
Event Report

Global Banking After the Financial Crisis: Alberto J. Verme '84

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Over the past year, emerging markets have been a relative source of strength amid the fallout from the global economic meltdown. Thus, as the world looks for signs of recovery, Impact of the Global Financial Crisis on Emerging Market Economies seemed a fitting topic for the fifth annual Jerome A. Chazen Lecture, held November 18, 2009, at the Columbia Club in Midtown Manhattan. The featured speaker was Alberto J. Verme, the co-CEO of Europe, Middle East and Africa at Citi. A native of Peru, Verme attended Denison University in Ohio before joining the World Bank. After receiving an MBA from Columbia in 1984, he began his career on Wall Street. At Citi, he has led the Global Energy, Power and Chemicals group as well as the Latin American Investment Banking division.

In a wide-ranging and often humorous speech, Alberto Verme emphasized the global nature of financial markets and explained that emerging markets have been an engine of growth amid turbulent times. His address tackled three main themes. First, although there are positive signs for an economic recovery, his group does not think that the problems are over. Second, the crisis will accelerate a reshuffling of the global economic order—to wit, the recovery is being led by China. Finally, to avoid a return of the problems of the current crisis, banks must adopt a “back to basics” approach: “If we cannot measure risk, we cannot manage risk,” Verme said.

Verme also discussed Citi’s commercial banking strategy in emerging markets. To be successful, banks must move beyond simply lending money out to people—banks must become service providers. Citi is targeting what it calls the “emerging affluent,” a mobile, global cohort age 25 to 45. “They don’t care about the [bank] branch,” Verme said. “They are into digital

money.” In particular, Citi is focused on densely populated, urbanizing areas. Among the countries Verme mentioned were Indonesia, Turkey, Russia, Nigeria and Egypt.

Taking a broad view of how the crisis unfolded, Verme started with the housing bubble. Over the past two decades, banks began to lend money to subprime borrowers. The loans were packaged into securities, whose credit was enhanced by insurance companies. Then the packaged securities were sold to investors such as hedge funds. “Everything was OK as long as housing prices went up,” said Verme. But, he said, oil prices also went up, causing inflationary pressure. As a consequence, interest rates rose and housing prices came down. Eventually, no one would buy the underlying mortgages anymore, and that created a domino effect up the chain. As Verme put it: “What had been a virtuous cycle became a vicious circle.”

According to Verme, there are signs that an end is in sight. Specifically, housing prices are beginning to stabilize, banks have been recapitalized, and governments around the world have stepped in to provide fiscal stimulus. That has reignited growth, but Verme questioned the sustainability of government-sponsored growth.

Verme believes leadership out of the crisis will come from emerging markets—especially China. He pointed out that 11 members of the G20 are from emerging markets. In Citi’s view, “Today, the growth of the world is being led by China,” Verme said. The United States, “slowly and gradually,” will follow, and finally western European nations such as the United Kingdom, France and Germany will come around.

In the short term, Verme said, the advice Citi has given to its corporate clients is, “One thing is urgent—cash flow.” Of course, companies should worry about how well they are managing working capital and about their profit margins relative to their peer group, but ultimately the most important measure of health is how much money the company makes. He advised paying close attention to sources and uses of cash, and said that companies in trouble should consider elongating the maturity of their debt, selling assets and raising equity, even though valuations may not be favorable.

In the medium term, Verme sees energy as a paramount challenge. Financial speculation in the energy markets has increased, and futures contracts show an implicit oil price of \$95 per barrel. Should a slow, steady recovery take place, demand for oil will go back up, putting further upward pressure on energy prices. Without a comprehensive, consistent energy policy, the problem will be tough to address, Verme said.

Throughout the speech, Verme spoke with emotion about the mission of leaders. He called attention to issues that transcend the current financial crisis, including poverty, maternal health, child mortality, education, and AIDS and other diseases. “We must pursue that mission with passion,” Verme said. “We’ve always wanted to change the world. We should, and we will.”

His speech was leavened with healthy doses of humor. He recounted to the audience—which included dozens of current business school students—the story of his post-MBA recruitment to Wall Street. “Wall Street then was very different than it is today. When I graduated from business school they would ask you one question: Do you know what the capital asset pricing model is? Yes, OK, you work in the U.S. or in Europe. If you don’t, you work in emerging markets,” Verme joked. “[CAPM] is supposed to deal with perfect markets, efficient markets,” he added, “and that’s exactly what emerging markets are not about.”

A self-described would-be poet, Verme underscored the evening’s themes by concluding his speech with selections from two poems, one by William Butler Yeats and another by a Chinese poet. Yeats’s poem “The Second Coming”—which includes the famous lines “Things fall apart; the center cannot hold”—is “frequently quoted when people are bewildered by sudden, unprecedented changes in the world,” Verme explained. The Chinese poem, by contrast, tells of a man’s serenity in the face of chaos. Verme read the last lines: “When his spirit was calm, he stood up and knew exactly what to do.”

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