

# Unit 13

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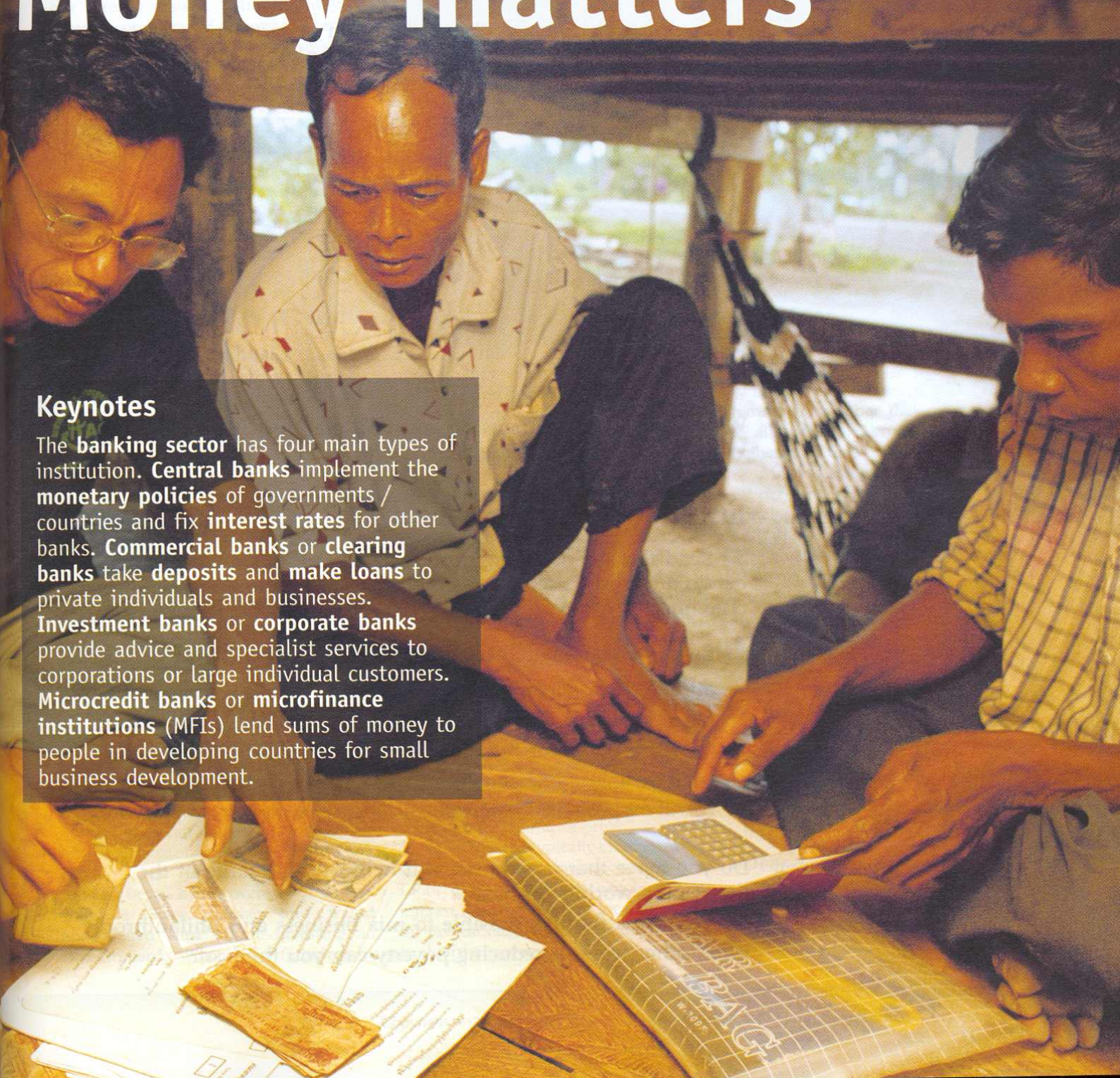
# Money matters

## Keynotes

The **banking sector** has four main types of institution. **Central banks** implement the **monetary policies** of governments / countries and fix **interest rates** for other banks. **Commercial banks** or **clearing banks** take **deposits** and **make loans** to private individuals and businesses.

**Investment banks** or **corporate banks** provide advice and specialist services to corporations or large individual customers.

**Microcredit banks** or **microfinance institutions** (MFIs) lend sums of money to people in developing countries for small business development.



## Preview **Banking institutions**

Which of the following banks do the things listed below?

Central      Microcredit      Commercial      Investment

- 1 give loans to people who have very limited resources
- 2 advise companies who want to go public
- 3 fix the exchange rate of a national currency
- 4 issue chequebooks and credit cards

### Speaking

What are the main banking institutions in your country? What banking services do you use? How do you carry out your banking transactions (by phone / on the internet / at a branch, etc.)?

### Listening 1

Look at the table, which shows the main departments and services of an investment bank. Listen to three employees talking about their jobs. Which department does each one work in?

Advisory/ Research	Portfolio management	Investment	Capital and debt	Private asset management
business risk	market information	start-up companies	IPOs	client management
business sector analysis	stock reports	venture capital	corporate debt	taxation
strategy and management	stock trading			pension planning

Frank \_\_\_\_\_ Matt \_\_\_\_\_ Claudia \_\_\_\_\_

### Speaking

Which of the departments do you find the most interesting? What do you think it would be like to work in an investment bank?

### Reading

## **Investing in development**

- 1 Read the text on the opposite page. What is the main difference between Mr de Lesseps' investment bank and the one described in Listening 1?
- 2 Read the text again. Are the following statements *true* or *false*?
  - 1 Microcredit institutions generally make loans up to a maximum of \$1,000.
  - 2 Microcredit loans are less likely to be repaid than other high-risk loans.
  - 3 Over \$3 billion is currently on loan under microfinancing schemes.
  - 4 Microcredit loan interest rates are based on risk assessments.
  - 5 20% of the potential for microfinancing is currently being exploited.

### Speaking

Do you agree that investment will help to solve some of the developing world's problems?

Do you think that it's possible to mix business and philanthropy?

What other ways of reducing poverty can you think of?

## INVESTING IN DEVELOPMENT

# A path to helping the poor

**Microfinance institutions see the sense of investing in the developing world**

<sup>1</sup> “IN New York, people are always asking me the same question,” Alexandre de Lesseps says: “Why do you want to lend money to poor people in developing countries?” Mr de Lesseps, 54, an international investment banker, has a ready answer. “The only way to solve the problems of poverty and terrorism in the world today,” he says, “is through investment.” As a co-owner of BlueOrchard Finance, a corporate bank in Geneva, he is one of the leading figures in the world of microfinance. His firm manages a fund that currently makes about \$50 million in short-term loans to microcredit lending institutions in more than 20 developing countries around the world, and BlueOrchard and its investors make a profit in the form of interest payments on the loans that they make to such institutions.

<sup>2</sup> Microfinance institutions typically make loans in amounts of \$1,000 or less to poor people in developing countries who are ignored by commercial banks. As a rule, microcredit loans are not backed by collateral, leaving no means of financial recovery for the lender if they are not repaid. But leading microcredit institutions claim that only five per cent of the loans they make are never repaid. This compares with five to ten per cent in the consumer finance industry for borrowers with bad credit histories. Just less than \$500 million is committed to microcredit loans worldwide, according to BlueOrchard’s estimates. But Mr de Lesseps says he believes that today the total market for such loans may be nearly \$3 billion.

<sup>3</sup> He acknowledges that the aims of his microfinancing ventures are not purely philanthropic. “The reason we lend money to poor people in developing countries is not only so that they can make money,” he said, “but also so that our investors can make money.” The latter, of course, have to be his primary concern. His involvement in microfinancing began a little over two years ago, when a Swiss banker and friend approached him about investing in BlueOrchard, which was founded by



microfinance specialists Cédric Lombard and Jean-Philippe de Shrevel, one-time employees of the United Nations.

<sup>4</sup> When de Lesseps and his team arrive in a country, they visit the central bank or leading aid institutions, the ones generally doing microfinancing. Later, on-site research often takes them to interior villages, where families may live on less than \$10 a month. “I visited a village in Cambodia where the people used microcredit loans to buy irrigation equipment and seed, which they use to grow vegetables,” Mr de Lesseps said. “They are now selling the vegetables to exporters and to a local hotel. Such villages are being transformed from dust to being productive. You don’t ask for collateral on the loans because they don’t have it. But they will die to pay you back because you are giving them a first-time chance. It’s a matter of pride.”

<sup>5</sup> BlueOrchard typically charges two to seven percentage points more than Libor, the international benchmark for interest rates, for loans to local microcredit institutions, which then charge rates to their borrowers based on assessments

of risk factors. “I know that sounds pretty high,” Mr de Lesseps said. “But you have to remember that other forms of locally available credit are five times higher than that.”

<sup>6</sup> Mr de Lesseps said he believed that 80 per cent of the potential for microfinancing worldwide remained untapped, and that the industry would easily be able to absorb more than \$10 billion. “For me, the only way to make a difference,” he said, “is to make sure that the money going to developing countries is properly managed and not just thrown away.”

### Glossary

**collateral** assets that can be used as a guarantee for a loan

**philanthropic** benevolent, interested in people’s well-being

**Libor** London Interbank Offered Rate (the rate of interest at which London banks offer loans to each other)

## Vocabulary 1 Expressions with *make*

1 Look at the following example from the text.

*Microfinance institutions typically make loans (= lend money) ... (para 2)*

Complete the following expressions with *make* from the text. (Each can be followed by the preposition(s) in brackets.)

- 1 get/produce a return on an investment (para 1)  
make \_\_\_\_\_ (on/from)
- 2 get/produce a return on an investment (para 3)  
make \_\_\_\_\_ (on/from)
- 3 have a positive influence on something (para 6)  
make \_\_\_\_\_ (to)

2 Look at more expressions with *make* below. Complete them with the prepositions *of*, *for*, *on* or *with*.

- 1 make allowances \_\_\_\_\_
- 2 make a habit \_\_\_\_\_
- 3 make a deal \_\_\_\_\_
- 4 make an impression \_\_\_\_\_
- 5 make a mistake \_\_\_\_\_

## Vocabulary 2 Look at the collocations from the text.

*Why do you want to lend money ...? (para 1)*

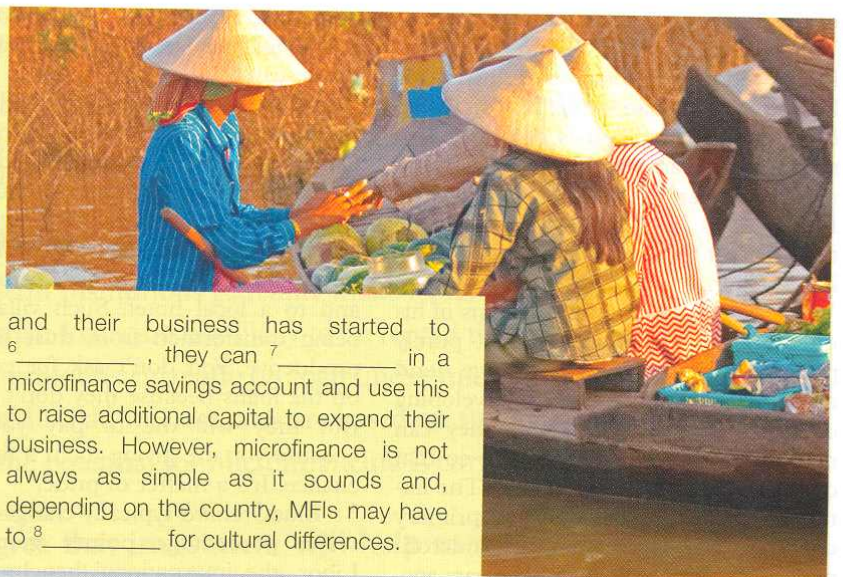
*... only five per cent of the loans they make are never repaid. (para 2)*

Which of the following verbs can be used to form collocations with *money* and *a loan*?

pay off   borrow   lend   secure   invest   deposit   negotiate  
raise   lose   apply for   save

Practice Complete the article with phrases from Vocabulary 1 and 2.

Today, 90 per cent of people living in poverty are unable to <sup>1</sup> *borrow money* from commercial banks, which refuse to <sup>2</sup> \_\_\_\_\_ without financial guarantees. That means that their only available sources of credit are either family, or moneylenders who charge interest at rates as high as 100 per cent per month. Microcredit banks, where investors can obtain funds despite being unable to <sup>3</sup> \_\_\_\_\_ their \_\_\_\_\_, can really <sup>4</sup> \_\_\_\_\_ to the lives of future small business owners. In order to protect investments, these banks often lend to groups; if one member of the group is unable to <sup>5</sup> \_\_\_\_\_, the other members of the group can do so for them. Once a microentrepreneur has become successful,



and their business has started to <sup>6</sup> \_\_\_\_\_, they can <sup>7</sup> \_\_\_\_\_ in a microfinance savings account and use this to raise additional capital to expand their business. However, microfinance is not always as simple as it sounds and, depending on the country, MFIs may have to <sup>8</sup> \_\_\_\_\_ for cultural differences.

Writing Write a short letter to the communications director of the company you work for explaining why you think the company should contribute money to support microfinance. (See *Style guide*, page 16.)

## Reading **Investment bank for sale**

Read the extract from a newspaper article about Cazenove, a British investment bank, and answer the questions.

- 1 What services does Cazenove provide for its clients?
- 2 Why do you think major investment banks wanted to buy Cazenove?



**Cazenove**, a small British investment bank, is the object of desire of many of the world's biggest financial institutions. It is the banker for 43 of the UK's top 100 companies and also manages the finances of many of the members of the British Royal Family.

Cazenove provides corporate finance advice and manages funds on behalf of its clients worldwide. The bank acts as financial adviser in merger and acquisitions transactions, both public and private, and offers an extensive shareholder analysis service.

Even though they are not specialists in all areas and charge relatively little for each of their services, when they announced they wanted to sell, all the major investment banks were interested in buying them.

## Listening 2

It was JP Morgan Chase who finally made a deal with Cazenove. Listen to an interview with Jeff Sanders, a market analyst, who is talking about the strategic alliance. Choose the best options (a-c) to complete the sentences.

- 1 The alliance is a
  - a takeover.
  - b merger.
  - c joint venture.
- 2 The price JP Morgan Chase paid for the deal is
  - a much less than other recent alliances they made.
  - b much more than other recent alliances they made.
  - c 50 per cent less than other recent deals.
- 3 Cazenove is attractive because it
  - a is a very powerful bank.
  - b has very important clients.
  - c is Britain's biggest investment bank.
- 4 Cazenove's shareholders are
  - a mostly made up of employees.
  - b unhappy about the deal.
  - c concerned about losing control.
- 5 The speaker says that in five years' time JP Morgan will probably
  - a pull out of the deal because of the penalties they have to pay.
  - b sell Cazenove to another US giant.
  - c pay penalties in order to gain complete control of Cazenove.

## Reference words

We use the reference words *this*, *that*, *these*, *those*, *such*, *the former*, *the latter*, *one* and *ones* to refer to something mentioned before.

Study the examples taken from the text on page 113 and decide what the words in bold refer to.

- a *But leading microcredit institutions claim that only five per cent of the loans they make are never repaid. **This** compares with five to ten per cent in the consumer finance industry ...* (para 2)
- b *“... we lend money to poor people ... not only so that they can make money ... but also so that our investors can make money.” **The latter**, of course, have to be his primary concern.* (para 3)
- c *... they visit the central bank or leading aid institutions, **the ones** generally doing microfinancing.* (para 4)
- d *“I visited a village in Cambodia where the people used microcredit loans to buy ... **Such** villages are being transformed from dust to being productive.”* (para 4)
- e *BlueOrchard typically charges two to seven percentage points more than Libor ... “But you have to remember that other forms of locally available credit are five times higher than **that**.”* (para 5)



For more information, see page 162.

## Practice

**1** Read the extract from an article about a banker and decide what the words in *italics* refer to.



**Jonas Okembo** is a microfinance manager. <sup>1</sup>*This* involves calculating the interest rates the bank should charge customers on their loans. It also means deciding how long it will take disadvantaged customers to repay both the principal and the interest on the loans. <sup>2</sup>*The former* is

the actual sum lent and <sup>3</sup>*the latter* refers to the percentage charged by the bank for the lending period. Rating the credit-worthiness of <sup>4</sup>*such investors* can be the most difficult part of the job, but as it often involves travelling to interesting places, it is <sup>5</sup>*the one* he enjoys most.

**2** Read another extract from the same article. Replace the words in *italics* below with *the latter*, *that*, *such*, *the ones*, *these* or *the former*.

He was first attracted to the microfinancing sector by a desire to help people in developing countries. They are *the people* <sup>1</sup>\_\_\_\_\_ whose projects he found the most challenging, and their motivation and enthusiasm were contagious. *Their motivation and enthusiasm* <sup>2</sup>\_\_\_\_\_ are the things that make them interesting and

worthwhile to work with,' Jonas says. 'It's a great position to be in, and I'm sure that if I didn't work in *this type of* <sup>3</sup>\_\_\_\_\_ an environment, I would probably have set up my own business. Originally, I wanted to go into the technology sector and then I thought about a career in international relations, but *the technology sector* <sup>4</sup>\_\_\_\_\_ suffered

a slump in my final year in business school, and I wasn't really qualified for *international relations* <sup>5</sup>\_\_\_\_\_. However, being a microfinance account manager is what I want now and *being a microfinance account manager* <sup>6</sup>\_\_\_\_\_ is all that matters for the moment.'

## Persuading

Persuading colleagues to agree with your point of view or follow the course of action you recommend can sometimes be a difficult task. You may need to use different approaches depending on the personalities and relationships involved. Look at the following useful phrases.

- a *Unless you're prepared to ...*
- b *Bearing all things in mind ...*
- c *We're all in this together.*
- d *All things considered, I think ...*
- e *It's in all of our interests to ...*
- f *If you don't do it this way, then ...*
- g *After looking at all sides of the argument ...*

Match phrases a–g with the following approaches.

- 1 **Coercion** introducing a threat in order to get what you want
- 2 **Reasoned argument** showing that your point of view / solution is the most logical or reasonable
- 3 **Shared interest** creating a sense of common purpose

Which of the approaches do you think is the most effective?

### Listening 3

- 1 Listen to three dialogues. Which of phrases a–g above are used?
- 2 We tend to use a mix of approaches when persuading. Discuss the tactics or strategies the speakers use in the three dialogues and say which you think are most effective, and why.

### Speaking

- 1 Work in pairs. Which of the following would you have to be persuaded to do? Take turns to try to persuade each other to do them.
  - lend your new car to a friend for the weekend
  - invest your savings in a friend's new business scheme
  - participate in a team training session where you will have to do a bungee jump
  - live without your TV, mobile phone or computer for one month
  - write a report criticising a colleague who is a friend of yours
- 2 Tell your partner one other thing you would never do. Your partner must try to persuade you to do it.

### Culture at work

## Exerting influence

If an attempt is being made to persuade them to do something, people in different cultures react in different ways, whatever approach is used. Junior colleagues may feel they have to accept whatever a superior suggests, or they may feel they should present an alternative argument or put forward an opposing view if that is what seems right to them. What is the situation in your culture?

# Dilemma & Decision

## Dilemma: **Reliable research?**

### Brief

LVMH, the company famous for Dior cosmetics and Vuitton handbags, is suing the US investment bank Morgan Stanley for €100m, accusing its research analysts of giving false reports about its financial health. LVMH claims that the bank compared them unfavourably with their biggest rival, Gucci, who is a client of Morgan Stanley, causing the LVMH share price to drop. The bank counterattacked by seeking damages of €10m and the publication of the judgement, if it was in their favour, in 20 magazines and newspapers.

### Task 1

Work in groups. Read the claims below put forward by the two sides. Discuss whether you think these claims are valid. Why / Why not?

### Task 2

Work in groups. Based on the claims, prepare a list of persuasive arguments which could be used by the spokespeople from each party. Assign the roles of spokespeople to two members of the group and listen as they argue the points. Did you feel more convinced by some arguments than others?

### Task 3

Discuss what you would do if you were the judge in this case. Would you award the requested damages to either side? Compare your decision with those made by other groups.

### Write it up

Write the minutes of the meeting your group had in Task 3. (See *Style guide*, page 26.)

## Decision:

Now turn to page 140 to find out what happened.

## LVMH – The Case

- The company claims that the bank was deliberately and systematically unfair to them in its stock research because of the direct conflict of interest concerning the bank's client, Gucci.
- Clare Kent, the bank's analyst, is supposed to have stated that LVMH stock had peaked and wouldn't increase in value any more, thus causing a dramatic drop in their share price.
- Morgan Stanley sent an email to their clients to inform them that LVMH's credit rating was about to be downgraded. This had a very bad effect on their market credibility.
- Morgan Stanley made negative predictions about the impact of the weak yen on LVMH profits, and also suggested they would have problems integrating clothes retailers they had bought.

## Morgan Stanley – The Case

- The bank admits that they did seek to promote their own client by giving favourable information about them, but they also insist that they never tried to make LVMH's situation look worse than it was.
- They argue that Clare Kent is one of their best analysts, and was voted European Luxury goods analyst of the year by *Institutional Investor* magazine.
- They say that investors know that analysts make mistakes. For example, they were uniformly positive about technology stocks in the late 1990s, and nobody is suing them now.
- They argue that the credit downgrade was based on a report by the rating agency Standard and Poor's, and that they are not responsible for the accuracy of information given by them.
- They claim that they were right about the impact of the yen and the integration of clothes retailer Donna Karan.