

Improve and test your English



Lingua Nova

In our last edition of the lesson we were discussing the Federal Reserve System in the United States.

What does the banking system look like in some different countries all over the world? Let's look at some chosen countries.

BANKING IN BRITAIN

Since the 17th century Britain has been known for its prominence in banking. London still remains a major financial centre, and virtually all the world's leading commercial banks are represented.

Aside from the Bank of England, which was incorporated, early English banks were privately owned rather than stock-issuing firms. Bank failures were not uncommon; so in the early 19th century, joint-stock banks, with a larger capital base, were encouraged as a means of stabilizing the industry. By 1833 these corporate banks were permitted to accept and transfer deposits in London, although they were prohibited from issuing banknotes, a monopoly prerogative of the Bank of England. Corporate banking flourished after legislation in 1858 approved limited liability for joint-stock companies. The banking system, however, failed to preserve a large number of institutions; at the turn of this century, a wave of bank mergers reduced both the number of private and joint-stock banks.

The present structure of British commercial banking was substantially in place by the 1930s, with the Bank of England, then privately owned, at the apex, and 11 London clearing banks ranked below. Two changes have occurred since then: The Bank of England was nationalized in 1946 by the postwar Labour government; and in 1968 a merger among the largest five clearing banks left the industry in the hands of four (Barclays, Lloyds, Midland, and National Westminster). Financial liberalization in the 1980s has resulted in the growth of building societies, which in many ways now carry out similar functions to the traditional "clearing banks".

The larger clearing banks, with their national branch networks, still play a critical role in the British banking system. They are the key links in the transfer of business payments through the checking system, as well as the primary source of short-term business finance. Moreover, through their ownership and control over subsidiaries, the big British banks influence other financial markets dealing with consumer and housing finance, merchant banking, factoring, and leasing. The major banks responded to competition from building societies by offering new services and competitive terms.

A restructuring in the banking industry took place in the late 1970s. The Banking Act of 1979 formalized Bank of England's control over the British banking system, previously supervised on an informal basis. Only institutions approved by the Bank of England as "recognized banks" or "licensed deposit-taking institutions" are permitted to accept deposits from the public. The act also extended Bank of England control over the new financial intermediaries that have flourished since 1960.

London has become the centre of the Eurodollar market; participants include financial institutions from all over the world. This market, which began in the late 1950s and has

since grown dramatically, borrows and lends dollars and other currencies outside the currency's home country (for example, franc accounts held in any country other than France).

BANKING IN THE UNITED STATES

The United States banking system differs radically from such countries as Canada, Britain, and Germany, where a handful of organizations dominate banking. In the past, geographical constraints on expansion prevented banks from moving beyond their state or even beyond their county. Thus, many small bankers were protected from competition. The result is a national network of almost 12,000 commercial banks. More recently most states as well as the federal government have loosened the regulation of banks, especially in the area of mergers and acquisitions. Many banks have grown by taking over other banks inside and outside their home states. The largest banks account for the bulk of banking activity. Fewer than 5 per cent of the banks in the United States are responsible for more than 40 per cent of all deposits; 85 per cent of the banks hold less than one fifth of total deposits. The Federal Reserve System, composed of 12 Federal Reserve Banks and 25 Federal Reserve Districts throughout the United States, is the central bank, banker to the US government, and supervisor of the nation's banking industry.

The US banking system is distinguished by a tradition of thrift institutions established to remedy the commercial sector's historic neglect of the non-business consumer market. Savings and loan associations (SLAs) which first appeared in the 1830s, were patterned after cooperative movements in Scotland and England. Dealing mostly in residential real estate mortgages, and particularly in home mortgage loans, SLAs exist primarily to support home ownership. In the late 1980s the failures of many SLAs caused the government to overhaul the industry and place it under federal supervision. American savings banks, established with similar intentions, invest the deposits of customers in stocks and bonds, especially government bonds, and also provide mortgage services. Credit unions likewise invest money on behalf of members.

While government regulation of commercial banking since the mid-1930s has led to a low failure rate and preserved a substantial amount of competition in some markets, local monopolies have also been implicitly encouraged. Moreover, stringent regulations have caused some bankers to devote considerable resources to circumventing government controls. Rethinking of the role of government regulation in the economy in general may lead towards even further liberalization of controls over the banking system.

BANKING IN CONTINENTAL EUROPE

Major central banks in the European Union are France's Banque de France, Germany's Bundesbank, and the Bank of Italy. Major commercial banks include Germany's Deutsche Bank A.G., Dresdner Bank A.G., and Commerzbank A.G., and France's nationalized Banque Nationale de Paris, Cr dit Lyonnais, and

Complete the crossword. The letters in the middle column, when you read them down spell out a noun. All other words in this crossword are nouns as well.

CROSSWORD PUZZLE

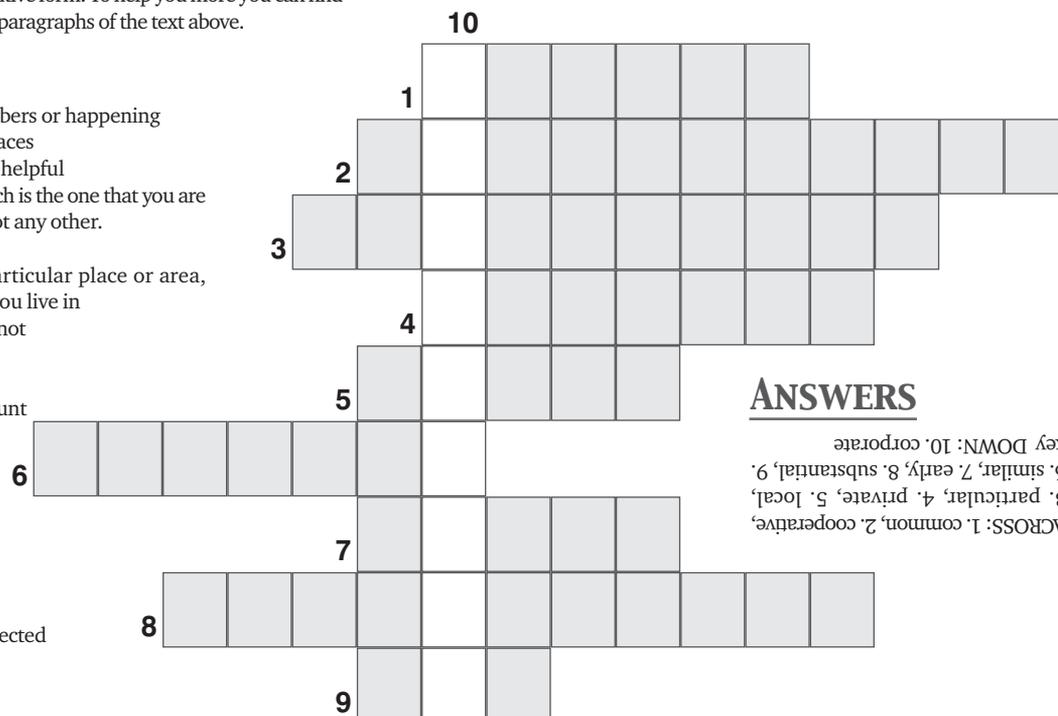
Fill in the missing words in the crossword puzzle. All the words this time are verbs in their infinitive form. To help you more you can find of all them in the first two paragraphs of the text above.

Across:

1. existing in large numbers or happening often and in many places
2. willing to cooperate; helpful
3. a thing or person which is the one that you are talking about, and not any other.
4. not for everyone
5. connected with a particular place or area, especially the place you live in
6. almost the same but not exactly the same
7. not late
8. large enough in amount or number to be noticeable or to have an important effect
9. main

Down:

10. belonging to or connected with a business



ANSWERS

ACROSS: 1. common, 2. cooperative, 3. particular, 4. private, 5. local, 6. similar, 7. early, 8. substantial, 9. key, DOWN: 10. corporate

Société Générale. Significant structural differences distinguish the banking system of continental Europe from that of many other developed nations. The main differences are in ownership, scope, and concentration of activities.

One distinguishing aspect of European banking, especially in the Latin countries, is the role of the state. Virtually all banking institutions in the United States, Canada, and Britain, are privately owned. In France and Italy, however, the government either owns the major commercial banks or the majority of their stock. The role of the government in banking is therefore significant, and often controversial. France's Crédit Lyonnais was the subject of considerable criticism in the early 1990s because of the government assistance extended to it to cover its heavy trading losses. European banks engage in some activities prohibited elsewhere, such as the placement and acquisition of common stock. Commercial banks in Europe tend to be highly business orientated and limit their lending to shorter-term loans. Long-term loans are handled by bank affiliates. The share of the deposits and loans handled by the major European banks tends to be particularly large. This stems from the absence of restrictions on branching, leading the large European banks to maintain extensive networks of branches in their home countries. The absence of an antitrust tradition also accounts for the greater degree of concentration.

Germany's Bundesbank has become the dominant central bank in the European Union, thanks mainly to its success in controlling inflation and Germany's economic strength. Its constitution leaves it notably independent from government interference. There is a broad consensus that it will serve as the basis for any European central bank in the event of full European Monetary Union. However, the Bundesbank itself has in the past been conspicuously lukewarm about the prospect, apparently fearing the effect of association with other national economies on its own sound record on inflation.

BANKING IN SWITZERLAND

Switzerland is renowned as a centre for world banking because of its political neutrality, its financial stability, and the national tradition of confidentiality in banking, dating from a law of 1934 which made it an offence for banks to disclose details about their customers without express authorization. Subsequent legislative changes and international agreements have not overly compromised this secrecy, especially with regard to noncriminal tax evasion. Private banking is one of the country's principal sources of income.

The semiprivate Swiss National Bank, Switzerland's central bank, is owned jointly through shares held by the cantons, other banks, and the public. Swiss commercial banking is dominated by the "Big Four": the Union Bank of Switzerland, the Swiss Bank Corporation, Crédit Suisse, and Swiss Volksbank. Numerous smaller banks and branches of foreign banks also operate in Switzerland. There are also 28 canton banks, funded and controlled by their respective cantons.

BANKING IN JAPAN

As one of the world's richest countries, Japan has a banking sector with considerable influence on the world economy as a whole. The Bank of Japan is the national central bank, and controls the banking system; it has less constitutional autonomy than in many other developed countries. Several government banks and institutions supplement the commercial banking sector: the Japan Export-Import Bank handles large credits for international trade; the Housing Loan Corporation assists the provision of company housing; and the Agriculture, Forestry, and Fisheries Finance Corporation advances loans for equipment purchase. The Japan Development Bank supports industrial finance, assisted by the private Industrial Bank of Japan, Long-Term Credit Bank of Japan, and Nippon Credit Bank Ltd. Some private

banks such as Dai-Ichi Kangyo Bank (the world's largest bank) are tied closely to the government through government investment; the Bank of Tokyo specializes in foreign exchange. Commercial banks such as the Mitsubishi Bank, the Mitsu Bank, and the Sumitomo Bank are often relics of the great prewar commercial and industrial conglomerations, the so-called zaibatsu, and maintain close ties with their associated businesses and financial institutions. Small-scale cooperatives and credit associations, grouped on a prefectural basis, are important in providing banking services for farmers and small businesses. Japan's mutual loans and savings banks all converted into full commercial banks after reform in 1989. The state Postal Savings System is also an important channel for domestic savings. Reform of Japanese banking laws in the mid 1990s freed banks to operate in the international securities trade frequented by Japan's highly successful financial houses. Reciprocal opportunities were also opened for securities houses to offer banking services. The banking sector is expected to expand its business in the long term as a result of these changes.

BANKING IN CANADA

The Bank of Canada is the national central bank. Canada has numerous chartered commercial banks. In 1980 Canadian banks were reorganized into two bands: "Schedule I", with shareholdings by any individual limited to 10 per cent; and "Schedule II", either foreign-owned or in private hands. Further legislation in 1992 freed banks, trust companies, and insurance companies to diversify into each other's areas of interest, and opened ownership of Schedule II banks to nonbanking institutions. Trust and mortgage loan companies, provincial savings banks, and credit unions are also important components of the banking system.

BANKING IN AUSTRALIA

The Reserve Bank of Australia, established in 1911, is the national central bank. The components of the Commonwealth Banking Corporation, including the Commonwealth Trading Bank and the Commonwealth Savings Bank (Australia's largest savings bank), are also government owned. Large commercial banks in Australia are normally referred to as trading banks: major examples include the Australia and New Zealand Banking Group, the Commonwealth Bank of Australia, the National Australia Bank, and the Westpac Banking Corporation. Building societies are also common. Banking reform in the 1980s similar to that enacted in Britain freed many building societies to become banks or offer banking services, and also opened the domestic market to more foreign competition.

BANKING IN SINGAPORE

As one of the world's major financial centres and a regional economic giant, Singapore has an internationally significant banking regime. Central banking functions are exercised by the Monetary Authority of Singapore, though issuing of currency is conducted by a separate government body. The domestic commercial banking industry in Singapore consists of some 13 local banks and is dominated by the leading houses. The Post Office Savings Bank serves as the national savings bank. There are also numerous merchant banks. Singapore is also host to numerous foreign banks, divided according to the type of licence they are granted: full, restricted, or "offshore". The Singaporean government operates a compulsory savings scheme for employees, the Central Provident Fund. Singapore's banking industry continues to grow and mature with the development of the nation's economy.

BANKING IN DEVELOPING COUNTRIES

The type of national economic system that characterizes developing countries plays a crucial role in determining the nature of the banking system. In capitalist countries a system of private enterprise in banking prevails; in a number of socialist countries (for example, Egypt and Sudan) all banks have been nationalized. Other countries have patterned themselves after the liberal socialism of Europe; in Peru and Kenya, for instance, government-owned and privately owned banks coexist. In many countries, the banking system developed under colonialism, with banks owned by institutions in the parent country. In some, such as Zambia and Cameroon, this heritage continued, although modified, after decolonization. In other nations, such as Nigeria and Saudi Arabia, the rise of nationalism led to mandates for majority ownership by the indigenous population.

Banks in developing countries are similar to their counterparts in developed nations. Commercial banks accept and transfer deposits and are active lenders, especially for short-term purposes. Other financial intermediaries, particularly government-owned development banks, arrange long-term loans. Banks are often used to finance government expenditures. The banking system may also play a major role in financing exports.

In the poorer countries, an extensive but primitive nonmonetary sector usually continues to exist. It is the special task of the banking community to encourage the use of money and instil banking habits among the population.

INVESTMENT AND FINANCE

Are you familiar with financial terms? You will need them if you want to talk about investment.

A. Blue Circle, Britain's biggest cement manufacturer, yesterday launched a £ 241.6m (\$ 434.9 m) rights issue to help pay for an acquisition to make it one of Europe's largest manufacturers of domestic heating products.

In the latest of the series of cross-border mergers involving European heating companies it announced it had acquired Compagnie Internationale du Chauffage for £ 124.9m.

Blue Circle proposes a one-for-five rights issue at 200p. Its shares rose 3p to 247p following the announcement of the issue.

B. BANCO ESPANOL de Credito (Banesto) will place 26% of its non-banking interests on the market in mid-September. The \$800m flotation will be underwritten by USB Philips & Drew.

B. Cathay Pacific has swung back into profit after record losses in the previous 12 months, prompting the airline to resume dividend payments.

Total turnover rose 21% to HK\$17.91bn. This reflected both the 7% rise in traffic as well as a 10% increase in yields, generated mainly by higher-fare passengers.

Now try to match the definitions below with the words underlined in the text.

1. The parts into which the capital of a business is divided
2. The volume of business transacted in a given period
3. The amount produced from an investment (two possible words)
4. guaranteed
5. taken over
6. supply of shares for sale (two possible words)
7. floated (two possible words)
8. amalgamations
9. the opposite of profits

Answers:

1 - shares, 2. turnover, 3. dividend/yield, 4 - underwritten, 5. acquired, 6. (two possible words) - rights issue/flotation, 7. (two possible words) - launched/placed.....on the market, 8. mergers, 9. losses