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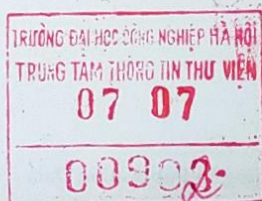
A RISK MANAGEMENT APPROACH

ANTHONY **SAUNDERS**
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Financial Institutions Management

A Risk Management Approach

Fifth Edition



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Preface

The financial services industry continues to undergo dramatic changes. Not only have the boundaries between traditional industry sectors, such as commercial banking and investment banking, broken down but competition is becoming increasingly global in nature. Many forces are contributing to this breakdown in interindustry and intercountry barriers, including financial innovation, technology, taxation, and regulation. It is in this context that this book is written. Although the traditional nature of each sector's product activity is analyzed, a greater emphasis is placed on *new* areas of activities such as asset securitization, off-balance-sheet banking, and international banking.

When the first edition of this text was released in 1994, it was the first to analyze modern financial institutions management from a risk perspective. Thus, the title, *Financial Institutions Management: A Modern Perspective*. At that time, traditional texts presented an overview of the industry sector by sector, concentrating on balance sheet presentations and overlooking management decision making and risk management. Over the last decade other texts have followed this change, such that a risk management approach to analyzing modern financial institutions is now well accepted. Thus, the revised title: *Financial Institutions Management: A Risk Management Approach*.

The fifth edition of this text takes the same innovative approach taken in the first four editions and focuses on managing return and risk in modern financial institutions (FIs). *Financial Institutions Management's* central theme is that the risks faced by FI managers and the methods and markets through which these risks are managed are similar whether an institution is chartered as a commercial bank, a savings bank, an investment bank, or an insurance company.

As in any stockholder-owned corporation, the goal of FI managers should always be to maximize the value of the financial intermediary. However, pursuit of value maximization does not mean that risk management can be ignored.

Indeed, modern FIs are in the risk-management business. As we discuss in this book, in a world of perfect and frictionless capital markets, FIs would not exist and individuals would manage their own financial assets and portfolios. But since real-world financial markets are not perfect, FIs provide the positive function of bearing and managing risk on behalf of their customers through the pooling of risks and the sale of their services as risk specialists.

Intended Audience

Financial Institutions Management: A Risk Management Approach is aimed at upper-level undergraduate and MBA audiences. Occasionally there are more technical sections that are marked with a footnote. *These sections may be included or dropped from the chapter reading, depending on the rigor of the course, without harming the continuity of the chapters.*

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