

BANKING

NEW DIMENSIONS, METAMORPHOSES AND CHALLENGES

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In the complex and difficult societal movement brought about by the transformation process in the SR, the banking system plays an important role. A bank, however, does not operate in a vacuum. There exist tight links between its activity and the overall economic and political environment. These correlative relationships have naturally their own quality, dynamic and dialectic.

Among the basic sets of actors profiling the position, activity and effectiveness of banks' work are undoubtedly:

- Objective tendencies in the development of banking in the world influenced by overall civilisation processes,
- Society's demand for bank activity formulated by the needs and roles of the economy,
- Personnel, material, technical and organisational requirements of the banking system itself.

It is therefore sometimes logical and necessary to put the question, "where have we come from and where are we heading?"

Banking: generic and timeless

As always in history, as today banks, in the broadest meaning of the word represent a special set of economic actors, ensuring flows of money with specific funds. At the same time they represent a very sensitive organism reacting to the given social, political and economic context. To the frequently asked question, "what is banking responsible for?", one may reply that banks are responsible for a lot, but not everything.

In each stage of human history banks have had to and today do have to even more so respect the balance in the framework of the so-called Bermuda Triangle, i.e. to keep in harmony the three basic pillars of banking activity, namely: I – initiative in conducting business, R – risk and E – ethics or the good name of the bank. If any of the three principles is overexposed a bank can get into difficulties, or even bankruptcy. This has been born witness to also by the Basle principles of banking probity, money laundering and the number of bankruptcies of banks in a range of countries.

The relationship between professionalism and enthusiasm is also special. In complicated and difficult conditions shortcomings in professionalism may temporarily be made up for or minimised by enthusiasm, in particular in building new banks. Thus it was in Slovakia in 1968 when we began to build up banking services in Slovakia for foreign trade after a 17-year long vacuum in this field. On the other hand even a very good professional without interest or motivation need not necessarily be successful and effective. Even today it need not be an anachronism, the requirement for full co-respect and pride and for whatever else more than simply mass stimulation, in parti-

cular from the aspect of challenge, which in a globalised and integrated world Slovakia faces alongside the great competitiveness of candidate countries for entry to the EU.

The crux of the matter was and is between money and people. There is nothing good or bad about money itself, it depends on the purpose for which it is used. Thus, the result is that people are exceptionally important in a bank, both behind as well as in front of the counter. In its heyday, the French Bank Credit Lyonnais had the slogan "We're the only bank that doesn't know how to say 'no'". It was undoubtedly hyped advertising promotion. Even a banker in reality must occasionally say no to some projects or client requests, but must say this in a way that does not hurt and that does not lead the client to look for other solutions.

The basic quality of a banker is timeless, from which are developed and on which are founded all other attributes of the professional skills of a bank employee. In one article in a well-known world magazine the following characteristic came out top: the basic quality of a banker is the ability to gain trust, but in contrast to a trickster, the banker must guide and maintain the trust gained.

The development of civilisation and its effect on banking

A bank's activity as a specific area of human interaction was and always will be connected with the existence of money and the production of goods and services. So that we can orientate ourselves in the complex intermixture of phenomena, factors and trends in the development of banking in the world, these can be grouped as follows:

- The production, distribution, supply and consumption of goods and services, the type of their organisation, the system in the framework of the territorial units of countries, integrated groupings as well as the whole world in the long term as well as the short term against a background of a given economic development,
- Financial institutions and their adaptation including the range of instruments of central banks, as well as at the level of international currency systems and supra-national financial institutions,
- Financial flows and capital movements on the most important financial markets, modification in the structure of resources and forms of credit as well as financial market instruments,
- Scientific technical development influencing the form, speed and technical means of financial flows.

The development of banking in the world is in many ways



interesting and provoking in particular following the Second World War. The following events may be considered as milestones.

- 1944 – the Bretton – Woods system, laying the foundations for an international currency system, and thereby also the internationalisation of international financial flows and transactions,
- 1958 – transition to currency convertibility by the members countries of the International monetary Fund,
- 1973 – the definitive collapse of the Bretton – Woods system, through the transition to fixed and flexible exchange rates and the first oil shock with further development of the Euromarkets, which to a large extent ensured the recycling of petrodollars through banks and their instruments in the deposit and credit field,
- 1976 – 1978 – Jamaica Agreement on the demonetisation of gold and agreeing to officially flexible exchange rates, a ten-year period, i.e. the second half of the seventies and the first half of the eighties – withdrawal of the role of the bank lending and the predominance of financial market positions in all world financial centres, in connection with the fact that financial market instruments had become the main source of financing for firms.

This development was concurrently accompanied also by the process of deregulating and liberalising foreign currency restrictions, which removed maybe the last barriers to the development of the financial market in its domestic as well international dimensions.

• The eighties – as a form of adaptation to the imbalance in the world the process of globalisation was deepened through the significant strengthening of the importance of world financial centres. The spread of information technology and the speeding up of the movement of information as well as of financial flows themselves at the international level contributed greatly to this process.

• September 11, 2001 confirmed a new dimension of the current process of civilisation, which is an imbalance between individual countries, groups as well as citizens in their ability to follow and benefit from the current pace of civilisation, particularly as regards the spread of information technology.

• The turn of the year 2001 – 2002 with the actual transition to the euro as the means of payment within the EU is creating a new situation not only in Europe, but also in the whole world also through the fact that the hitherto all powerful dollar will be strengthened in international financial markets by the role of a counterweight in the form of the single European currency.

This development following the Second World War, and in particular the last twenty years of the 20th century have had extraordinary and far-reaching consequences for the position, organisation and products of banks, as well as for their employees especially in the following ways:

1. Back in the seventies in connection with the first and second oil shocks they meant unprecedented growth in risk on international markets – risks of non-payment, exchange and geopolitical risk. For example the exchange rate of the USD against the FrF was in August 1980 1 : 4, at the start of 1981

1 : 5 and in August 1981 already 1 : 6. Numerous institutions are focused on measuring the degree of risk and its forecasting in export and foreign investment. Within banks the importance of sections providing guarantees and avals of bills of exchange has increased. Insurance companies are expanding their services. The importance of public semi-governmental and private institutions that guarantee risks of a geopolitical and commercial nature is growing. With the need and effort to measure risks, anticipate and minimise them, there has arisen and grown the special discipline of risk management.

2. The sophistication and diversification of financial market instruments has taken on huge dimensions, with the significant process of securitisation, the development of derivatives, options, hedging and swap operations and futures operations. The huge growth in the volume of financing and international liquidity is shown also in new financing products. For example, international trade in 1960 represented 129 billion USD, but in 1979 had grown to 1 300 billion USD, i.e. ten times larger. By the middle of the eighties international trade had already reached 2 500 billion USD. There also occurred a further significant deepening of the divide between the “real” and “symbolic” economy. When in the mid-sixties movements on the Euromarkets represented annually around 30 billion USD, twenty years later these movements of financial flows were already in the magnitude of 75, so for one dollar of movement of goods in international trade, the movement of financial flows was already 25 dollars. In the mid nineties this ratio had reached 1 : 40.

3. Extraordinary changes occurred also in the position and structure of financial market institutions, banks, stock exchanges, financial companies and various para-financial institutions. Changes can clearly be seen at the mega level (at the world or continental level) and at the micro level, meaning within banks and financial institutions. These organisational changes in the eighties and nineties differ from changes in the sixties and seventies. If thirty to forty years ago changes were made necessary in consequence of the universalisation and internationalisation of banks, today they are being driven by developments in information technology, globalisation and stiffer competition. The mergers and concentrations of banks for example in the EU is a sign of the preparation for the new challenges and conditions of a united and expanded Europe. Evidence of this can be seen in neighbouring Austria, or Germany and Holland. The linking of banks and insurance companies is enabled and indeed induced by the new situation in competition and information infrastructure. Large banks in the nineties still focusing primarily on the corporation are currently reorganising themselves also towards retail, in view of the lower risk and the need for resources.

At the level of individual banks and financial institutions the vertical hierarchy, something which has until now been a demanding feature, is being knocked down with a transition to a strengthening of horizontal communication between sections, which in turn is made possible by the use of information technology. In connection with this the position of financiers in firms is changing.

In New York's Manhattan, in the City of London, in Paris's Boulevard Haussmann or in the commercial quarters of Düsseldorf new models are appearing, ever more complex and refined financial instruments. Experts – accountants are becoming less and less accountants and more experts. Balances and accounting books are being exchanged for strategy bibles and management services of a firm.

4. Through all this the personality and position of the bank employee, the banker is changing. Demands on his professionalism (foreign languages and computer skills are essential) are growing and at the same time there is occurring a diversification according to the scale and size of the direct risk, the level of the decision-making process, or the scale of the analyses conducted. Along with this there is occurring a differentiation of bank employees as “tough decisive lads”, or charming negotiators or communicators. In each case more than at any time before bankers are expected to be able to focus themselves even in complex social processes and be able to adapt. A new element is also the high mobility of bank employees, not only in the framework of a given country, but also within a zone, continent or the whole world in view of the wide-spread network of banks and participation in international projects. The worldwide trend to lower the number of employees in the world connected with the use of information technology clearly illustrates the move to prioritise quality before quantity. A bank employee must continually study and come up with his own opinions in view of the speed and scale of changes in the world. Precisely because of these great demands bank employees are among the most socially respected groups in society.

Development in Slovakia

Development in banking in Slovakia confirms the validity of the above-mentioned trends in the world also in Slovakia's case. A significant part of the history of banks in Slovakia – more specifically after 1950 has been covered in their publications by Ján Valach, Rudo Návrat, Štefan Horváth, who managed thirty years ago to mobilise tens of volunteers across Slovakia and thus create a rich epic of Slovak banking. After the Second World War in the fifties there was a concentration of bank services in the field of foreign trade in Prague as a result of monopolies in foreign trade and foreign currency. Up until 1968 the conditions for foreign currency operations and financing foreign trade were beginning to be organised also in Slovakia. Thus gradually a new generation of professionals in foreign currency operation grew also in Slovakia, which it was possible to capitalise upon also in bank reform in the framework of the entry to the transformational process after 1990.

Banking has in 12 years of bank reform travelled a significant part of the journey. The greatest success may be considered the raising of the overall level of the bankers' skills, but in particular the removal of the global imbalance between demand and supply in bank services, and a raising of the level of competition between banks and an expansion of the bank

branch network. The abundance of financial flows also corresponds to the flow of goods and services, in particular as regards the services, operations and products of banks that have diversified their activity. Banks have been established and are developing with specific mechanisms for the support of small and medium sized enterprises, building savings, etc. Competition is the order of the day here and already the positive effects can be felt from the progressive restructuring and recovery of the banking sector, which among others is shown clearly in a considerable lowering of interest rates. Naturally, this can be said in particular of bank operations that are not directly connected with risk. Loans, financing, the financial market can be characterised by the fact that neither on the side of businesspersons nor banks has there occurred an appropriate approximation in defining the degree of risk and the use of correct and appropriate instrument for minimising this risk. Naturally, there still are possibilities for the active approach of banks for export support and conducting business abroad, the development of tourism and other development projects.

In the field of financing needs of firms, as well as other institutions (hospitals, schools, etc.) an undesirable, but nevertheless inevitable phenomenon is the persistence of the non-payment of invoices, supplies and loans. Credit and financing as economic categories must bear also the disgrace of the undesirable trends and influences connected with transformation and the transitional period.

Undoubtedly a stabilising actor in the economy has been the activity of the National Bank of Slovakia. Apparently in a maelstrom of sudden changes everyone has still not fully realised and has underestimated the service of the National Bank of Slovakia in creating such a basic attribute of its statehood as a national currency, which it managed to introduce into use in the minimum of time and since then the bank has maintained it within a stability band.

It may be included that Slovakia after 12 years of transformation process and ten years of its existence as a state, its economy as well as its whole society has advanced substantially towards a market economy, we have also advanced in post-industrial society with its attributes, we have shifted also in the direction of a civil society with the values that that entails. In these positive effects, a part has also been played by the banking industry, which is not merely a passive observer, but also an active player in them.

Naturally, with the passing of time, shortcomings and mistakes can be seen and there is still much to perfect and improve. New challenges bring us also an intensive preparation process for admission to the EU. The entry of a new generation of young professionals into banks and successful co-operation with foreign banks, as co-shareholders in a number of Slovak banks are good foundations, that the Slovak banking industry will fulfil expectations also in this field and in this period, and significantly increase the level and quality of bank services in Slovakia.