

Trends in banking and international banking system

[Finance](#), [Banking](#)



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Introduction

Over the years, the structure of the banking systems has been continuously and remarkably shifting world over. The number of market participants has risen markedly and the volume of the market activities handled has grown exponentially. The rapid changes taking place in the society pose a great challenge as the commercial banking systems need to embrace and keep pace with the wave of technological and global interaction which has a lot to say in terms of business operation methods. Political and social challenges have also been active in the changing face of the banking systems especially given the multiparty political system of the nonce. [Adams J. A. 1997]

These trends in the evolution of commercial banking will help us understand the significant transformations that have occurred, like increase in p and size of the banking activities, the type of banking organisations that carry out banking business and the rate at which some banking institutions have grown to become very large institutions. In addition, we are able to use the information obtained to forecast what the situation might be in the future. (Adams J. A. 1997)

This tremendous growth has taken effect over the last two to three decades. Occurrences of recessions aid much in helping transform the behaviour of the banking systems especially in America. This is because after a period of recession the process of recovery ensues slowly hence it forms an appropriate occasion to assess how the new instituted banking systems behaved during such periods.

It is also good to understand the effects these changes on policymaking and how the process of policymaking has influenced or triggered the trends. This article will strictly concentrate only on analysis of commercial banks within a period of past two to three decades. Our interest is drawn as to how the past and present trends may affect the future of banking. (Adams J. A. 1997)

Discussion

For the last two or three decades the face of banking has tremendously transformed in various areas which include:

- Lending activities
- Shareholding
- Competitive landscape
- Expansion capacity
- Level of participation in the market
- Proportion of total debts in relation to the respective bank assets held
- The level of real estate loans as compared to commercial and industrial loans
- Regulations imposed in the industry
- The number of banks in the market
- The location in the market among others

Technological and global interactions intermarried with political and social changes have had great impact on the operations of the banking systems. With the desire to keep braced with new developments and keep pace with new challenges there has had to be adjustments in the banking system. Various countries are faced with different economic, political, social,

demographic and general societal changes. If the changes happen to be the same they take place at different periods of time from country to country. Let us take a look at each of the above elements in relation to various countries over the past two to three decades. (Adams J. A. 1997)

Number of Banking Institutions and their Locations in the Market

The structure of banking has changed tremendously over the past thirty or so years with the transformation leading to a marked decline in the number of banking institutions in the industry. Let us look at US in relation to this. The graph below gives us a quick understanding of how the number of commercial banks in the U. S banking industry changed between 1984 and 2002.

From the graph we deduce that the number of banking institutions in the U. S has decreased significantly over the period under consideration. The number of thrift organisations at the beginning of 1984 was well above 15, 000 yet by the end of 2003 the figure is down lower than 8, 000.

Chart 2: Summary of Deposits Change by Banks in 2003 and 2004

The evolution of the banking industry structure has not shown uniformity over time. The rate at which the number of these banking institutions has been declining reveals a very strong recurring pattern, occurring at an escalating rate in the 1980s and then slowing down in the 1990s. However, the rate of decline drifted consistently lower than that during the preceding eight-year phase.

This as a fact implies that the impact of economic, regulatory and technological changes which have taken place shade light on the future of the commercial banking industry in relation to the U. S and even other parts of the globe, especially given that almost all nations of the world are affected by the same conditions due to globalisation. In addition to that, unit banks have slowly declined in numbers in the market since early seventies and have instead been replaced by institutions with branches. However, even such institutions with branches have also been trended downward along with the unit banks.

The Federal Deposit Insurance Corporation's projection based on the available historical data shows a downward trend in the growth of unit banks and banking institutions in the year 2013. The last two charts above provide a good summary of the data and projection. As the level of competition in the modern business world rises, the banking institutions are moving their branches further into the rural parts of the countries in order to maximise on customer coverage and market command.

Expansion capacity and Level of participation (competition) in the market

The structure of financial system in terms of expansion capacity and market participation has also undergone a notable shift in that the number of market participants has risen markedly with the volume of their market activities growing exponentially. As an example, the number of Thailand's quoted companies (Banking Institutions) in the Stock Exchange jumped to 295 in the early 1990s from 130 in the late 1980s and the mobilized capital funds by

these firms via issuance of securities more than tripled per annum in the same period, (Pakorn Vichyanond, September 1995).

By the same token, if they are standards enough to hang on, it means that there will be even overly increased number of banking institutions quoted on the stock exchanges especially given the post-modern era of e-Commerce where most business transactions take place over the net and also given the marked deregulation of the banking sectors in many economies. (Pakorn Vichyanond, September 1995).

The level of competition in the U. K commercial banking sector can be talked of as having had quite a long time of development. Trends in competition and efficiency of the banking in Hungary carried out between 1987 and 1991 showed that due to new entry into the Hungarian Commercial Banking, competition in the banking sector increased markedly. It further indicates that ccompetition has considerably strengthened in some areas of corporate banking. Such areas include those dealing with provision of working capital and tradefinance.

This competition level has been rising considerably between 4% and 14% every year. Building branch networks in the UK then faced a sharp challenge of high costs of building them and the fact that most new banks specialized in a narrow range of services. Therefore such banks create less intense competition thus they remain subdued in retail banking as the larger banks enjoy the goodwill of the old companies. Another important issue is that the small banking institutions cannot effectively compete with the large and well

established ones by offering complicated cash management and payment services.

This is due to the wide gap between the small banks and the established ones, which means there is little or no interbank trading between them. In addition the larger banks' charges were lower hence staging an unfair competition. Such effects for example resulted in most Hungarian banks being converted into joint-stock companies with substantial administrative autonomy, while state's participation and ownership in them has declined.

Lending activities and Proportion of total debts against bank assets held

Right now the market situation in the banking industry in terms of lending is rapidly changing and quite different from what it was a few decades ago. With competition increasing by the day, the developed countries are competing for the market abroad thus increasing their foreign lending since they are expanding their banking activities to these countries.

On the other hand, revision of credit policies has enabled banking institutions to cover a wider scope of activities rather than the obligated credit s which they previously had to allocate to agricultural sector in proportion to their total deposits. In fact the commercial banks' lending trends are expected to become less and less strict even as we head into the future. (Pakorn Vichyanond, September 1995).

The level of real estate loans as compared to commercial and industrial loans

A study carried out to investigate the shifting relations between banks and their business customers in Thailand after 1997 reveals a manifestation of declining bank loaning growth which is an aspect of three major driving constraints. These factors are: - cyclical factors, the outcome from the 1997 Asian crisis and structural factors. They affected both supply and demand for bank credit by either reducing or increasing supply and demand.

Up to 2001 there was a persistent decline in lending growth hence respective decline in profits which made banks to change their strategies, for example they diversified their customer base and scope of activities. Due to heavy debt loans, larger firms have opted for capital markets as an alternative source of funding.

Summary

Even though the banking industry across the globe does not have the same manner of operation, most bankers think about their corporate clients almost in the same terms. They will think of commercial banking where they cash management services, credit services, deposit services and foreign exchanges. Asset-based financing, commercial loans, savings account services and payroll services just fall in any the commercial banking services mentioned.

The bankers also think of clients in terms of investment banking which addresses issues like coverage of mergers, asset securitisation, corporate restructuring and underwriting among others. This therefore implies that changes in banking industry in one part of the globe will closely be related to another part.

Over the past three decades, the activities of investment banks have been in an increasing convergence with those of commercial banks. This is due to deregulation of the financial sector in many parts of the world. At present, a number of investment and commercial banking institutions have a stiff and direct competition in money market operations and other commercial banking services like advisory work and private placement.

In addition, the current banking industry has greatly diversified business, thus some banks are entering into portfolio management, underwriting of securities while at the same time entering into investments. This happens more so in the industrialised world but even the rest of the world is expected to follow suit given the impact of globalisation.

In conclusion we can say that, based on the above discussed statistics, the world banking sector has undergone great revolutionisation especially in order to cope with the changes that take place in the market. Changes are constant as development takes place hence the banking industry will keep changing to incorporate the benefits of these changes in their operations.

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