Pioneering insight in banking and fintech

PRESS RELEASE
LAFFERTY BANKING 500

London, 7th November 2018

Far from being the universal banking giants of Wall Street, London, Frankfurt, Paris, Tokyo or Beijing that typically combine commercial and investment banking activities, the best banks in the world are focused on consumer and business banking. They are also smaller and often younger than the big brands of the banking industry.

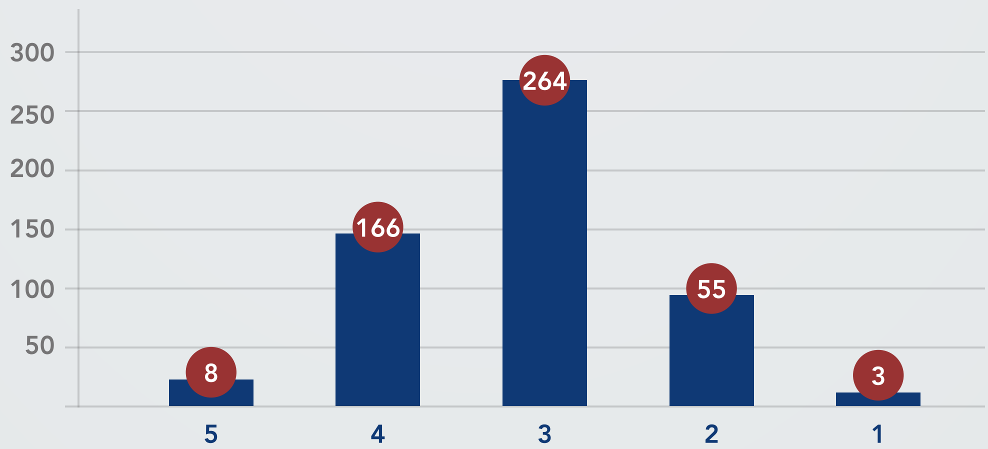
These best-performing banks are dotted all over the world and are more likely to be found in the emerging markets of Asia, Africa, Eastern Europe and Latin America than in the developed countries of Western Europe, Australia or North America (see appendix B).

These are some of the headline findings of the latest **Lafferty Banking 500** benchmarking study of listed banks from over 70 countries across the globe. The giant 'elephant in the room' question raised by the study is this: why are the leading Anglo banks of the US, Canada, UK, Ireland, and Australia at BEST average players? See Appendix A for the star-ratings of the world's largest universal banks.

Lafferty Banking 500 rates banks from 72 countries for their overall quality. This year 500 banks are benchmarked, compared to 100 in each of the previous two years.

The study does not take the form of a report. It is a vast database with 19 separate metrics for each of the 500 banks. It is used by banks and others as a bank benchmarking tool.

LAFFERTY BANKING 500 STAR-RATINGS
BY NO. OF BANKS



Lafferty Banking 500 awards star-ratings to each bank that is benchmarked – from 5 stars for the best to 1 star at the other extreme. See the chart on page 1 for the distribution of ratings across the 500 banks.

The methodology rates banks for their overall quality and sustainability - and has nothing to do with credit ratings. It uses 19 separate metrics to score the banks and relies almost entirely on their annual reports for the source data. "In many respects our work is based on what can only be described as signals given out by annual reports - signals that are there regardless of how much a bank might try to disguise them. A bank's strategy or lack of one is obvious from its annual report – and its culture is only too evident from every page that one turns", comments Michael Lafferty, of Lafferty Group, the publisher of the study.

"Suspicions are also aroused when banks go out of their way to deflect readers from their published results – typically emphasising that the underlying picture is so much better".

According to Lafferty, "The bank that obviously generates most or much of its profit from retail banking but has a chairman's statement boasting about big corporate loans that all too often do not get repaid is a giveaway – as is the bank that goes out of its way to emphasise its prowess in cross-selling, as Wells Fargo did that until it hit the rocks".

"On the other hand, a very different message is sent out by the bank that has credible banking executives with long-time banking experience, that does not pay sales commissions, that invests in staff education or that has no regulatory fines to report".

Lafferty also likes banks that are well on top of the digital revolution without falling for all the digital hype. "They are likely to have a digital strategy, to have a qualified technologist on their executive management team as well as being digitally secure."

Michael Lafferty thinks that universal banking and the influence it has had across the banking industry worldwide is the main factor that caused the Global Financial Crisis (GFC) of the past 10 years, as it arguably did in the 1920s.

"A large part of the blame for the GFC may lie in the repeal of the US Glass-Steagall Act in 1999, thereby allowing commercial and investment banks to co-habit for the second time in world banking history - the last being in the 1920s.", he says.

"Far from generating synergies for customers, universal banking ushered in a period of speculation that has done great damage to consumers and businesses alike – and to the practice of professional banking. Investment bankers and speculators across the globe soon claimed the top jobs in the big banks of the world and proceeded to organise these banks' affairs to their personal advantage", he added.

Lafferty believes that the post Glass-Steagall malaise spread rapidly across North America, then to Britain and Ireland – and eventually onwards to Australia. "Before long, investment bankers, consultants, retailers, insurers – almost anyone apart from career-experienced corporate and retail bankers were becoming bank CEOs. Most had no real banking experience, most were paid far more than their predecessors and many left their banks effectively failed institutions".

The risk of another global banking crisis remains very real, Lafferty says. "Much of what goes in on banking today is high-level speculation that has the potential to do enormous damage. The only people who benefit are the speculators. This is not what depositors want", he adds.

Lafferty Banking 500 allows users to benchmark any combination of banks in the database against each other – either at the overall level of star-ratings or for 19 separate metrics.

The results raise questions about the strategies that most of the world's large universal banks are pursuing – because universal banks in general perform at the wrong end of the average in the ratings. On the other hand, focused consumer and business banks are doing very well. They enjoy the confidence and support of investors and this is well-reflected in their share prices.

"CEOs of universal banks need to explain how the policies they are following can possibly be in the interest of shareholders or any other stakeholder for that matter. The fact that these banks invariably find it impossible to explain their strategies in their annual reports must be a growing concern to investors. One is left with the distinct impression that the personal ego of the CEO or chairman is the main driver of these mega-banks", says Lafferty.

There are many messages in this study, but one of the most alarming concerns the negative culture that seems to permeate far too many of the world's largest banks today. It is evidenced in short-term thinking, a preference for speculation, a bias against investment in technology and people, and in a willingness to flout the rules. There are also too many indications of "regulatory capture" across the world – suggesting that senior regulators feel at the very least more at home in the company of investment bankers than those who are responsible for managing the consumer and business banking components of today's banks.

APPENDIX A: STAR-RATINGS OF UNIVERSAL BANKS

STAR-RATINGS OF UNIVERSAL BANKS

Nordea	3	**BoA**	2
BNP	3	**UBS**	3
SG	3	**CS**	3
CA	3	**Lloyds**	3
Commerzbank	3	**RBS**	3
Deutsche Bank	3	**HSBC**	3
Unicredit	3	**Barclays**	3
Santander	3	**StanChart**	3
BBVA	4	**Morgan Stanley**	2
Citi	3	**RBC**	2
Wells Fargo	2	**BNY Mellon**	3
JPMC	2	**ING**	3

APPENDIX B
HOW THE COUNTRIES RATE

EUROPE

Region/Market	No. of banks	5-star	4-star	3-star	2-star	1-star	Country average
Benelux	5	0	2	3	0	0	3.4
France	5	0	1	4	0	0	3.2
Germany	6	0	0	5	1	0	2.8
Italy	9	0	2	4	3	0	2.9
Poland	8	2	5	1	0	0	4.1
Russia	4	0	3	1	0	0	3.8
Spain	6	0	4	2	0	0	3.7
Scandinavia	16	0	4	11	1	0	3.2
Switzerland	8	0	4	3	1	0	3.4
Turkey	8	0	4	4	0	0	3.5
UK	12	0	6	6	0	0	3.5

MIDDLE EAST

Region/Market	No. of banks	5-star	4-star	3-star	2-star	1-star	Country average
Bahrain	4	0	1	3	0	0	3.3
Israel	4	0	2	2	0	0	3.5
Kuwait	7	0	3	4	0	0	3.4
Oman	6	0	6	0	0	0	4.0
Qatar	8	0	5	3	0	0	3.6
Saudi Arabia	9	0	7	2	0	0	3.8
UAE	10	0	7	3	0	0	3.7

AFRICA

Region/Market	No. of banks	5-star	4-star	3-star	2-star	1-star	Country average
Kenya	7	0	6	1	0	0	3.9
Nigeria	14	0	3	10	0	1	3.1
South Africa	7	1	3	3	0	0	3.7

APPENDIX B
HOW THE COUNTRIES RATE

ASIA

Region/Market	No. of banks	5-star	4-star	3-star	2-star	1-star	Country average
Australia	6	0	0	3	3	0	2.5
China	27	0	8	18	1	0	3.3
Hong Kong	5	0	2	3	0	0	3.4
Indonesia	24	1	9	14	0	0	3.5
India	39	1	6	29	3	0	3.1
Japan	27	0	2	19	6	0	2.9
Malaysia	11	0	4	6	1	0	3.3
Pakistan	14	0	3	8	3	0	3.0
Philippines	9	1	3	4	1	0	3.4
Singapore	3	0	3	0	0	0	4.0
South Korea	5	0	0	5	0	0	3.0
Taiwan	17	0	4	6	7	0	2.8
Thailand	10	0	6	4	0	0	3.6

NORTH AMERICA

Region/Market	No. of banks	5-star	4-star	3-star	2-star	1-star	Country average
Canada	10	0	2	6	2	0	3.0
Mexico	1	0	1	0	0	0	4.0
United States	74	0	5	46	21	2	2.7

SOUTH AMERICA

Region/Market	No. of banks	5-star	4-star	3-star	2-star	1-star	Country average
Argentina	1	0	1	0	0	0	4.0
Brazil	5	0	2	3	0	0	3.4
Chile	5	0	2	2	1	0	3.2
Colombia	2	0	2	0	0	0	4.0
Peru	1	0	1	0	0	0	4.0

ABOUT LAFFERTY GROUP

Senior executives at banks, payments providers and other financial institutions around the world rely on Lafferty Group for the research, councils, conferences, and insights that power their strategy and decision-making. With more than 30 years of experience in the industry, Lafferty has constantly innovated: in 1981 we launched our first global financial industry newsletters; management reports followed – as did hundreds of conferences all over the world.

A major leap forward came in 1995 with the launch of our financial industry councils, followed by subscription research services.

In 2012 Lafferty Group moved into banking education with the launch of the Retail Banking Academy.

Visit lafferty.com to find out more.

LAFFERTY
Pioneering insight in banking and fintech