

# 1 The organization of the financial industry

## AIMS

**To learn about:** types of banks; the organization of the financial industry; key vocabulary of banking products and services  
**To learn how to:** express permission, necessity and prohibition  
**To practise:** asking and talking about terms and conditions of bank accounts

### BACKGROUND: THE FINANCIAL SECTOR

The financial sector (or the financial services industry) includes the following areas, most of which are covered in this book:

- commercial banks, which receive customers' deposits and make loans
- private banks, which manage the assets of wealthy individuals
- investment banks, which advise and raise money for companies, and sell and trade financial products
- investment companies, which invest customers' money in funds and other companies
- the money markets, in which financial institutions, companies and government bodies can borrow and invest in the short-term (less than one year)
- the currency markets, in which individuals and companies can buy and sell foreign currency
- the stock market, where the stocks and shares of public companies are traded
- the futures and derivatives markets, where these financial instruments are traded
- the inter-bank clearing system, in which financial institutions settle credits and debits among themselves
- insurance companies, which offer financial protection against risks such as accidents, fire, theft, loss, damage, etc.
- accounting and auditing companies, which examine companies' financial records to make sure they are accurate and in accordance with the law
- regulatory authorities, which ensure that financial institutions and markets comply with laws and regulations.

This unit outlines the recent history of the financial industry, and the way in which recent deregulation has led to formerly separate financial organizations – commercial banks, investment banks, stockbroking houses, insurance companies, etc. – combining to form large financial institutions.

### Lead in

The lead-in for each unit provides discussion questions as a way into the unit. Anyone old enough to study finance is likely to have a bank account. If you don't have any learners already working in financial institutions, the discussion may be less varied. However, learners could think about any changes they have noticed in recent years as bank customers.

As with nearly all the exercises and activities in this course (except those for small groups), this activity is probably best done in pairs, followed by a short discussion, or question and answer session, with the whole class. (If you are teaching one-to-one, try to elicit as much information as you can from your student.)

### Vocabulary 1

As with many exercises in this book, learners can either do this in pairs or complete it on their own and then check their answers together when they've finished. There is an answer key in the **Student's Book**, but it would be a good idea to ask the learners not to consult it before you have elicited answers from the class.

#### ANSWERS

- |                  |            |
|------------------|------------|
| 1 mortgage       | 5 capital  |
| 2 deposit        | 6 bonds    |
| 3 pension        | 7 takeover |
| 4 stocks, shares | 8 merger   |

### VOCABULARY NOTES

American English tends to use the word *stock* while British English uses the word *share*, though British English uses *stock* in compounds such as *stock market*, *stock exchange*, *stockbroker*, *stock option*, etc. [See **Unit 15**, Stocks and shares]

The most common use of *stock* in British English is to refer to the total amount of goods or the amount of a particular type of goods available for sale at a particular time (*inventory* in American English).

*Takeover* is a noun; the verb is in two words (*to take over* [see **Unit 17**]).

## Listening 1: The development of the financial industry

You will probably need to play this recording – and most of the others in this course – twice. The learners can read the questions, listen a first time, try to answer the questions, check their answers in pairs, and listen a second time to confirm their answers, before you elicit answers from the class. Depending on the level of the learners, and the difficulty of the recording, playing the recording a third time may also be necessary. Learners should be actively discouraged from reading the tapescripts at the back of the **Student's Book** before listening, or while listening for the first time.

Here, and in other listening comprehension exercises based on authentic materials, quotes from the script have been included in order to help you explain / justify the answers. Students should also be encouraged to give explanations for their answers.

### 1.1 TAPESCRIPT

**Peter Sinclair:** Well, twenty-five years ago the financial industry in most countries had two key characteristics. One was that pretty well all the banks and financial institutions in that country were owned in that country, and there were few international links – in many cases none. So they were national banks belonging to that country. The other key feature was that financial institutions were specialized, so in Britain we had institutions that lent to people who wanted to borrow to buy houses – that means arranging mortgages – so we had specialized things called building societies doing that. We had retail banks where individuals and companies kept bank deposits and which made loans to cover

short-term outlays and in some cases longer-term investment. Then we had another range of institutions like insurance companies to provide life insurance or pensions, and we had investment banks – sometimes called merchant banks. These weren't retail banks; they didn't deal with individuals, they dealt with big companies. They gave the companies financial advice, maybe arranging mergers, or fighting off a takeover bid, and helped to raise capital, for example by issuing shares or bonds.

### NOTES

Shortly after this recording was made, Peter Sinclair left the Centre for Central Banking Studies at the Bank of England, and returned to Birmingham University where he is Professor of Economics.

Further extracts from this interview are used in **Units 3, 13, 17 and 19**.

### ANSWERS

- 1 Most financial institutions were national: 'So they were national banks belonging to that country.'
- 2 Most financial institutions were specialized: 'The other key feature was that financial institutions were specialized.'

3

Retail banks	making loans receiving deposits
Building societies	arranging mortgages
Insurance companies	providing pensions offering life insurance
Investment banks	arranging mergers giving financial advice to companies issuing shares or bonds arranging or fighting takeover bids

### VOCABULARY NOTES

With more advanced learners, you could point out (or let them identify) *key*, a synonym for 'very important' that Sinclair uses twice, and *pretty well*, a phrase meaning 'nearly [all]' or 'almost [all]'. He also uses the noun *outlay*, meaning amounts of money spent for particular purposes.

## Listening 2: Going international

As with other listening exercises in this book, you can ask learners to predict answers before listening. They can discuss their predictions in pairs then listen a first time to see if their predictions were correct, compare their answers in pairs, and listen again to confirm the correct answers. If learners feel they have the answers at this stage you can elicit them from the class. If a third listening is requested by the learners, try to ensure that they have a slightly different task, e.g. elicit the answers they are happy with first, so they just focus on the problem question(s) for the third listening.

### 1.2 TAPESCRIPT

**Peter Sinclair:** In the old days in Britain, the merchant or investment banks were pretty well all British and there were big boundaries between building societies and insurance companies and all these other types of companies. Well, now if you look at the picture, many banks have become universal banks; perhaps 'banks' is the wrong word. Lots of institutions do all the things that I have just described – insurance, mortgages, advice, raising capital for companies, and retail banking besides, and the other great change is that so many of the financial institutions – and it is not just true of Britain, true of pretty much everywhere else – are now international. So, for example in Britain, two of the big four retail banks have changed ownership: one was taken over by Hong Kong and Shanghai Bank, that was the Midland Bank previously, and it's now changed its name to Hong Kong and Shanghai Bank and it really isn't a British bank any more; and another, National Westminster, was taken over by the Royal Bank of Scotland. But if you look at, say, countries like the Czech Republic or Hungary or Poland or New Zealand too, and plenty of other small countries around the world, all their financial institutions pretty well are now

owned by foreigners, by German companies, or French companies or Austrian companies – whatever it might be – and the huge international financial institutions are typically, though not all of them, American; and you can now think of the City of London, the world's leading centre for foreign exchange dealings and a great deal of finance, as rather like Wimbledon. In other words it's a great big international stage, happens to be in London, but most of the players are foreign; they are nearly all foreign companies that do, for example, the investment banking and so many other things.

So internationalization and, if you like, homogenization of these hitherto specialized financial institutions. Those are the two big recent trends.

### ANSWERS

- 1 Many banks have become international, by buying banks in other countries or through being taken over.
- 2 The City of London is a major financial centre, but most of the banks operating there are not British, just as Wimbledon is a big international tennis tournament that takes place in London, although very few of the players are British.
- 3 Internationalization and homogenization (making all the banks become the same, or very similar).

### VOCABULARY NOTES

Sinclair again uses *pretty well*, as well as a synonym, *pretty much*. He also uses the phrase *if you look at the picture* meaning 'look at the current situation'. He describes the major participants or companies in the finance industry as *players*, which is a common idiom, and uses *hitherto*, a fairly formal alternative to 'previously'.

## Discussion

This is a good opportunity to relate what Sinclair says to students' personal experience. There may be examples of recent mergers or takeovers of banks in their countries.

## Vocabulary 2

It is always worth drawing learners' attention to common verb–noun word combinations (also known as word partnerships, or collocations), as nouns are generally used with an accompanying verb, and many nouns used in finance are only used with a limited and predictable range of verbs. Learners should think about how they write down and store new vocabulary and be encouraged to record them in a collocation, a phrase or a sentence.

### ANSWERS

- 1 1c 2g 3a 4b 5f 6d 7h 8e  
 2 1 con'glomerates 5 regu'lation  
 2 de'positors 6 re'pealed  
 3 de'regulated 7 'underwriting  
 4 pro'hibited

### NOTES

Word stress is important for comprehension (at least by native speakers); learners should be encouraged to systematically mark the stressed syllable of new words they write down.

The rules (or at least regularities) of word stress are given in a number of books, including in the 'Language reference' section of *Professional English in Use Finance* (Cambridge University Press, 2006). Most of the words in this exercise are stressed on the second syllable, as the first syllable is a prefix. The exceptions are *regulation*, because the beginning of the suffix *-ation* is regularly stressed, and *underwriting*, which is better analysed as a compound noun than as a word with a prefix.

## Reading: Regulation and deregulation

Students can read the text individually first, thinking about their answers. Then they can check their answers in pairs. Finally, you can elicit answers from the whole group.

Here, and throughout the course, encourage learners to give the reasons for their true and false answers by referring to the text, or by paraphrasing it in their own words.

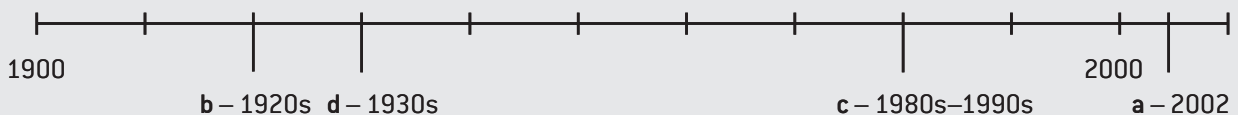
## Discussion

If the learners do not know the answers to these questions, they could be invited to find out before the next lesson. Regulatory agencies tend to have large and informative websites, and lists of banks are also quite easy to find on the internet. The third question is more abstract, but learners working in banking may have something to say. Essentially, regulation protects the customer, but tends to limit financial institutions' room to manoeuvre. The subject of regulation reappears towards the end of the course, in **Unit 23**.

### ANSWERS

- 1 1 underwriting 5 deregulated  
 2 depositors 6 repealed  
 3 regulation 7 conglomerates  
 4 prohibited 8 fines

### 2



- 3 1 False: it was the result of the behaviour of commercial banks.  
 2 False: 'Yet in all countries, financial institutions are still quite strictly controlled'.  
 3 True  
 4 True  
 5 False: the last paragraph gives an example of an illegal practice in the 1990s.

## Language focus: Possibility, necessity and prohibition

This section looks at ways of expressing possibility, necessity and prohibition. Before looking at the exercise, ask learners to think about regulations in their place of work or study and to give an example of things which are possible, necessary or prohibited. For example, *It is forbidden to smoke*. You could then ask them if they can think of another way of saying this. Learners with a Latin-based first language (such as Spanish, French or Italian) often tend to use *It is*

*possible / necessary to ...* whereas native speakers usually use the modal equivalent.

Ask learners to read the sentences and make sure the first task is clear. The second task asks learners to classify the sentences according to their meaning. Work through the example to ensure learners understand what to do. They should then think about their answers individually before checking them in pairs.

### ANSWERS

- 1 1 Although banks are allowed to open on Saturdays, most of them don't.
- 2 Banks aren't allowed to charge less than the minimum interest rate.
- 3 Commercial banks have to deposit part of their reserves at the central bank.
- 4 If you have a credit card, you don't need to pay cash.
- 5 If you keep at least \$1,000 in the bank, you don't have to pay charges.
- 6 Today retail banks need to react to competition from building societies.
- 7 Our policy states that we can't lend you more than one month's salary.
- 8 You can pay me back at the end of the month.
- 9 You must keep at least \$1,000 in the account if you want free banking.
- 10 You mustn't use this loan for any other purpose.
- 11 You needn't go to the bank – you can do it on the internet.

2	Meaning	Permission	Necessity or obligation	No necessity or no obligation	Prohibition
	Sentence number	1, 8	3, 6, 9	4, 5, 11	2, 7, 10
	Verbs used	be allowed to can	have to need to must	don't need to don't have to needn't	not be allowed to can't mustn't

- 3 1 were not allowed to / couldn't
- 2 can / are allowed to
- 3 don't have to, don't need to / needn't
- 4 were not allowed to / couldn't
- 5 mustn't / aren't allowed to / can't
- 6 needn't, don't need to / don't have to
- 7 allowed to / able to
- 8 were not allowed to / couldn't
- 9 have to, need to / must (*must* would probably come before *still*)
- 10 didn't have to / didn't need to

### NOTE

*Need* is both a regular verb and a modal verb, but the modal usage (e.g. *Need banks compete with building societies?*) is rare. The regular verb is followed by an infinitive with *to* (the *to* is underlined in the answers above).

The most difficult aspects are probably the past forms of the modal verbs (or lack of them), and the use of the verbs expressing lack of obligation or necessity, especially the difference between *mustn't* and *don't*

*have to*. (German speakers in particular often find this difficult, as the German *müssen nicht* means 'don't have to'.)

*Could* and *was / were able to* are both used to talk about a past possibility. The difference is that *was able to* describes one specific action, whereas *could* describes a general past ability, e.g. *I could speak German quite well so I was able to get the job*.

## Practice

See **pages 115** and **123** of the **Student's Book** for the file cards.

This role play, to be done in pairs, gives learners the chance to use the verbs from the **Language focus** to talk about the terms and conditions for different kinds of bank accounts. You could ask learners what kind of bank account they have and if they have more than one. You could ask them what the regulations or *terms and conditions* are for each (e.g. Do you have to keep a minimum balance in the account to avoid charges?)

Each role has two parts, a call centre employee (explaining terms and conditions) and a customer (asking for information about a bank account).

Assign each learner a role (A or B) and ask them to read it through and make sure they understand the vocabulary. You may need to explain the terms *overdraft*, *balance*, *statement*, *transaction* and *ATM*. Ask the learners to prepare their questions and answers and encourage them to use the language from the **Language focus**.

When the learners are ready, Role A, Call 1 (the call centre employee) could begin by saying *Can I help you?* When they have completed the first call, they should move on to the second, with Role B, Call 2 starting the conversation.

Try to listen to as many of these conversations as you can, making a note of both good use of language and that which needs to be corrected, so that you can give feedback at the end of the activity. You might want to pick out two or three pairs of students to perform their dialogues in front of the rest of the class.

### ADDITIONAL SPEAKING ACTIVITY

This could involve the learners asking questions about each other's job contracts – things they can do, can't do, don't have to do and mustn't do in their job (or, if they are studying, at their school or university). Examples might include working hours (Can they work evenings and weekends?), whether they have to attend training courses, whether there is a dress code specifying what they can and can't wear at work, whether they are allowed to choose when they take their holiday, etc.