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European Banks Rush to Restructure --- Pandemic speeds up implementation of plans to address years of underperformance

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Corrections & Amplifications

BNP Paribas SA is scaling back in commodity trade finance, and Societe Generale SA is revamping its structured-products business. A Markets article on Monday about European banks incorrectly said BNP Paribas and Societe Generale are scaling back their global ambitions to focus on their home economies.

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(END)

At beleaguered European banks, the coronavirus pandemic is fast-tracking plans for restructuring after years of poor performance.

Many of the region's most prominent lenders are tearing up old business models, cutting business lines or doubling down on domestic markets as they try to find a formula that works for them.

HSBC Holdings PLC is returning to its Asian roots and calling time on weak returns in continental Europe and the U.S. with a plan to shed 15% of its workforce. The Netherlands' ABN Amro Bank NV, once a top-15 global bank with deep roots across the world, is getting out of trade financing and cutting off corporate customers outside Europe. Switzerland's Credit Suisse Group AG and UBS Group AG are stripping out layers of administrative workers to free up money for investment in **technology** or new business.

Banks around the world are being squeezed by the pandemic. In the U.S., Wells Fargo & Co., for example, is slashing costs and cutting staff to try to ride out the crisis, moves that could hold clues for how other large U.S. banks may respond. Wells came into the crisis in worse shape than some U.S. rivals but in better shape than many European lenders, which have toiled for years as margins were squeezed by low interest rates in the wake of the last financial crisis. As a result, banks in Europe were among the most vulnerable institutions as the pandemic sent already challenged economies into a tailspin and pushed loan-loss provisions to their highest level in a decade.

Finding and then sticking to the right business model now is seen as crucial to banks' longer-term survival and to get buy-in from investors. "European banks face a profitability crisis," said Citigroup Inc. banking analyst Ronit Ghose. "In response to decadelong low returns, European banks have been busy restructuring, but it is hard to shrink to greatness."

Investors' low expectations are reflected in the banks' share prices. European banks trade at less than half their book value, while U.S. banks trade at more than four-fifths of book value. The Stoxx Europe 600 Banks Index is down 36% this year while the broader Stoxx Europe 600 Index has fallen 12%.

France's BNP Paribas SA and Societe Generale SA are among national champions that are scaling back global ambitions to focus on their home economies.

In the U.K., Barclays PLC, for years styling itself as a mini JPMorgan Chase & Co. spanning retail and investment banking, is under pressure from an activist investor to slash its trading business.

Some of Europe's banks, including HSBC, ABN and Credit Suisse, have new CEOs this year who seized on the pandemic as a catalyst to make changes to their banks' business models.

HSBC Chief Executive Noel Quinn hit pause on planned job cuts at the lender when the pandemic hit but said those have to accelerate now to pull out costs. Around 35,000 of the bank's 235,000-strong workforce will go -- by exiting much of continental Europe and shutting U.S. branches -- as part of a continuing global retreat to refocus on its more profitable Asian heartland.

In an interview, Mr. Quinn said he plans to invest in **technology** to cut costs. He hired John Hinshaw, a former chief information officer at Verizon Wireless and Boeing Co., late last year to help the bank become more digital. Country lockdowns led more customers to online banking and phone apps, and that trend is likely to accelerate, according to bankers and analysts.

"Banking is still banking but **technology** has an increasingly important role to play in it," Mr. Quinn said.

ABN Amro is returning to its roots, too, with the ambition of new CEO Robert Swaak to be "the best Dutch bank" with a focus on northwest Europe. He said earlier this month that ABN will exit corporate banking in the U.S., Asia, Australia and Brazil, and a trade-finance business that traces back to colonial times.

Geographical diversification used to be seen as a way to offset weakness when one market cooled, said John Ahern, a partner at Covington who advises banks on regulation. "In coronavirus, you have a global economy almost in shutdown. You're not leveraging an advantage and can be exposed to too many challenging markets," he said.

Barclays Chief Executive Jes Staley for years has argued that geographic and business-line diversity makes banks more resilient in a crisis, after helping steer JPMorgan through the last financial crisis. He crafted Barclays to emulate his former employer, with a large U.K. bank serving businesses and households, an international credit-card arm and investment banking in London and New York.

Mr. Staley claimed victory for his strategy in the second quarter as profit from Barclays's corporate and investment bank rose 16% to GBP 694 million ($908 million) while its U.K. unit swung to a GBP 123 million loss.

Activist investor Edward Bramson didn't agree. He argues that Barclays's trading revenue is volatile and poor quality because the bank doesn't have the large corporate-client or wealth-management businesses that drive trading flows at bigger rivals like JPMorgan.

Mr. Bramson's firm, Sherborne Investors, says it is the largest Barclays shareholder with a 5.9% stake. He renewed calls this month for the bank to follow the example of Deutsche Bank AG and downsize its trading arm. Deutsche Bank shares have risen 13% this year, while Barclays shares have slumped 40%.

Mr. Bramson said Deutsche Bank had shown that trading businesses can be pared down without fatal effects, and described its investment bank as "a more viable business than before." Barclays declined to comment.

The wave of restructuring could be the precursor to long-talked-of consolidation, bankers and lawyers say. The European Central Bank has said it would ease the way for future mergers, and gave its blessing to a takeover by Intesa Sanpaolo SpA of local Italian rival UBI Banca SpA.

Meanwhile, banks that went through lengthy restructurings before are finding ways to be leaner through the pandemic.

Thomas Gottstein, CEO at Credit Suisse since February, said the pandemic was the trigger for making further changes to lower costs and free up money for investment after an earlier restructuring under predecessor Tidjane Thiam. Credit Suisse and UBS so far have fared better in the pandemic than most other European banks because of their historically low-loss Swiss loan books and focus on banking for the world's rich.

Credit Suisse is combining several market-trading businesses and integrating its risk and compliance functions to invest in growth, Mr. Gottstein said.

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