Title The model of the International Banking Sector after the 2007 Financial Crisis- Based on the Analysis of the German and International Banking Sector

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Abstract

This paper by a German corporate banker reflecting his experience explores the global financial crisis which started in 2007 and developed into a worldwide debt and economic crisis. The economies of countries all over the world experienced the largest losses since the great depression in 1929 (Büschgen 1998). "The end of the banks like we know them" is the title of the magazine *Capital 09/2014* (Steins 2014). To prevent the world economy from collapsing, governments all over the world had to set up bail-out programs (Admati & Hellwig 2014). The paper explores the reasons for the outbreak of the crisis, examines what happened in consequence to the crisis, elaborates the legal changes due to the crisis and the basic changes for a bank business model and at the end to derive and propose an ideal bank business model from the findings at the end of the thesis.

This paper is based on the a qualitative approach supported by a quantitative analysis. The survey was made to identify the problem which were the lack in capital equity strength, management skills, moral concept and risk strategy. Banks for a long time ignored the trends of digitalization, while evaluation by Rating Agencies was not very reliable and internal and external (public/legal) regulation and supervision failed. There was a change in the business model that making profit is not at the top of all other strategic goals. Summarized, the business models aren't contemporary anymore.

External changes have made a drastic impact on the bank, such as centralization of the supervision (in the EU), new laws about equity capital level, permanently monitoring risks taken by the banks, as well as the trends in digitalization of the business of a bank. More and more services can be offered online more efficiently and cheaper, lowering barriers for new competitors. More importantly, some global non-bank high-tech companies offer innovative online payment services, especially transfer

and payments. Banks have to follow the new digital trends or set new trends. In recent years this aspect has almost completely been ignored. Nowadays, Fintechs and other innovative companies enter the market and gain market share. Banks have the opportunity to take over these companies and implement these into their processes.

Internal changes are being forced by the above mentioned external changes, such as new government regulation and laws needing to be implemented into the strategy and the business model of the bank. The banks nowadays are stuck in a profound structural change. Profits are shrinking or there are even only losses, as core business is increasingly taken away by non-banks. The banking sector is in a consolidation process. The implementation of the new legal standards cost money, while banks need to raise their equity capital. And the consistently low interest rate policy reduces bank earnings.

For a new bank business model, banks need to concentrate number of branches to a few strategic well located financial centers and implement a regional focus instead of worldwide. Then the trend that a institution has to offer all products that occur on the market has to be stopped. The product portfolio shall be limited and at least high risk products need to be kept in the proper proportion. That also means that the offered business should be linked mainly to the real economy again and speculation should be contained. Banks have to focus on their core competencies which mean to concentrate on the traditional banking and separate investment and deposit banking and create independently acting divisions. Establishment of Private Banking Units to offer high net-worth customers banking and investment services may help offset business taken away by non-banks. In addition, refinancing from the money market in extending loans must be contained to avoid risks and instability. Risk management of banks has to be intensified and the responsibility of the management for failure needs to be raised. Bonuses and the salary can be linked to the success whereat a focus should be less on short term profit but more on sustainable success. The accounting standards have to be overworked. There has to be a maximum leverage ratio and minimum equity capital and the size of banks has to be limited to avoid systemic risk. Over all, the business model has to become less complex and less nontransparent.