

# **The Lebanese Banking Sector analysis**

**Presented by**

**M. H. BOULDOUKIAN**

At Université du Saint-Esprit

USEK

January 10, 2005

Kaslik, Lebanon

## The Lebanese Banking Sector analysis

**Introductory** – The financial and banking system in Lebanon.

### **1- History and aspects**

- pre war
- during the war
- post war
- the development of banking
- Banks' activities
- Structural evolution
- Consolidation

### **2- Legal framework and new structures**

The Central Banking Evolution

Before 1964 and after, the war-time, post-war take-off.

### **3- Sector's overview**

Financial Statistics from latest Data Management publication - 2004

## **BREAK**

### **4- Main Stakes, Main Actors and Development Strategy**

- Globalization
- Basel II
- Mergers and Acquisitions
- Corporate Governance
- Financial Transparency

### **5- Managerial Aspects and Practices**

- Concentration of Decision Making Authority
- Paternalistic
- Institutional Approach and the HR

### **6- SWOT Analysis of the sector**

### **7- Extension Analysis**

### **1- History and Aspects**

## a) History

The origins of banks in Lebanon go as far as the Middle of the 19<sup>th</sup> century, during the Ottoman period.

- The period of 1850 to 1920

The political competition between France and England in the Orient, lead to the “batailles financiers” in the region.

The French Banques d’Affaires had 75% of their investments in overseas holdings. These investments were in Northern Africa, Egypt, Lebanon and Syria.

The port of Beirut was constructed in 1888 by the Ottoman Bank, Comptoir d’Escompte, Banque de Paris & des Pays Bas, as well as Compagnie de la Route Suez Canal was financed again by the biggest French banks of the period. Other banks that operated in Lebanon during this period were Banque Agricole de Turquie, Banque de Syrie et du Liban, Compagnie Algérienne, Credit Foncier d’Algérie et de Tunisie & Crédit Foncier de Syrie.

- Banking under the French Mandate (1920 – 1943)

Banque de Syrie et du Liban, Banque Lati, Banque de Crédit National, Banque Misr-Liban, Banca di Roma, family banks.

- Banking in the early days of the independence (1943 – 1963)

The inflow of foreign banks into Lebanon. Names.

- 1963 and onwards
  - With the creation of BDL
  - The Intra Bank crisis in October 1966
  - The ensuing reforms in 1967 and 1968

- The golden period (1968 – 1974)

The inflow of new banks.

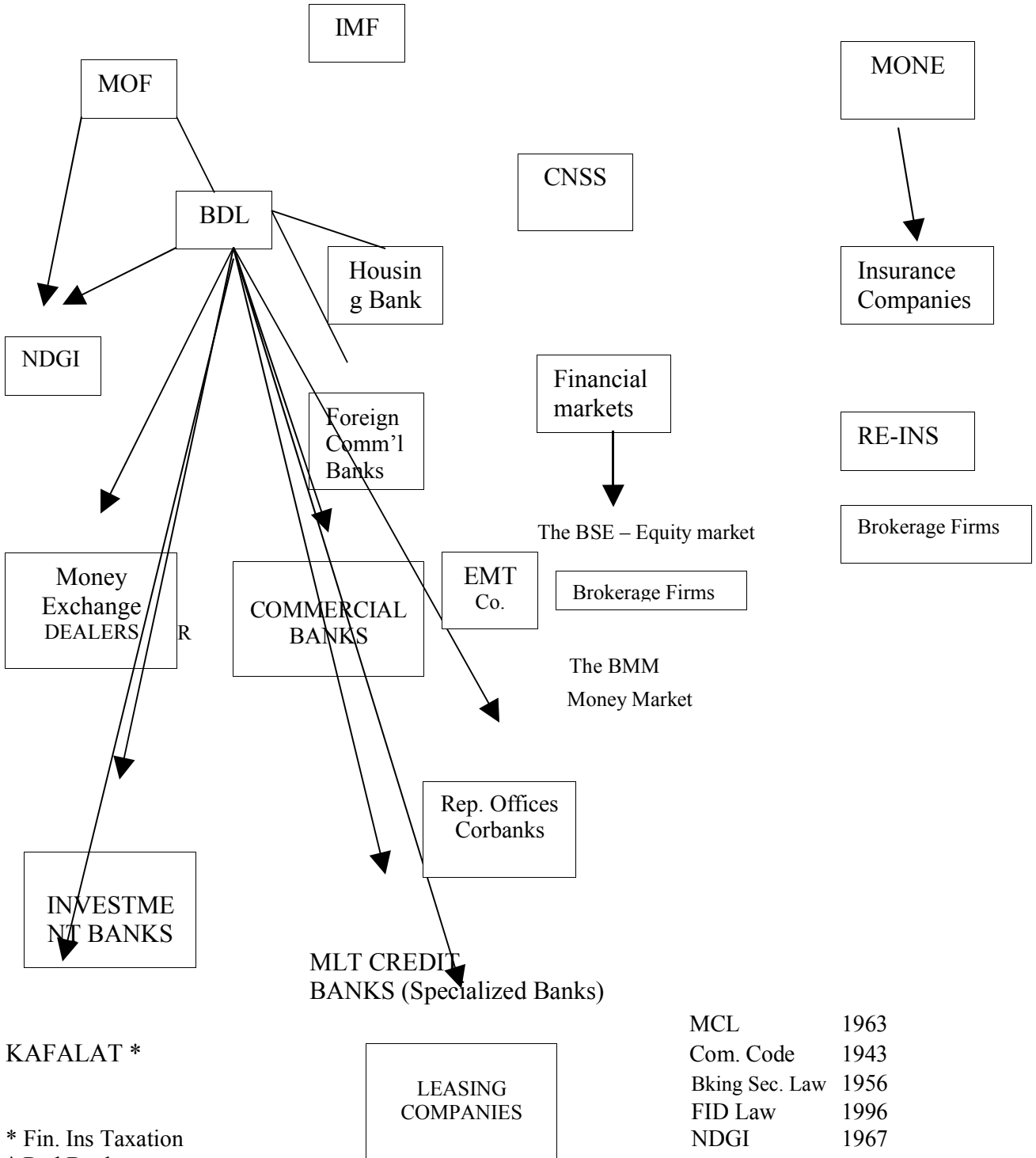
- The war period (1975 – 1992)

The exodus of the banks abroad.

- Consolidation, mergers and acquisitions (1993 – 2004)

**The Financial and the Banking System**

**Organization of the Financial System**

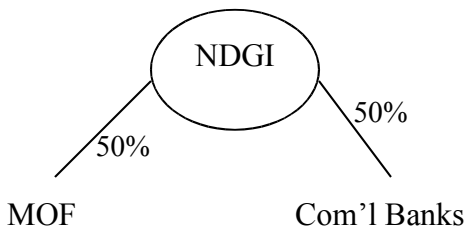
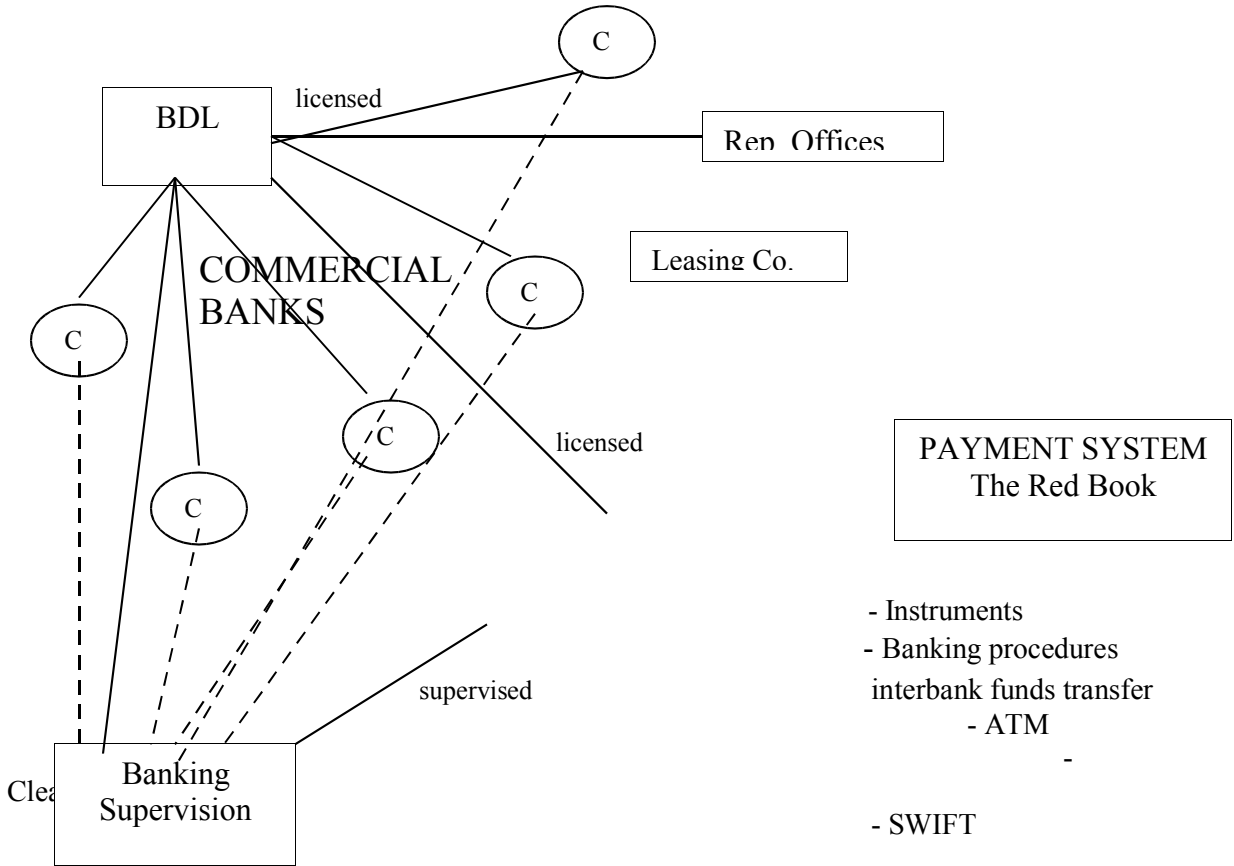


KAFALAT \*

- \* Fin. Ins Taxation
- \* Red Books
- \* SWIFT

\* Payment System

**ORGANIZATION OF THE BANKING SYSTEM**



MCL	1963	
Com. Code	1943	
Bking Sec. Law		1956
Fid. Law	1996	
NDGI	1967	
(see later under legal)		

## **b) Aspects**

What caused the establishment of these banks in Lebanon and what was the orientation during this period, viz., 1950 –2004?

As we stated earlier,

- 1- Competition of 2 Great Powers of the 19<sup>th</sup> century and early 20<sup>th</sup>, for domination into the Mediterranean basin, from North Africa to Syria, during the existence of the Ottoman empire and after its downfall in 1918, the French and the British mandates and after World War II.
- 2- Changes that have occurred in the political Landscape in the MENA countries – their independence, their link with those powers etc.. (1920 – 1945)
- 3- The influence of the U.S.A in the region and the competition between USA & USSR in the region.
- 4- The politically unstable countries in the Middle East that helped Lebanon to become a financial and banking center. The banking secrecy law of 1956.
- 5- All these created for commerce, insurance and services industries to grow and, banking was the engine of this grow. This gave rise to new legislation in central banking, new financial institutions, new money and capital markets (LSE), new financial products, new clients, new players in the market, new systems in clearing and payments, a new legal environment within the financial and the banking system.
- 6- With globalization, new challenges are facing banks in IT, Money Laundering FATF, Universal Banking, Compliance, Risk Management.

## **2- Legal framework and new structures**

The Central Banking Evolution

Before 1964 and after, the war-time, post-war take-off.

- There were no central banking rules and regulations during these periods of banking evolution in the banking system. There was the BSL, mixed ownership that was both the currency-issuing bank and commercial bank competing with other banks.
- To establish a bank, no minimum capital requirement.
- In the fifties, it operated under the Commercial Law LBP 50.000 – the capital of a bank.
- When the mandate of BSL came to an end in 1963, a new Central Bank was established

The BDL

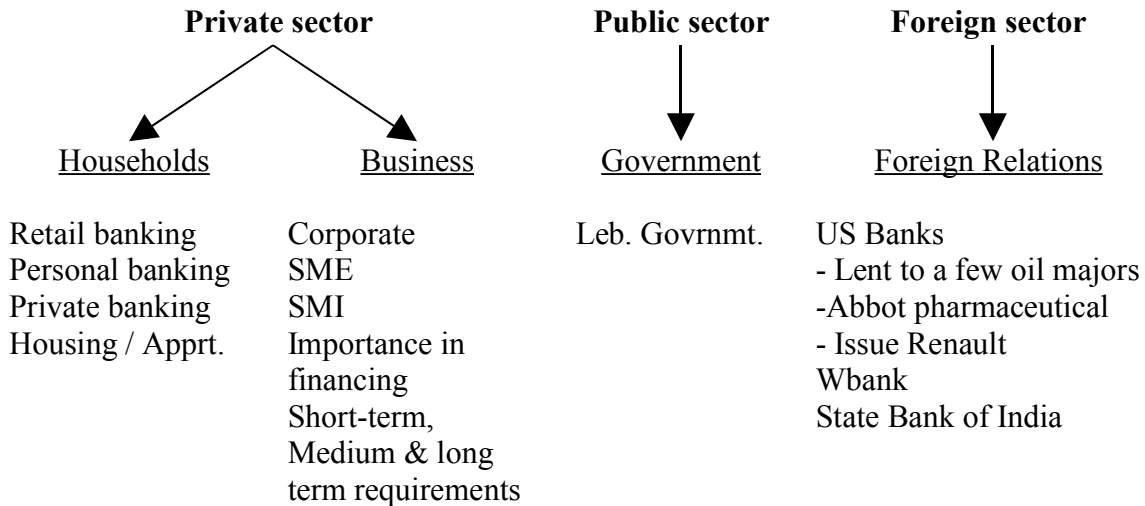
that generated the Code de la Monnaie et du Crédit,

- Rules and Regulation
- Licensing, branching and mergers
- New institutions were created other than commercial banks – LT Banks, specialized Banks, Investment Bank...

### **3- Sector's overview**

Financial Statistics from latest Data Management publication – 2004

- a) The role of banks in the financing of Lebanon's reconstruction
- b) The importance of this sector to the Lebanese economy



- c) Statistical data  
Capital, total assets, liquidity, total loans, profitability, capital adequacy, ranking of banks...

#### **4- Main Stakes, Main Actors and Development Strategy**

- Globalization
- Basel II
- Mergers and Acquisitions
- Corporate Governance
- Financial Transparency

Globalization

Basel II Rules

Mergers and Acquisitions

Corporate Governance

Financial Transparency      A/R

## **5- Managerial Aspects and Practices**

- a) Concentration of Decision Making Authority
- b) Paternalistic
- c) Institutional Approach and the HR

There is no more Personnel Department.

Today all is Human Resources, that includes:

- Recruitment
- Selection
- Training and Development
- Remuneration, compensation
- Promotion
- Retirement Plan

## **6- SWOT Analysis of the sector**

### Strengths

- Liberal economic system.
- Mature Central Banking Authority
- Widespread developed banking culture
- Relatively stable political environment
- Support from CBL (BDL) in case of a crisis
- Enhanced BDL regulations and supervision
- A healthy banking system
- Banking Secrecy Law
- Sound bank managements
- Improved risk management
- Diversity in bank funding activities, core deposits, CD, Pref. Shares, IFC syndicated loans, GSM 102 / 103 transactions, GDRs.
- High systemic liquidity
- Overall confidence and trust in Lebanese banks
- Safety of depositors' funds comes in priority.

### Weaknesses

- Government financing by banks out of acceptable standards.
- Very weak corporate governance
- The gradual disappearance of the bill of exchange in trade financing
- Economic recovery fundamentals – lacking
- Annual Reports of many banks need more transparency, information and analysis.

### Opportunities

- Privatization will create ample opportunities for economic growth (eg. Electricity, general distribution, collection...)
- Banking Over Borders – extension to regional countries
- Securitization of government assets will create new assets for banks
- A change in CB legislation to own equity shares in subsidiaries other than insurance and financial sector, eg. Aviation, industry, hotels...
- The reestablishment of discount houses.

### Challenges

- The burden of the public debt – a potential threat in case financial reforms are not introduced.
- Basel II requirements might challenge the viability of several smaller banks in the system.

## **7- Extension Analysis**

Regional stakes, regional market size and regional market access.

There are four fundamental forces of change:

- 1- Deregulation
- 2- Financial innovation
- 3- Securitization
- 4- Globalization

These four forces enhance in the banking system:

- 1- Competition
- 2- Consolidation
- 3- Increased capital requirement, hence better control of banking risks

Hence,

Regionally	Syria is opening up; Libya will open up
	Jordan – Iraq
	Egypt
	Algeria
	Morocco
	The Gulf