

CONTEMPORARY BANKING SYSTEMS: THE CHALLENGES OF GLOBALIZATION

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Abstract:

The specific nature of banking activities and its role for the economy of a country preserve a special way of organizing, being also the most regulated field. The regulation is given in each country by the national banking law, which is meant to create conditions for normal competition between credit institutions. For EU member states the legislative framework is given by the European directives transposed into national regulations. In an economy, banks (credit institutions in general) have a double role: the financial intermediation in saving-investing relationship, a decisive relationship for economic growth. In other words, banks attract resources and place them in the economy mainly by distributing credits; - Banks are the transmission mechanisms of monetary policy whose effectiveness depends on the state of health of the banking system and of the entire economy.

Key words: *contemporary banking systems, interbanking relations, concentration, universalization*

Clasificare JEL : *G 10, G 22*

1. Introduction

The national banking system is made up of all financial and credit institutions operating in a country. Also, all national systems make up the international banking system. The main functions of the banking system are: - the sale and purchase of foreign currency and other foreign exchange and precious metals; -the payment of payment and credit instruments and the execution of transactions with such instruments; -conducting transactions between client accounts and transferring amounts into accounts opened with other banks; - granting credits on certain terms; - Training the available cash resources of customers through their open accounts. The Bank is an institution that mobilizes available funds, finances and credits individuals and legal entities, organizes and performs settlements and payments within the national economy and in relations with other states in order to achieve profit.

The banking system has many main functions, one of them being that to ensure the circulation of the financial resources in the national economy and generally in the society. This function has two more important aspects which may be outlined in the dependency on the currency function. Thus, if money is used as commodity, then the bank may be seen as an institution of the financial system, institution accumulating the economies of some economic agents and granting them as loan on their behalf to other economic agents, meeting those principles of subsequent reimbursement, payment of interest, due date, etc. But if the currency has the quality of means of circulation and means of payment, in the first case and in the other case the bank assumes the role of intermediary in the circulation of the financial resources: in the first case – intermediary from creditor to debtor, and in the second case – intermediary from payer to beneficiary) and for this reason, in the Occidental economic literature, at the macroeconomic level, the bank is examined as a financial intermediary.

2. Particularities of the contemporary banking systems

In the literature, three categories of financial intermediaries are distinguished: the banking system, which consists of financial bodies with a main function of creating money; specialized financial bodies and insurance companies, which include financial institutions that do not have the main function of creating money; treasury, that is, the state involved in its monetary and financial activities, in the triple quality of creditor, debtor and financial intermediary. Although financial intermediation is of real importance for the constitution, increase of volume and qualitative

improvement of funding resources, it pays off these resources, multiplies intermediaries and may delay financing. The direct financing of economic agents through the bond and deposit facility mechanisms occupies fairly high levels in developed countries. Nevertheless, the contribution of banks and other financial intermediaries to the financing of economic agents, despite some disintermediation tendencies, remains fairly high, accounting for 60-70% of the total.

During the last years the banking activity also suffered ample and important transformations caused by the action of a series of factors out of which we mention the following[4]:

- The evolutions of the contemporary economy
- The mutations in the behaviour of those benefiting from the banks services
- The current and perspective policies exercised by the governments over the banking sector, by legislative measures and by common levers of the monetary and commercial policies
- The modern technologies (in the informatics and telecommunications domain) transforming from interior the banking system.

The interaction of these factors makes that the contemporary banking systems to receive some particularities featuring their current activity:

1. The significant **change** of the assets structure of all banks during the last years. This consists of:
 - ✓ Decrease of cash percentage and interbanking relations up to a percentage between 7% and 10%
 - ✓ Increase of engagements on credits granted to the economy with percentages up to 65% of total assets
 - ✓ Decrease of banking engagement in holding placement securities.

An increase of the active operations of placements in credits takes place, based on the liquidity curtailment, by holding cash and deposits, aiming the increase of the profit.

With respect to the structure of bank liabilities we notice an increase of term and savings deposits to the detriment of the demand deposits, this following the reorientation of the bank customers to some deposits ensuring a higher remuneration. At the same time, banks are orientated towards the increase of interbanking engagements ensuring about 60% of the resources and the decrease of the resources from deposits.

2. The **amplification** of the power of the big banks, in close correlation with the intensification of the internationalization and unequal development of banks by nations.

Following a natural process of concentration of the money capitals, an intensification of the power of the big banks is manifested, both internally and internationally. This phenomenon is also caused by the fact that, their fight for competition becoming sharper, the big banks which have extensive networks of branches and agencies, have considerable advantages compared to the small and medium banks, in terms of the possibilities of attracting deposits and making investments, in conditions of high profitability. Growing credit demands of more and more developed companies can only be met by growing banks or banking syndication. Thus, at the level of each country, as an expression of the banking concentration, a small number of banks carry out the vast majority of operations.

As regards the tendency of concentration, this is evident in developed countries with a great tradition in the banking sphere, such as England, USA, France, Germany, but it is also becoming increasingly strong in the countries of the Central and Eastern- European area.

Concerning the concentration of banks, this is done through mergers and takeovers, but also through bankruptcies and liquidations of smaller banks. For example, in England, 5 large banks together hold over 90% of commercial banks' deposits, and in the USA, 10 large banks hold 30.8% of the total assets of the approximately 12,000 banks. Internationally, banking concentration is also strong. The Japanese and French banks are experiencing large increases, especially Japanese ones, with rhythms of outstanding growth. Japanese banks became the strongest international banks in the 1980s. This is evidenced by the fact that in 1964, out of the top 20 global banks, 9 were American and only one was Japanese, in 1990 the Japanese had 12 big banks in the top 20 banks, 6 occupying

the first positions and the Americans no longer they had none in the top. In the 1990s, the situation changed, with USA banks returning on first positions.

3. The **universalization** of the commercial banks, gradually replacing the banking operations specialization. If the banking specialization predominated during the nineteenth century, gradually, and more pronouncedly in recent years, the trend has changed, becoming the dominant tendency to universalize banking operations. The specialization does not disappear and there are still specialized banks, but more and more banks are switching from specialized operations to multiple operations, mid-term and long-term lending of investments, industry, issuing and buying shares, competing with saving houses to attract the population, is involved in consumer credit. There is a rationale for the universalization of banking operations, namely the more efficient use of modern personnel and equipment, the increase of attracted resources and placements, the reduction of expenses and the increase of revenues on this basis and of profits.
4. **de-privatization** and **liberalization** of banks. The state intervened strongly in the banking system after World War I and up to 10-15 years, through nationalization of banks and the exercise of state control over banking operations, but the trend has reversed in recent years. As far as the big banks are concerned, they have begun to be reprivatized, and as far as the banking activity is concerned, it has the effect of liberalizing its activity, making its deregulation more and more difficult.
5. **enhance the modernization of banking techniques and information**, focusing on two directions:
 - assimilation and introduction of the most modern banking products and tools in the banking technique itself, such as: types of deposits, credit categories, payment methods and instruments and account statement;
 - the acquisition of the most efficient IT and telecommunication equipment so as to support all banking operations (account highlights, electronic banking, credit granting, repayments, transfers, foreign exchange, internet banking, telebanking etc.).

Banks are the most computerized sectors in developed countries, as they allocate a significant share of resources to the acquisition of more and better computer systems. Banking information systems have increased the productivity, safety and efficiency of banking services at an unprecedented rate. Major structural changes occur in banks' activity as a result of automatic processing of bank information, electronic money transfer system, banking telecommunication. It is estimated that the bank of the future is the one without a counter, the bank at home, where the operations can be done by telex, fax, telephone, directly from the user's home. Such development simplifies operations, reduces costs, increases efficiency and profit, but increases the risk of fraud and alienation of the client.

3. Contemporary banking systems

In the United States and other developed countries, during the last 20 years and especially in the 1990s, a real "financial revolution" is underway, based on the extraordinary innovation and diversification of financial instruments and investment services. Throughout the world, traditional bank activity - receiving deposits and lending - is declining as an expression of the "disintermediation" process. On the one hand, the population is moving more towards mutual funds and including money, and on the other hand it is cheaper for large companies to mobilize capital market resources than from banks as a result of the spread of information technology and advances in financial theory. Under such conditions, around half of US households place savings in the capital market, both directly and through mutual funds, in addition to their contributions to pension funds and insurance companies, which, to a large extent, capitalize on the same perimeter.

For example, in the United States, the structure of financial activities has experienced a dramatic developments. As a weight, commercial banks have fallen from almost 40% in 1970 to just over 20% in 1999. Over the same period, the share of pension funds has increased from about 15% to about 30%, and mutual funds to 5% (in 1955) to over 20%. In the United States, investors have managed funds that exceed the value of gross domestic product twice and the value of assets

in the commercial banks system three times. Corporations also provide the necessary capital resources both through self-financing and by using equity and bond issues. The US financial system is a *market-based* system based on the capital market, while the *European and Japanese systems* are still *bank-based*, ie based on banks.

Banking specialists have long debated the advantages and disadvantages of *bank-based* financial systems versus *market-based* ones. In the first category, like in Germany and Japan, banks play a major role in mobilizing savings, capital allocation, overseeing corporate investment decisions, and delivering products for risk management. In the second category, such as the UK and the United States of America, the capital market facilitates the transfer of company savings to companies alongside the banking system.

A high number of European countries have a relatively high level of banking concentration, remarkable in Austria, Belgium, Finland, the Netherlands and Switzerland. This situation is not comparable to that in Germany, France, Italy, Spain, Luxembourg, as well as in Japan and the USA, where the internal concentration is more limited or does not have the same effects.

One of the possibilities to quantify bank concentration is the entry of foreign banks.

As a rule, the penetration of foreign banks appears to be lower in industrialized countries.

Austria, France, Germany, the United Kingdom, Hong Kong, Japan, the Netherlands and Switzerland have active banking systems, while Argentina, Colombia, Costa Rica, Ghana, Nepal, Nigeria, Peru, Turkey and Zimbabwe have underdeveloped banking systems inactive. Countries like Switzerland, Korea, the Netherlands, South Africa, Sweden and the United States have a highly developed capital market. In the US, Sweden and Korea, the volume of credits to the private sector by non-bank financial intermediaries is higher than that of loans granted by the banking system.

According to “The Banker” magazine, in September 2005 the first 1000 banks came from 79 countries: 543 banks belong to the US and 240 EU countries. The significant number of US and German banks reflect the historical and strong fragmentation of the financial markets in these countries.

In the rest of Europe, in the top 10 banks, depending on the level of equity, is Russia with 6 banks, Hungary, Norway, Turkey and Switzerland with one bank. Banks in Russia also recorded the most significant growth rates as a result of the regulations adopted after the crisis of the late 1990s.

Banks in Srilanka, Vietnam, India, Kazakhstan, South Korea and Australia hold the first position on the equity size criterion, but the most significant increase in profits was recorded in Bangladesh (Janata Bank).

As far as Latin America is concerned, it is due to the good position of the banks in Colombia and Argentina, the latter with two banks that have registered profit growth rates of over 310%. A new region with a high potential for banking activity is South East Europe.

In the top 50 banks in South-eastern Europe, Greece and Turkey rank first. The total capital of the top 50 banks is \$ 23.977 million, slightly lower than the Japanese financial group *Mitsubishi Tokyo*. Of the total capital, 9 banks in Greece hold 49.4%, while the banks in Turkey account for only 36%. Banks in Cyprus accounted for 7.2%, the top 7 banks in Romania 4.7%, and banks in Bulgaria, 1.8%.

4. Trends within the banking systems

The main directions of action considered necessary in the banking reform process are¹:

- Reassessing the role of the central bank in the economy;
- Reconsider the regulations and the model of financial supervision;
- Changes in corporate behavior of banks and development of mutual banking institutions in the retail field;
- Increasing the education degree of retail clients in the financial sector.

In the conditions of modern economies, in the activity of the banks there have been several significant mutations such as:

¹ Căpraru, B., Sistemele bancare, între trecut și viitor, <http://oeconomica.org.ro>

- enhancing the strength of large banks linked to the intensification of the internationalization and uneven development of banks on the nations;
- the gradual substitution of the specialization of banking operations with their universalization;
- registering sensitive transformations in the relationship between the state and private banks;
- emphasizing the modernization of banking technology and technologies.

5. Conclusions

Contemporary society knows two types of banking systems as they integrate and serve the market economy or the centrally planned economy. Thus banks essentially meet the same role in economic life, consisting of:

- attracting available capital and lending to entrepreneurs. Holders of loan capitals usually do not give loans directly to those who need it, but they place themselves bank deposits as deposits. Banks, by mobilizing their funds, become intermediaries between borrowers and those in need of such capital;
- mobilizing a significant part of the money income and savings of different categories of population and their transformation into loan capital. Without the existence of savings houses, a banks and the financial system, these resources could not be transformed into capital and would remain unused, as a passive currency;
- issuance of credit and bank notes. Banks grant credits not only from the amounts attracted from out in the form of deposits, but also by issuing own commitments. This improves quality claims and commitments in the economy, the volume of payment instruments and credits is increasing;
- carry out financial transactions and provision of financial services for entrepreneurs and in state benefit.

As regards the structure of bank liabilities, there is an increase in term and savings deposits to the detriment of demand deposits, as a result of the reorientation of the bank's customers towards deposits that provide higher remuneration. At the same time, banks are targeting an increase in interbank commitments that provide around 60% of resources, and the decline in resources in deposits.

As regards the tendency of concentration, this is evident in developed countries with a great tradition in the banking sphere, such as England, USA, France, Germany, but it is also becoming increasingly strong in the countries of the Central and Eastern- European area.

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Reforming banking systems should focus on financial stability. In this context, a number of directions of action are needed, such as: reconsidering the role of the central bank in the economy; reconsideration of regulations and the financial supervision model; changes in corporate banking behavior and the development of mutual banking institutions in the retail field; increasing the education degree of retail clients in the financial field. Taking into account some specific Austrian school principles in the forthcoming reforms would ensure their success. These principles will contribute to disciplining and moralizing financial systems in the world's economies.

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