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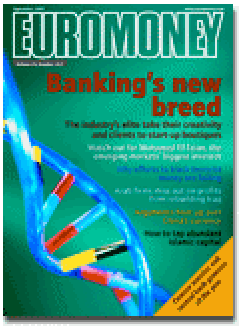

Boutiques revive a reviled industry

THE CEO OF a leading investment bank recently offered Euromoney a telling judgement on the state of the sector. "There is now more talent outside the industry than inside it," he noted, reflecting on the exodus from the big banks of some of their brightest and most successful people.

After a decade-long boom, the crash and retrenchment plus the exposure of wrongdoings and moral failure have created a revulsion against the wholesale financial services industry among its own.

These talented individuals are undertaking selective breeding, trying to identify the best characteristics of the banks they are leaving to create vibrant new entities.

Yet the downturn has also brought smaller firms into the upper ranks of the advisory and IPO league tables.

Some large banks, according to Recovery Partners' CEO Alex Jurshevski, have lost so many seasoned senior bankers and executives in the past couple of years that they are woefully ill prepared for some of the major issues in operational and enterprise risk, such as the impact of Basle II. There's enough fear and uncertainty within the banks themselves to keep an army of boutique advisers with direct industry experience in business.

In the pages that follow Euromoney profiles 25 of the brightest new firms - spanning advisory, risk management, capital markets, fund management, emerging markets, technology and a range of other specialities - that are among those transforming the industry.

Recovery Partners
Helping cope with Basle II

In a downturn you sack junior people to reduce headcount and senior people to cut costs. Large banks worldwide have done both, in spades, since the boom ended three years ago. That has helped protect margins through the downturn in which many banks have continued to generate decent earnings.

What's the potential downside in all this bloodletting? It's the wholesale departure of a generation of experienced managers one or two levels below CEO who won't be there to guide banks through tumultuous regulatory and accounting changes that are transforming the industry around them.

Certainly that's what Alex Jurshevski, CEO of Recovery Partners, says he has found in the past year or so as he has built a specialist advisory business guiding banks through the process of becoming compliant with Basle II.

Jurshevski has concentrated on the troublesome issues for banks of operational risk and credit risk management. The new Bank for International Settlements rules will require them to set aside capital at a substantial multiple of their historical annual rate of loss arising from operational failure - everything from computer crashes to rogue traders to fraudsters passing dud cheques and bank robbery. Jurshevski claims to have developed templates for dealing with Basle II operational risk issues - he describes them as "replicable work-flow processes" - which he and his team will roll out at banks to an agreed timetable given adequate resources of internal staff and senior management backing.

His firm operates on a retainer and fee basis. It will review banks' existing procedures, make recommendations for new systems and, if retained, project manage their implementation. He has also put together some benchmark studies on industry best practice in the area.

An absence of best practice

Not that there's a lot of best practice around, apparently. Jurshevski has found that only a very few banks are well up to the mark on operational risk and credit risk. Most are not and some, including a few very large ones, are way off the pace. Some are not even capable of accurately measuring their annual loss from operational risk, let alone implementing systems to manage operational exposure. It's a similar story in credit risk.

Failure to meet this challenge will come at a large cost in terms of extra capital tied up and will drive wide swings in enterprise value among banks, Jurshevski argues.

Now, Jurshevski may be talking his own book - but Jurshevski's background suggests he is a man to be taken seriously. He entered banking as an econometrician at Bank of Montreal in the early 1980s and soon found himself running its futures and options business at a time when those markets were growing exponentially. He later switched to Wood Gundy and had a stint running capital markets in Japan. But he really made a name for himself in a famous period at the New Zealand debt-management office where he restructured the country's obligations and eliminated its foreign debt in the early 1990s.

It was a time of great intellectual excitement and also great practical successes. He recalls fondly his dealings with the New Zealand military over hedging contracts to buy two new frigates. This involved long-term supply contracts up to 12 years exposing New Zealand to the risk of heavy foreign currency payments if the New Zealand dollar weakened against 17 currencies. The Kiwi dollar did weaken and Jurshevski reckons his hedges saved New Zealand taxpayers $50 million on that transaction alone. "I told the ministry of defence that when those frigates arrived I wanted them to arrange for me to water-ski behind them in the Cook Strait," he laughs.

In 1996 he returned to London and took charge of portfolio risk management in investment banking at Nomura before he had the misfortune to join Frank Newman at Bankers Trust 17 days before it was bought by Deutsche Bank. He and his team were cut immediately. He faced down the human resources people who delivered the bad news, refused to recognize their authority and flew to New York to see his immediate superior, Gene Ludwig, a BT vice-chairman. But nothing could be done. He vowed to take a break from big organizations and struck out on his own.

Jurshevski has an interesting take on developments in banking throughout his career. His generation, he suggests, grew up at a time when there was little infrastructure around growing markets in new financial instruments. In futures and options, there weren't even agreed standard legal contracts. The market pioneers wrote them themselves. In the 1990s, banks and financial markets became more comfortably framed and structured. Now that cosy framework is being dismantled by new regulation and accounting treatment.

And banks lack the expertise to cope because so many have left the industry.

He insists: "Believe me, Basle II is the biggest thing in banking in 20 years. But there are many senior people in banks who have no conception of its importance and in some cases who lack the experience to cope with it. Many banks don't have a proper budget for Basle II compliance and they don't have a senior Basle II champion." When Basle II first came out the BIS suggested a global compliance cost of $100 billion - about $100 million per bank on average. Jurshevski suggests that for most banks the real figure will turn out to be much higher. "But some banks seem to think they can get through with even less - with, say, $20 million. Some people I know thought they could build an operational risk measurement database for $100,000. These are pipe dreams."

He throws out some other worrying thoughts. "The latest BIS quarterly impact survey (QIS) suggests median annual operational losses of about e30 million for respondent banks. Depending on what types of operational losses we're talking about - that might require e600 million of capital. A minority of banks is now discovering that their operational loss profile might be in excess of e100 million annually. Now that implies a huge capital requirement that will be mandated by the new accord." He concludes simply: "This is life or death now for banks."

If it's all a sales pitch for his new company, it's a powerful one. A year ago he was hammering on banks' doors. Now, after a few successful assignments including in his native Canada, banks are coming to him. That's partly because what he provides is precisely measurable in terms of lowered capital requirements. Having set out to launch a value-investing fund he's also learnt the trick of building customer relationships. "You have to demonstrate predictability to the client. You have to say 'I can get you these deliverables by this date' and then do it. If you deliver, that builds trust. Once enough trust accumulates, then you have a relationship."

Peter Lee