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经济学经典教材·金融系列

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银行管理

(第九版)

Bank Management and Financial Services
(Ninth Edition)

彼得·S·罗斯 (Peter S. Rose)

著

西尔维娅·C·赫金斯 (Sylvia C. Hudgins)

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出版说明

入世十年，我国已完全融入到经济全球化的浪潮中。党的十六大确立了“引进来，走出去”的发展战略，使得“国际化”复合型人才的需求不断增加。这就对我国一般本科院校多年来所采取的单一语言（母语）教学提出严峻挑战，经济类专业双语教学改革迫在眉睫。

为配合高校经济类专业双语教学改革，中国人民大学出版社携手培生、麦格劳-希尔、圣智等众多国际知名出版公司，倾情打造了该套“经济类双语系列教材”，本套教材包括：经济管理类专业开设的核心课程、经济学专业开设的主干课程以及财政金融专业和国际贸易专业的主要课程。所选教材均为国外最优秀的本科层次经济类教材。

我们在组织、引进和出版该系列教材的过程中，严把质量关。聘请国内著名经济学家、学者以及一线授课教师审核国外原版教材，广泛听取意见，努力做到把国外真正高水平的适合国内实际教学需求的优秀教材引进来，供国内广大师生参考、研究和学习。

本系列教材主要有以下特点：

第一，教材体系设计完整。本系列教材全部为国外知名出版公司的优秀教材，涵盖了经济类专业的所有主要课程。

第二，英文原版教材特色。本系列教材依据国内实际教学需要以及广泛适应性，部分对原版教材进行了全文影印，部分在保持原版教材体系结构和内容特色的基础上进行了适当删减。

第三，内容紧扣学科前沿。本系列教材在原著选择上紧扣国外教学前沿，基本上都是国外最流行教材的最新版本。

第四，篇幅合理、价格适中。本系列教材一方面在内容和篇幅上很好地适应了国内双语教学的实际需要，另一方面，低定价策略又避免了国外原版图书高额的购买费用。

第五，提供强大的教学支持。依托国外知名出版公司的资源，本系列教材为教师提供丰富的配套教辅资源，如教师手册、PPT课堂演示文稿、试题库等，并配套有内容丰富的网络资源，使教学更为便利。

本系列教材既适合高等院校经济类专业的本科教学使用，也适合从事经济类工作和研究的广大从业者的阅读和学习。我们在选书、改编过程中虽然全面听取了专家、学者和教师的意见，努力做到满足广大读者的需求，但由于各教材的作者所处的政治、经济和文化背景不同，书中内容仍可能有不妥之处，我们真诚希望广大读者提出宝贵意见和建议，以便我们在以后的版本中不断改进和完善。

Preface

This book, now in its ninth edition, reaches all the way back to the beginning of the 1990s. So much has happened in this interval of more than 20 years. War and revolution have marked many parts of the globe, especially the Middle East, with no end on the horizon. Natural disasters from earthquakes, hurricanes, floods and tsunamis, volcanoes, and more have unleashed devastation and death in critical regions of our planet.

Economic prosperity that marked so much of the 1990s turned into economic disaster in the opening decade of the new century. Jobs disappeared, living standards plummeted, homes were lost, and countless businesses failed. The worst economic recession in nearly 80 years led to anger and demonstrations in the streets and the most stringent belt-tightening among families and business owners and managers that has been experienced since the Great Depression of the 1930s.

Unquestionably, it is difficult to find and maintain a positive attitude and that most precious commodity, *hope*, under these circumstances. Yet that is what this book and many others like it are all about—how to turn trouble and turmoil into useful knowledge and from that knowledge hope that our world can be a happier and more fulfilling place.

This book does not presume to tackle the broadest spectrum of knowledge. No book can really do that, even in the modern digital age. Instead it focuses on a much smaller but nevertheless important slice of our world—the *financial-services sector* served by thousands of small and large financial firms that develop and market tools to manage risk, pursue financial opportunities, and supply information vital to the making of informed financial decisions, accompanied by the hope of favorable outcomes. Much of this book is devoted to the banking sector, but also to other important financial institutions—credit unions, mutual and hedge funds, pension plans, insurance companies, finance companies, security brokers and dealers, and thousands of other financial-service providers. We explore what these institutions do for us and the risks they present.

The heart of this edition, like those editions that have preceded it, is *risk management*. Managing risk has emerged into the dominant topic that most managers of financial-service firms must deal with in the modern world. Indeed, the taking on of significant risk marks the financial-services sector as much as any other sector of the economy. It is the fundamental task of banks and other financial firms to identify risk in its many forms and then develop and offer tools that are able to control that risk. Few activities are more important to us because the financial sector is, and always has been, continuously threatened by significant risks at home and abroad as well as inside and outside the individual financial firm. No better example can be found than the great credit crisis of 2007–2009 where large numbers of financial-service providers floundered and failed alongside others who somehow managed to survive.

Often today we distinguish between external and internal risks. For example, *external risks* to financial firms include wars, crime, poverty, environmental destruction, global warming, political revolution and strife, falling currency values, volatile equity markets, weakening economies, declining sales in key industries, inflation, increasing energy shortages, and a troubled home mortgage market. All of these external risks have had (and will continue to have) a profound effect on the services financial firms can offer and the profits and future growth they may hope for. Moreover, many financial-service providers today are caught in the middle of a geopolitical struggle as important countries like China, India, Korea, Japan, and Russia are knocking on the door of global leadership and demanding a growing economic and political role.

If the foregoing external risks were not enough, numerous *internal risks* (some of them old and some relatively new) have surfaced inside financial firms. These include exposures to loss from such risk dimensions as credit risk, liquidity risk, market and price risk, inter-

est rate risk, sovereign risk, operational risk, currency risk, off-balance-sheet risk, legal and compliance risks, strategic risk, reputation risk, and capital risk. Each of these types of risk is a major focus of attention in the pages of this book.

The successful manager of a financial-service institution today must understand the foregoing external and internal challenges and the strategies developed to deal with all of these threats. That is our purpose here—to examine the different risk exposures that confront financial-service providers today and to discover ways to deal with these challenges efficiently and effectively.

In addition to combating losses from risk exposure we must understand clearly the importance and key roles that financial institutions play in our lives and careers. These institutions are the principal means that we all draw upon to make payments for the goods and services we wish to buy. They are the vehicles through which we raise liquidity when emergency needs for cash arise. They are the principal repositories for our savings as we prepare for future spending and future financial challenges. They are the primary suppliers of credit which fuels spending and results in the creation of more jobs. These financial firms we will be studying are the principal sources for insurance protection and the purveyor of hedges to help us protect the value of the assets we hold and the income we receive. Finally, the financial-service providers we target in this book are major vehicles through which government economic policy (including monetary policy carried out by central banks) struggles in an attempt to stabilize the economy, avoid serious inflation, and reduce unemployment.

To be successful in our study we must learn about the key differences between one type of financial-service provider and another, and about the management principles and practices that can be used to help strengthen these firms, offering better service to the public. No longer is our world populated by one type of financial institution. There are thousands of these firms, some of which we still call banks, insurance companies, security dealers and brokers, mutual funds, and so on. But with increasing frequency these institutions have invaded each other's territory and taken on characteristics of their competitors. This so-called convergence trend leads to overlapping of services and confusion about what is actually happening in the financial sector.

Today larger banks control insurance and security affiliates. Many insurers own banks and serve as security brokers and dealers. Major security dealers have chartered banks and, in some cases, created insurance affiliates or departments. These convergences among different financial-service institutions make our study somewhat harder and raise questions about what is the appropriate business model in the financial sector today and for the future. Can all these financial-service providers succeed or are an increasing number doomed to disappointment and failure?

Supplementary Tools to Promote Learning and Understanding

A number of supplementary learning and information tools accompany this text. The most significant of these educational materials are:

- *Instructor's Manual and Testbank*, which supplies a topic outline of each chapter, makes available hundreds of questions to answer for study and for the construction of lectures and exams, and presents problems to work out.
- *PowerPoint Presentation System*, which aids teachers in putting together classroom presentations, facilitating discussion in class and over the Internet, and grants readers study notes helpful in completing assignments and preparing for tests. The PowerPoint slides contain lecture outlines, charts, graphs, numerical examples, outlines of key topics, and repetition of key points addressed in the text. Teachers and other presenters electing to use these slides can rearrange and edit these PowerPoint materials to more sufficiently satisfy their instructional and presentation needs.
- *Text website*, www.mhhe.com/rosehudson9e, which can be accessed by class members,

teachers, and other users of the text. Periodically the authors develop updated material for insert into the website in an effort to keep the text up-to-date.



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CHAPTER ONE

An Overview of the Changing Financial-Services Sector

Key Topics in This Chapter

- Powerful Forces Reshaping the Industry
- What Is a Bank?
- The Financial System and Competing Financial-Service Institutions
- Old and New Services Offered to the Public
- Key Trends Affecting All Financial-Service Firms

1-1 Introduction

An old joke attributed to comedian Bob Hope says “a bank is a financial institution where you can borrow money only if you can prove you don’t need it.” Although many of a bank’s customers may get the impression that this old joke is more truth than fiction, the real story is that banks today provide hundreds of different services to millions of people, businesses, and governments all over the world. And many of these services are vital to our personal well-being and the well-being of the communities and nations where we live.

Banks are the principal source of credit (loanable funds) for millions of individuals and families and for many units of government (school districts, cities, counties, etc.). Moreover, for small businesses ranging from grocery stores to automobile dealers, banks are often the major source of credit to stock shelves with merchandise or to fill a dealer’s lot with new vehicles. When businesses and consumers must make payments for purchases of goods and services, more often than not they use bank-supplied checks, credit or debit cards, or electronic accounts accessible through a website, cell phone, or other network. And when they need financial advice, it is the banker to whom they turn most frequently for counsel. More than any other financial-service firm, banks have a reputation for public trust.

Factoid

What nation has the greatest number of commercial banks?

Answer: The United States with about 6,600 commercial banks, followed by Germany with close to 2,500.

Worldwide, banks grant more installment loans to consumers (individuals and families) than any other financial-service provider. In most years, they are among the leading buyers of bonds and notes governments issue to finance public facilities, ranging from auditoriums and football stadiums to airports and highways. Banks are among the most important sources of short-term working capital for businesses and have become increasingly active in recent years in making long-term business loans to fund the purchase of new plant and equipment. The assets held by U.S. banks represent about one-fifth of the total assets and an even larger

proportion of the earnings of all U.S.-based financial-service institutions. In other nations—for example, in Japan—banks hold half or more of all assets in the financial system. The difference is because in the United States, many important nonbank financial-service providers can and do compete to meet the needs of businesses, consumers, and governments.

1-2 What Is a Bank?

As important as banks are to the economy as a whole and to the communities they call home, there is still much confusion about what exactly a **bank** is. A *bank* can be defined in terms of (1) the economic functions it performs, (2) the services it offers its customers, or (3) the legal basis for its existence.

Certainly banks can be identified by the *functions* they perform in the economy. They are involved in transferring funds from savers to borrowers (financial intermediation) and in paying for goods and services.

Historically, banks have been recognized for the great range of financial services they offer—from checking and debit accounts, credit cards, and savings plans to loans for businesses, consumers, and governments. However, bank service menus are expanding rapidly today to include investment banking (security underwriting), insurance protection, financial planning, advice for merging companies, the sale of risk-management services to businesses and consumers, and numerous other innovative financial products. Banks no longer limit their service offerings to traditional services but have increasingly become *general financial-service providers*.

Unfortunately in our quest to identify what a bank is, we will soon discover that not only are the functions and services of banks changing within the global financial system, but their principal competitors are going through great changes as well. Indeed, many financial-service institutions—including leading security dealers, investment bankers, brokerage firms, credit unions, thrift institutions, mutual funds, and insurance companies—are trying to be as similar to banks as possible in the services they offer. Examples include Goldman Sachs, Dreyfus Corporation, and Prudential Insurance—all of which control banks or banklike firms. During the financial crisis of 2007–2009 Goldman Sachs and Morgan Stanley transitioned from being among the highest ranked investment banks to being commercial bank holding companies, accepting deposits from the public.

Moreover, if this were not confusing enough, several industrial companies have stepped forward in recent decades to control a bank and offer loans, credit cards, savings plans, and other traditional banking services. Examples of these giant banking-market invaders include General Electric, Harley-Davidson, and Ford Motor Company, to name a few. Even Wal-Mart, the world's largest retailer, recently has explored the development of banklike services in an effort to expand its financial-service offerings! American Express, Pitney-Bowes, United Health Group, and Target already control banklike institutions.

Bankers have not taken this invasion of their turf lying down. They are demanding relief from traditional rules and lobbying for expanded authority to reach into new markets around the globe. For example, with large U.S. banks lobbying heavily, the United States Congress passed the Financial Services Modernization Act of 1999 (known as the Gramm-Leach-Bliley or GLB Act after its Congressional sponsors), allowing U.S. banks to enter the securities and insurance industries and permitting nonbank financial holding companies to control banking firms.

Many Kinds of Banks To add to the prevailing uncertainty about what a bank is, over the years literally dozens of organizations have emerged from the competitive financial marketplace, proudly bearing the label of *bank*. As Exhibit 1-1 shows, for example, there are savings banks, investment banks, mortgage banks, merchant banks, universal banks, and so on. In this text we will spend most of our time focused upon the most important of all banking institutions—the commercial bank—which serves both business and house-

Key Video Link

@ <http://www.cnbc.com/id/15840232?play=1&video=1543956844>
CNBC explores whether Wal-Mart could bring more convenience and lower prices to the mutual fund market.

hold customers with deposits and loans all over the world. However, the management principles and concepts we will explore in the chapters that follow apply to many different kinds of “banks” as well as to other financial-service institutions providing similar services.

Money-Centered Banks vs. Community Banks While we are discussing the many different kinds of banks, we should mention an important distinction between banking types that will surface over and over again as we make our way through this text—**community banks** versus **money-center banks**. Money-center banks are industry leaders, spanning whole regions, nations, and continents, offering the widest possible menu of financial services, gobbling up smaller businesses, and facing tough competition from other giant financial firms around the globe. Community banks, on the other hand, are usually much smaller and service local communities and towns, offering a significantly narrower, but often more personalized, menu of financial services to the public. As we will see, community banks are declining in numbers, but they also are proving to be tough competitors in the local areas they serve.

The Legal Basis for Banking One final note in our search for the meaning of the term *banks* concerns the *legal basis* for their existence. When the federal government of the United States decided it would regulate and supervise banks more than a century ago, it had to define what was and what was not a bank for purposes of enforcing its rules. After all, if you plan to regulate banks you have to write down a specific description of what they are—otherwise, the regulated firms can easily escape their regulators, claiming they aren’t really banks at all!

The government finally settled on the definition still used by many nations today: A *bank* is *any business offering deposits subject to withdrawal on demand* (such as by writing a check, swiping a plastic card through a card reader, or otherwise completing an electronic transfer of funds) *and making loans of a commercial or business nature* (such as granting credit

Key URLs

The Federal Deposit Insurance Corporation not only insures deposits, but provides large amounts of data on individual banks. See especially www.fdic.gov and www.fdic.gov/bank/index.html.

EXHIBIT 1–1

The Many Different Kinds of Financial-Service Firms Calling Themselves Banks

Name of Banking-Type Firm	Definition or Description
Commercial banks	Sell deposits and make loans to businesses, individuals, and institutions
Money center banks	Largest commercial banks based in leading financial centers
Community banks	Smaller, locally focused commercial and savings banks
Savings banks	Attract savings deposits and make loans to individuals and families
Cooperative banks	Help farmers, ranchers, and consumers acquire goods and services
Mortgage banks	Provide mortgage loans on new homes but do not sell deposits
Investment banks	Underwrite issues of new securities on behalf of their corporate customers
Merchant banks	Supply both debt and equity capital to businesses
Industrial banks	State-chartered loan companies owned by other corporations that provide credit and receive deposits
International banks	Commercial banks present in more than one nation
Wholesale banks	Larger commercial banks serving corporations and governments
Retail banks	Smaller banks serving primarily households and small businesses
Limited-purpose banks	Offer a narrow menu of services, such as credit card companies and subprime lenders
Bankers’ banks	Supply services (e.g., check clearing and security trading) to banks
Minority banks	Focus primarily on customers belonging to minority groups
National banks	Function under a federal charter through the Comptroller of the Currency in the United States
State banks	Function under charters issued by banking commissions in various states
Insured banks	Maintain deposits backed by federal deposit insurance plans (e.g., the FDIC)
Member banks	Belong to the Federal Reserve System
Affiliated banks	Wholly or partially owned by a holding company
Virtual banks	Offer their services only over the Internet
Fringe banks	Offer payday and title loans, cash checks, or operate as pawn shops and rent-to-own firms
Universal banks	Offer virtually all financial services available in today’s marketplace

A BRIEF HISTORY OF BANKING AND OTHER FINANCIAL-SERVICE FIRMS

According to historical records, *banking* is the oldest of all financial-service professions. Where did these powerful financial institutions come from?

Linguistics (the science of language) and *etymology* (the study of word origins) tell us the French word *banque* and the Italian *banca* were used centuries ago to refer to a "bench" or "money changer's table." This describes quite well what historians have observed about the first bankers more than 2,000 years ago. They were money changers, situated usually at a table in the commercial district, aiding travelers by exchanging foreign coins for local money or replacing commercial notes for cash in return for a fee.

The earliest bankers pledged their own money to support these early ventures, but it wasn't long before the idea of attracting deposits from customers and loaning out those same funds emerged. Loans were granted to shippers, landowners, and others at interest rates as low as 6 percent to as high as 48 percent a month for the riskiest ventures! Most early banks were Greek or Roman in origin.

The banking industry gradually spread from Greece and Rome into Europe. It encountered religious opposition during the Middle Ages primarily because loans to the poor often carried the highest interest rates. However, as the Middle Ages drew to a close and the Renaissance began, the bulk of loans and deposits involved wealthy customers, which helped reduce religious objections.

The development of overland trade routes and improvements in navigation in the 15th, 16th, and 17th centuries gradually shifted the center of world commerce from the Mediterranean toward Europe and the British Isles. During this period, the seeds of the Industrial Revolution, demanding a well-developed financial system, were planted. The adoption of mass production required an expansion in global trade to absorb industrial output, which in turn required new methods for making payments and obtaining credit. Banks that could deliver on these needs grew rapidly, led by such institutions as Medici Bank in Italy and Hochstetter Bank in Germany.

The early banks in Europe were places for the safekeeping of wealth (such as gold and silver) for a fee as people came to fear loss of their assets due to war, theft, or expropriation by government. Merchants shipping goods found it safer to place their payments of gold and silver in the nearest bank rather than risking loss to thieves or storms at sea. In England government efforts to seize private holdings resulted in people depositing their valuables in goldsmiths' shops, which issued tokens or certificates indicating the customer had made a deposit. Soon, goldsmith

certificates began to circulate as money because they were more convenient and less risky to carry around than gold or other valuables. Goldsmiths also offered *certification of value* services—what we today call property appraisal. Customers would bring in their valuables to have an expert certify these items were real and not fakes.

When colonies were established in America, Old World banking practices entered the New World. At first colonists dealt primarily with established banks in the countries from which they had come. Later, state governments in the United States began chartering banking companies. The U.S. federal government became a major force in banking during the Civil War. The Office of the Comptroller of the Currency (OCC) was established in 1864, created by the U.S. Congress to charter *national banks*. This bank regulatory system, in which both the federal government and the states play key roles in the supervision of banking activity, still exists in the United States to the present day.

Despite banking's long history and success, tough financial-service competitors emerged over the past century or two, mostly from Europe, to challenge bankers at every turn. Among the oldest were life insurance companies—the first American company was chartered in Philadelphia in 1759. Property-casualty insurers emerged at roughly the same time, led by Lloyds of London in 1688, underwriting a wide range of risks to persons and property.

The 19th century ushered in a rash of new financial competitors, led by savings banks in Scotland. These institutions offered small savings deposits to individuals at a time when most commercial banks largely ignored this market. A similar firm, the savings and loan association, appeared in the midwestern United States during the 1830s, encouraging household saving and financing the construction of new homes. Credit unions were first chartered in Germany during the same era, providing savings accounts and low-cost credit to industrial workers.

Mutual funds—one of banking's most successful competitors—appeared in Belgium in 1822. These investment firms entered the United States in significant numbers during the 1920s, were devastated by the Great Depression of the 1930s, and rose again to grow rapidly. A closely related institution—the money market fund—surfaced in the 1970s to offer professional cash management services to households and institutions. These aggressive competitors attracted a huge volume of deposits away from banks and ultimately helped to bring about government deregulation of the banking industry. Finally, hedge funds, private equity, and venture capital firms appeared to offer investors a less regulated, more risky, higher yielding alternative to mutual funds. They grew explosively in the new century then ran into trouble during the great credit crisis of 2007–2009.

to private businesses seeking to expand the inventory of goods on their shelves or purchase new equipment). Over a century later, during the 1980s, when hundreds of financial and nonfinancial institutions (such as JC Penney and Sears) were offering either, but not both, of these two key services and, therefore, were claiming exemption from being regulated as a bank, the U.S. Congress decided to take another swing at the challenge of defining banking. Congress then defined a *bank* as any institution that could qualify for deposit insurance administered by the Federal Deposit Insurance Corporation (FDIC).

A clever move indeed! Under federal law in the United States a *bank* had come to be defined, not so much by its array of service offerings, but by the government agency insuring its deposits! The importance of FDIC deposit insurance was also highlighted during the recent financial crisis, when investors sought out FDIC guarantees and massive funds flowed into FDIC-insured accounts offered by banks and savings associations.

1-3 The Financial System and Competing Financial-Service Institutions

Roles of the Financial System

As we noted above, bankers face challenges from all sides today as they reach out to their financial-service customers. Banks are only one part of a vast financial system of markets and institutions that circles the globe. The primary purpose of this ever changing financial system is to *encourage individuals and institutions to save and transfer those savings to those individuals and institutions planning to invest in new projects and needing credit to do so*. This process of encouraging savings and transforming savings into investment spending causes the economy to grow, new jobs to be created, and living standards to rise.

But the financial system does more than simply transform savings into investment. It also provides a variety of supporting services essential to modern living. These include *payment services* that make commerce and markets possible (such as checks, credit and debit cards, and interactive websites), *risk protection services* for those who save and venture to invest (including insurance policies and derivative contracts), *liquidity services* (making it possible to convert property into immediately available spending power), and *credit services* for those who need loans to supplement their income.

Factoid

Did you know that the number of banks operating in the U.S. today represents less than a third of the number operating 100 years ago? Why do you think this is so?

Key URLs

Want to know more about savings associations, which closely resemble commercial banks today? See especially the Office of Thrift Supervision at www.ots.treas.gov and the Federal Deposit Insurance Corporation at www.fdic.gov.

The Competitive Challenge for Banks

For many centuries banks were way out in front of other financial-service institutions in supplying savings and investment services, payment and risk protection services, liquidity, and loans. They dominated the financial system of decades past. But, lately, banking's financial market share frequently has fallen as other financial institutions have moved in to fight for the same turf. In the United States of a century ago, for example, banks accounted for more than two-thirds of the assets of all financial-service providers. However, as Exhibit 1-2 illustrates, that share has fallen to just under one-quarter of the assets of the U.S. financial marketplace, though recently banking's share has risen somewhat.

Some authorities in the financial-services field fear that this apparent erosion of market share may imply that traditional banking is *dying*. (See, for example, Beim [2] and the counterargument by Kaufman and Mote [3].) Certainly as financial markets become more efficient and the largest customers find ways around banks to obtain the funds they need (such as by borrowing in the open market), traditional banks may be less necessary in a healthy economy. Some experts argue the reason we still have thousands of banks scattered around the globe—perhaps more than we need—is that governments often subsidize the industry through cheap deposit insurance and low-cost loans. Still others argue that banking's market share may be falling due to excessive government regulation, restricting the industry's ability to compete. Perhaps banking is being “regulated to death,” which may hurt those customers who most heavily depend on banks for critical services—individuals and small businesses. Other experts counter that banking is *not* dying, but only *changing*—offering new services and changing its form—to reflect what today's market demands. Perhaps the traditional measures of the industry's importance (like size as captured by total assets) no longer reflect how truly diverse and competitive bankers have become in the modern world.

Leading Competitors with Banks

Among leading competitors with banks in wrestling for the loyalty of financial-service customers are such nonbank financial-service institutions as: