

THE FINANCIAL INTERMEDIARIES, A DANGER FOR THE BANKS

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Abstract: The presence of the financial intermediaries - that make the link between the economics agents, with the needs of resources and the one with surplus of resources - determinates the evolution of the banking system and the structure modification of these. What is the difference between a bank and a financial intermediary? The bank distinguish itself from the financial intermediary through its capacity of taking inside the costs and its informatic efficiency, and so the incomes are growing. Does the financial intermediaries represents a danger for the banks?

Keywords: financial intermediary, bank, capital.

Financial liberalization has led to many changes in the banking area and to the development of financial instruments for the commercial agents. Even if the changes have manifested themselves differently, there is a common perception regarding the banking system in the new context. This common perception regards the powerful growth of the capital request -to whom the offer had continuously adapted, in comparison to the request of the non banking commercial agents regarding the financial services and products- and also the dematerialization of the financial and monetary assets. Difficulties had determined the banks to reconsider their position regarding their liabilities, thereby using brightly their own resources.

The evolution of the banking activity on a global level stands under the sign of three main vectors: deregulation, disintermediation and openness²⁷⁴. The process of deregulation, started at the end of the 70's and continued on into the 80's had reduced the differences between many banking systems, due to the rebate of the regulations and the liberalization of the financial intermediaries.

Put it differently , the recent financial deregulation proves that the banking profession can be replaced with different for financial intermediation.

The saving and investment processes, in the capitalist economies, are made and organized around financial intermediation, being therefore basic elements for the economic growth. Financial intermediation has a long history, because people had always felt the need of a third person to opinionate on big decisions.

In the modern era economy, financial intermediation has known a huge development and diversification, being pushed by the imperfection and dynamics of the internal and international financial markets-therby the partners involved in different transactions are affected by the difficulty of obtaining information as soon as possible about the future evolution of the market and about the participants to this market-which leads to a series of risks²⁷⁵.

In this conditions, the institutions for financial intermediation act as an interface with multiple options, for the capital owners and for those who need this capital for the development of their business and also for the management of some business portfolios, doing some speculative transactions or to develop some other activities.

In today's' context of the markets' globalization and general globalization which leads to permanent innovations in the financial area, the role of the financial intermediaries becomes a very important one.

²⁷⁴ Oprețescu Marin and co- The Impact of Globalisation on the Bnking System, in rev. Finances- Chalenges of the Future, I year, no 1/2002, Universitaria Publisher, Craiova,2002,p. 28

²⁷⁵ Ana Popa- coord., Financial Intermediaries- Institutions of the Modern Financial Market, in Financial Institutions of the Competitive Economy, , Universitaria Publisher, Craiova,2002,p.171

Financial intermediaries offer a wide range of integrated services to their clientele with a continuously growing degree of complexity, in the context of a development without precedent of the financial relationships. Mainly, the activities of the financial intermediaries can be grouped under different categories, from offering advice to the capital buyers and sellers to the gathering and processing of a huge range of economic, social, political information and also activities that require direct involvement as in financing, facilities, insurances. The latter means a warranty of the intermediation activity's quality and also a source of supplementary gains for the intermediaries.

The basic services offered by the financial intermediaries are the following:

- financial consultancy, offered to the investors regarding the possibilities of investing or the management of the owned portfolio;
- the supervision of the real and financial markets;
- classical transactions, regarding the purchase and sale of financial assets on the market and also other transactions regarding the national and international payments and settlements;
- financing the economic activity, the national and international investments and that of the foreign commerce;
- managerial expertise, as in offering consultancy in business management;
- underwriting financial operations, by offering banking collaterals for the international payments, collateralizing the issue of financial securities;
- the insurance against financial risks.

Financial intermediation has a series of advantages and disadvantages.

The main advantages which evolve from intermediation on the national and international financial markets are determined by informing and counseling the users and also by the direct involvement, as a guarantee of the financial intermediations' quality. Some of these advantages are:

- financial consultancy, offered to the investors and capital users;
- the possibility of better gathering and valuing the existing information on the market;
- additional facilities offered to the users and capital owners, a part of these being taken over by intermediation institutions.

The disadvantages of financial intermediation are:

- big transaction costs, due to collection of taxes, fees and commissions;
- the loss of direct contact with the international financial market, therefore some investors aren't sensitive anymore to the markets' signs;
- the existence of a routine in the relationship with the financial intermediary, many markets being led according to the solutions offered over the time by important intermediary firms.

Taking into account all these aspects we can conclude that financial intermediation contributed and contributes mainly to the growth of allocating capital resources and covering some risks, with real economic benefits.

On the financial market intermediation is achieved with help from the credit institutions, which are institutions specialized in offering funds to the population under different forms- to finance their activities on a short, medium or long term. There are a multitude of credit institutions which differ from one another from an organizational stand point, from the segment of populating they target, from the type of funding they offer, from the type of supervision they are under.

The recent financial deregulation proves that the banking profession can be replaced by different institutions for financial intermediation. Under these terms we are entitled to ask ourselves if the banking profession is in decline due to the fact that prudential protection becomes less and less effective rather than protective. Difficulties (questions) are far from the considerations that a bank ought to have. Since the scandals of Enron, Parmalat, behavior ethics of banking people, stock holders and auditors must be reinvented. For the beginning, ethics means business discipline with all that is good or bad, with moral duty and obligations.

In this context, we can say that banks have become more vulnerable. The monopolies have been undermined by the penetration into the market of new suppliers financial services. This has had

consequences both at the level of the prices at which their products are supplied and at that of their profit margins. The enormous increase of derivatives and the role played by off balance sheet items have generated instability for the banking system. The competition and the structural changes will lead banks to redefine their skills²⁷⁶. The study prove that even small banks can compete as long as they well capitalized and follow prudent risk and credit norms.

The important question is: do the market work or do it need an external intervention to regulate them? A proper legal frame is needed to protect the development of the institutions for financial development as entities good integrated in the financial system. In many developing economies, the legal frame for specialised financial institutions is ambiguous, dissipated and incomplete. Repressive regulation could slow down the development of these financial institutions and at the same time a permissive structure of the regulation could leave place for the arbitrary. Even when there is an adequate legislation, putting it into application could leave many voids. All these factors could slower the development of the financial system in general, and at the same time it affects more seriously the financial institutions that are not supported by an efficient legal frame work.

With regard to finding the most appropriate institutional structure to supervise the activities of the institutions for financial intermediation, this decision must be taken according to the number and size of these institutions but also their links with the banks and other financial entities of the financial system.

Concentrating the regulation and supervision of all the types of institutions under the same supervisory framework would help ;the supervision would be more efficient. A unique supervisory structure facilitates the adoption of a common set of standards for the institution with the same risk profile.

In a structure with several supervisory entities, there should be given attention to the legal power of every entity separately, to the identification of the conflict areas as well to the double regulations. Such a concentrated system is a source of discontinuities and ambiguities which lead to all sorts of problems in the process of regulation and supervision in many countries.

The fact that the institutions for financial intermediation need regulation doesn't necessarily mean that all of them need it in the same style, definitely not as the banks need it. The supervisory authority must establish the priorities into allocating its' supervisory capacity.

After establishing the priorities, there must be taken reinsurance measurements into protecting the intermediation institution from the excessive request for reports, when they don't show major changes in their portfolios from one period to another. For these institutions, the accuracy and complexity of the reports are far important than their frequency.

In the process of elaborating regulations for the institution for financial intermediation, it must be taken into consideration the fact that regulation for the banks should adapt to the specific profile of these institutions:

- regulation must minimize the negative effects over the competition and encourage it; negative and inappropriate regulation could have a negative impact on the institutions for financial intermediation;
- regulation must define in an obvious way the limits of the law and the permitted activities which could be undertaken by the institutions for financial intermediation;
- similar risks and functions must be supervised in the same manner to minimize the arbitrary; financial institutions that relate to the banks ought to be supervised in the same way as the banks;
- the links between the institutions for financial intermediation and other institutions of the financial sector should be carefully monitored. The exposure to risk by investing in other sectors must be constantly monitored because these links makes each sector vulnerable to the evolution of the other ones.
- the unique risks to which the institutions for financial intermediation are exposed must be taken into account when the prudential framework is established and their supervision is settled;the supervisory institution must acknowledge the specific risks to which the institutions for financial intermediation are exposed. When possible the prudential framework must be specific established for the institutions for financial intermediation;

²⁷⁶ Elisabeth Paulet, *European Banking – Historical Roots and Modern Challenges*, Lavoisier, Paris, 2005, p. 189

- costs and benefits must be taken into consideration when establishing the means for supervision. The institutions with a lower risk profile don't need to be burdened with excessive supervisory requests;
- the focus should be on the bigger and more complex institutions for financial intermediation.

The banks will be called upon to redefine the services and products that the best reflect their skills. Thus the concept of a completely integrated banks, such as recommended by the European authorities, will appear obsolete and will give way to a concept focused on market strategy.

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