



SWIMMING WITH SHARKS

Inside the world of the bankers

J

THE
GRAPHIC
NOVEL

This graphic novel by Joost Roozkrans is a short, visual version of the best-selling book **SWIMMING WITH SHARKS** and approved by its author, Joris Luyendijk.

Joris Luyendijk



WHAT, WHO, HOW, WHY?

Autumn 2008: the world economy almost completely collapsed.

Joris Luyendijk, a Dutch anthropologist and journalist for The Guardian newspaper, spent two years in the city of London. He spoke with 200 bankers to find out how they operate and what drove the financial crisis in 2008.

His conclusion: bankers did not have to break any laws to cause the crisis. The vast majority didn't have anything to do with the financial crash and to this day the mechanisms that caused it haven't changed structurally.

Could it happen again? What are these mechanisms and how should they be re-built?

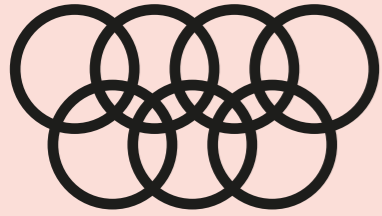


FINANCIAL CENTRE LONDON

Mayfair; the Square Mile; Canary Wharf:
an important financial centre in Europe and
the world. Nylon is the connection between
New York and London.

PLANET FINANCE

The financial world is a very diverse one. It is like an Olympic village with a variety of different sports and other specialities.



MEGA BANKS

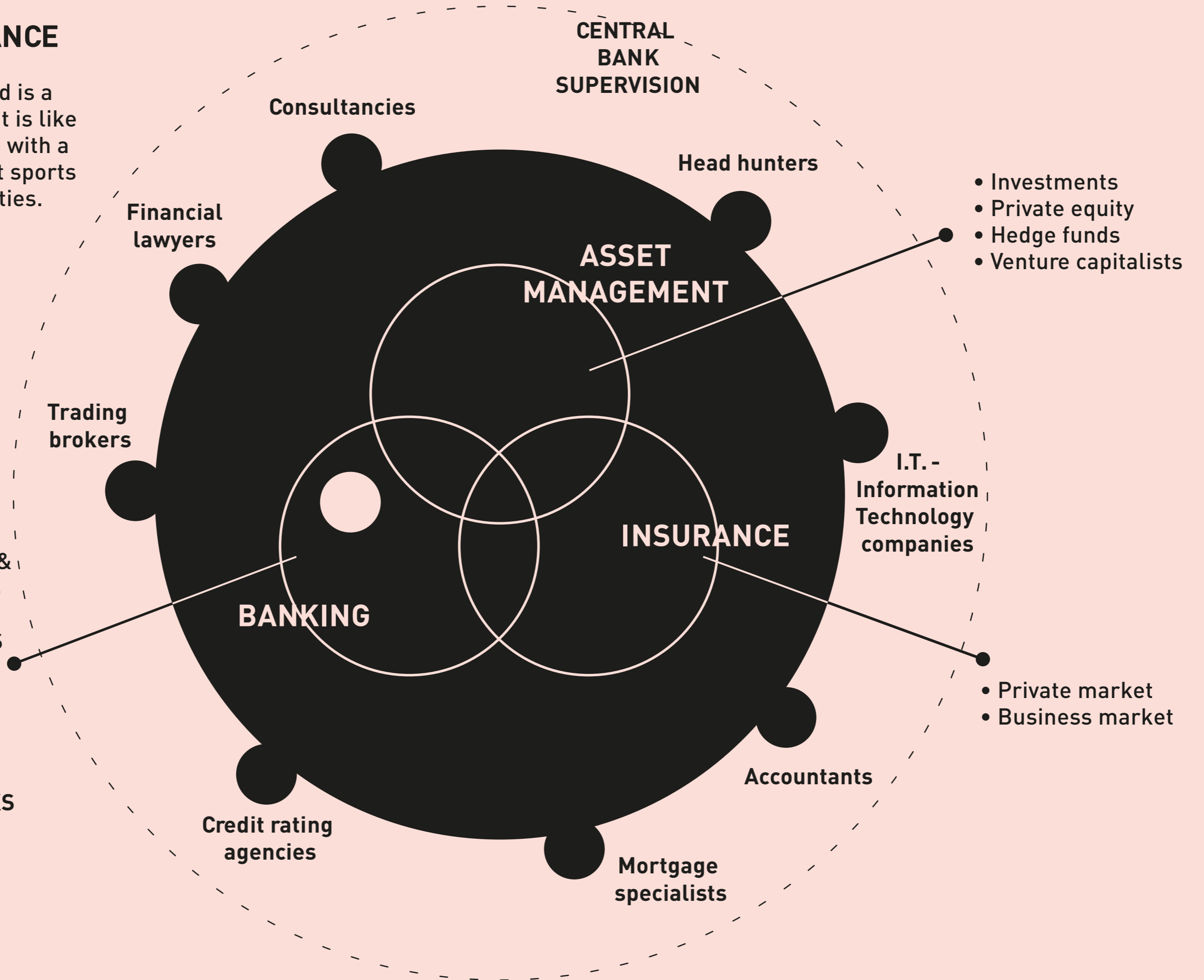
- Mix of business & consumer banks

BUSINESS BANKS

- Traders
- Deal makers
- Structures
- Quants

CONSUMER BANKS

- Payments
- Savings
- Mortgages
- Loans





On September 15, 2008 bankers called home: '... buy food, gold, weapons! Evacuate the children!'



12 ALMOST FINANCIAL MELTDOWN! National governments paid losses and central banks dropped interest rates - creating new money, and rescuing banks

1 US and UK consumer banks lending too much in loans and mortgages in the early 2000's

2 These high mortgages were driving up house prices

3 Consumer banks sold the risks of these mortgages to business banks

4 Business banks were cutting up and repackaging mortgages into new complex financial products

5 Central banks were keeping interest rates low. New repackaged, complex financial products gave better interest and became popular

6 AIG was insuring those repackaged, complex financial products

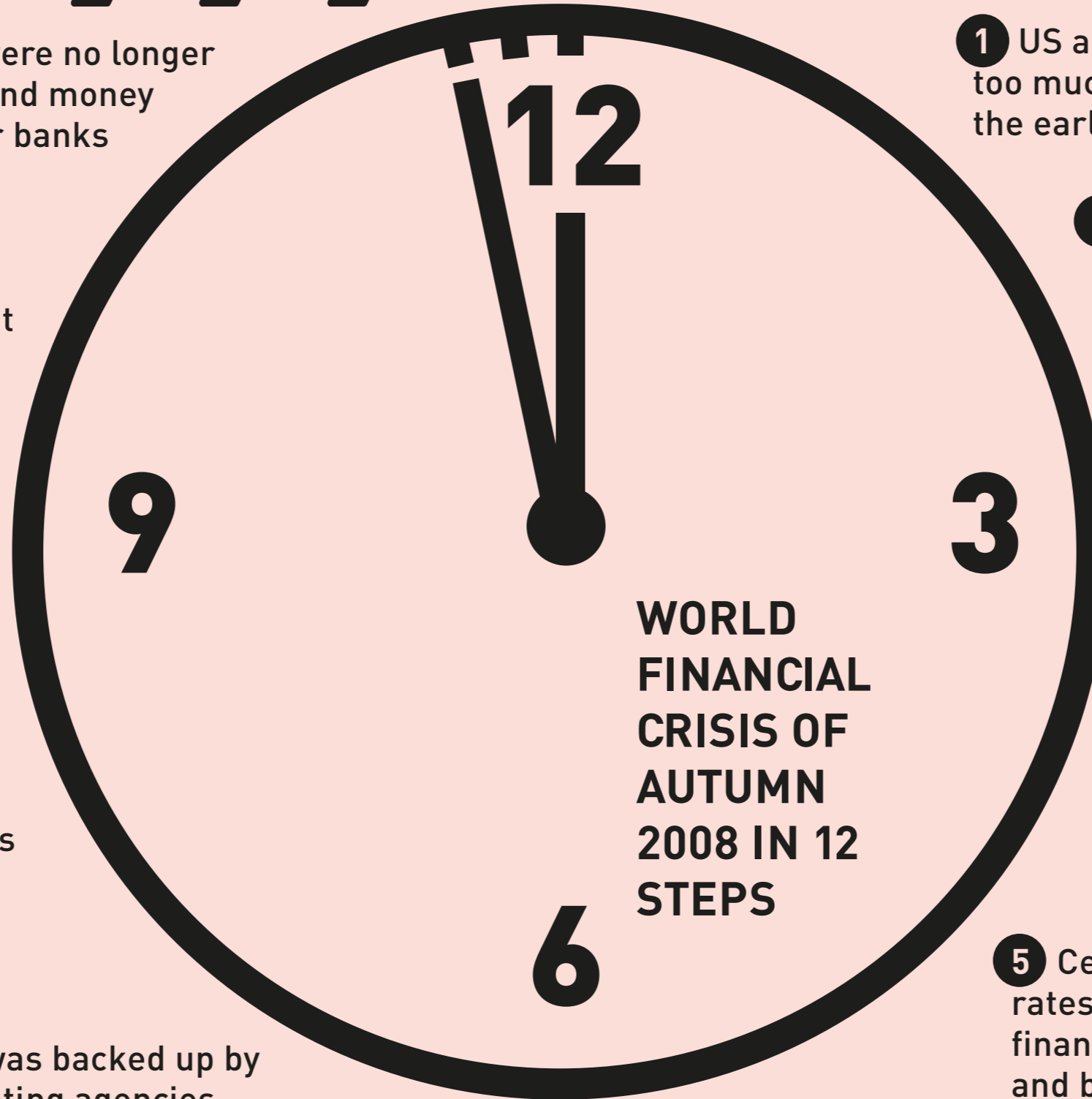
7 AIG was backed up by credit rating agencies that gave triple-A ratings to repackaged complex financial products

8 Banks were keeping part of the repackaged, complex financial products in possession, without proper financial buffers

9 Mid 2008 - millions of US house owners could no longer pay off their mortgages

10 Lehman Brothers did not have sufficient financial buffers and went down, bankrupt

11 Banks were no longer willing to lend money to any other banks



**WHAT IF
A FINANCIAL MELTDOWN
REALLY HAPPENS?**

1 A big bank goes down, taking others with it

2 Private people
can no longer access
their money

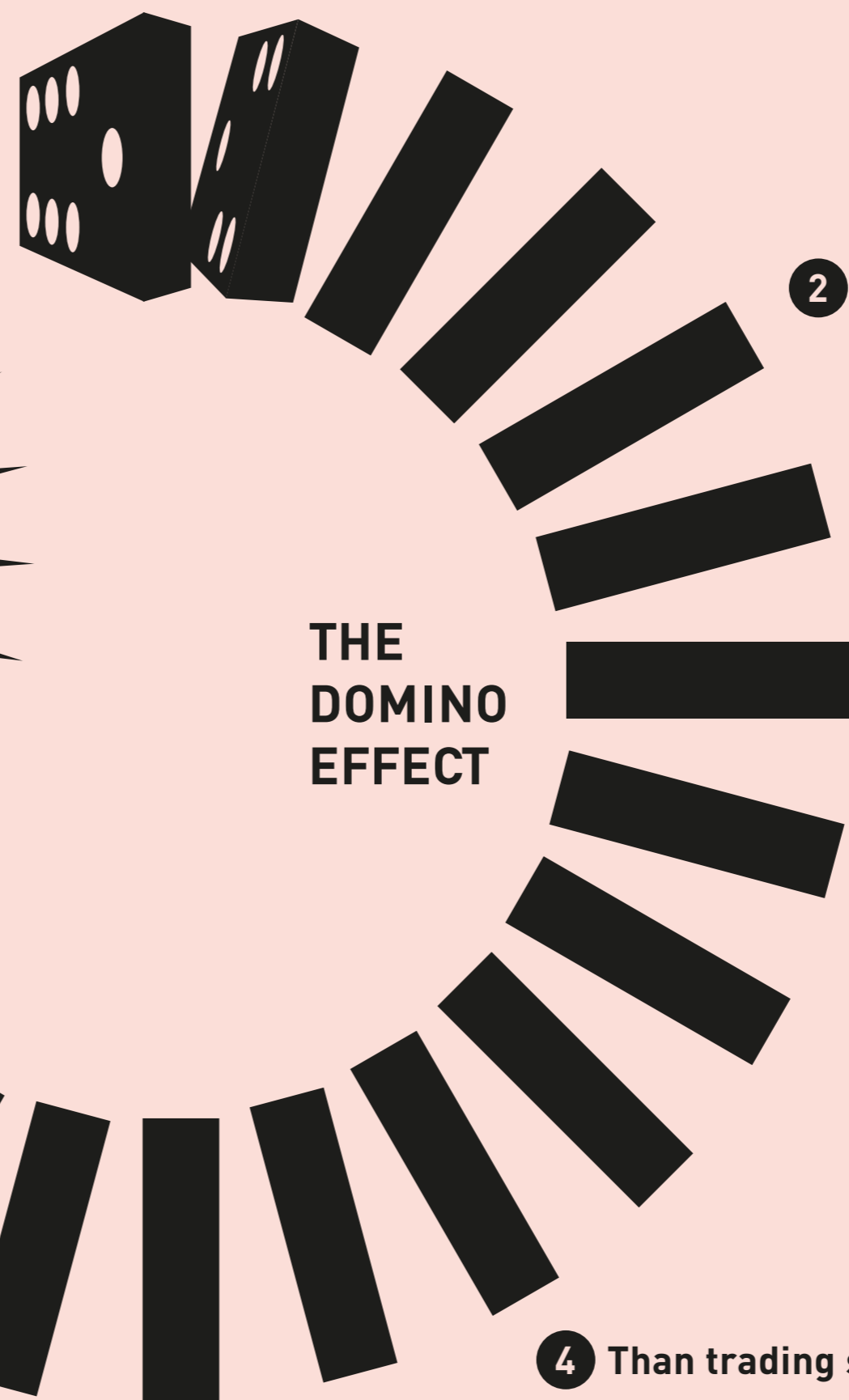
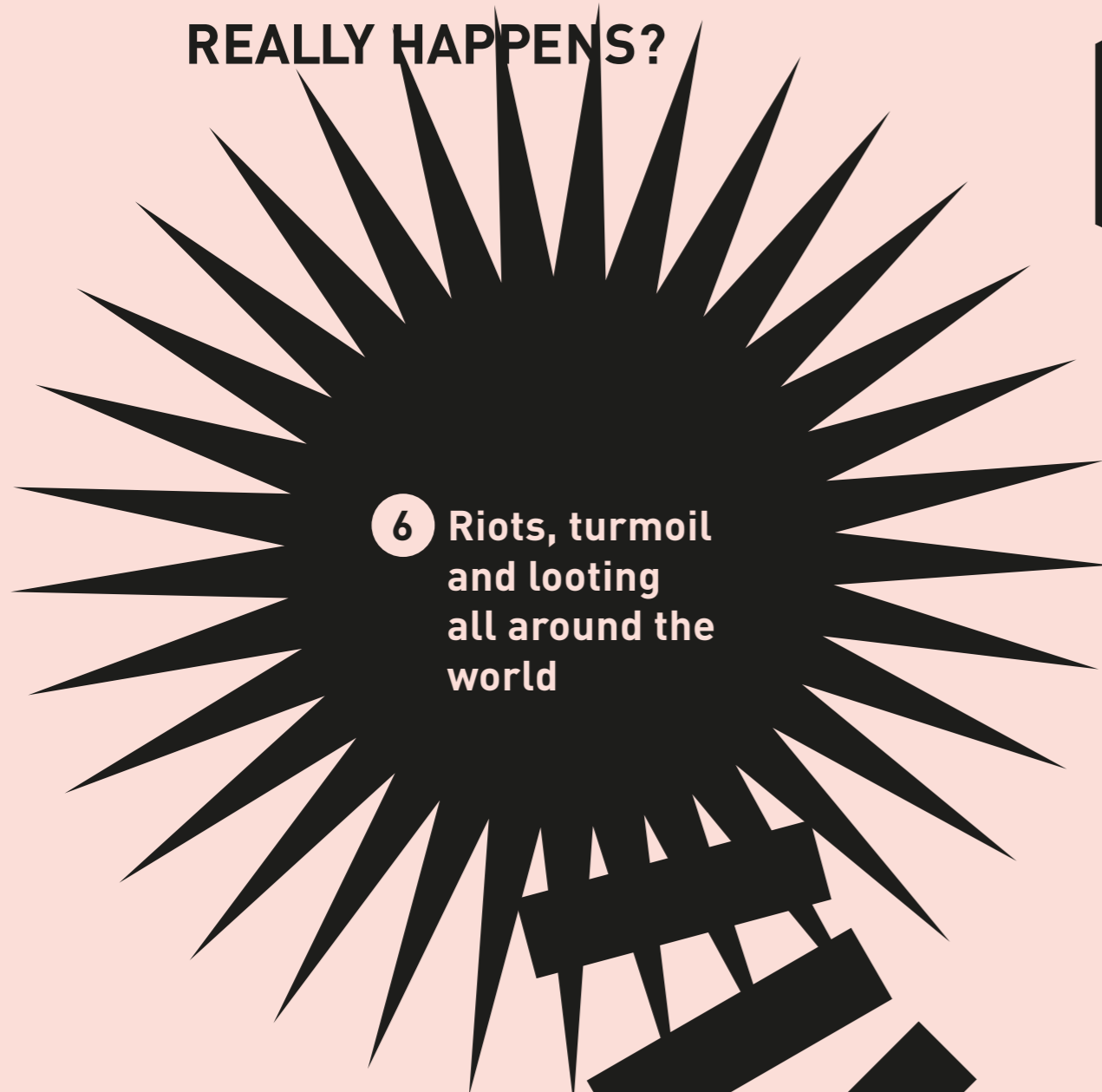
3 Finance of global
trade stops

4 Than trading stops

5 Distribution of food,
medicine and oil stops

6 Riots, turmoil
and looting
all around the
world

**THE
DOMINO
EFFECT**

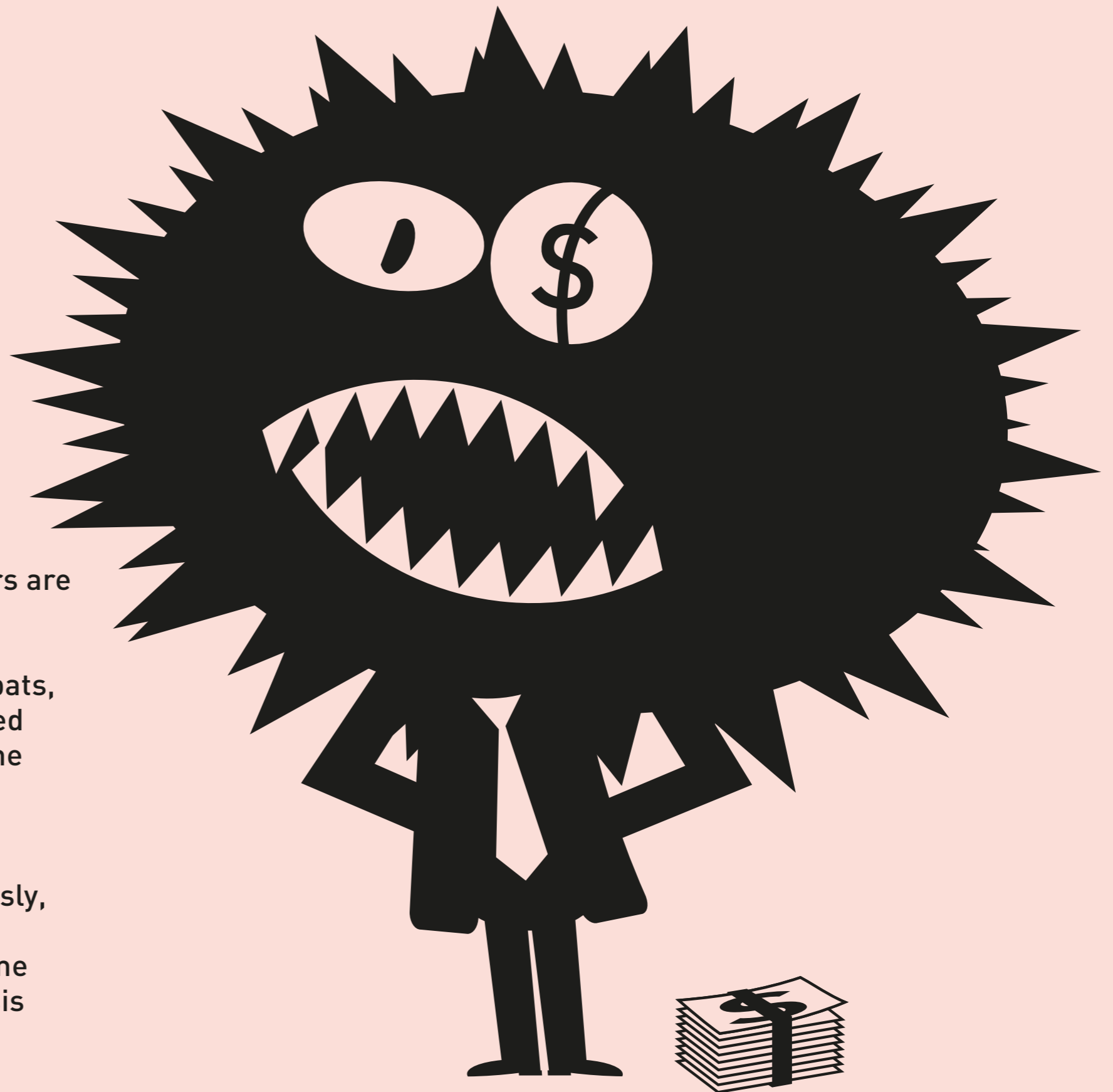


ARE INDIVIDUAL BUSINESS BANKERS MONSTERS?

Did the global financial crisis happen because bankers are monsters? Maybe some of them are, but the majority definitely aren't.

The banking world is very international: 40% are ex-pats, born in other countries. Many have studied and worked abroad. Many were educated at Oxford, Cambridge, the London School of Economics and other prestigious universities.

Speaking with over 200 bankers in London anonymously, it appears they are generally sensible hard-working people, and **not** the parasites or greedy monsters some imagine. The vast majority actually didn't see the crisis coming.



SYSTEM★

CHECK?

WHAT'S GOING ON?

Thinking that high bonuses is the major problem is an underestimation of the situation. Banks have grown very big and complex. There is a system in place that gives bankers perverse incentives. Particularly in business banks and business departments of mega banks.

THE BUSINESS BANK

Front office

The front office is only 5% of the business bank. People are driven, effective, assertive, glamorous and even aggressive. The rock stars, rain makers, movers and shakers, big swinging dicks, the dark side. They have the power, make the money and earn millions per year.

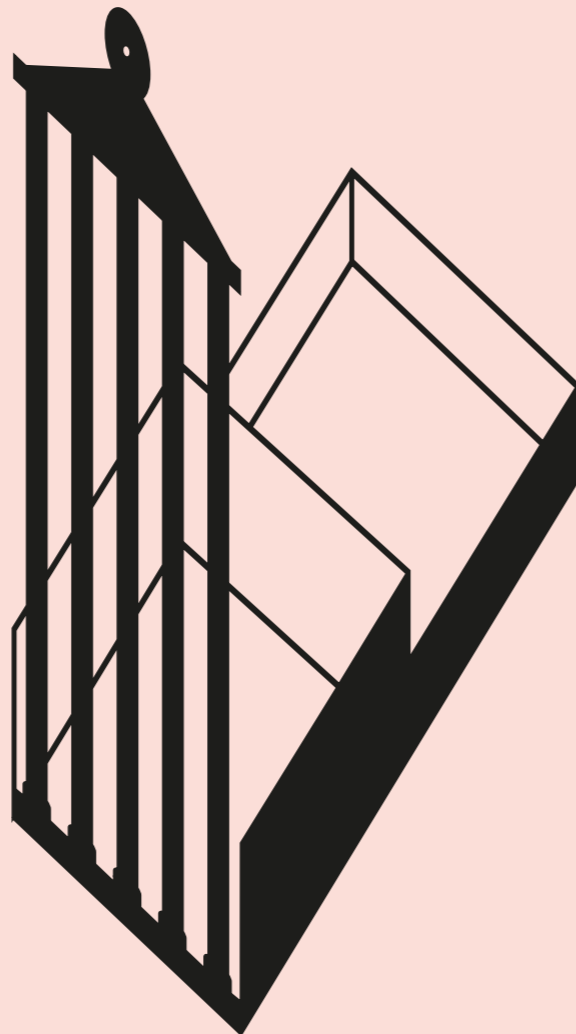
Middle office

Middle and back office is the other 95% of the business bank. The middle office is responsible for risk and compliance. Internal checks. Are rules followed? The people are more casual. They have no direct contact with clients. In the eyes of the front office they are business blockers, show stoppers, losers, the cost centre. They make up to £ 300,000 per year.

Back office

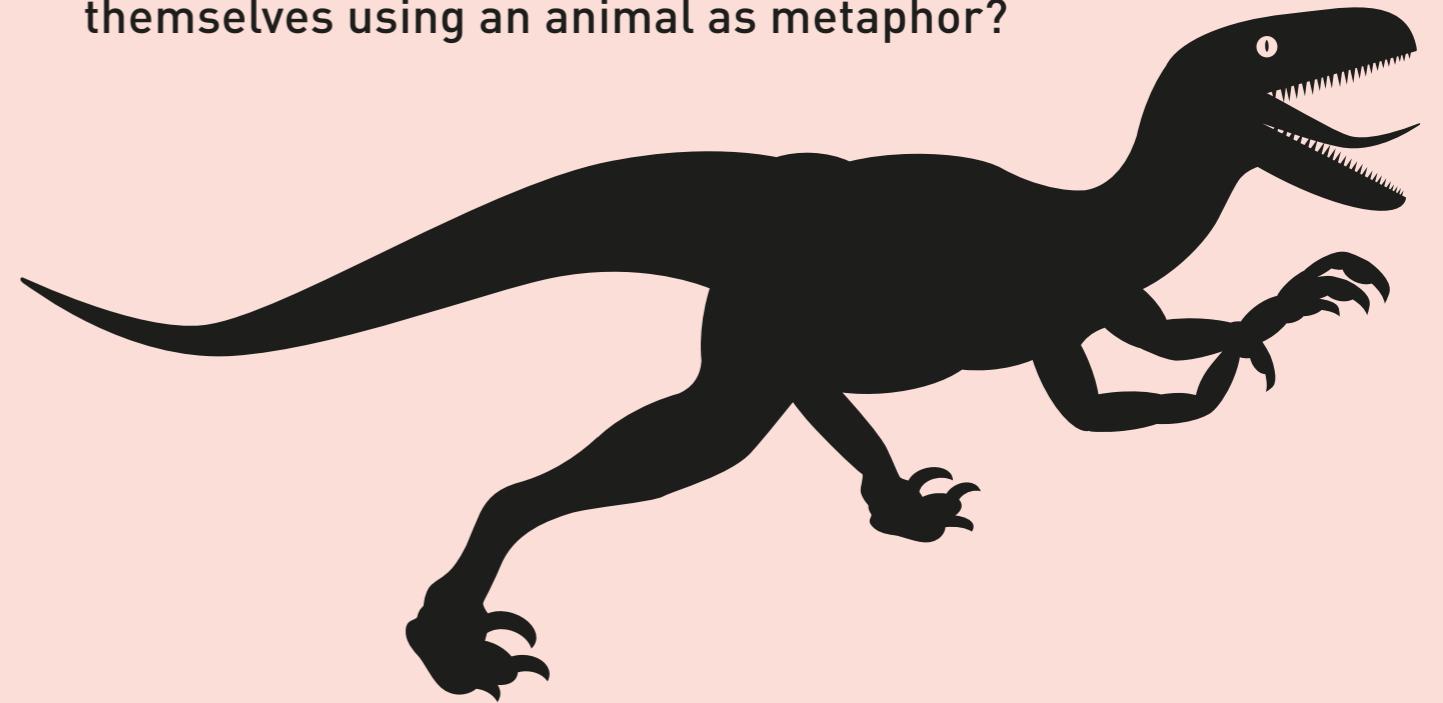
The back office is there for support. They streamline. Book keeping, IT, legal, HR, PR, communication and graphic design.

- Rock stars**
- Rain makers**
- Movers & shakers**
- Big swinging dicks**
- The dark side**



WHAT KIND OF ANIMAL ARE YOU?

How do different specialists within banks characterise themselves using an animal as metaphor?

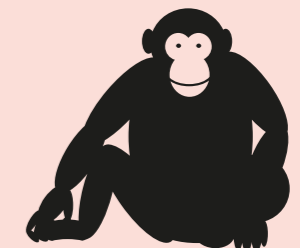
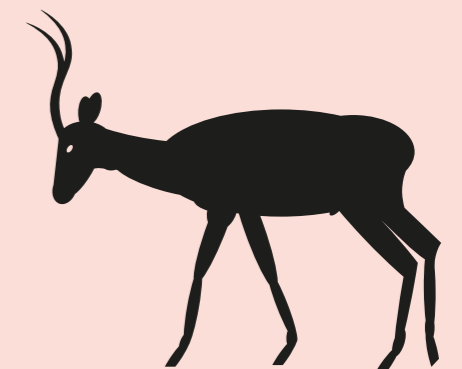


- Traders - Front office
Tigers, hyenas or velociraptors.
We hunt and work in groups.

- Compliance - Middle office
Dogs.
We bark if something goes wrong.
We return the ball others have thrown. Get kicked if we do something wrong. We are loyal.

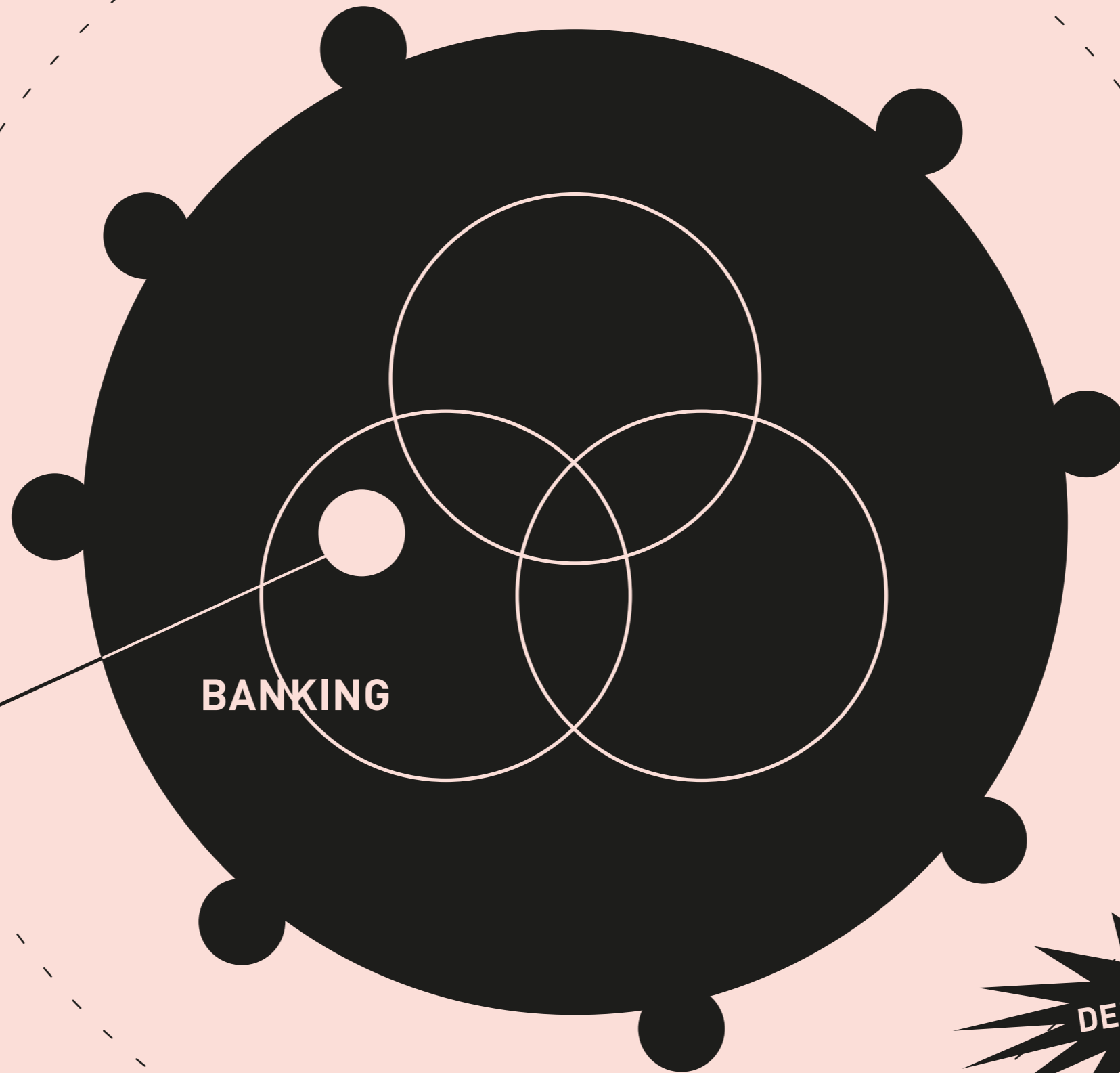
- Book keepers - Back office
Beavers or spring bocks.
We are grounded and work in groups.

- Human resources - Back office
Male beta chimps.
We help to make other people shine.



BUSINESS BANKS & BUSINESS DIVISIONS IN MEGA BANKS

Played an essential role in the 2008 financial crisis.



BUSINESS BANKS

- Lehman Brothers†
- Goldman Sachs
- JP Morgan
- Deutsche Bank
and other business
and mega banks

This is how:

Business banks were cutting up and re-packaging (US) mortgages, mixing them with other financial products into new complex financial products with high interest rates, called derivatives. Backed up with insurance and by rating agencies.



DEREGULATION & GLOBALISATION

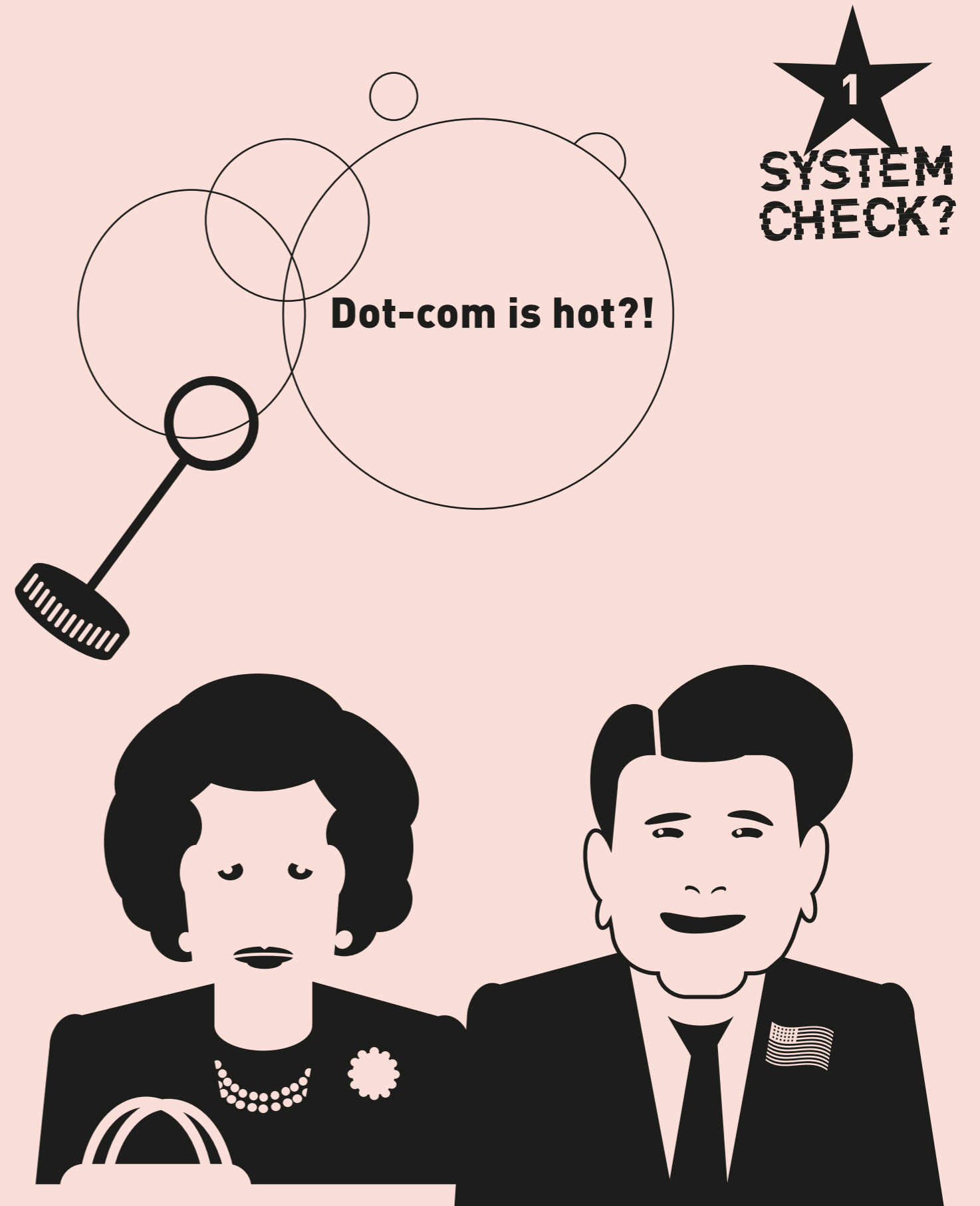
For years the financial world was working in partnerships, specialising in bringing companies to the stock exchange, the so-called IPO's, in deal making or in merchant banking. The partners responsible had a name and reputation to lose.



This all changed after deregulations of the financial world in the mid 1980's, starting with Margaret Thatcher and Ronald Reagan. Banks were allowed to combine different financial activities in mega banks, resulting in conflicts of interests. Business banks started hyping worthless dot-com companies, their colleagues took those companies to the stock exchange, and the dot-com bubble was the result.



The solution for these conflicts of interest was to install so-called 'Chinese walls' between the different departments of business banks. Who is policing those walls? The middle offices of these same banks.



Neo-liberalism deregulated the banking rules. The financial world gained a lot of freedom.

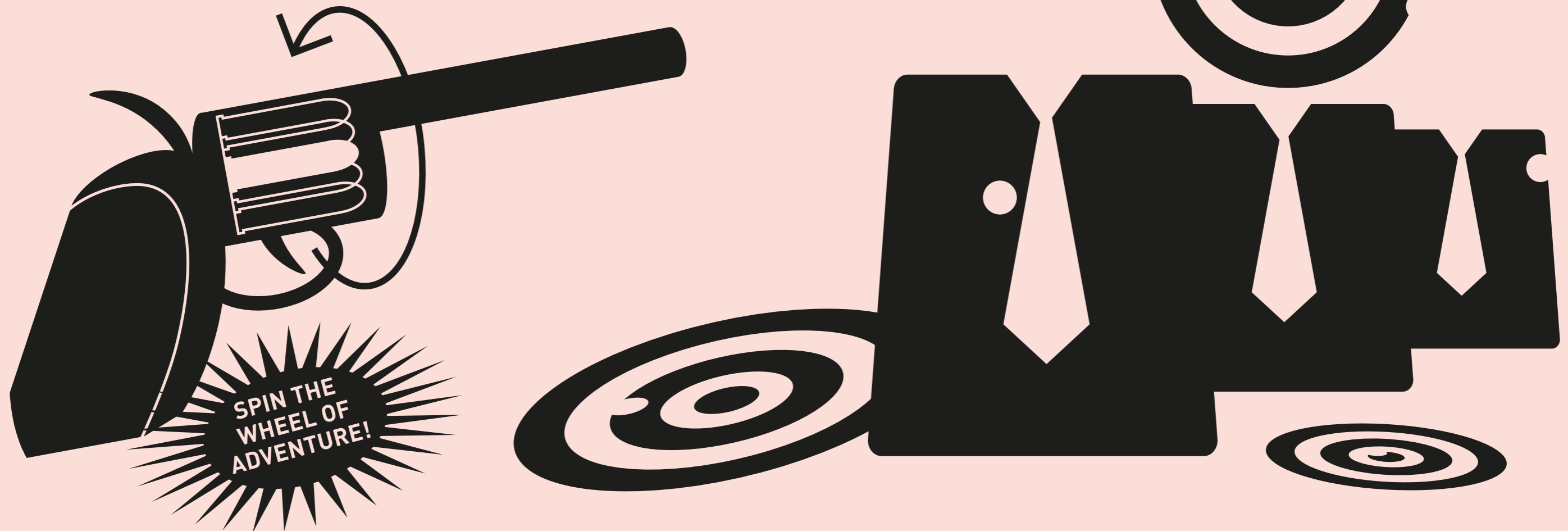
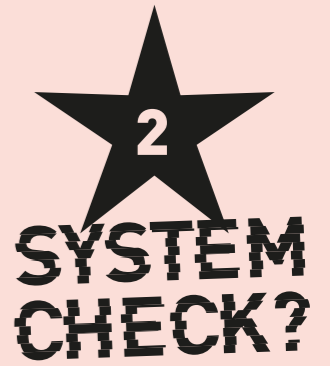
RUSSIAN ROULETTE WITH SOMEONE ELSE'S HEAD

Triggering perverse incentives and playing with other people's money.

When business banks stopped working in partnerships and the bank management was no longer personally liable, mergers and acquisitions made banks too big to fail. Banks went public, listed on the stock exchange, resulting in profits for shareholders and the bankers.

But when big losses happen society has to pay for them, the tax payers and the central banks have to jump in by printing extra money.

Playing Russian roulette with someone else's head.





COMPLEXITY & QUANTS

Quants are quantitative analysts. They are exceptionally good at maths or physics and often from a scientific background. Literally rocket scientists. They program algorithms for self-learning computers or hi-frequency trading software.

Quants are also the elite creators of new financial products within business banks. They developed complex products such as:

- Derivatives: to stabilise fluctuations in interests
- Credit Default Swaps (CDS's): insurance against organisations going bankrupt
- Collateralised Debt Obligations (CDO's): spreading the risks of debts
- Sub-prime mortgages: bundled mortgages so pension funds could invest

All these complex financial products contributed to the 2008 financial crisis.

Professional clients of banks have to check and understand everything being offered to them. They are responsible for knowing and understanding what they buy – not the banks. Caveat emptor, as the saying goes.

COMPLEXITY & VULNERABILITY

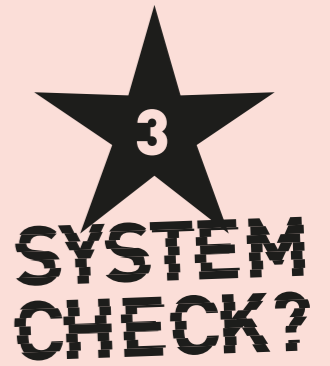
Complexity in the financial world has grown over the years, leading to misunderstanding, miscalculations and abuse. Making banks vulnerable. Small teams of young employees can lose billions.

Misunderstanding

Financial products have become so complex that top management cannot comprehend them. And quants often lack the social skills to explain these products to management or the middle office responsible for risk and compliance.

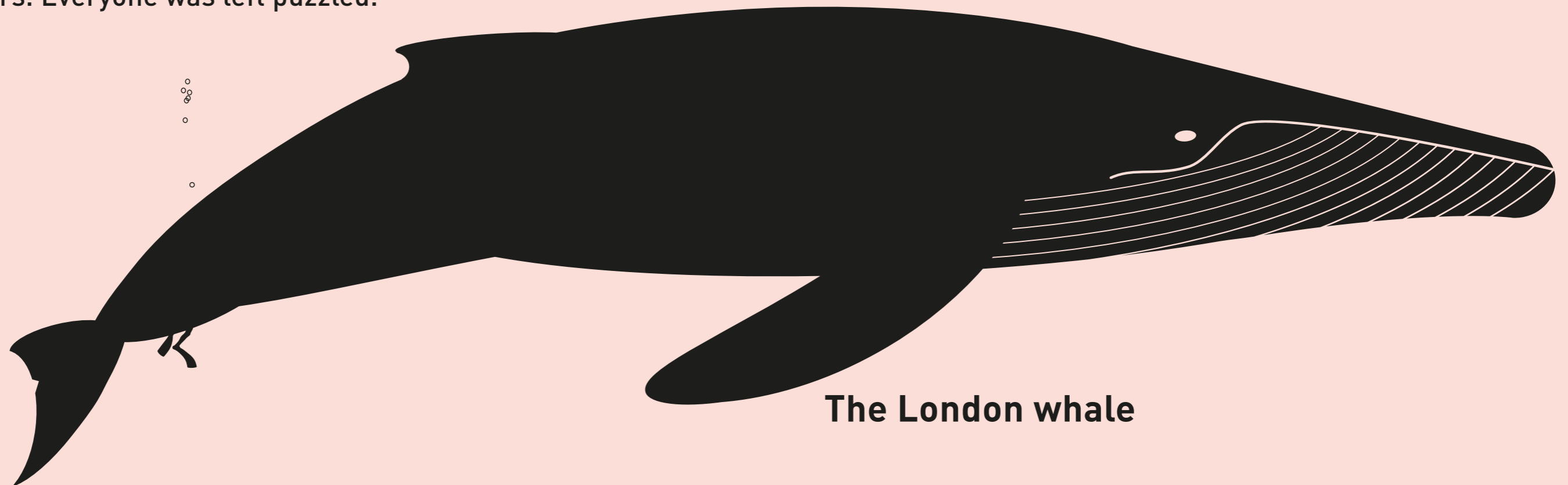
Miscalculation

Sometimes even quants no longer understand what's going on. Mid-2010, a flash crash happened. The high-frequency software that automates 10,000 millisecond transactions per day malfunctioned. No one knew what happened and the only solution was to unplug the computers. Everyone was left puzzled.

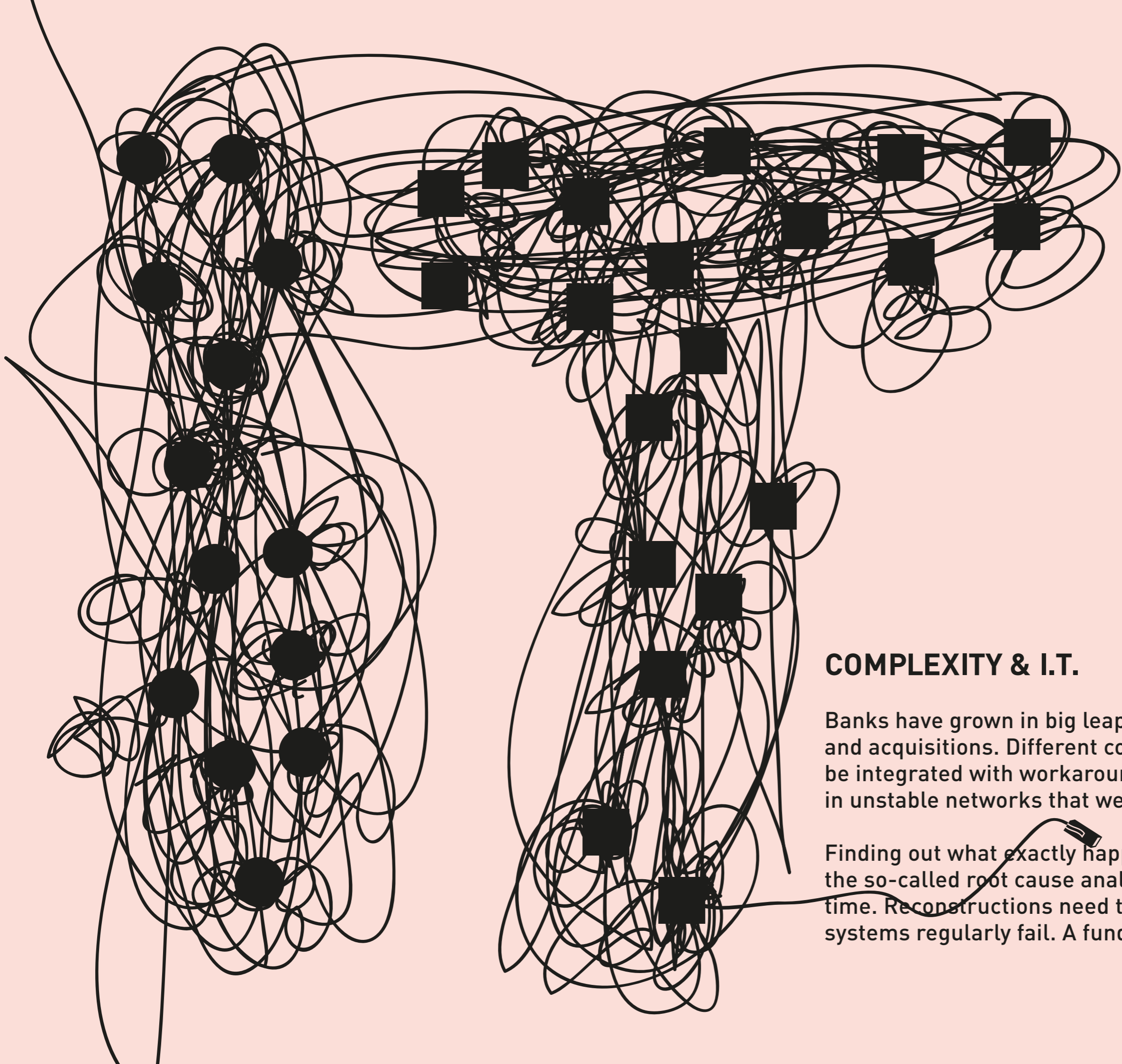


Abuse

In spring 2012 Bruno Iksil and his team at JP Morgan London lost over 6 billion dollars with Credit Default Swaps. The complexity made it impossible to prove he had done anything illegal. Controllers couldn't comprehend what had happened. The magnitude of Iksil's loss gave him his nickname: the London whale. The year before he had made 7 million dollars.



The London whale



COMPLEXITY & I.T.

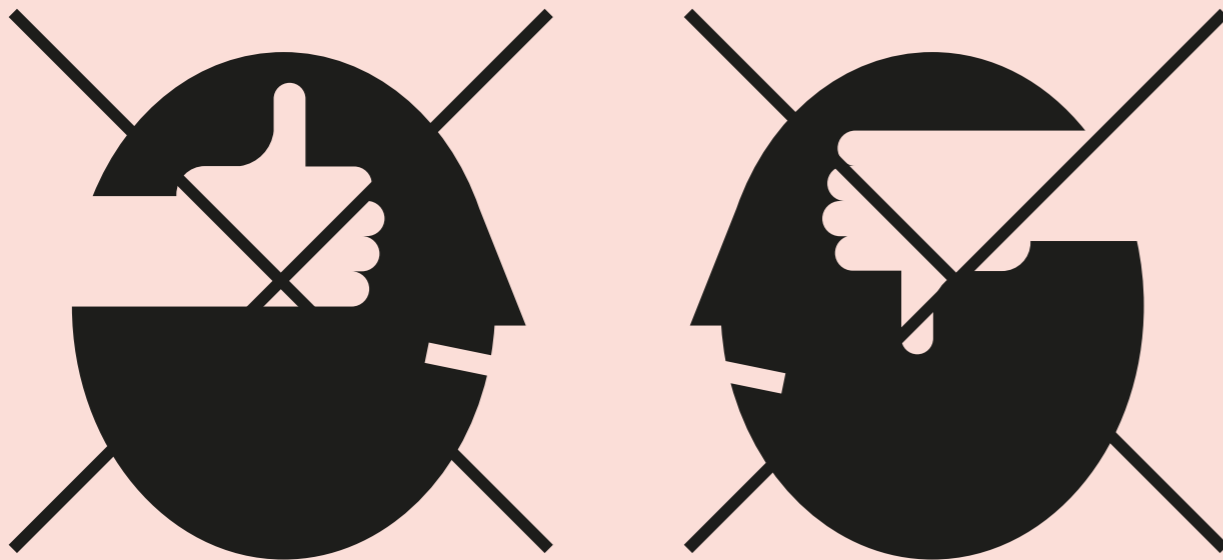
Banks have grown in big leaps, often through mergers and acquisitions. Different computer systems needed to be integrated with workarounds and patches, resulting in unstable networks that were too big to manage.

Finding out what exactly happened after a crash, the so-called root cause analysis, often takes the most time. Reconstructions need to be done by hand as systems regularly fail. A fundamental vulnerability.

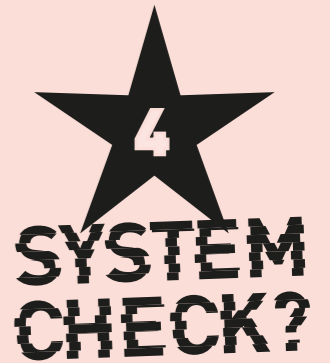
NOT MORAL, NOT IMMORAL

The operational culture within banks is amoral. What counts is whether deals are made within given laws and that they do not cause reputational damage to banks. Not if they are morally good or bad deals.

Shareholder value is the focus and all relationships are valued as transactions only.

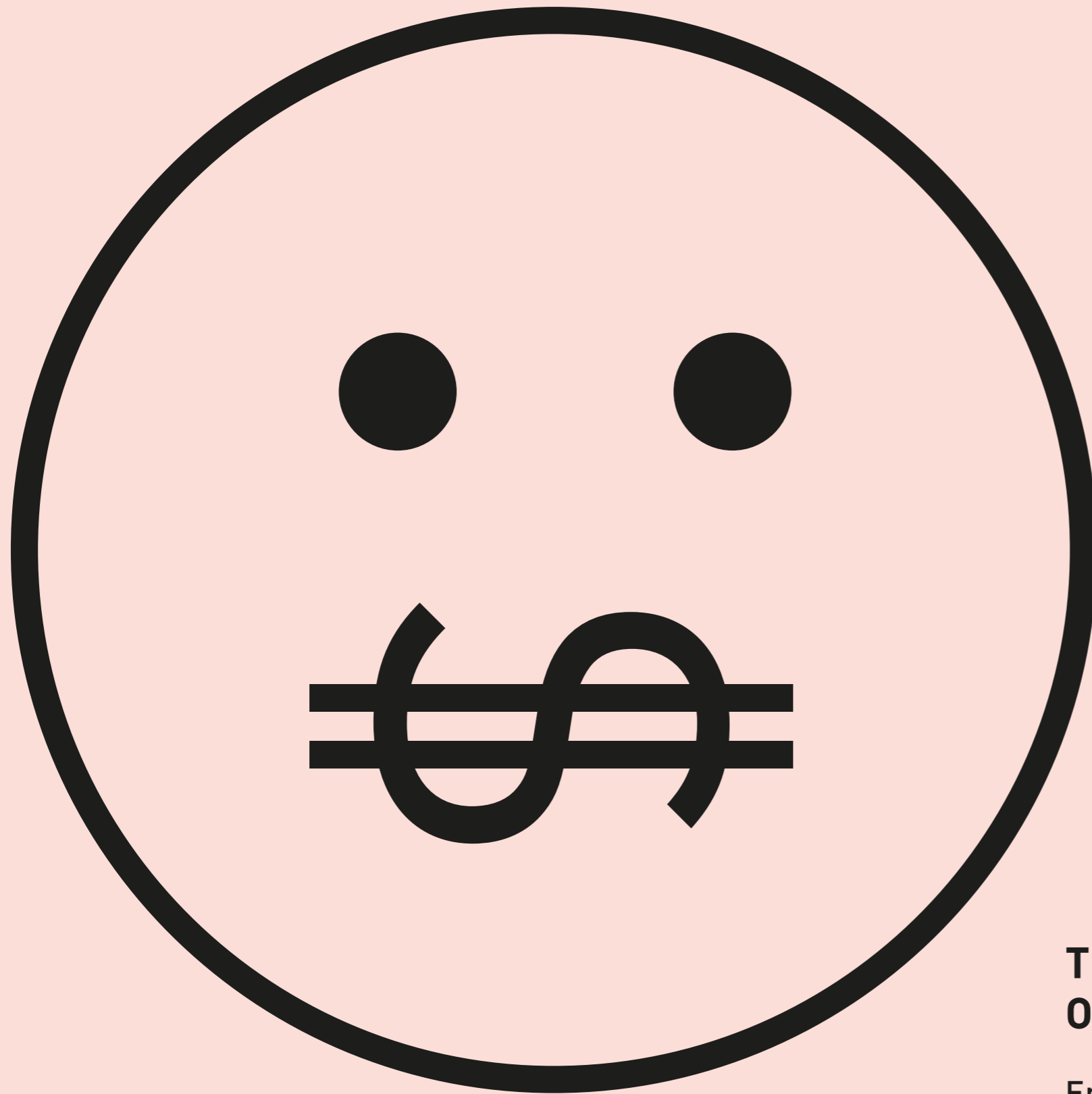


One advantage of this focus on profits is that the banking world knows hardly any discrimination against race, religion, gender or sexual orientation.

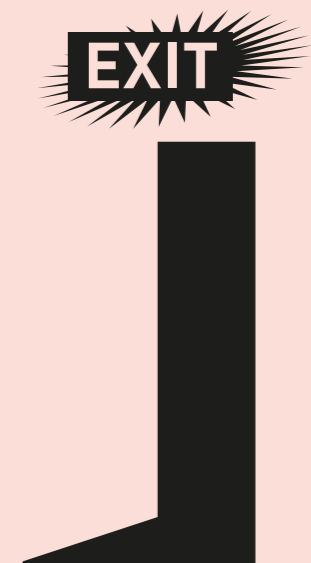


AMORAL





5
SYSTEM
CHECK?



THE FINANCIAL WORLD HAS A CODE OF SILENCE

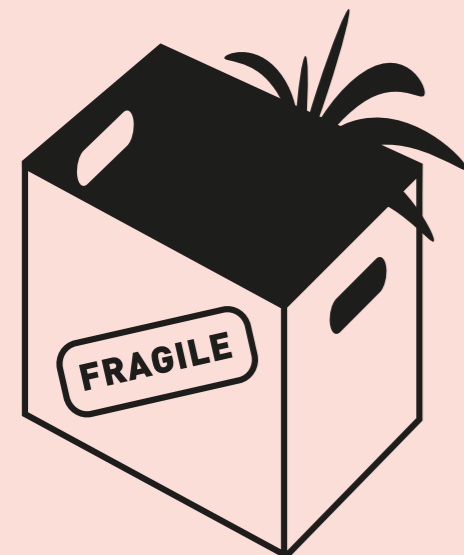
Employees that speak to the press without formal authorisation by the bank are forced out. They can only speak anonymously. Employees that get fired for other reasons are paid not to speak out: so-called enhanced severance. It is a sealed off world that allows little or no access to outsiders.

THREE WAYS OF LOSING YOUR BANKING JOB

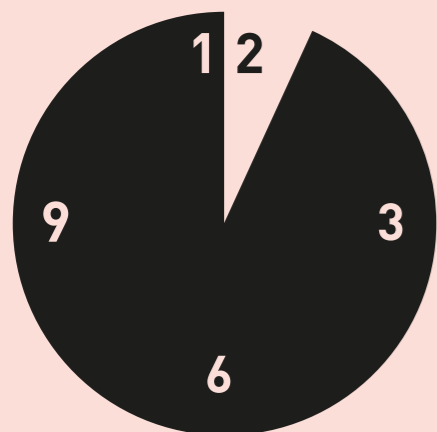
1 - The wave. Every quarter part of the staff gets fired.



2 - The cull. Every year 2% of staff are made redundant as a standard in the big business banks, as well as in years of high profit and often at the end of the year. Then the bonuses will be higher for the others.

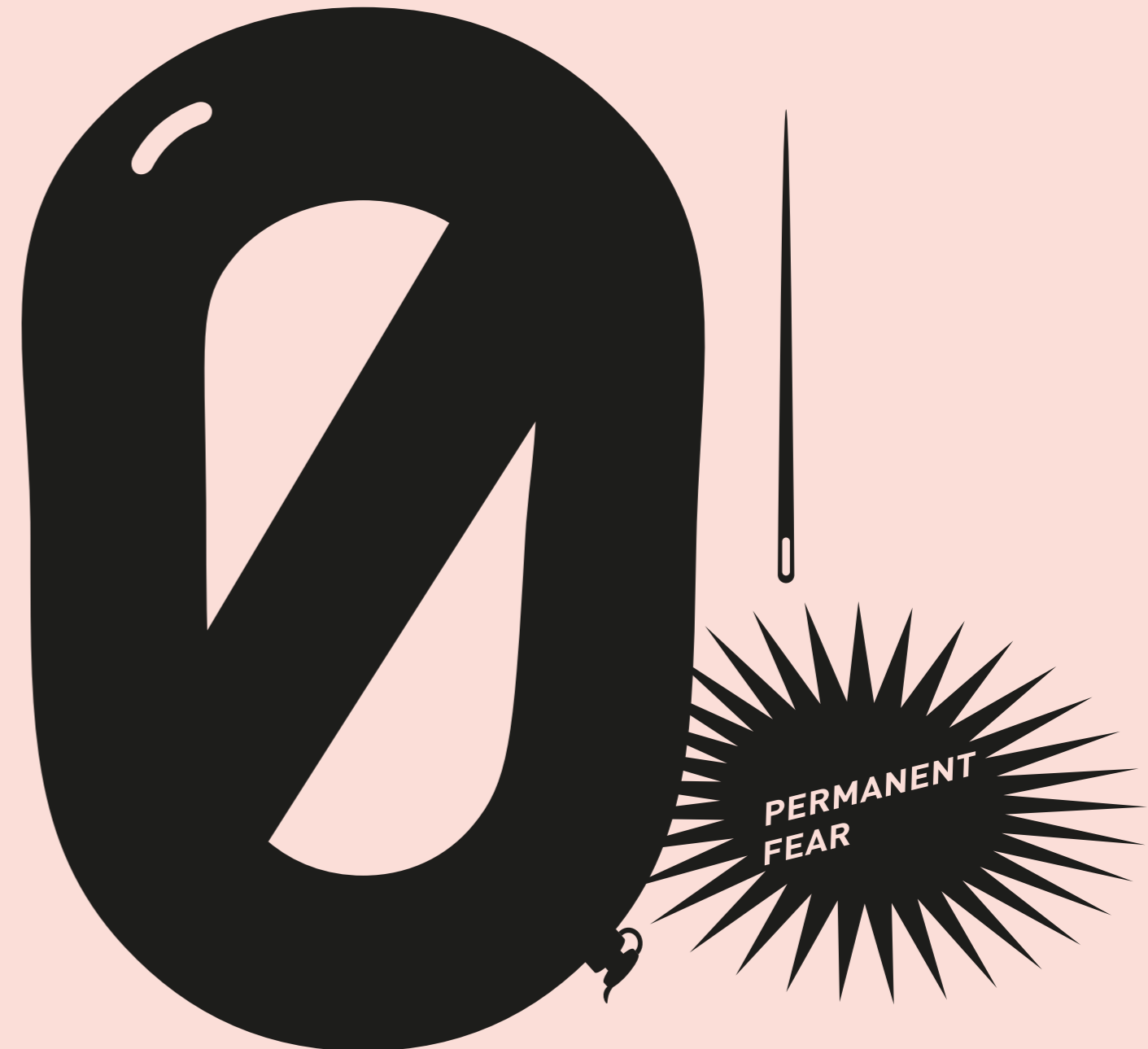
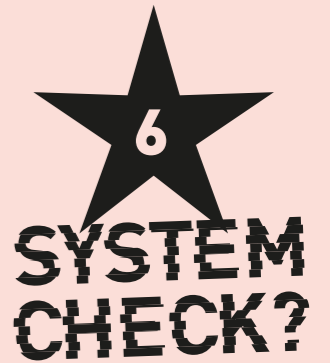


3 - Executions. These are unexpected and immediate. Your email, telephone and pass no longer work. 'Please wait in the lobby. Security will bring your coat and personal belongings.'



If you could be fired every five minutes, what does that do to your judgement, commitment and long term focus?

Zero job security. No trust. You only work for your boss in your silo, not for the bank. Blame culture. No loyalty. Soul destroying work: this is how different bankers talk about their working life.



JOB SECURITY

RATING AGENCIES, ACCOUNTANTS AND THEIR INTERESTS

Rating agencies

Rating agencies are paid by the very same banks that they have to rate. A dazzling conflict of interests.

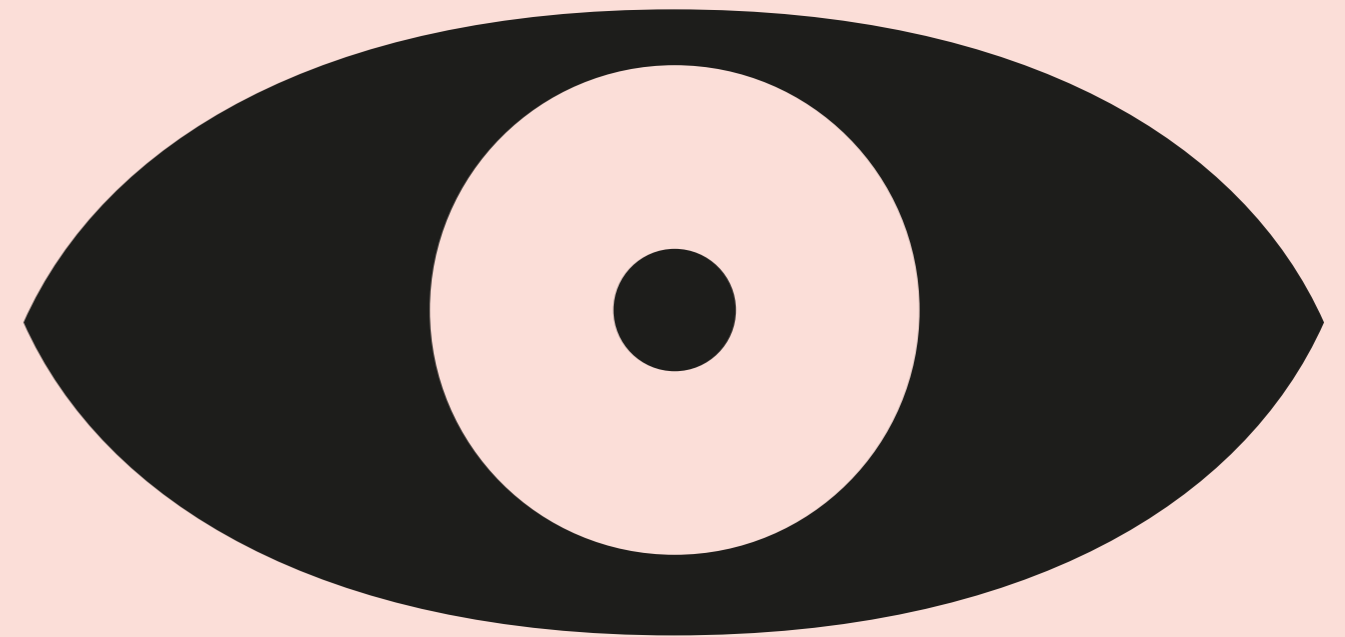
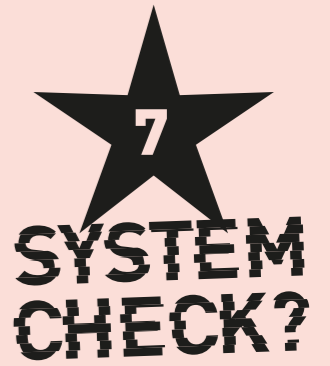
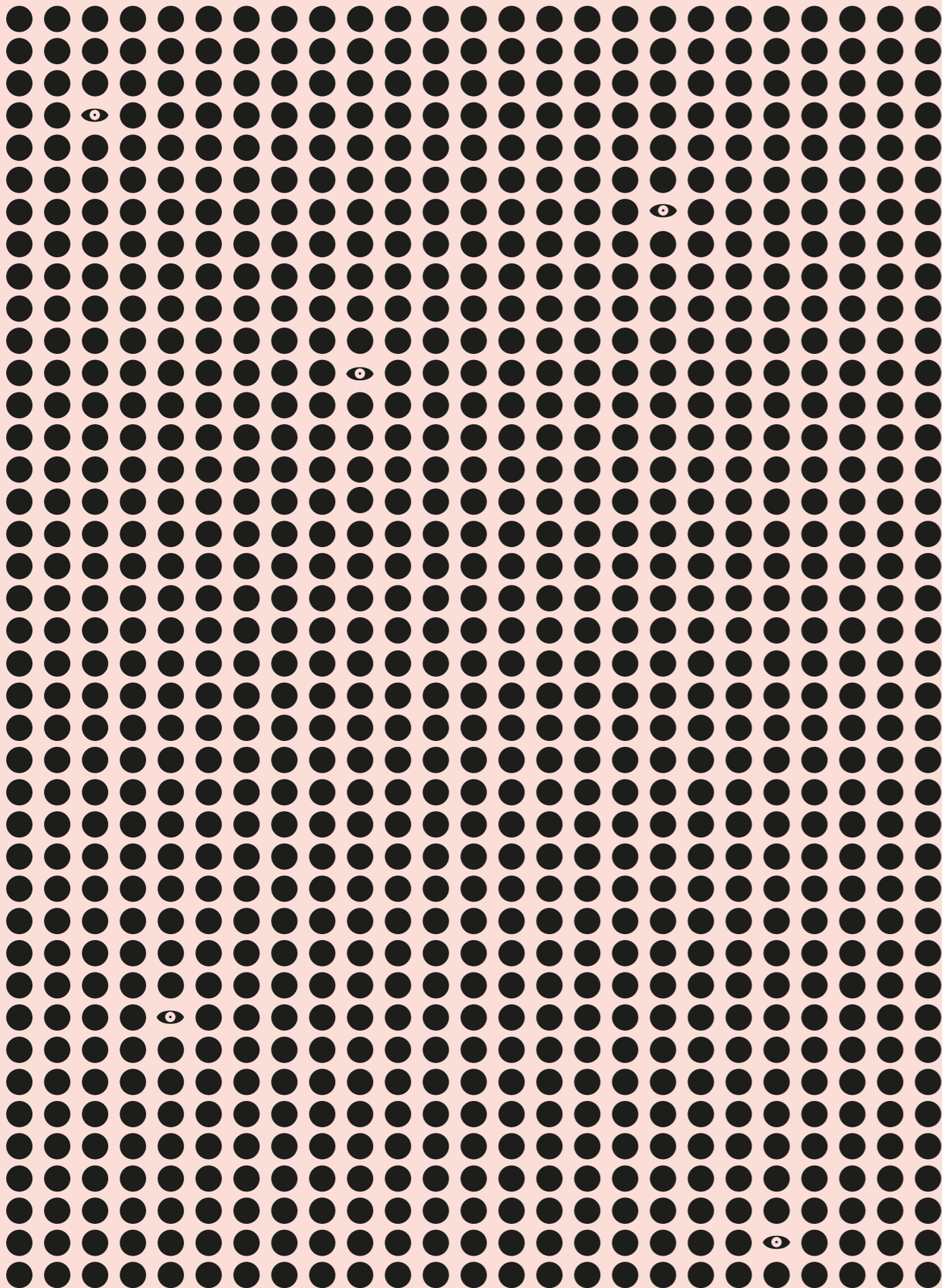
There are only three major credit rating agencies (CRA's) controlling 95% of the global market. The so called Big Three. Moody's, Standard & Poor's and Fitch Ratings. Some bosses that were leading these rating agencies before 2008, were staying long after the financial crises. Earning millions. Never held responsible.

Accountants

Accountants are professional service companies doing audits. They are independently checking the books of banks and financial institutions. But at the same time they are also the consultants for these banks.

The global accountancy business is dominated by a just a few companies. The Big Four. KPMG, along with Deloitte, Ernst & Young and PricewaterhouseCoopers.





Supervision

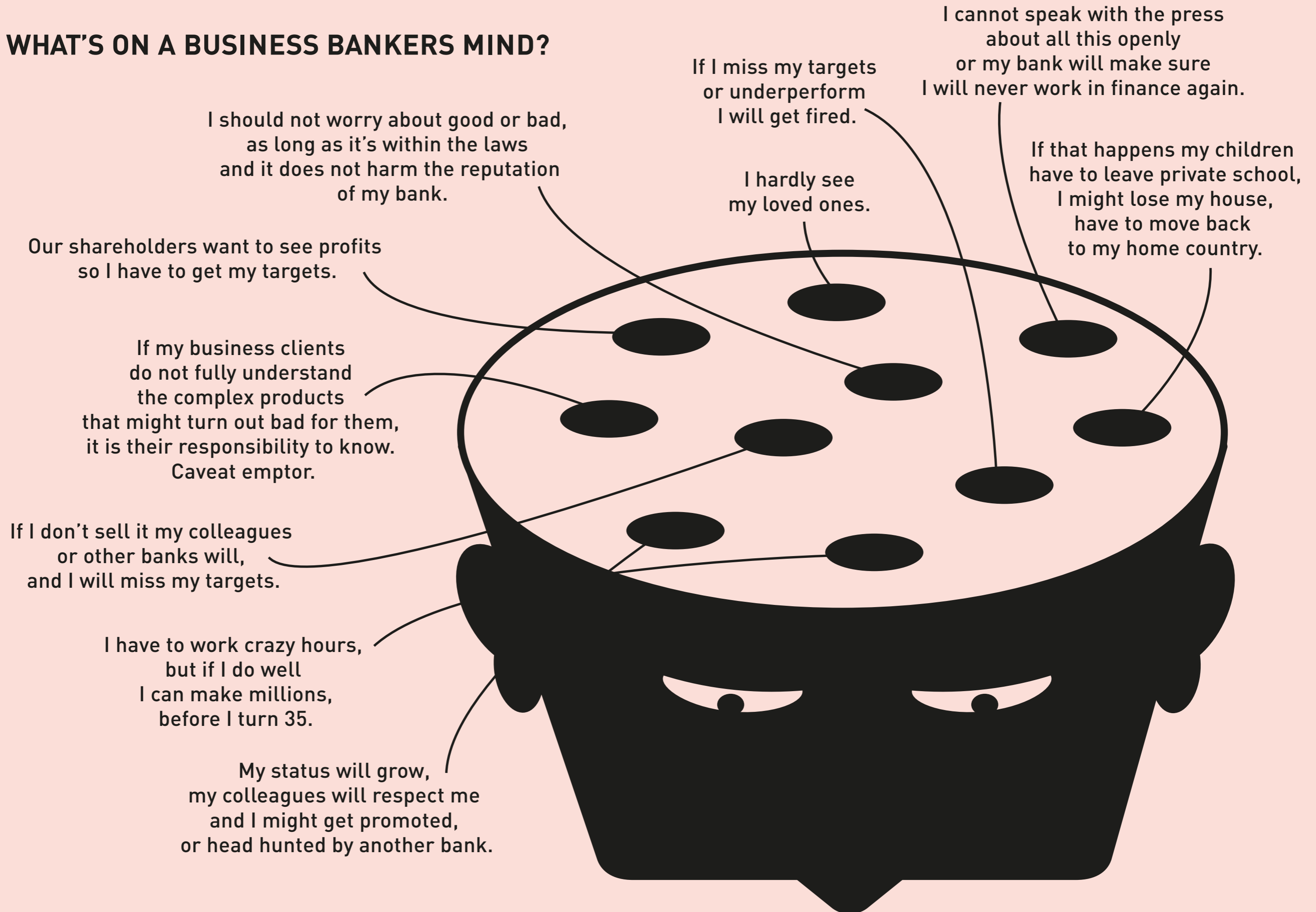
In the UK there are only five supervisors for every 1,000 employees in the financial sector.

Hiring ex-supervisors

Banks are paying two to four times more than supervisors. Banks love to hire former supervisors, as they know the auditing procedures inside out.

Who could resist that?

WHAT'S ON A BUSINESS BANKERS MIND?





HOW DO BANKERS SEE ALL THIS?

Teeth grinders

They feel they are locked in and can't do anything against the current banking system as it is. And they are scared. They have high costs of living. Private schools, mortgages, an expensive quality of life. People with children can't or don't leave the banking world.

Neutrals

They aren't greedy. They recognise the moral issues and high salaries in the banking world. They see clearly how the system operates and what needs to change. But they do not act against it. 'If I do that I am out, and no longer welcome working for any other bank in the city. And the system will go on as it is, without me.'

Masters of the universe

They go for status and competition, not for the money. They love to work in teams, making big deals together. They see themselves as the special forces. Egos. Very content and taking themselves seriously. They believe in meritocracy, where those who fight hard will win.

Soap bubble bankers

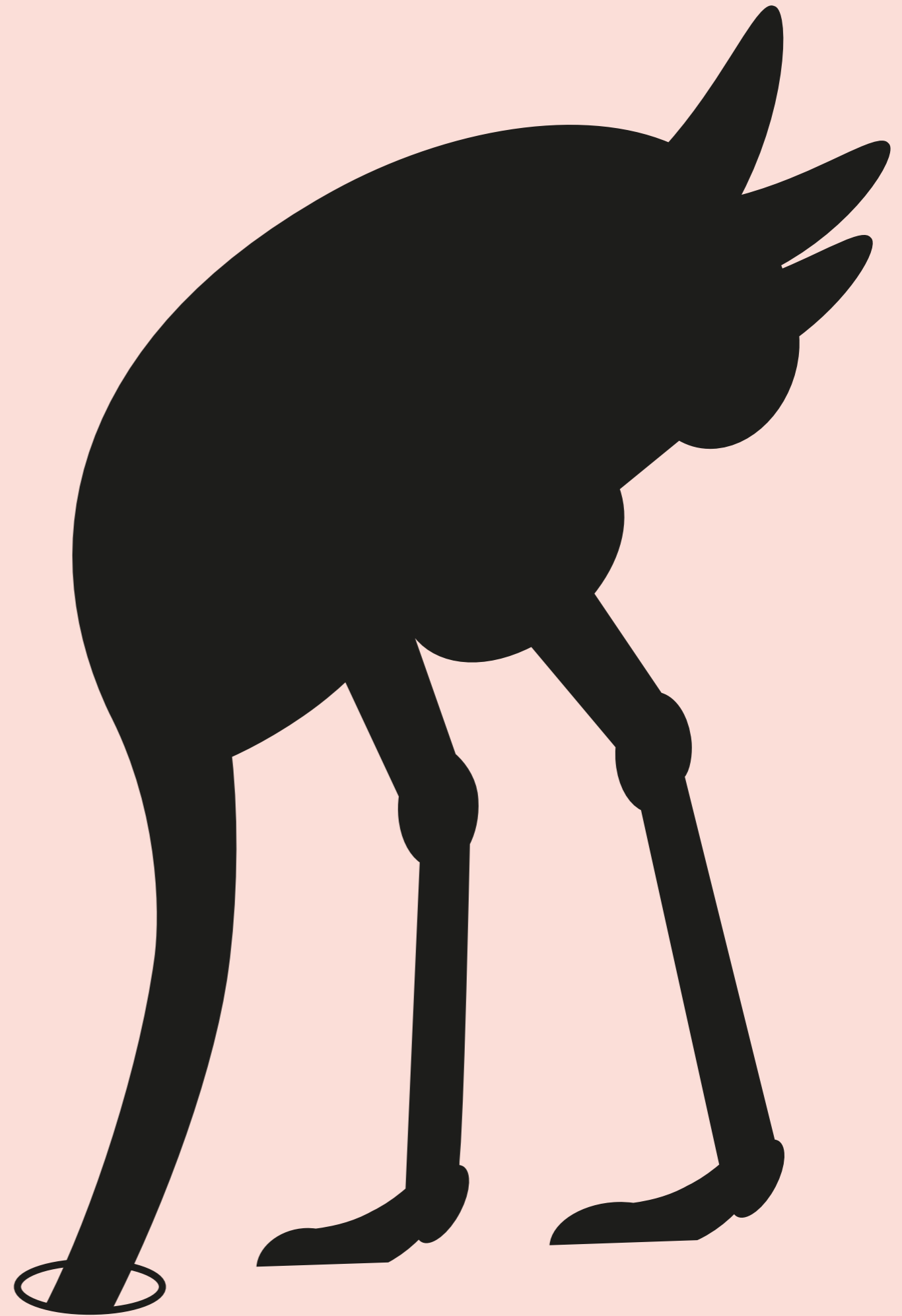
Working is their world. Every hour they are awake, whenever their boss needs them. They refuse to believe the banking system has any problems. They focus so much on work they get socially detached from family and friends, and because of their high spending power that most others can't keep up with: suits, watches, cars, houses, boats.

Delusional bankers

They start as Masters of the universe: analytical, intelligent, competitive, then go way beyond... They see banking as an addictive game, a trap. Hyper individualists, always competing with their colleagues. Getting sick or having emotions are a sign of weakness. They go for short term greed: making money for themselves, not the bank, not the client. 'Stocks are easy to manipulate; risk is profit, profit is higher stock value, which is a higher bonus'. 'It's a tribal feeling, belonging to the group, supporting your mates'.

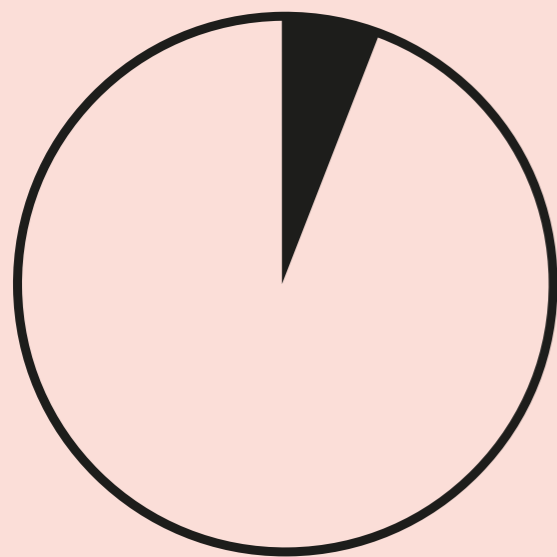
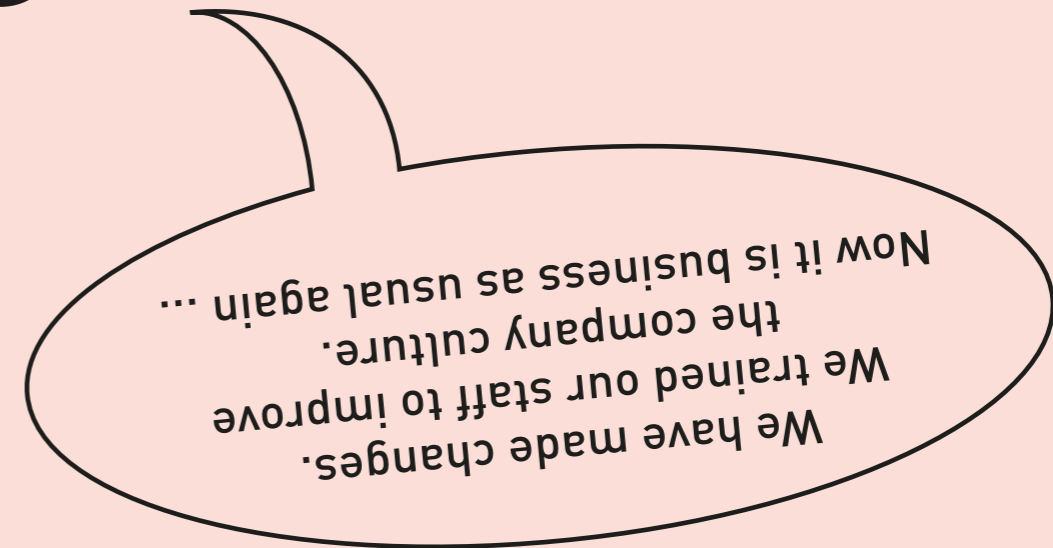
The cool and collected

This groups sees everything as a transaction. 'What's my profit?' They are in control, never driven by fear or greed. Calculated and calm. 'As long as it's legal it's fine. That's it'. Morality is a private matter. 'Ignorant clients were told stone hard lies'. That's how it goes. And 'first world people live at the expense of the other 5 billion'.

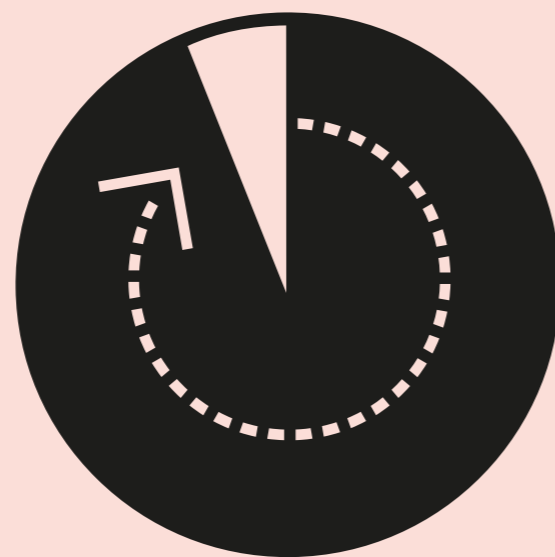


WILL CHANGE COME FROM WITHIN?

- The capital buffers are a bit higher than before
- Speculation with capital owned by the bank, so-called pro-trading, is no longer allowed in the US
- The EU has forced a few banks to sell off departments
- A banking fund will be installed to make it possible to dismantle banks if needed. If more banks go down at the same time, though, this fund will not be sufficient
- A bonus limitation arrangement will become operational. Unfortunately, it will be quite easy to work around it



Change since 2008



Change needed

SWISS STEEL HEAR ROOR!

CAN A CRISIS HAPPEN AGAIN?

Yes, not because bankers are greedy, coke snorting, gambling psychopaths, but because it is embedded in the banking system. New DNA is needed.

- After banks went public, they became too big to fail
- Business and consumer banks need to be separated
- Profit is bonus for bankers, losses are for society, the taxpayers, with no risks for the bank managers
- Financial buffers are still too small to be stable
- The banking culture is amoral, defined in law only
- Financial products and the overall system are too complex
- Central registration and regulation of complex financial products is missing
- Conflicts of interest with rating agencies and accountants
- There is a code of silence. Don't talk to the press
- Zero job security is driving a short-term focus



POOR PEOPLE SCOTTISH POLITICS

GLOBALISED FINANCE VS LOCALISED POLITICS

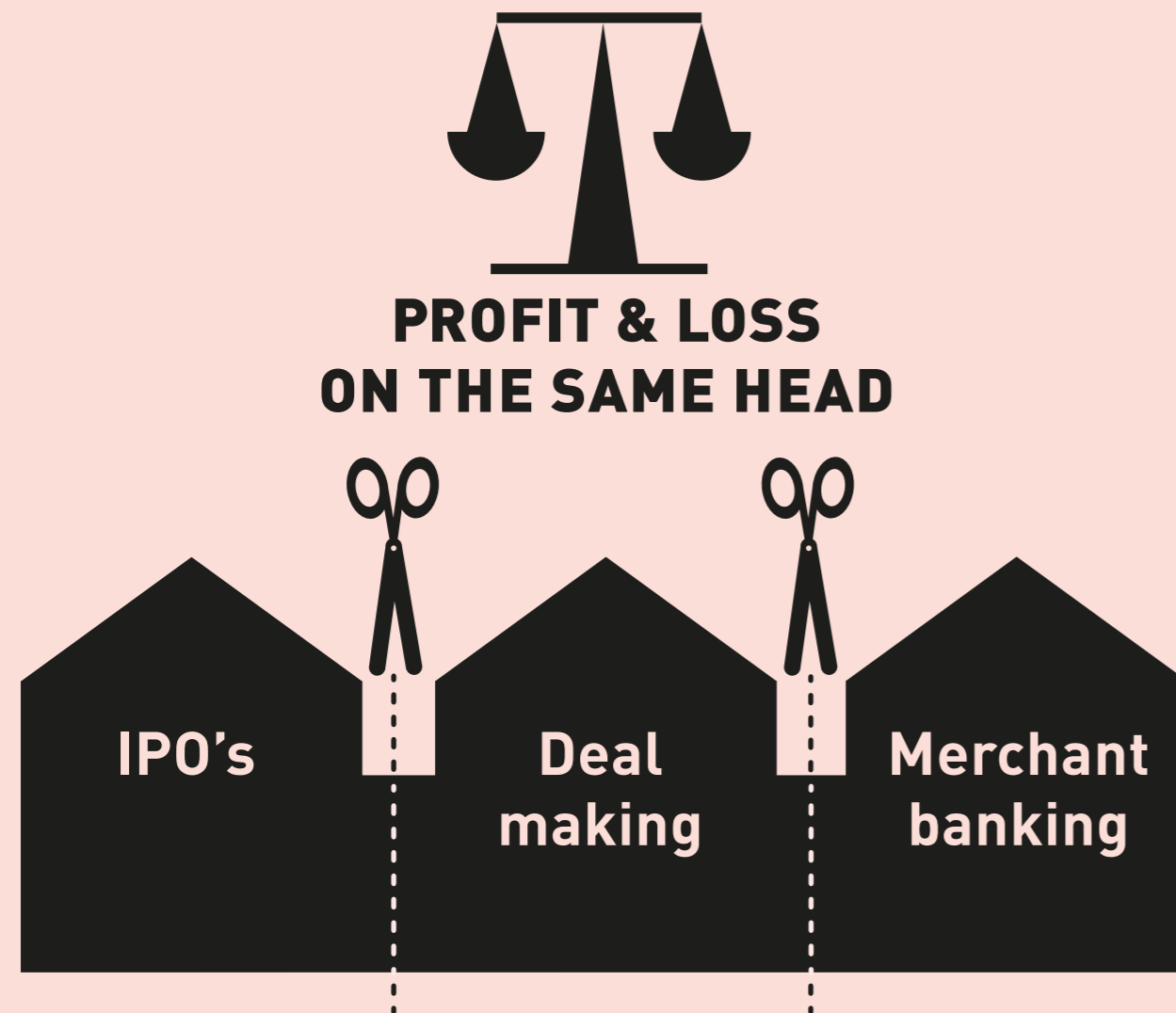
In the last four decades, politicians deregulated the financial world. The crisis of 2008 proved a fundamental change is needed. No matter what political parties were in power at the time, there is little evidence this change is already happening.

In the US, the UK and France, banks can still buy political influence, also called 'campaign donations'. And there is an immensely powerful financial lobby active in each of these states.

Some big political parties seem to have identified themselves with the world of the banks. Politicians are regularly finding a second career in the banking world. Tony Blair for instance gets paid £ 2,5 million per year as an part time consultant for JP Morgan.

Mega banks are operating on a global and politicians on a local scale. Now, banks have a country, rather than a country having banks. Can politicians stand up to these global banks?

Structural change has to come from politicians in the West and around the world. And the general public has to urge them to do so.



HOW TO IMPROVE THE SYSTEM

- 1 - Banks have to become smaller again, so they are no longer too big to fail and can't blackmail society into saving them when things go wrong.
- 2 - Both profits and losses have to go to the same people, the managers of the banks.
- 3 - Conflicts of interest have to be separated into different financial companies. Not under one roof.
- 4 - Complex products need to be made simple and clear, so consumers and investors can understand them.


Once the banking system has changed and perverse incentives are eliminated, the banking culture will improve as a result.



STEPS TO A STRUCTURAL SOLUTION

- 1- The need for change has to be understood and felt by a substantial part of society.
- 2 - Then politicians will feel the support to act upon it.
- 3 - New international laws need to be made to change and stabilise the playing field for the banks. Roughly the situation as we knew it until the late 1970's, before deregulation.

Banks today are unstable and need a structural system change. They are vital to society, for individual world citizens, for organisations, companies and countries. For stability in trade and the economy. A possible collapse will have catastrophic effects for all of us.



F I N

ANCE

If you also feel the urgency for a fundamental change to international banking laws, encourage the politicians near you to act. Only together can we bring about change!



**'What if it had been
Lehman Sisters?'**

Christine Lagarde

Text © Joris Luyendijk 2017.

Adaptation and illustrations © Joost Roozekrans 2017.