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Conference report from Pál Péter Kolozsi



What Can We Learn from the Large Banker Dynasties? – Report on the Annual Conference of EABH*

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EABH (European Association for Banking and Financial History), dealing with processing and presenting the history of the banking, financial and insurance sectors, organised its annual conference in Paris on 23 June 2017 with the title „*The legacy of the haute-banque in the world – from the 19th to the 21st century*”. The presentations of the conference discussed the financial-historical development, golden age and decline of the 19th century family-held private banks („haute-banque”), with special regard to the French banking houses.

On the eve of the conference, *Jacques de Larosière*, ex-Managing Director of the International Monetary Fund (IMF), former Chairman of the French central bank, and Advisor to the Chairman of BNP Paribas, greeted the participants. He stated that there is no unambiguous definition of „haute-banque”, but it is certain that these family-held banks were the primary embodiment of financial confidence, since these bankers were fully liable for the investments with their total assets. Rather than merging capital, specific persons joined forces, – pointed out Jacques de Larosière, winner of the MNB Lámfalussy Award of 2017, according to whom the “haute-banque” model is in sharp contrast with the modern banking system, whose primary challenge is exactly the creation of confidence. According to the famous French financial expert, although the family-held banking houses are certainly outdated, we can still learn from their examples today, with special regard to assuming liability by bankers, the conservative risk profile, and the importance of personal trust. What were the advantages, in terms of financial stability, of the fact that there was a close and permanent personal relationship between the banker and the client, in contrast with today’s banking system where such relationships hardly exists? – Jacques de Larosière raised this open question and he mentioned that this area should also be examined by international organisations concerned in regulation.

Harold James (Princeton University), in his presentation, highlighted that the transformation of the financial system in the second half of the 19th century could provide useful experiences with respect to today’s challenges, as well. He

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pointed out that similar to the aftermath of Prussia's defeat of France, there are also significant changes in the world economy today and the financial crisis, which erupted in 2008 was only a symptom of this. After the military defeat of France in 1871, the financial centre of the world was transferred from Paris to London and today the maritime region of the Pacific Ocean assumes the role of economic leadership from the Atlantic Ocean; we can learn a lot from the events of that age and one of this is certainly that we must prepare to face significant geopolitical risks, stated the lecturer.

Patrick de Villepin (BNP Paribas), in his lecture on the formation of BNP Paribas, emphasised that the financial crisis has considerably transformed the financial sector, which will never be the same as it used to be before the crisis. He stated that it cannot be excluded that the current years which seem as confusing, will later be regarded as the years of innovation.

Hugo Bänziger (Banque Lombard Odier, Chairman at EABH) focused his presentation on the introduction of the financial relationships between Geneva and Paris. He first pointed out that there are many downtown villas in the two cities which can be considered a spectacular inheritance of the family-held private banks and it well symbolises the links and similarities between the two cities. Many Protestant French people, as a result of religious intolerance, had escaped to Geneva in the second half of the 17th century and among them there were also industrialists and bankers who became successful later on. They typically arrived in the then independent city not as wealthy people, rather they achieved their wealth in Geneva from international trade, especially wool trade and textile industry innovations. The importance of trade is shown well by the fact that the banks they later founded were also primarily established for financing foreign trade. The banks in Geneva first achieved wealth because the French king, Louis XIV, who expelled the Protestants from France, financed his grandiose constructions and extremely costly wars, exactly with the assistance of the bankers of Geneva. Paradoxically, almost a hundred years later the demise of many banks in Geneva resulted exactly from their relationships with France, since France escaped its debt obligations by declaring state bankruptcy after the French Revolution; thus, the French government bonds held by the wealthy bankers lost their value. Consequently, it was then that the export-import banks founded by French Protestants started to develop.

Eric Bussière (University of Paris Sorbonne) presented the development of the French banking system, highlighting that the fight between family-held private banks and modern limited liability commercial banks („joint stock banks”), collecting deposits was decided by the French bank crisis of 1889, after this the „haute-banque” model permanently resigned its position to the commercial banks representing the foundation of today's banking system as well. In his presentation he highlighted that the large French commercial banks strengthened at the end of the 19th century and the first half of the 20th century and the outstanding figure

of this age was legendary banker Horace Finally, leader of Banque de Paris et des Pays-Bas (Paribas), who was born in Budapest in 1844.

The special lecturer of the conference was *Kwasi Kwarteng*, conservative British MP, who presented the development of British public finances between 1815 and 1844. In his presentation he outlined the international and intellectual environment in which family-held private banks flourished. This period, i.e. the first half of the 19th century, was the period of strict budgetary discipline and strong foreign exchanges. The general civilian mentality was described well by the character of Wilkins Micawber of Charles Dickens, for whom the only criterion of happiness is that his income should always exceed his expenses – stated Kwasi Kwarteng, according to whom if we read the life story, adventures, experiences and observations of David Copperfield, we can understand why the family-held private banks were so conservative and risk-averse.

Sabrina Sigel (Banque Lombard Odier), via the course of life of Henri Hentsch, one of the best-known bankers in Geneva and Paris, presented that one of the great challenges of banker families was inheritance and to hand over business management, namely the generations grown up in prosperity lost their interest in bankers' life in many cases.

Olivier Feiertag (Rouen University) analysed the connections between family-held private banks and central bank functions. The French central bank was founded in 1800 following the English model, its shareholders were private individuals and hence many people questioned the real independence of the bank, with special regard to the fact that a large part of the founders arrived from the world of family-held private banks. Moreover, the bank's reputation further diminished by the fact that these families (the most well-known of whom were the Mollet, Rothschild, David-Weill, Odier, Périer, Durand and Hottinguer families) held several leading positions in the bank. In addition to the personal link between the central bank and the family-held private banks, it is worth mentioning that, prior to the foundation of the French central bank, the family-held private banks were the banks of the state, since these banks financed the state expenditures not covered by taxes, with special regard to wars – highlighted Olivier Feiertag.

Lorans Tanatur Baruh (SALT Istanbul) presented the connections between family-held private banks and the real estate market via the example of the Camondo family, which implemented significant developments in Constantinople (Istanbul) and then moved its headquarters to Paris at around 1860–1870.

Nicolas Stoskopf (CRESAT Mulhouse) analysed the connections between family-held private banks and modern commercial banks and called attention to the fact that although the old banker families only participated to a limited extent in the

establishment of modern commercial and investment banks, yet they had an effect on the new banking model and culture. The examples of Stoskopf point out how the bankers of the old world were pushed out from the modern banking sector. He presented the *Crédit Mobilier* bank, founded in 1852, as a separate case, since this was founded by the Pereire family, which can be classified among modern bankers, in order to counterbalance the Rothschild family, another banker dynasty, and some industrial investors on the railway construction market. At the end of the 1860s, the large names – except for Rothschild – (the Hentsch, Paccard, and Bischofstein families) participated in the share quotations of *Société Générale* and *Crédit Lyonnais*, well-known currently as well, but they were completely left out from several large bank foundations (for example from the foundation of French regional banks; *Comptoir national d'escompte de Paris*, a predecessor bank of *BNP Paribas*; and *Crédit foncier*, which is active in real estate and mortgage financing currently as well). According to Stoskopf, the two bank cultures were very different from each other, whereas the representatives of the „*haute-banque*” were cosmopolitans, often arriving from religious-ethnic minorities and they constituted a homogeneous group in social and professional respects, meanwhile modern bankers were typically from the Catholic French community and they constituted a heterogeneous group in terms of their professional background (for example many of them were lawyers, few of them had family business background, etc.). Despite the difference, the old-style banker world had an impact on the new bankers but such impact was not always positive. Stoskopf points out that, although modern banks were operated in a joint stock company form, the banks' leaders did not change for decades, in several cases, similarly to the old banker dynasties, which often led to conflict of interests between the banks' leaders and the bank, in some cases to the utilisation of the banks' wealth for private purposes.

After the panel discussion about the current banking system and financial innovations, *Korinna Schönhärl* (Essen University) presented it via the investments of the D'Eichthal banker family in Greece that the „*haute-banque*” played not only a financial, but also a cultural intermediation role among the countries concerned. *Sabine Schneider* (University of Cambridge) presented the work of Gerson von Bleichröder, the German banker known as the banker of Bismarck, with special regard to the conversion to gold of the French reparations after the Prussian–French war in 1871, which can be considered as one of the largest financial transactions of the world in terms of proportion until now. In his presentation *David K. Thomson* (Sacred Heart University) outlined how the primarily German family-held private banks participated in financing the debt of the American civil war, and how they started the internationalisation (globalisation) of the capital markets with this involvement already in the 19th century.

In the closing section of the conference, *Laure Quennouëlle-Corre* (CNRS, Université de Paris Sorbonne) pointed out that there is almost a parallel between the former

„haute-banque” and the current asset management business line of modern banks; however, the business environment has been transformed to such a degree that banking of the past century would not have legitimacy today in asset management either. *Hubert Bonin* (Sciences Po Bordeaux) presented the fate of the French family-held private banks, highlighting that these banks have strong positions today as well in certain partial financial markets, mainly in the business of financial consulting and corporate mergers and acquisitions (M&A) – naturally only the ones that remained, since currently there are only two banking houses with a „haute-banque” background in France, the always completely global Rothschild & Cie Banque, and Lazard, which was French–American already upon its foundation.

In his closing presentation, *Youssef Cassis* (European University Institute) presented the institutional system of „haute-banque” at three levels. In an economic sense this expression indicates private banks held by families that primarily deal with trade financing, investment bank services (state and corporate bond issue) and the management of their own net wealth. At the social level these are wealthy bankers integrated organically to the elite of the specific country, despite the fact that they are often not the offspring of the given nation’s majority. An important characteristic of these bankers is that they have outstanding international and political connections and they often work as consultants of the highest state circles. This is an exclusive club that has considerable power and influence and it has sole discretion on who may join their ranks, pointed out Youssef Cassis. The golden age of family-held private banks was different from country to country, in France, which can be considered as the homeland of „haute-banque”, it was between 1830–1870; in London they had serious positions all the way until 1914; whereas, in the US, family-held private banks represented significant market power even in the beginning of the second half of the 20th century. By today practically all family-held private banks have either disappeared or have been acquired or have been transformed into modern financial groups; thereby, losing their former character.

Thus, today, the „haute-banque” as a type of bank has practically disappeared, yet we can learn from its example, namely the internal consistence of the business model, according to several lecturers of the conference. Bankers used to risk their own net wealth, but they also realised profit due to the owner from successful investments. Modern banks risk the money of depositors, hence it would follow logically that bankers should be paid employees. Inconsistency can occur if the bank’s remuneration policy would encourage, bankers to make too risky investments with the money of the depositors and the banker can realise owner’s income on a short term, yet in the longer term the banker is not committed to the bank and does not bear the consequences of his or her own decision postponed in time. Based on the 2008 crisis we have to say that recently this type of inconsistency has not been rare in the financial sector and this resulted in extreme risks undertaken by banks – which could certainly have not occurred in the case of the „haute-banques”, which are less competitive and efficient in other regards.