source of capital or funding for unforgivable escapades in the securities and capital markets. No bank can risk the distrust of its depositors. Ethics and soundness of business principles must be enshrined in the type of bank, born out of the ashes of the current crisis, that will become our new business model.”

**For more information please contact:**

Wynne Evans

+44 1525 371809

+44 7946 418133

**Notes to editors:** Lafferty Group provides research, intelligence and advisory services to banks and other providers of retail financial services worldwide. The company’s activities include international Councils – where senior financial industry executives meet regularly to share best practices - conferences, newsletters, reports and customised research and advisory services.

Mr Lafferty is a former banking correspondent of the Financial Times.