Foreword 1

The financial crisis that started in the summer of 2007 has underlined the importance of banks in the economy. This *Handbook* is edited by three leaders in the field. It is a timely and important contribution. Understanding how banks operate, their weaknesses and strengths, is important for practitioners and regulators, as well as scholars and students of banking. The book contains contributions by distinguished authors from all over the world.

The coverage of the chapters is excellent. Part I is concerned with ownership, efficiency and stability. These are crucial topics that form the core of our understanding of banking. There is a wide range of ownership structures around the world ranging from public to private ownership, as well as mutual and other structures. These differ in terms of their operating efficiency and their stability. The first six chapters provide a broad perspective on these different aspects. Part II contains five chapters that investigate one of the most discussed aspects of the crisis, the relationship between compensation practices and bank performance and risk. They consider what happened in the crisis and how compensation should be structured going forward.

One of the most discussed issues over the years in the field of banking is the roles of market discipline and regulation. Part III considers the former, while Part IV focuses on the latter. There are a number of ways in which the market disciplines banks. The two most important, which are covered in depth here, are the provision of information and the possibility of bank resolution. In most recent crises, large banks have been saved by governments to prevent contagion. This is the 'too big to fail' problem that stops banks from being resolved. These topics are considered in the five chapters in Part III. The five chapters in Part IV consider the complement of market discipline, which is government regulation and supervision. The particular forms that these should take after the experience of the crisis are considered in depth and for emerging countries as well as developed countries.

The remaining three parts consider a broad variety of topics. The four chapters in Part V focus on financial innovations, strategy and social responsibility. Part VI has chapters on community banks, mutual funds, venture capital and microfinance institutions. Finally, Part VII considers governance and related issues in New Zealand, Europe, Japan, Korea, China, Thailand and India.

Franklin Allen
Nippon Life Professor of Finance; Professor of Economics
Finance Department
Wharton School
University of Pennsylvania
Philadelphia, PA, USA