



## Banking strategies for the next decade

In an exclusive interview with M. H. Bouldoukian, former Deputy Governor of the Central Bank of Lebanon, we have been able to go deep inside his unending experiences of the past and present of the banking profession and his views on the future situation in banking in Lebanon and the recommended strategies commercial banks should adopt in the coming decade in order to continue the viability of the banking sector, a sector which the Deputy Governor considers as the backbone of the Lebanese economy. He gives a high importance to the human element in running a bank, the management of risks and the growth opportunities open to Lebanese banks.

Q1- As you very well know, the Lebanese banking system did sustain the problems of the war and in the future will face new challenges. What is the situation at present?

I have stated on several occasions that a banking system which is based on financial and credit culture is viable, no matter what risks it faces, as long as the system's agents continue their grip of that culture and evolve it with time and can control the different risks. When I speak about system's agents, I have in mind, the Lebanese government and, its financial situation, the debt burden, the fiscal deficit, the new government's financial reform program over the next 5 years, the restructuring of the tax system, privatization on the one hand, and, the banking institutions, the Central Bank, new laws pertaining to banks, investments and financial

affairs, the agents of banking technology, the private sector, savers, investors, depositors, borrowers, the relationship of banks with foreign correspondents and the advancement of information and telecommunications technologies on the other. All these, form part of this mega-system and I am optimistic for the future of Lebanese banks in front of new challenges.

Banking consolidation, communication and information technology, competition, market share and profitability squeeze, hence cost control techniques, banking technology, more transparency to provide more information to the general public, hence, rating, loan classification and subsequently off-loading asset risk through securitisation... All represent new challenges for the future. To complement these challenges, legislators must prepare promptly with new laws without fail.

For the record, I would like to stress that, no banking system of a country in the world, be that Europe, Asia or the U. S. (remember the 1929 crash only), has sustained and survived 17 years of war. The Lebanese banking system has strong and deep roots and its people have faith and confidence towards their country.

Q2- Why then Lebanese banks are not global players?

To become a global player in banking, first of all you should have an economy that also plays a certain role in that global economy. We the Lebanese, we are realistic. We consider ourselves a regional

player, because of our close relationships with our Arab neighbours on the Mediterranean and in the Gulf, and the complementarity that exists among ourselves in certain areas of economic and financial affairs.

The regional political instability for the past 50 years has made our economy play a regional role for attracting savers and investors into our banking system. In 1974, when I was the manager of Chemical Bank, Beirut Branch, thousands of depositors from the U. S. opened accounts in our Beirut Branch, and in Lebanese pounds. Beirut was the then, the most competing banking center, internationally; but, you know what happened. Hence, we cannot be global players, because patrons of other money centers will not allow us that to happen, even if we maintain our banking secrecy law. Going global is a strategy if you can succeed. Going global means expansion; but you have also the reverse strategy of retrenchment, when it is deemed necessary, or deglobalisation.

What we, in Lebanon, have tried and succeeded during the 17 year war is that we have defended the safety of our banking system and kept strong the shields that maintained viable our banking system. Regional yes, global never. Most of the Lebanese bank managements know their limitations. Those who did not know, they are out of the market already. What can be done is strategic alliances with international banks and have thus access to their tools and products that could help Lebanese banks benefit from



the international opportunities; but again, I repeat, with time, Lebanese bankers have become mature and they know better their limitations and their strengths.

Q3- Since 1993, the capital structure of the Lebanese banks have grown to over US\$ 3 billion. Do you think that the safety of banks is assured by this increase?

Of course: There has been a tremendous increase in the capital structure of banks since 1993, specially, when the Lebanese currency became relatively stable. As you are aware of, the Central Bank imposed the capital adequacy ratio of the Basel Accord on the Lebanese banks after the end of the war and specially, when the government resumed imposing its authority over the Lebanese territory. If law and order were not imposed, the Central Bank could do very little. Capital is important for the safety of the depositors and simultaneously for the safety of the banking system. Of prime importance of course is, the quality of management of banks and the effectiveness of banking supervision. Both these factors play a supportive role for the safety of banks along with capital. The stronger the capital base of banks, the safer become our banks and the banking system. Capital base is like the base of the pyramid. It should be wide. Also, its increase provides growth as, Basel Accord will change from time to time, in order to strengthen capital adequacy.

Q4- What are the main reasons for the fall of several Lebanese banks during the past 20 years?

During the war, due to the weak application of law and order, several banks went out of track and failed. The reasons?

I shall sum it up in three words:

Mismanagement, greed and shortsightedness.

As you know, banking is not like the trading and manufacturing professions, where margins are high, in general. In banking, one has to be very conservative because margins of profit are thin. The risks of the profession are various, widespread and exist every second. Competition for deposits and for safe loans is high. Cost control should prevail. Hence if, risk, capital and cost management is weak, the bank is subject for failure. Experience in the banking profession is more valuable than any technological application in the banking profession. Technology is applied by experienced human beings.

Q5- Due to your position, as the representative of BACB - Beirut, what do you recommend to the Lebanese bankers for the next 10 years?

I am sure that, with almost every bank I deal with, I look for management people of caliber, who prepare their strategies, budgets and policies for growth, search for opportunities for mergers and expansion, and they realize their objectives; I am of course referring to commercial banks. In my opinion, in this tremendous change: towards globalization (yet without global laws) in the financial markets, trade opportunities, and ICC uniform customs and practice rules; and new banking laws and the year 2000 compliance, banks in Lebanon

and even elsewhere, should adopt several rules of conduct in banking, in managing depositors' funds (individual, corporate or institutional) and their equity. I recommend the following:

a- Conservatism in lending - diversification, safety, solvency and real-time information; but looking for growth.

b- Matching deposits and uses of funds - gapping should not be abused.

c- Budgeting for sake of profitability and cost control.

d- The importance of the human element in banking.

e- The adherence consistently to law and order.

f- Keeping an eye on communication technology.

g- The advice to bankers of 1863 by Mr. Hugh McCulloch's (Comptroller of the Currency and later Secretary of the Treasurer of the United States in 1863) must be followed.

h- Adopt overall audit and Disaster Recovery Plans.

Adoption of these elements help banks improve their rating in the financial markets and maintain confidence in the banking system.

For growth strategies, there are four ways for expansion:

1- capital increase, new investors and wider base ownership.

2- mergers and acquisitions.

3- strategic alliances with international banks.

4- a combination of any three elements cited above.

One last advice: Excel in banking and credit culture continuously.

M. H. Bouldoukian

Former Deputy Governor  
Central Bank of Lebanon