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"BANKS UNDER STRESS"
Recent Trends and a First Outlook on Banking in the 90s

During the 1980s the banking sector underwent considerable structural changes. New markets were opened and competition intensified as a result of deregulation, liberalisation, demand and supply changes and improved facilities offered by advanced communications technologies.

In "Banks under Stress" the OECD presents an analysis of these turbulent events in the banking world. The report takes stock of the banks' situation after the huge changes of the past decade, makes an early assessment of the banking trends of the 1990s.

The publication concludes that the opening-up of the financial industry, as a result of legal changes and technological developments, has not led to a new era of bank prosperity. Although the pattern is far from uniform among countries, the banking sector has been placed under a considerable degree of stress.

An important cause is that banks have been caught in a "scissors movement": on both the asset and the liability side they have to cope with intensified competition. The availability of instruments for high-quality debtors to tap capital markets directly, by-passing the banks, has made banks more deeply involved in the riskier segments of the credit market. On the liability side, the competition of non-bank financial institutions, such as life insurance firms, has made funding more difficult and costly.

Furthermore, banks have been confronted with greater demands from their supervisors. The deregulation of the 1980s has not meant that governments' interference in the financial sector has waned. Rather, there has been a shift from one type of regulation -- restriction of market forces -- to another type: higher prudential standards. To an increasing extent, these standards are assuming an international character as national regulators co-operate in harmonising their rulebooks.

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Although these tougher prudential standards are by no means unjustified, they do pose an additional burden and have in some instances (Japan, United States) forced banks to scale back their lending programs. Nevertheless, the OECD report concludes that, despite the stress, there is no imminent global banking crisis. Very serious problems have occurred in a number of countries only (such as Norway) and/or in specific sectors (the United States savings and loan sector).

Looking into the near future, "Banks under Stress" suggests that deregulation, in the sense of derestricting competition and market forces, will continue. However, this does not necessarily mean that banks will avail themselves of all the new potential business opportunities. Rather, they will take a "menu approach", selecting those which they regard as best-suited for their specific circumstances.

This leaves some room for doubt that a concentration of financial institutions in ever-larger international financial conglomerates will be the main trend of the future, even though a tendency towards conglomeration is observable. It is pointed out that large conglomerates are not necessarily more efficient than smaller institutions and there will remain room for banks that seek to develop new niches in financial markets. Moreover, the internationalisation of banks has not been an unambiguous success story. Despite the creation of a single market there have hardly been any significant cross-border bank mergers within the EC. In many instances, banks have failed to make substantial inroads in foreign markets, which has sometimes compelled them to consider a strategic withdrawal.

Journalists may obtain a copy of the report from the OECD Press Division, 2 rue André Pascal, 75775 Paris cedex 16 (tel. 45 24 80 88 or 80 89).

"Banks under Stress"
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