

THE FUTURE OF BANKING :

A GLOBAL SURVEY

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Introduction

The chill wind that blew across the global banking landscape in the late 1980s exposed an industry ill-prepared for hard times: too many players chasing too little business.

An official of the Bank for International Settlements has remarked recently: "From Norway to Australia and from Japan to the US, problems of adjustment to deregulation are widespread and for similar reasons what was not expected was the degree of difficulty institutions would have in a competitive environment and the cost of adjustment to financial deregulation. Big bang has at times led to big burst".

There was a time when banks could ride out a recession cushioned by reasonably comfortable margins on their core lending and deposit-taking activities. Not these days. The flood of competition unleashed by deregulation during the mid-1980s boom, combined with tighter capital restraints, has put paid to that. In this age of over-capacity, banks are beginning to learn what it means to work hard for a living.

The purpose of this paper is to carry out a global survey of the future of banking in a deregulated economic environment.

The Troubled Waters in Japanese Banking

In one sense Japan's big commercial (or city) banks had every-

thing going for them in 1991. Interest rates fell, bond prices rose and the spreads they made on their loans widened. Hence the 31.5% improvement in operating profits that they reported for the fiscal year ending on March 31st.

After spending the bubble-years obsessively chasing asset growth, Japanese banks are at last learning to go for profits instead. Their average spread - the difference between what they pay for money and what they charge on their loans - is now a healthy 240 basis points (hundredths of one percent). In the 1980s, the "profits" they recorded were mostly made by selling and then buying back their long-term shareholdings.

so raising their book value. In cash flow terms the banks made hardly any money at all.

The city banks have a long way to go before their belated return to rational banking makes up for past sins. They are now charging as much for loans as their customers will accept. The big falls in interest rates have already happened. And at the end of the present fiscal year in March 1993, the banks will have to start owning up in full to their rising bad debts. They were originally supposed to do so last year, but their encounter with reality was postponed when the bankers and their regulators realised the scale of the problem. By Japanese standards, even so, the

It is evident that there is a global dimension to the difficulties which banks around the world are experiencing. The industry seems to be particularly vulnerable in those countries where deregulation has been greatest, competitive pressures have intensified and credit growth has recently expanded at a sharp rate. The pressures of dynamic market forces in world banking, the products and services demanded by customers and the influence of technology, are all combining to change the face of traditional banking. What makes things more complicated is the state of world economy. A combination of cyclical downturns and structural deficiencies may darken the prospect for the near future. We must urgently try to safeguard the recovery of the real world economy through a functioning, flexible and solid financial system.

city banks increased their loan - loss reserves dramatically in 1991. Combined with losses on their securities holdings, this explains why city banks' net profits declined by a quarter in the 1991 fiscal year despite the improvement in operating profits. Loan write-offs rose from ¥8.1 billion (\$57m) to nearly ¥30 billion, equivalent to just over 0.01% of total city-bank loans of ¥270 trillion at March 31st. Mandatory loan-loss reserves were 0.3% of total loans; in addition, specific loan-loss provisions increased from ¥492 billion to ¥836 billion to allow for losses incurred in scams such as those involving forged certificates of deposit.

These provisions still leave the city banks woefully under-reserved against some ¥60 billion of doubtful debts spread through the banking system. Alicia Ogawa¹ has calculated the effect on banks of non-performing loans (ie. those that are six months or more overdue) account for 5% of total loans, a conservative estimate. On this assumption, existing loan - loss reserves cover less than 15% of the potential bad debt at five of the 11 city banks (see table 1).

loan-loss reserves. Ogawa has added these hidden profits as at March 31st (when the Nikkei was 19,345 compared to 17,964 on June 4th). Even then five banks have insufficient reserves if 5% of their loans become non-recoverable.

The impact on bank profits of carrying all these dud debts is another problem. A due to what that can mean comes from looking at what happened to the city banks' property loans last year. In almost every case, property loans rose by more than total loans. The slow overall loan growth is understandable - demand was weak and the banks were anxious to supply credit only to the best-capitalised borrowers. As for the property loans, it is suspected that their rise reflects forced lending to clients at below market rates by banks who prefer to bet on the markets eventual recovery than to write off their debts.

Sumitomo Bank seems to be an exception. It is cleverly seeking to expand its lending to medium-sized companies to take advantage of higher loan spreads and to boost its market share. One reason it can do

by nearly 8% in 1991, where as its reported property loans actually declined. The bank's strategy makes sense: corporate borrowers will remember which bank supported them when credit was tight.

For the next few years most of Japan's banks will devote their energies to working off their debt load. Ryuji Yasuda² reckons this will take a good five years - partly because he expects annual loan growth to be only 3-5%. He also thinks that the banks might overdo their retreat to conservatism and forget about the need to keep searching for profits. Banks now compete in a deregulated market where risks have to be taken in order to make money. Battered Japanese bankers sometimes have not realised this. After a time when they threw money at anybody, many have retreated to their vaults and locked the doors behind them.

Bad Days at U. S. Banks

Curious how quickly debt fatigue has set in over Olympia and York. There is now a dull edge to the troubles of the world's largest private landlord. It seems that banks in Britain, Canada and the United States will not come crashing down. But O & Y's problems have reminded bankers that they have not put their commercial property troubles as far behind them as they - or the stock market - like to think. Tanya Azarchs³ has reported the future of banking is gloomy. She thinks that it could take years for banks to recover. She says "the losses will have a long tail, reaching substantially higher levels than they have to date. Reserves are not yet adequate... the overhang of losses will continue to be a significant drain on industry earnings over the next few years".

Table 1

Troubled Banks in Japan, end - March 1992.

Bank	Loan-loss reserves as % of total loans	Hidden profits and Loan-loss reserves	Total loans, property loans % change on Year earlier	
DKB	0.73	4.56	0.84	8.20
Hokkaido	1.33	5.01	3.84	13.34
Takushoku				
Bank of Tokyo	1.44	4.21	2.26	11.36
Sakura	0.66	5.20	0.95	3.34
Mitsubishi	0.64	5.17	4.39	4.09
Fuji	1.10	4.06	2.65	5.57
Sumitomo	0.78	4.03	7.75	7.53
Daiwa	0.83	7.08	6.06	12.50
Sanwa	0.87	4.24	4.77	10.27
Tokai	1.08	5.66	2.26	5.79
Kyowa Saitama	0.72	5.30	2.12	-1.31

This is to look at the problem through western eyes, however. Japanese banks look at capital gains on long term shareholdings as their real

this is because it is better-capitalised than its rivals after issuing more shares than any of them during the bull market. Sumitomo's loans rose

For the benefit of investors recently lured into bank shares because profitability seemed to have crept back into the business, Azarchs

has looked at how well-placed America's big banks are to absorb property-loan losses. Because the property recession has rolled around the country at different times and because banks have different policies on when and how they provide against dud loans, it can be hard to compare one bank with another. Azarchs deals with this by performing two sets of calculations (see Table 2).

Tanya Azarchs notes that Arizona's banks, which were not part of the oil-patch slump, ended up carrying the same proportion of non-performing loans as Texas banks. New York banks are already approaching that point. So the worst-case Texas assumption may not be implausible. Banks whose reserve ratios could fall to less than 1% should be rebuilding reserves. Those whose capi-

The main problems for both banks seem to lay in the interest income line. Part of the shortfall was down to margin pressure, but the main cause of the income squeeze was a continuing decline in the balance sheet. Put simply, the banks are unable to find sufficient new lending opportunities of acceptable quality to offset the maturity of existing loans.

Between Lloyds and Midland, average interest-earning assets have fallen by £8.3bn since June 1991. Barclays and NatWest were certainly not immune to these trends, but both saw a smaller relative falls, which were partly alleviated by margin improvements.

Incidentally, this inability/unwillingness to expand the balance sheet is not all bad news for the banks. The implications for capital ratios are positive, particularly when retained profits are under pressure. Indeed, the banks' capital ratios are now very healthy by international standards and evaporation of concern over capital shortages was one of the more welcome features of the results. Nevertheless, pressure on net interest income must remain a concern. Because it is still the larger component of total income, the banks have to work doubly hard on non-interest income to offset any fall in interest income. The impact of tariff increases and the resilience of certain income streams (life assurance earnings; foreign exchange; capital markets) have all helped to maintain good levels of growth in other operating income in the first half 1992.

Table 2

Troubled Banks in America

Bank	Reserve Ratio* adjusted for gross property loss of:		Capital Ratio*	
	18%	25%	18%	25%
Bankers Trust	7.20	6.08	7.25	6.96
Bank of Boston	3.22	1.24	7.34	5.86
Fleet Norstar Financial	2.30	0.92	7.64	6.82
Security Pacific	2.16	0.53	6.20	4.95
First Chicago	1.68	0.40	6.95	8.28
Nations Bank	1.19	-0.95	6.31	5.55
PNC Financial	1.13	-0.29	7.98	7.17
Citicorp	0.77	0.08	4.91	4.43
Continental	0.65	-0.60	6.67	5.95
Chemical Banking**	0.59	-0.59	5.47	4.74
Chase Manhattan	0.40	-0.70	5.70	4.94
Bank America	0.36	-0.62	7.25	6.52
Banc One	-0.53	-1.29	7.75	7.25
Wachovia	-1.38	-2.78	6.61	5.74
Wells Fargo	-2.47	-4.86	4.01	2.10

* at the end of 1991 ** excluding Texas Commerce Bankshares
Source: Standard and Poor's.

The first set makes the same assumption that S & P has already factored into its credit ratings: banks have to make provisions against 18% of their property loans. The second assumes that things could get as bad for the banks as they did in Texas which was first into the property slump, and where banks eventually had to provide against 25% of their property loans.

tal ratios could fall to less than 5% would have to dip into earnings for at least a couple of years to cover their losses.

Operating profit actually declined despite draconian attention to the control of costs. This was not generally expected, particularly after the sharp rises in operating profit in 1991.

Table 3

Performance of Major UK Banks

	Abbey National		Barclays		Lloyds		Midland		Natwest	
	1992	1991	1992	1991	1992	1991	1992	1991	1992	1991
6 Months to June 30										
Operating profit £m	408	366	1,174	1,013	697	721	431	480	1,092	984
Provisions £m	138	58	1,072	799	419	429	346	504	864	955
Pre-tax profit £	270	308	51	378	369	331	89	-71	211	101
Net dividend (pence)	3.8	3.5	9.15	9.15	5.9	5.4	n/a	1.7	6.125	6.125

Source: Banking World, September 1992, P.8

In certain cases, notably Barclays which only increased its tariffs on June 1, further benefits are still to come through. However, many areas of non-interest income are volume sensitive and therefore the banks' task will be harder the longer recession continues.

Consequently, the control of costs remains of paramount importance. All of the banks turned in impressive on costs in the interim results, with static levels of absolute costs from Barclays and NatWest and cost declines of 7 percent at Midland. Excluding Abbey National, whose figures were influenced by the inclusion of Scottish Mutual, Staff numbers fell by a further 7,300 in the first half and there is no expectation of any material let-up in this rate of decline. In addition, pay settlements were all concluded within the rate of inflation, another feature likely to be enduring. All elements of discretionary spending came under close scrutiny and, in most cases, the level of miscellaneous expenses was below both the first and second halves of 1991. The sustainability of these improvements has yet to be established - some of the reductions are undoubtedly permanent, although other items, such as advertising spend, will inevitably tick up again as and when conditions warrant it.

Meanwhile, the gloom on bad debts has continued, with very little sign of abating, at least as far as the UK is concerned. Domestic provisions reported by the five banks rose to £2.6bn, a rise of 22 percent on the same period in 1991, although this represented an increase of only 5 percent on the second half. The cumulative increase related almost exclusively to Barclays and Abbey National, with NatWest, Lloyds and Midland all experiencing some improvement relative to the latter part of last year.

The main feature which, as expected, distinguished Barclays from

the rest of the pack, was the lumpiness of its provisions profile. Five single accounts, likely to encompass all of the high profile problem situations with which the group has been linked, recession and to cope profitably in a low growth/low inflation environment. The survey made under this heading is summarised in table 3.

Scandinavian Banking: The Crisis and The Lessons

The banking systems in Norway, Finland and Sweden, are facing their worst crisis since the 1920s. Finland and Norway are described as "banking graveyards". Each is an instructive case study on the impact of deregulation and increased competition in banking. The following report is summarised from the article of Professor David Llewellyn⁵ on Scandinavian Banking.

no less than £200m of the entire half year charge. As well as this, there seems to have been a general increase in the size of individual problems, which had been expected, but did materialise to the same extent as the other banks.

Abbey's provisions reflected the continuing problems in the housing market, although the impact on profits remains modest compared with the other banks. Interestingly, the personal sector was the one area singled out by most of the banks because of its improvement. Unfortunately, this has not yet translated into any revival in consumer confidence, while there was no sign of improvement for the small or medium business sectors. Until any firm signs recovery are, apparent, the banks will continue to feel the heat on bad debts and the pressure on the income line will not abate

Table 4
Profits of Swedish Banks (1985 - 1991)

SKr billion	1985	1986	1987	1988	1989	1990	1991
Operating Income	24.7	31.8	33.9	40.0	44.3	52.0	54.9
Expenses	14.9	17.2	20.2	22.5	25.2	29.4	31.7
Operating Profit	9.8	14.6	13.7	17.4	19.0	22.6	23.2
Credit losses	1.7	2.8	2.5	2.2	3.0	11.0	32.8
Pre-tax Profits	8.1	11.8	11.2	15.2	16.0	11.6	-9.4

Source : National Central Bank.

In Norway as much as 70 percent of the banking system is effectively in the hands of the State, after rescue operations to avoid a total collapse of the system. The second and third largest banks (Christiania and Fokus) had their entire share capital wiped out. The country's largest bank (Den norske) was rescued from insolvency by a state - sponsored recapitalisation.

In November of 1991 and April of 1992, the Swedish government had to rescue two big banks (Nordbanken and Forsta Spars-banken) at a cost of \$5bn. In June 1992 represented

until loan demand (of sufficient quality) resurfaces.

Nevertheless, the irony of the current economic climate is that it has forced upon the banks a fundamental rethink of their cost bases and product pricing. Their actions may not have proved too popular with either customers or staff, but they have left the banks infinitely better placed to tough out the rest of the two of Sweden's largest banks (Svenska Handelsbank and Gota Bank) reported results that were even worse than in 1991 when they had incurred massive losses. Only one

bank in Sweden is currently profitable. The losses in 1991 necessitated huge capital injections, some of which had come from the government (in the case of Nordbanken, for instance). Last year the government had to extend loans and guarantees for some banks to prevent a major banking crisis.

In Finland, loan-losses tripled in 1991 and there was an overall loss for the banking system. In Denmark the position is clearly less acute and, after big losses in 1990, the banks overall just about broke even in 1991.

The Central theme of Professor Llewellyn's paper is that the sharp deterioration in the financial performance of banks in Scandinavia is due to a combination of cyclical and structural factors. He observed that there is a remarkable parallel between banking developments in all the three badly hit Scandinavian countries. In each, the industry was substantially deregulated in the 1980s, which greatly intensified competitive pressures. This induced a substantial growth of banking lending in a short period. For instance, in Sweden all credit restraints

were lifted in 1985 and, as a result, bank advances to the non-bank public rose by 92 per cent between 1987 and 1991. Meanwhile, outstanding loans by mortgage institutions expanded from Skr 541bn to Skr 1,020bn.

Banks lowered credit rationing and raised risk thresholds, while lending margins were squeezed. Bank profitability at first rose due to the expansion but later deteriorated sharply because of massive provisions being made for bad debt in 1990 and 1991. As a result, bank capital has been seriously impaired.

The magnitude of the deterioration in the bank's performance is shown in the tables. Table 4 shows that, although operating profits of Swedish banks have risen steadily since 1985, the position after allowing for loan losses has deteriorated sharply since 1989 when this figure started rising significantly. In 1991 the banks made an aggregate loss of more than Skr 9 bn. The worsened position was associated with declining operating profits, not bad loans. Table 5 shows the serious position of banks in Finland and Norway and, again, the problem fo-

cuses on bad loans. Table 6 gives a perspective on the magnitude of credit losses in the four Scandinavian countries.

Scandinavian countries represent a case study of the impact of deregulation and competition in banking and the banks' responses to the new market environment. After a period of initial substantial balance-sheet growth, the financial performance of banks deteriorated sharply (Tables 4-6). Risks had demonstrably increased. It is therefore instructive to consider why risks rose.

In general (and this applies in all countries), the risk profile of banks' balance sheet positions may rise for one of five reasons:

(i) Banks choose to take more risks by changing their behaviour (for example, by reducing credit rationing behaviour as part of their competitive strategy; by attempting to recoup profits eroded by competition through shifting to higher-margin business; by adopting an asset-growth objective).

(ii) The same behaviour may become more risky because of sys-

Table 5

	Results for Commercial Banks in Scandinavian Countries											
	Denmark (DKro billion)			Finland (Fmk billion)			Norway (Nkr billion)			Sweden (Skr billion)		
	1990	1991	Change %	1990	1991	Change %	1990	1991	Change %	1990	1991	Change %
Interest (net)	20.50	22.16	8	10.45	9.45	-10.00	10.27	9.71	-5	29.49	30.82	5
Other receipts	3.58	8.94	150	6.51	6.01	-8.00	4.60	3.63	-21	11.18	12.64	13
Total receipts	24.09	31.10	29	16.96	15.46	-9.00	14.87	13.34	-10	40.67	43.46	7
Staff Expense	10.47	11.78	12	5.74	5.58	-3.00	5.05	4.83	-4	10.36	11.27	9
Other Expense	7.31	8.82	21	8.31	8.97	8.00	6.65	8.47	27	12.05	12.67	5
Total Expense	17.78	20.60	16	14.05	14.55	4.00	11.69	13.30	15	22.41	23.09	7
Result before												
Credit losses	6.30	10.50	67	2.91	0.91	-68	3.18	0.04	-99	19.66	19.52	-1
Credit losses	9.30	10.40	12	1.90	6.08	220	8.03	15.48	93	8.11	23.30	187
Result after												
Credit losses ¹	-3.00	0.10	-	1.01	-5.17	-	-4.85	-15.44	-	10.16	-3.81	-

1. Before non-operating items, allocations and tax.
Sources : National Central Banks

temic changes in the banking industry that may emerge in a less regulated and more competitive environment. Examples of this would include borrowers taking loans from several banks while concealing this from each lender; all banks simultaneously expanding substantially; an erosion of "relationship-banking"; the "fallacy of composition" (behaviour viable for a single firm acting alone being less viable when all firms behave in the same way); borrowers raising debt ratios and so on.

(iii) Risks may rise either because more risky projects are put to banks, or because the economy itself has become unexpectedly more risky which in turn increases the risk of bank portfolios.

(iv) Banks change their behaviour (for example, they diversify) in the mistaken belief that the new areas are not more risky than current business.

(v) In the process of asset-growth, banks may develop a high-risk, concentrated portfolio by an excessive concentration of new loans in a particular sector of the economy. Individual loans to the same sector may appear to have the same risk characteristics (and hence the banks are unable to discriminate between them) but the overall portfolio becomes more risky because it is excessively concentrated.

In each of the countries of the case study the financial performance of banks has deteriorated very sharply in the past few years. This has been associated with cyclical and structural factors. The former relates to the inevitable impact of the economic recession, and is compounded by the unprecedented decline in property prices which in turn reflects a correction to over inflated levels created by the previous sharp rise in bank lending to this sector of the economy. However, the normal

Table 6
Credit Losses as % of Loan stock in Scandinavian Countries

Country	1989	1990	1991
Denmark	1.3	2.3	2.5
Finland	0.5 ¹	0.6 ¹	1.8 ²
Norway	2.1	2.6	5.2
Sweden	0.3	1.1	3.3 ³

1. Declared losses only.
2. Anticipated and declared losses.
3. On a group basis the losses are equivalent to 2.5 per cent of the loan stock.

Sources : National Central Banks.

Table 7
Average Liquidity Ratios of Nigerian Commercial and Merchant Banks By Period of Time.

Period	Commercial Banks' Average Liquidity Ratios	Merchant Banks' Average Liquidity Ratios	Overall Average
1970 - 75	71.2	-	35.6
1976 - 80	40.4	-	20.2
1981 - 85	52.4	69.6	61.0
1986 - 90	57.1	35.4	46.3
1991 - 2000	45.3	18.8	32.1
(Forecast)			

Source : Central Bank of Nigeria Statistical Bulletin, several issues.

cyclical impact has been aggravated in the current downturn by the structural impact of deregulation and increased competition. Loan demand is now very weak in each of the countries, the economies show no evident sign of an immediate or powerful revival, real-estate losses remain substantial, and the financial position of the household sector could become precarious as unemployment rises.

What remains to be determined in each of the countries is whether the current precarious position is transitory in nature (associated with the once-for-all shock of deregulation and increased competition) and whether, once the impact of the "stock - adjustment" effect has been unwound, banks will learn from past mistakes; or whether a deregulated and highly-competitive banking system is inherently unstable and precarious.

The Woes of Distressed Banks in Nigeria: A Developing Country Experience

The Nigerian banking skyline seems to approach a precipice. That is to put it mildly. The gloomy clouds hovering over Nigerian banks numbering six scores and over gathers momentum; the sordid hand writing on the wall is too real to ignore. In order to avert a repeat of the banking boom era in the 1950s, the Federal Government through the Central Bank of Nigeria (CBN) has put a number of instruments and institutions in place to protect this very important sector from collapse. These include the setting up of the Nigerian Deposit Insurance Company (NDIC), discount houses and the introduction of CBN prudential guidelines.

Recently the NDIC came to town with chilly news and concrete data heralding the imminent demise of 26

embattled nigerian banks: twenty-three state government owned commercial banks and three private Commercial Banks. Source of ailment, high-handed, arbitrary and laissez-faire management of bank facilities.

Statistics in table 7 show declining liquidity position for most commercial and merchant banks since 1986. Table 8 reveals that most of the distressed banks are privately-owned merchant banks (38 per cent), followed by privately-owned commercial banks (27 per cent) and then state government-owned commercial banks (21 per cent). It is not very likely the liquidity position of banks will improve in the near future.

Survival at times like this is not an easy task for bank strategic planners. Bankers need constantly to review their strategies to cope with present challenges. The bank's personnel strategy should aim at recruiting and placing a workforce that is intelligent, aggressive, innovative and dynamic.

Clearly, the Nigerian banking industry is in transition. Numerous forces are driving the change, exerting pressures for better expense management, forcing a new emphasis on profitability, productivity per employee and return on equity. There is also a growing appeal of profit-minded organisational structures in the market place. For the more entrepreneurial financial institutions, the emphasis will be on keeping abreast of developments in their chosen market segment so that they can continue to be as aggressive as possible in their provision of financial services.

In the wake of intense competition, banks would definitely need to engineer creative ways of positioning their portfolios with a view to minimizing the impact regulatory attacks. To operate effectively within the changing financial services environment, bank portfolio must be flexibly

Table 8

Number of Distressed Banks in Nigeria by Ownership Category in 1991.			
<i>Ownership Category</i>	<i>No. of Banks</i>	<i>Percentage</i>	<i>No. Distressed Total</i>
State Government - Owned Commercial Banks	25	21	7 ¹
Federal Government - Owned Commercial Banks	8	7	-
Privately owned Commercial Banks	32	27	1
Federal / State Governments Owned Merchant Banks	8	7	-
Privately owned Merchant Banks	46	38	-
TOTAL	119	110	8

1. One bank in this category is 20 per cent owned by a State Government.
Source : Nigerian Deposit Insurance Corporation (NDIC) 1991 Annual Report.

Table 9

Liquidity Positions of Selected Insured Banks in Nigeria As at 31st December, 1991.		
<i>Group</i>	<i>No. of Banks</i>	<i>Number of Banks Having Liquidity Ratio of Less than 30 percent</i>
Commercial Banks	64	10 (15.6%)
Merchant Banks	52	10 (19.2%)
Total	116	20 (17.2%)
Distressed Banks	8	3 (37.5%)

Source : Bank Returns, NDIC.

structured to afford greater latitude in managing externally-induced market and regulatory constraints. There is no doubt that the high performance banks of the century will be built on revenue maximization, expense control and consistently good management.

Conclusion

It is perhaps unnecessary to state that creating the bank of the

future is a continuous process. We will never arrive at a point where we can stop developing, where we can say that no further change is necessary. It is also true that many elements of the bank of the future or at least the foreseeable future - can be identified and are already present or beginning to emerge.

The pressures of dynamic market forces in world banking, the products and service demanded by cus-

tomers, and the influence of technology, are all combining to change the face of traditional banking. The range of activities undertaken by banks, sources of profit and their relative importance, distribution channels and the primacy of branches, levels of service and cost structures, are being fundamentally re-appraised and shape the bank of the future.

However, diversification should be undertaken only after careful consideration. Specialisation, either by geographical area or by sector, will be the trend of the 1990s, just as globalisation and the universal bank were of the 1980s.

Of greater importance is the point that progressive bank planning must pay special attention to strengthening the capital base. The tightening up of capital adequacy requirements by the supervisory

authorities is one reason why earnings have once again become the most important criterion for business policy decisions and success. The costs of bank organisation, the range of bank services, the branch network, merger possibilities - all are being seen increasingly from the point of view of that scarce item, capital.

Regrettably, the scarcity of capital has a very different impact from one country to another and among different groups of banks. In Germany, for example, the *landesbanken* (regional banks) can draw on governments for the necessary infusion of funds without having to have a record of achieving yields that are - for private banks an indispensable precondition to mobilise capital. In France, packages of shares were exchanged with other public-sector companies. The Italian banks were helped by an amendment to the law, and even the banks in Japan are being helped with their problems through special state assistance.

Insofar as capital is becoming the key factor in the future of the banks, we regard equality of treatment on the procurement of capital as essential. Altogether, we regard the interplay of state intervention and market discipline as being of fundamental significance for the future. An excessively active role by the supervisory authorities may lull market participants into a false sense of security and induce them to take more risks. Nor, as we know from experience, does trusting in market discipline alone yield satisfactory results.

The structural changes on the international bank markets are taking place in a difficult environment. For one thing, the pace at which disturbances are transmitted has increased. That banks and other financial intermediaries are basically up to this task was well illustrated

by the recycling of oil funds - despite some hiccups - following the oil crisis in the 1970s. Since then, de-regulation, globalisation and a wave of financial innovations have further increased the efficiency of the global financial system.

What makes things more complicated is the state of the world economy. Apart from some positive growth in East Asia and, to a certain extent, in Latin America, the world economy is in a difficult situation. A combination of cyclical downturns and structural deficiencies may darken the prospect for the near future. The task that lies ahead of us is twofold. First, we must try to safeguard the recovery of the real world economy through a functioning, flexible and solid financial system. Second, there is an urgent need to help prevent the world economy from falling back to isolation and beggary-neighbour policies, which would be in nobody's interest.

Notes

1. Alicia Ogawa is a financial analyst at S. G. Warburg this report was published in *The Economist* (June 6th - 12th 1992) p. 102 under the heading 'Japanese Banks: Shell-shocked.'
2. Ryuji Yasuda is a financial-services specialist at McKinsey's. This report was published in *The Economist* (June 6th - 12th 1992).
3. Tanya Azarchs is a bank - watcher at Standard and Poor's, a rating agency.
4. Alison Deuchars is a banking analyst at Smith New Court. The report was published in *Banking World*, September 1992 under the heading 'UK Clearing Bank Interim Results-Toughing out' p.8.
5. David Llewellyn is Professor of Money and Banking, Loughborough University Banking Centre. The article titled 'Scandinavian Banking: The crisis and the Lessons' was published in *Banking World*, October, pp. 20-23.

Table 10

Maximum Coverage Per Depositor In Case of Bank Failure (In U. S. Dollar Value)	
<i>Country</i>	<i>U. S. Dollar Value</i>
Argentina	8,416
Austria	13,100
Belgium	8,421
Brazil	16,500
Canada	43,181
Chile	5,061
Colombia	668
France	44,518
India	3,815
Japan	59,340
Kenya	6,086
The Netherlands	14,286
Nigeria	10,860
Norway	Unlimited
Philippines	1,896
Spain	16,248
Switzerland	12,768
Turkey	13,306
U. K.	17,505
U. S.	100,000
Yugoslavia	Unlimited

Source: Talley and Mas: Deposit Insurance in Developing Countries