BANKING PERFORMANCES IN THE CONTEXT OF THE INTERNATIONAL FINANCIAL CRISIS

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Abstract:
Banks operate in uncertainty and risk conditions and are, in general, extremely vulnerable during periods of financial crisis. They have a genuine preference for those models of obtaining profit that present a stable increase in time.
In the context of the international financial crisis, for the analysis of banking performances a variety of indicators are used. They characterize the quantitative aspects, as well as the qualitative aspects of the banking activity.
As great financial intermediaries in the economy, banks have continued to approach successful strategies for obtaining banking performances.

Key words: banking performances, international financial crisis, successful strategies, banking mediation, banking consolidation

JEL classification: G21

The present financial crisis has had an important impact upon the structural evolution of the European banking system. This impact was manifested over the banking assets' aggregate level, and over the banking consolidation activity through national and trans-boundary mergers and acquisitions.

Increasing the level of banking assets in the European Union, during the years 2007-2009, shows an increase of the level of banking mediation. In the conditions of the present financial crisis, it can be noticed that banking mediation calculated as a ratio between banking assets and GDP (gross domestic product), has continued to register an ascending trend, as a result of GDP's decline.

In the context of the current financial crisis, for the characterization of banking systems and banking performances analysis, a variety of indicators are used. These indicators characterize the both the qualitative aspects and the quantitative aspects of the banking activity.

The indicators for assessing the banking systems' performances provide relevant information regarding:
- access on the banking market;
- size of the banking system and its mediating degree;
- geographical and demographic penetration degree of banking products and services;
- financial structure, respectively the share of balance sheet items in total banking assets or liabilities;
- diversity and performance of the banking products and services portfolio offered to customers;
- quality and structure of the credit portfolio managed by the bank;
- level of competition and competitiveness in the banking system;
- financial stability of the banking system;
- degree of regulations and supervision of the banking systems.

Banks, which are in general extremely vulnerable during financial crisis periods or economic disorder, still manage to rapidly adapt and refocus. They approach effective crisis strategies.

Banking entities operate under conditions of uncertainty and risk, and their management objective is obtaining profit, under the conditions of maintaining risk at an acceptable level.

Banks have a genuine preference for those models of obtaining profit that present a stable increase in time. By extrapolation, this increase may represent a sustainable development of the banking activity.

In banking performance management, banks have to face a series of controllable or uncontrollable factors. In general, the conditions regarding the performance of supply and demand with which banks are confronting represent uncontrollable factors (for example: international financial crisis, inflation, currency risk, interest rate risk). The factors over which banks have a certain degree of control are: quality of granted loans, types of banking products and services offered to customers, revenues from the banking operating activity, expenses related to the operating activity.

Successful strategies developed by banks for obtaining financial performances mainly aim:

1. Rationalizations of the multiple distribution channels, strategy specific for European banks which aim the consolidations and reduction of the banking branches' network. They also approach distribution channels such as: Internet Banking, Home Banking, Telephone Banking, and Mobile Banking.

By distributing their own banking products and services or the products and services of other financial companies and through the adopted distribution model, banks become real "financial supermarkets".

2. Outsourcing of some support activities, for diminishing operating costs.

Large banks from Romania, in order to achieve their banking performance indicators, have outsourced a series of support activities, such as:
- IT activities;
- activities regarding securities' transports, ensuring guarding and bank security;
- bank archive management;
- judicial activities.

3. Efficient management of banking risks and especially of the credit risk. European banks aim to create databases for managing the history of credit looses and adequate credit provision.

4. Banks recapitalization represents a successful strategy during financial crisis periods. Without this strategy, in some European countries and not only, systemically important banks would have collapsed, would have gone bankrupt.

In the context of the current financial crisis, banking profitability, evaluated as a share in total assets, of the large banks from developed countries, has registered different evolutions. The most representative banks from Holland and United Kingdom have registered decreases in profits before taxation. Also, the highest operating costs were registered in USA, Austria and Spain.

Banking profitability as a share in total assets of large commercial banks has registered the following evolutions, presented in the table below:

Table 1

The profitability of major banks as a share in total assets

Country	Gross profit		Net margin		Operational costs	
	2009	2010	2009	2010	2009	2010
Australia	0.93	1.14	1.88	1.89	1.20	1.24
Austria	0.63	0.67	2.46	2.50	2.00	1.94
Canada	0.72	1.01	1.73	1.65	2.04	1.87
France	0.18	0.45	1.02	1.11	1.10	0.63
Italy	0.36	0.37	1.92	1.74	1.79	1.70
Japan	0.29	0.30	0.96	0.51	0.864	0.494
Netherlands	-0.15	-0.04	0.98	0.82	1.01	1.39
Spain	0.88	0.95	2.27	2.26	1.49	1.56
Sweden	0.34	0.61	1.02	0.89	0.95	0.88
Switzerland	0.21	0.66	0.56	0.54	2.10	2.13
United Kingdom	-0.04	0.25	0.95	1.03	1.18	0.90
United States	0.42	1.02	2.71	2.62	2.79	2.94

Source: BIS, the 81th report of BIS, www.bis.org

Another trend strongly marked by the manifestation of the present crisis was the banking consolidation activity, through mergers and acquisitions. This lead to a decrease in the number of banks, phenomena registered in European states: Germany, France, Holland, Spain, Denmark and Sweden. In the entire European banking system, in 2009, 43 banking groups were operational with trans-boundary activity and branches in member states.

Banks have confronted with uncertainty regarding the perspectives for national and world economies, as well as with the amendments to the national regulations. In the European monetary space we notice the harmonization of the banking regulations.

For banks, in this financial crisis period, the external expansion strategy was no longer a priority. Considering the crisis as a temporary phenomenon, banks didn't modify their strategies based on internationalization.

Banking performances are also reflected through indicators that quantify the banking products' penetration degree among the population. These indicators refer to: number of population per branch or population per ATM.

Analyzing these capacity indicators of the European Union banking system, at the level of 2009, the situation is presented in the table below:

Table 2

Capacity indicators of the EU banking system (year 2009)

Country	Population per branch	Population per ATM	Population density
Germany	2,077	1,033	229
Spain	1,034	739	91
France	1,676	1,203	117
Italy	1,771	1,093	200
Hungary	2,822	2,173	108
Romania	3,340	2,325	90

Source: ECB

From the table above, it can be observed that Romania, in comparison to the other European countries, has a much larger number (almost double) of customers served by an ATM, at a much lower population density. In Germany there are 1,033 persons served by an ATM, but in Romania there are 2,325 persons served by an ATM, in

condition that population density in smaller. In Romania, it is also interesting that the cards in circulation with a debit function are less in the end of 2009. This means that customers are affected by global financial crisis. They haven't the vocation for credit and use fewer credit cards, and also they have less money for debit cards. The number of banking terminals (ATMs, POS and EFTPOS) increased at the end of analysed period 2008-2009. This means the commercial banks are interested to increase the transactions and payments with these modern products- banking cards. In the space of global economy, commercial banks need modern and performance banking products and services.

Banks from Romania, France, Portugal, and Bulgaria have adopted territory development strategies. Even though the number of mother-banks (legal persons) has decreased, the number of their branches and territorial units has increased.

It can be stated that, under the present financial crisis, banks, as large financial intermediaries of the economy, have continued to approach successful strategies for obtaining financial performances.

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