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The Changing Financial Landscape: Potential Implications for the Banking Industry

A *Research Insights* Brief from Janus
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In this brief, we review the key causes of the financial crisis and then present our views on some of the potential implications for the banking industry, which was among the hardest-hit. A few points seem certain in our minds: Leverage for banks will fall dramatically, marginal players will likely disappear and certain business lines--including many that were once great sources of profits for the industry--will probably cease to exist. At the same time, certain banks will ultimately prosper, emerging from this crisis stronger than before.

The Origination of a Global Crisis

When summoned, they appeared. Called to a Treasury Department conference room in Washington D.C., the CEOs of nine leading financial institutions--men collectively worth hundreds of millions of dollars and running firms with hundreds of thousands of employees--awaited direction from a former peer. Henry Paulson, the outgoing Treasury secretary and former Goldman Sachs chairman, told the men that the government planned to invest in their companies. The banks were to take the new capital and lend it to one another, and, ultimately to American consumers and businesses. Paulson presented them with one-page term sheets and asked for their signatures. No negotiations, little discussion. "It was a 'take-it-or-take-it' offer," one participant reportedly said later.

The global financial crisis didn't have a single event as its genesis. It stemmed from a toxic recipe of loose credit standards, poor risk assessments, low interest rates and deregulation. Nor will the crisis likely have a defining last moment when victory is declared. Of the many developments, however, this one meeting stands out in our view. The dramatic intervention by the government--a level of activism perhaps not matched since the Roosevelt years of the Great Depression--signaled the severity of this financial crisis and the vast changes the sector will experience.

Emerging From the Crisis

Emerging from the crisis means addressing the causes. In our view, the most acute problems are in the banking industry but other financial companies will likely see changes as a result of the crisis too. We think the foremost difference will be the reduction of leverage in the financial system and with the consumer, which may have several implications for banks, including:

- Lower returns, elimination of business lines and tougher loan terms;
- A consolidating industry with increased focus on deposits and scale; and,
- A need to raise capital in order to reduce leverage on balance sheets.

In this brief, we provide our views on these potential changes, discuss how the crisis has impacted European and Asian banks, and offer our outlook on the industry.

Read the full research brief from Janus, **The Changing Financial Landscape: Potential Implications for the Banking Industry**. For more information about Janus' thought papers and market perspectives, visit janus.com.

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