Université PANTHÉON - ASSAS (PARIS II)

Droit - Economie - Sciences Sociales

Assas

Session : Mai 2019

Année d'étude : Magistère Banque - Finance, Deuxième année

Discipline : *Anglais magistère Banque-Finance 1ère année*
(Structure 2° semestre)

Titulaire(s) du cours : Mme Elizabeth DODARD

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Durée de l'épreuve : **1h30**

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1. Explain the following. Write 3 to 6 lines (double spaced) in full sentences **(/4)**

a. Fractional reserve banking
b. Origination

2. Translate the following into English **(/4)**

Ce vendredi, le Cac 40 a franchi, pour la première fois de l'année, la barre des 5.500 points. L'indice vedette parisien clôture sur un léger gain de 0,31% à 5.502,70 points. Les boursiers font l'impasse sur la publication trimestrielle décevante de Wells Fargo, préférant s'en tenir aux bons résultats de JPMorgan, dont les profits et le chiffre d'affaires ont dépassé les attentes.

3. Essay: Comment on these sentences from *The Economist*, March 28th, 2018, (2 to 4 pages double-spaced - about 250 words) **(/10)**

In the light of recent money-laundering scandals, questions have been asked about the relationship between banks and their local regulators.
Would you say that sometimes regulators view their role "as being to protect banks as national champions, as much as to police them?"
(source: https://www.economist.com/finance-and-economics/2019/03/28/a-money-laundering-scandal-costs-swedbanks-boss-her-job)

4. **Read the article, then answer the following questions.** **(/12)**
Write 3 to 6 lines (double spaced) in full sentences for each answer. Use your own words

1) What are European banks' justifications for their bad performance?

2) How does *The Economist* debunk these justifications?

3) What are *The Economist*'s suggestions for the future of EU banks?

Fixing Europe's zombie banks

Adapted from *The Economist*, Apr 6th 2019

Is there any more miserable spectacle in global business than that of Europe's lenders? A decade after the crisis they are stumbling around in a fog of bad performance, defeatism and complacency. European bank shares have sunk by 22% in the past 12 months. The industry makes a puny[1] return on equity of 6.5% and investors think it is worth less than its liquidation value. Amazingly, many European banks and regulators are resigned to this state of affairs. In fact it is a danger to investors and to Europe's faltering economy.

The banks make two excuses, both of which are largely rubbish. One is that it is not their fault. Unlike America, where banks have a return on equity of 12%, Europe does not have strongly positive government-bond yields, or a pool of investment-banking profits like that on Wall Street, or a vast, integrated home market. All this is true, but European banks have been lamentably slow at cutting their costs, something which is well within their control. As a rough rule of thumb, efficient banks report cost-to-income ratios below 50%. Yet almost three-quarters of European lenders have ratios above 60%. Redundant property, inefficient technology and bloated executive perks are the order of the day.

The banks' second excuse is that their lousy profitability does not really matter. Their capital buffers have been boosted, they argue, so why should regulators and taxpayers care about the bottom line? And shareholders, the banks hint, have learned to live with the idea that European lenders are unable to make a return of 10%, the hurdle rate investors demand from American banks and most other sectors.

This is bunkum[2], too. Profits do matter. They make banks safer: they can be used to absorb bad-debt costs or rebuild capital buffers when recession strikes. Depressed valuations show that far from tolerating European banks, most investors eschew them. As a result many lenders, including Deutsche, have too few blue-chip long-term institutional shareholders who are prepared to hold serially incompetent managers to account. And when the next downturn comes and banks need to raise capital, which investor would be foolish enough to give even more money to firms that do not regard allocating resources profitably as one of their responsibilities?

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[1] weak.

[2] nonsense.

Rather than accept this miserable situation, European banks need to do two things. First, embrace an efficiency and digitisation drive. Costs are falling at an annual rate of about 4%, according to analysts at UBS. This is not enough. As consumers switch to banking on their phones there are big opportunities to cut legacy IT[3] spending and back-office and branch expenses. If more banks do cut costs they will soon find that they have lost market share to new digital finance and payments competitors—both fintech firms and the Silicon Valley giants such as Amazon—that can operate with a fraction of their costs and which treat customers better.

Second, banks need to push for consolidation. The evidence from America and Asia suggests that scale is becoming a bigger advantage in banking than ever before, allowing the huge investments in technology platforms and data-analysis to take place. Europe has too many lenders. The banks complain that the reason for this is that Europe has not harmonised its rules and regulations. But this is only half the story. Most big banks are loth[4] to cede their independence, and their bosses love the status that comes with running a big lender. And banks' failure to get their own houses in order means that investors doubt that managers can handle integrating two big firms.

[3] a legacy system is an old method, technology, computer system, or application program, yet still in use.
[4] unwilling.