GLOBALIZATION AND ITS EFFECTS ON THE BANKING MANAGEMENT

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Abstract:
This paper describes one of the major challenges of the present: globalization and its effects on the banking. Globalization is now increasingly recognized as central to the growth of market economies. For the banking sector, this represents both a demand as well as a new landscape of business opportunity. Several years ago, the main part of the banks did not consider the globalization problems relevant for their operations. Recently, the banks began to realize the major impact of the globalization over the way of creating the banking risk in the future. The banking management in the context of globalization represents one of the challenges of these days. Starting from literature in the globalization field in this paper focuses on several relevant issues related to banking management.

Keywords: Globalization, Banking management, Risk Management, Banking Technology

JEL Classification: G21,F02

Introduction

The main objective of this paper is to investigate theoretical and practical aspects of bank management, major structural changes and trends occurring in bank management, in the context of globalization.

To achieve this goal, I had the following specific objectives:

- description and analysis of the globalization process, mainly in terms of economic and financial component
- making a theoretical analysis of globalization (dominant theories, conceptual aspects, trigger sand existing typologies) and the effects they have on the real economy
- determination clearly and using specialist vocabulary of recent changes that have occurred in banking management caused by globalization
- delineation of possible trends manifested in bank management in the current context.

One of the goals of this paper is to present and analyze in detail the effects of globalization on the banking system and their impact on bank management. To achieve the objectives we started from the assumption that macroeconomic developments have a direct impact on bank management. It thus confirms the hypothesis namely the existence of direct influence of macroeconomic developments on bank management.

Globalization in the contemporary economy

The term “globalization” has quickly spread and was used more often summarizing major change that requires a new terminology to describe new realities. Contemporary challenge is to define precisely this ongoing phenomenon on that has a planetary importance. Glynn and Sutcliffe (1992) considers globalization as an “extension of capitalist relations of production” at global level. Montbrial (2003) writes that “the idea of globalization is closely linked to the idea of market economy and there for economic liberalism, hence its strong resonance”. These views are widespread and seem to dominate specialized literature.

Globalization is a concept of ten used to identify a new planetary phenomenon, fusion of consumer markets, production factors, labor, technology, financial and cultural capital. In other words, globalization is the growing importance of the global market in trade and financial affairs. Also, globalization is the tendency toward the entire world in a global society, which is based on community over all decisions, aimed at solving problems that affect the entire planet.

Globalization is a dynamic and complex process and a non-reversible phenomenon. “The globalization system, unlike the Cold War system, is not static, but a dynamic ongoing process: globalization involves integration of markets, nation-states and technologies to a degree never witnessed before - in a way that is enabling individuals, corporations and nation-states to reach around the world farther, faster, deeper and cheaper than ever before, and in a way that is also producing a powerful backlash from those brutalized or left behind by this new system” (Friedman, 1999).

In the literature there are various theories as to the elements that caused the globalization from those who see technological innovation as the only trigger of globalization to those for which prevails political factors. For Popescu et al. (2004) globalization has three main causes: technological, political and economic. They have started the process where geographical distance has become an insignificant factor in establishing and sustaining cross-border ties,
Globalization refers to a deeper integration and rapid interaction between economies through production, trade, and financial transactions carried out by banks and multinational corporations, an increased role with the World Bank, International Monetary Fund, and World Trade Organization. The economic effects of globalization on the banking system may be positive or negative, and the task of those in charge of the management of the banking system is to maximize the positive effects and minimize the negative ones.

Financial globalization is the backbone of global economy and it is the most dynamic part of economic globalization. Financial globalization refers to the many links between national banking systems and financial markets, resulting from liberalization and financial deregulation which result in the existence of the global financial space. It is becoming more united, but yet powerful hierarchical. Financial globalization is an irreversible reality and any country that thoroughly prepares its future is forced to interfere with it.

In most papers, financial globalization is understood as individual country financial systems integration with the international financial markets and institutions. According to the literature, this phenomenon started in 1982 and coincides with the formation of global money markets. Financial globalization is an essential feature of economic life where banking financial activities gained new dimensions. Due to increased competition in the international financial markets, large financial institutions are pushed to perform large-scale operations, to exceed national borders and diversify their financial services more and more.

Expanding international banking activities took place in three decades: the 60's characterized by euro-dollar market expansion; the 70's are characterized by financial globalization, which brings to the fore the U.S. investment banks, British merchant banks and Japanese securities houses. These factors have forced banks to change their international strategy (Esposito, 1997).

Internationalization of banking systems meant globalization of economic activity in general. Transnational companies have applied for funding from banks that have accounts in countries that extend. Establishment of banks in different countries took place in the historic influence or with in the old colonial empires, for these reasons, British banks have expanded the territory of the Commonwealth, the French in Africa and U.S. banks Pacific countries, in Latin America, but also in Europe.

The globalization of the banking sector was done geographically by establishing national, regional and international banks, financial groups including leasing companies, insurance and reinsurance, investment funds, capital market activities in order to provide integrated financial services. Globalization of finance and banking was conducted with different issues from one country to another, very strong for U.S. banks, Japanese and Western Europe, where the movement of capital is less restrictive.

Banking globalization never means abandoning what already exists and is directed towards the national domestic market, but it means gaining new momentum, and moving to provide banking services from the inside to outside, keeping the national position more effective and more capable and active to ensure banking extension and expansion (Hefny, A., & Abu-Qahf, A. 2000).

Effects of globalization on the banking management

Globalization of financial markets is a process of an unprecedented scale that has major consequences on financial banking management. Banks were among the institutions most affected by financial globalization. To cope with constant changes in the economic environment in particular financial liberalization and new technologies, banks were forced to adopt new strategies in banking management. The economic effects of globalization on the banking system may be positive or negative, and the task of those in charge of the management of the banking system is to maximize the positive effects and minimize the negative ones.

Deregulation and the increasing sophistication of financial products, services and processes have increased the complexity and the diversity of financial risks. Changes in financial and banking markets in the last two decades have resulted in significant changes in the risk profile of companies and financial institutions. The significant role of these changes in both economic growth and financial stability has made the financial risks' management more important than ever. At the same time these transformations represent the key function of modern financial and banking institutions with...
High level of competition, as a result of banking globalization, has led to the increase the number and dimensions of the risks banks are exposed to and are to undertake in their activity. The current economic context has obliged banks to take concepts such as risk and uncertainty being currently included in the structure of the decisional process. Insufficient knowledge of risks, their incorrect estimation or lack of protection against the effects directly affects the results of banks’ economic activities. These aspects have imposed the continuous renewal of the methods and techniques used to manage bank portfolios and the activity of bank entities, so that risks may be rigorously controlled in order to sustain competitiveness, and even banks’ existence on the market. A current trend in the banking management is moving from traditional risk management towards a global approach risk which takes into account over all risk.

Some of the main factors that determine changes in the management of banks is the systemic risk management. Banksshould notrun that kind of business where risks can’tbe identified and which cannot be achieved effective control over them.

Due to the complexity of risks and high volume of daily operations is necessary to implementa system of internal control. Therefore, banks are forced to hold their own internal models and risk assessment tools so that there is a clear distinction between operational activities and control activities and risk management. Banks have contributed to significant progress in quantifying risks, the most important step is the development of models based on the concept of value at risk.

A major challenge in banking management is envisaging operations of banks which becomes subject to the problems of standardization and risk management. For the sake of reducing the costs of managing risks, there is a benefit from the high-technological banks or new technologies. The models created are based on decisions and risk management systems such as scoring and expert systems. Scoring is subjective, but financial institutions that provide loans to individuals and dictate the conditions for the risk associated with such transactions to be maintained.

In recent years, there has been a significant reduction of global barriers through competition. Software development, telecommunication and financial technology made that banks face many challenges especially with increased competition and risk management in the market share, context in which the ways of doing business are required. Such fierce competition and the reality of recession led to the need to find effective ways to reduce costs. This in turn is due to the so-called ‘downsizing’ and collaboration with third parties for specific services.

Future trends in the banking management

The world banking system has gone through many transformations in the last several decades. It is difficult to predict the exact trend that will have in future the banking management but we can speculate that the two directions would leave their mark on future developments:

- one focused on changes in financial services in general and in particular, and those specific regulations;
- second, this is more about financial services, especially foreign ones, in which banks must operate.

Assume that the future of banking and financial services industry will change significantly. These changes relate to:

- reduction of the number and type of financial institutions and banks;
- removing geographical barriers and legislative affairs;
- conducting mergers and acquisitions, favoring the banking concentration;
- environmental changes will affect banks’ financial management in many ways, the most important are:
- bank managers must have a cautious approach to risks using several means, the most significant of which is strengthening capital, the new regulations proposed by the Basel Committee for capital adequacy is expected to be the cornerstone of international banking process;
- risk management in banks will be permanently monitored and controlled through the systematic analysis of quantity and quality of managers;
bank management will be focused on making decisions regarding continuous adjustment for future cash flows generated by the operations of the bank.

Banks will manage heritage mainly using market values, or estimating the present value of future cash flow. Under the impact of globalization, there will be the emergence of new and powerful banking and financial institutions that will compete with large banks today: products and services, of market segments and customers. In this context, the global regulations provided by prudential supervisory institutions will focus on risk capital, liquidity risk and that of foreign assets.

Conclusion

The paper highlights the impact of globalization on the banking system and several significant changes that have taken place in modern banking. Banks are undoubtedly some of the actors most affected by financial globalization. The world banking system has gone through many transformations in the last several decades. There have been dramatic regulatory, considerable changes in banking technologies, the liberalization and the globalization of the financial market, the increased competition. The deepening struggle for growth of the market share created new opportunities and challenges for international banking institutions. These specific changes have required continuous renewal of methods and techniques used in banking management, in order to control the risks. It is difficult to predict the exact trend that will have in future the banking management but the bank managers must be prepared to cope with continuous change in this area.

References

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