

Modern Banking

Shelagh Heffernan

*Professor of Banking and Finance,
Cass Business School, City University, London*



John Wiley & Sons, Ltd

UNIVERSITÄT ST. GALLEN
HOCHSCHULE FÜR WIRTSCHAFTS-
RECHTS- UND SOZIALWISSENSCHAFTEN

BIBLIOTHEK

CONTENTS

ACKNOWLEDGEMENTS	ix
PREFACE	xi
CHAPTER 1	
What are Banks and What Do They Do?	1
1.1 Introduction	1
1.2 The Meaning of Banking	1
1.3 Organisational Structures	5
1.4 Banking Structures	15
1.5 Financial Conglomerates	26
1.6 Central Banking	29
1.7 Summary: Why are Banks Special?	36
1.8 Conclusion	38
CHAPTER 2	
Diversification of Banking Activities	41
2.1 Introduction	41
2.2 The Expansion of Banks into Non-banking Financial Services	41
2.3 The Effect of Non-interest Income on Banks' Total Income	51
2.4 Global Markets and Centres	55
2.5 International Banking	64
2.6 Banking Issues in the 21st Century	72
2.7 Conclusion	98
CHAPTER 3	
Management of Risks in Banking	101
3.1 Introduction	101
3.2 Key Financial Risks in the 21st Century	103
3.3 Approaches to the Management of Financial Risks	113
3.4 Financial Derivatives and Risk Management	125
3.5 Management of Market Risk	142

3.6	Management of Credit Risk	155
3.7	Risk Management by Major Global Bank	169
3.8	Conclusion	171
CHAPTER 4		
Global Regulation of Banks		173
4.1	Introduction	173
4.2	Why Regulate?	173
4.3	International Regulation	179
4.4	Basel 2 – The Three Pillar Approach	192
4.5	Alternative or Complementary Approaches to Basel	210
4.6	International Financial Architecture	213
4.7	Conclusion	219
CHAPTER 5		
Bank Structure and Regulation: UK, USA, Japan, EU		221
5.1	Introduction	221
5.2	Bank Structure and Regulation in the UK	222
5.3	Bank Structure and Regulation in the USA	242
5.4	Bank Structure and Regulation in Japan	258
5.5	Bank Structure and Regulation in the EU	262
5.6	Conclusions: Structure and Regulation of Banks	285
CHAPTER 6		
Banking in Emerging Economies		287
6.1	Introduction	287
6.2	Financial Repression and Evolving Financial Systems	288
6.3	Banking Reforms in Russia, China and India	293
6.4	Islamic Banking	322
6.5	Sovereign and Political Risk Analysis	332
6.6	Conclusion	347
CHAPTER 7		
Bank Failures		351
7.1	Introduction	351
7.2	Bank Failure – Definitions	351
7.3	Case Studies on Bank Failure	358
7.4	The Determinants of Bank Failure: A Qualitative Review	390
7.5	Bank Failure: Quantitative Models	399
7.6	Conclusion	405

CHAPTER 8	
Financial Crises	407
8.1 Introduction	407
8.2 Definitions and Controversies	407
8.3 The South East Asian Financial Crisis, 1997–99	415
8.4 The Japanese Banking Crisis	434
8.5 Scandinavian Banking Crises	449
8.6 Long Term Capital Management (LTCM)	454
8.7 Lender of Last Resort	459
8.8 Conclusions	466
Appendix 8.1 Japanese Financial Reforms (Big Bang, 1996)	467
Appendix 8.2 Reform of the Regulators	470
CHAPTER 9	
Competitive Issues in Banking	473
9.1 Introduction	473
9.2 Measuring Bank Output	473
9.3 X-efficiency, Scale Economies and Scope Economies	477
9.4 Empirical Models of Competition in Banking	494
9.5 Consolidation in the Banking Sector	517
9.6 Conclusion	538
CHAPTER 10	
Case Studies	541
10.1 Introduction	541
10.2 Goldman Sachs	542
Appendix	560
10.3 Kidder Peabody Group	564
10.4 From Sakura to Sumitomo Mitsui Financial Group	570
10.5 Bancamer: A Study of an Emerging Market Bank	582
10.6 Crédit Lyonnais	595
10.7 Continental Illinois Bank and Trust Company	617
10.8 Bankers Trust: From a Commercial/Investment Bank to Takeover by Deutsche Bank	631
REFERENCES/BIBLIOGRAPHY	653
INDEX	682