BOOK REVIEW


The authors gathered their case studies and packs of meditation to grapple with the classical core issue of good practices of lucidity by bankers – with the originality that there are some chapters delving into modern times, which favours comparisons. Historians have always been challenged by the absurd impossibility of banks learning from historical experience in reaching more accurate methods of risk assessment. And they once more gauge the capital of competence piled up by past bankers to avoid poor expectations and insufficient risk provisions, and the mechanisms of decision taking. Much literature has been supplied and quoted to tackle the key balance between ‘risk and confidence’. The routinisation of decision making has helped to reduce complexity but led to blind spots and missing negative information (Wylegala). Not only constitution but also the refreshment of the capital of experience are commonly at stake within organisation (F. Sattler) against ‘moral hazard’.

The chapters either consider risk-management techniques and the expertise able to foster reliable processes, or, at the end of the book, focus on ‘behavioural’ collective psychology. A few authors (S. Park about the Morgan family bank and its successive partners in Europe or of the USA often linked through studies, marriages and common action) reconstruct how (beyond the collection of data) dense connections among business communities contributed to enrich the tool-box used to assess loan commitments. The City of London was rich with networks of correspondents who fed information about potential issuers of securities for the sake of their continental bankers (Mitskoler). These were ‘gatekeepers to the market assessing risks’, which from the 1890s led to syndicates being set up to better share information (about Argentina, China, etc.). Each market place lived/lives as a cluster of interlocking financial organisations and intermediaries, with combinations and intersections of vectors to fight asymmetries of information and structure the culture of risk.

Rational techniques of risk management took shape during certain periods, e.g. in the aftermath of crises or during cyclical booms. Bankers asserted themselves as ‘risk adverse’ and focused on more prudent action (Knake) and were concerned by the reputation of partners and clients, with institutionalised codes of conduct. The assessment of reputation and rationality always has to be balanced. This preserved psychological aspects, as shown by the case study of a regional bank in New Brunswick in the 1950s, or more significantly by that of Barclays as a retail bank from 1900 to 1980 (Hollow), which had 2,400 branches in 1920. Lending practices, vertical forms of control, credit scoring, and various editions of handbooks and guidelines, were complemented by the assessment of the ‘ethical thinking’ of the borrower, thus opening doors to far less rationalised grids (consistency, compliance, social habits, etc.).

The third part deliberately focuses on the history, theory and practice of ‘behavioural finance’, from ‘Modern Times’, to collect references from the past and enrich present considerations. The first is Matringe who studied the Salviati bankers in Lyon in the sixteenth century. They mixed pioneering book-keeping and acute methods of extending social capital thanks to networks of
correspondents. Bankers from these times scrutinised bill remittances, relied on commission agents (Veliov), practised credit ratings, and evaluated borrowers' respect to codes of compliance. Finally, one has to admit the role of psychology, with the risks of bad judgement, overconfidence, irrationality, and the effects of social belonging. Ricciardi sums up the risks of banking management and representative bias because of herd behaviour or crowd psychology with ten pages of relevant references. For instance, Schörnhari considers the case of issuing bonds in France for the Corinth Canal Company in 1883, where global expenses and delays in construction were underestimated because of a wave of technical overconfidence.


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