HOW SECURE IS YOUR JOB ?

Many, if not most, wholesale banking institutions in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) are expected, any day now, to start to lay off some of their high-priced staff.

Thus far, little has been heard from managements of wholesale banks – investment banks, merchant banks and the like – in respect of widespread sackings of high-ranking and high-profile personnel, but, as incomes continue to contract, the axe will, surely, fall.

In the Internet Technology (IT) sector of the HKSAR economy, almost daily, one is told of massive layoffs as companies, both in the private and public sector, find it too difficult to make ends meet.

With underwriting and brokerage income dropping to soup-kitchen levels, senior management of many wholesale banks appear to have no choice in the matter but to cut back in order to make some sense out of the current, poor financial situation.

On The Stock Exchange of Hongkong Ltd, the daily turnovers have dropped, on average, to below $HK10 billion, with many days, seeing turnovers down to the $HK6-billion mark.

When the market was running hot, a daily turnover of $HK20-plus billion was more the norm for this territory.

Stockbrokers, today, are hard-pressed to make any meaningful profit because, while brokerage income continues to decline, overheads continue at the same, or similar, levels to those levels of the old days.

Merchant banks and their like in the HKSAR are in an even worse situation than HKSAR stockbrokerage houses because, when times were good, hiring top-notch executives, who demanded top-notch salaries, was of little consequence in the overall scheme of things because they could pull their own weight, justifying their salary packages.

But the tide has turned.

Today, no longer able to ignore the inevitable, and seeing a dramatic pull-back in equity valuations, and, in addition, noting the severe decline in nearly every sphere of activity in which merchant banks are involved, investment banks are having to bite the bullet and consider how to shave recurrent costs.

Perhaps even more ominous is that the current considerations of laying off staff could, easily, be followed by even further, and deeper, staff cuts.

Unless, of course, there is a dramatic and violent change for the better.

But, even then, the seeds that have been germinating over the past 18 months or so will not fall on shallow soil in large, multinational banks of the likes of HSBC Holdings plc (Code: 5, Main Board, The Stock Exchange of Hongkong Ltd).

The banking industry of the HKSAR has been among the last sector of the economy to have to suck in its breath and to cut back senior staff members.

This is probably due to the fact that, should the market turn, quickly, it may be difficult to refill positions, in a hurry, vacant positions, that is, brought about by seeming necessity of days gone by.

In addition, there has been the recurrent theme, played over and over again, that the US economy will turn in the second half of the year and, that being the case, it is just a matter of waiting out the rainstorm for the return of the (investment) sun.

In the past, whenever there were extreme declines in markets, the investment banks were quick off the mark to shed jobs and to consolidate operations.

One has seen, only recently, that HSBC Holdings plc has taken action to move part of its operations to the PRC and to impose financial penalties on accountholders whose daily balances are less than $HK5,000.

It is said that, in a period of about one month, HSBC Holdings lost about 200,000 accounts.

Management of HSBC Holdings had well expected those losses – and said so, in very plain language.

It is likely – though it has yet to be stated – that many of the smaller branch offices of this bank will be shut since their value must be negligible to the overall activities of this multinational bank, ranked within the top 10 banks of the world, today.

For what reason HSBC Holdings has not squeezed the *'trigger'*, firing off a couple of hundred rounds at its huge staff levels, is a matter for others to ponder, but it stands to reason that this bank must be loading up its big guns with ammunition in anticipation of the inevitable.

Banks, of the likes of HSBC Holdings, loaded up on high-priced staff, during the unprecedented boom, which lasted from about 1995 to the end of 1999.

Structural changes in many banks, during those 5 years, meant loading up on IT staff as well as staff to handle situations, relating to mergers and acquisitions (M&A).

M&As are few and far between, today, but the staff, initially hired to execute complicated corporate manoeuvres, are still on the bank's payroll.

In the game of M&A, one eats what one shoots: No successful hits means that one can easily starve for lack of game to put on the table.

In the US, it is estimated that, during those unprecedented boom years, 1995-1999, the employment growth in wholesale banks was about 8 percent, per annum.

At the same time, the annual profits' growth in this industry was nigh on 36 percent, on average.

Structural changes in the banking industry have tended to insulate many banks from the requirement of making dramatic staff changes.

This is unlike IT companies which, due to the nature of that beast, could easily become over-exposed to excessive staff levels, requiring them to pare staff.

These staff cutback announcements made the headlines, shocking many people not involved in the industry.

In the case of many banks, both wholesale and retail, both in the HKSAR and in other financial centres, they could rob *'peter'* to pay *'paul'*, and nobody would be the wiser.

Taking people from the back office and putting them on the firing line can work for a while.

But not forever.

Thus far, excessive job cuts in the banking industry have been contained, or camouflaged, effectively.

This may soon come to an end, however.

The proliferation of domestic and foreign mergers created international financial services entities, the likes of which had not been seen in many an eon.

With the proliferation came a broader scope of products and services.

While the larger banks may be considered more patient with short-term losses, patience can wear thin over a period of 18 months or so.

Banks, which merged with other banks, or banks, which acquired other entities in order to be able to compete, internationally, had to pay top dollar for top-notch talent, which was bringing in the bacon.

Such talent is costly – perhaps, too costly in today's world.

And, today, this talent is, still, being paid top-notch salaries even though their *'kill'* rate is considerably lower than during the time that they were working for their old bosses, prior to being acquired.

But the acquirers will think twice before letting go such talent since rehiring them may be next to impossible.

One learns from the lessons of the past or one does not survive in the hard-nosed, international banking market of today.

Goldman Sachs Group Incorporated and Merrill Lynch and Company Incorporated got hurt, very badly, when, during the mid-1990s, after the problems in the bond markets, followed by the Russian Crisis of 1998, they found it increasingly difficult to recruit sufficient top talent.

As a result, many competitors quickly overtook these companies.

When the markets turned, fully loaded with talent, Goldman Sachs and Merrill Lynch were left in their wake of their rivals since these 2 international names were short-handed, at the worst, possible time.

But, whether or not they like the situation, international banking organisations have to face up to the facts: The income carnage is extensive.

Investment banks cannot ignore the hard facts of reality.

In the first quarter of this year, net incomes have fallen, dramatically at many of the big names in the banking industry.

In the first quarter, net income at Lehman Brothers Holdings Incorporated fell about 28 percent, compared with the comparable period in 2000.

At Morgan Stanley Dean Witter and Company, the drop in net income was about 30 percent in the first quarter, compared with 2000's first quarter.

At Bear Sterns and Company Incorporated, the operating profits fell about 40 percent in the first quarter, compared with the like 2000 quarter.

At Goldman Sachs, first-quarter profits were down about 13 percent, compared with the first quarter of 2000.

M&A activity, during that period, fell about 65 percent to about $US371 billion, down from about $US1.10 trillion in the first quarter of 2000.

Morgan Stanley has, already, announced that it has laid off about 1,500 of its workers, representing less than 3 percent of its workforce. The cuts were, mainly, in the US securities and investment management businesses.

Merrill Lynch has cut back its workforce by about 1,700 positions, with its investment banking division, cutting out about 200 people, representing about 10 percent of its establishment level.

Just about every international banking house has, already, announced retrenchments, but, thus far, the axes have fallen on more junior staff, by and large.

If business does not pick up, quickly and appreciably, banks will be forced to tighten their belts – and make known this fact to the world.

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