

# 1 The organization of the financial industry

## AIMS

- To learn about:** the organization of the financial industry; key vocabulary of banking products and services
- To learn how to:** express permission, necessity and prohibition
- To practise:** asking and talking about terms and conditions of bank accounts

### Lead in

- What services does your bank offer? Which of them do you use?
- If you are still studying, what area of finance do you want to work in, and why?
- If you are already working, what area of finance do you work in, and why? Would you like to change your field of activity in the future, and why?
- Has the institution or company you work for changed significantly in recent years? In what ways?


### Vocabulary 1

You are going to listen to Peter Sinclair, the former director of the Centre for Central Banking Studies at the Bank of England, talking about the financial industry. Before you listen, check your understanding of banking vocabulary by completing each sentence with a word from the box.

bonds	deposit	mortgage	shares	takeover
capital	merger	pension	stocks	

- 1 A \_\_\_\_\_ is a loan to buy property.
- 2 Money you put in the bank is called a \_\_\_\_\_.
- 3 Money paid to a retired person is called a \_\_\_\_\_.
- 4 Securities representing part-ownership of a company are called \_\_\_\_\_ or \_\_\_\_\_.
- 5 The money invested in a business is its \_\_\_\_\_.
- 6 \_\_\_\_\_ are interest-paying securities issued by companies that need to borrow money.
- 7 A \_\_\_\_\_ is when a company gains control of another one by buying its stocks.
- 8 A \_\_\_\_\_ is when two formerly separate companies join together.

### Listening 1: The development of the financial industry

Listen to Peter Sinclair talking about the organization of the financial industry 25 years ago, and answer the questions below.  1.1

- 1 Were most financial institutions national, or international?
- 2 Were most financial institutions specialized, or did they offer lots of services?



3 What kinds of financial institutions traditionally did the following types of business? Complete the table.

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>making loans</li> <li>arranging mergers</li> <li>providing pensions</li> <li>giving financial advice to companies</li> <li>receiving deposits</li> </ul> | <ul style="list-style-type: none"> <li>issuing shares or bonds</li> <li>arranging mortgages</li> <li>arranging or fighting takeover bids</li> <li>offering life insurance</li> </ul> |
|---|--|

Retail banks	
Building societies	
Insurance companies	
Investment banks	

### Listening 2: Going international

Listen to Peter Sinclair talking about recent changes in the financial industry, and answer the questions below. 1.2

- 1 What has recently happened to banks in Britain and many other countries?
- 2 In what way does Peter Sinclair compare the City of London to the Wimbledon tennis tournament?
- 3 Which two words does Peter Sinclair use to summarize the two big recent trends in banking?



Peter Sinclair makes a comparison between the City of London and the Wimbledon tennis tournament.

### Discussion

Has your bank changed in any of the ways described by Peter Sinclair?

## Vocabulary 2

1 You are going to read about changes in the banking industry. Before you read, check your understanding of the words (1–8) below by matching them with their definitions (a–h).

- |                 |   |
|-----------------|---|
| 1 conglomerates | a abolished or ended rules and restrictions                               |
| 2 depositors    | b sums of money paid as penalties for breaking the law                    |
| 3 deregulated   | c groups of companies that have joined together                           |
| 4 fines         | d control of something by rules or laws                                   |
| 5 prohibited    | e guaranteeing to buy a company's newly issued stocks if no one else does |
| 6 regulation    | f made it illegal to do something   |
| 7 repealed      | g people who place money in bank accounts                                 |
| 8 underwriting  | h cancelled or ended (a law)  |

2 Now look again at the words above and put a stress mark in front of the stressed syllable in each word.

Example: *con'glomerates*

## Reading: Regulation and deregulation

1 Read the article, and complete it using the words (1–8) from the **Vocabulary** exercise above.

### Regulation and deregulation

In the late 1920s, several American commercial banks that were (1) \_\_\_\_\_ security issues for companies weren't able to sell the stocks to the public, because there wasn't enough demand. So they used money belonging to their (2) \_\_\_\_\_ to buy these securities. If the stock price later fell, their customers lost a lot of money.

This led the government to step up the (3) \_\_\_\_\_ of banks, to protect depositors' funds, and to maintain investors' confidence in the banking system. In 1933 the Glass–Steagall Act was passed, which (4) \_\_\_\_\_ American commercial banks from underwriting securities. Only investment banks could issue stocks for corporations. In Britain too, retail or commercial banks remained separate from investment or merchant banks. A similar law was passed in Japan after World War II.

Half a century later, in the 1980s and 90s, many banks were looking for new markets and higher profits in a period of increasing globalization. So most industrialized countries (5) \_\_\_\_\_ their financial systems. The Glass–Steagall Act was

(6) \_\_\_\_\_. A lot of commercial banks merged with or acquired investment banks and insurance companies, which created large financial (7) \_\_\_\_\_. The larger American and British banks now offer customers a complete range of financial services, as the universal banks in Germany and Switzerland have done for a long time. The law forbidding US commercial banks from operating in more than one state was also abolished. In Britain, many building societies, which specialized in mortgages, started to offer the same services as commercial banks.

Yet in all countries, financial institutions are still quite strictly controlled, either by the central bank or another financial authority. In 2002, ten of Wall Street's biggest banks paid (8) \_\_\_\_\_ of \$1.4 billion for having advised investors, in the 1990s, to buy stocks in companies that they knew had financial difficulties. They had done this in order to get investment banking business from these companies – exactly the kind of practice that led the US government to separate commercial and investment banking in the 1930s.

2 Put the sentences [a–d] below in the right order on the timeline, and write the time period that each sentence refers to. The first one has been done as an example.

- a Major US banks were fined for giving bad advice to investors.
- b Commercial banks used their investors' money to buy securities and many depositors lost money.
- c Many banking regulations were ended and big financial conglomerates were formed.
- d New laws in the US and Britain separated commercial and investment banks.



3 Look at the following statements. Are they true or false, according to the article?

- 1 The Glass–Steagall Act was the result of the behaviour of investment banks.
- 2 The British and American financial markets are now completely unregulated.
- 3 German and Swiss banks did all types of banking business at a time when American and British ones were not allowed to.
- 4 During the 20th century, many financial markets first became more regulated, and then less regulated.
- 5 Large American banks no longer do the kind of things that led to the separation of investment and commercial banking in the 1930s.

### Discussion

- Which are the largest banks (or financial conglomerates) in your country?
- To what extent is banking regulated in your country? What are the advantages and disadvantages of this?

## FOCUS

### Permission, necessity and prohibition

- 1 The **Reading** article gives information about banking regulations – how banking is controlled by rules. Look at the following sentences and underline the words that are used to describe things that are permitted, necessary, not necessary, or prohibited (forbidden).
  - 1 Although banks are allowed to open on Saturdays, most of them don't.
  - 2 Banks aren't allowed to charge less than the minimum interest rate.
  - 3 Commercial banks have to deposit part of their reserves at the central bank.
  - 4 If you have a credit card, you don't need to pay cash.
  - 5 If you keep at least \$1,000 in the bank, you don't have to pay charges.
  - 6 Today, retail banks need to react to competition from building societies.
  - 7 Our policy states that we can't lend you more than one month's salary.
  - 8 You can pay me back at the end of the month.
  - 9 You must keep at least \$1,000 in the account if you want free banking.
  - 10 You mustn't use this loan for any other purpose.
  - 11 You needn't go to the bank – you can do it on the internet.

2 Put the sentences into the correct columns, according to their meaning. The first one has been done as an example.

Meaning	Permission	Necessity or obligation	No necessity or no obligation	Prohibition
Sentence number	1			
Verbs used	be allowed to			

These verbs change if we talk about the past:

Present	Past
can / can't	was / were (not) able to OR could / couldn't
must	had to
mustn't	was / were not allowed to OR couldn't
is / are (not) allowed to	was / were (not) allowed to OR could / couldn't
has / have to	had to
doesn't / don't have to	didn't have to
need to	needed to
needn't / don't need to	didn't need to

Examples: I had a credit card, so I *didn't need to* pay cash.  
 I *had to* keep \$1,000 in the account.

3 Complete each sentence using a verb. Look back at the **Reading and Listening** exercises to find the information you need.

- In the 1970s, US commercial banks \_\_\_\_\_ do business in more than one state.
- Today, US banks \_\_\_\_\_ operate in several states.
- Today, American banks \_\_\_\_\_ be specialized any more.
- For most of the 20th century, commercial banks \_\_\_\_\_ issue shares.
- Banks \_\_\_\_\_ sell stocks to their own customers if it is not in the customers' interest.
- Today, building societies \_\_\_\_\_ restrict their activity to mortgages.
- German banks were always \_\_\_\_\_ do business with both large companies and small individual customers.
- Before deregulation, foreign banks \_\_\_\_\_ operate in many countries.
- Even after deregulation, banks still \_\_\_\_\_ obey a lot of laws.
- Twenty-five years ago, most banks \_\_\_\_\_ worry about foreign competition.

## Practice

A customer calls a bank to ask about the terms and conditions of a bank account. Your teacher will give you a role to prepare. Use the phrases for permission, necessity and prohibition from the **Language focus** above.

Work in pairs. Student A should look at **page 115**, and Student B at **page 123**.

## Discussion

How do the bank accounts in the **Practice** compare with your own? Talk about the rules for your account using the language from the **Language focus** above.