

INTRODUCTION

The Banking System in Lebanon

There has been, there are at present and there will a banking system in every country, worldwide. These systems have evolved during the past centuries, within a political, economic, social and financial environment in each state. In a number of them, a central bank has played a major role in the economy; it has managed the banking system and, monitored its viability, by chartering, controlling and supporting banks in times of crisis of confidence and panics. In many countries, in the past centuries, specially in colonized and mandated geographic territories, a Monetary Agency or a Currency Board was established, for the purpose of issuing domestic currencies only, such as, the Currency Board in Jordan until 1964, the UAE and Qatar Monetary Agencies until the establishment of their central banks and the Saudi Arabian Monetary Agency, the SAMA until now.

Most banks operating in these territories were foreign, viz., banks of the colonialist or the dominating foreign powers, eg. the famous DCOs of the British banks. Local financial institutions were either **discount houses or exchange houses (sarrafs)** and rarely, **domestic bank(s)**. These houses were not allowed to take deposits from the market; they operated with their own capital in lending against tangible collateral, mainly real estate mortgages or lien on commodities.

Financial institutions, under whatever type of central authority for managing the banking system, has operated within a legal environment: for licensing a bank, a discount house or an exchange house; for licensing a commercial enterprise; in defense of creditors, a law for rights and obligations and many other forms of contractual arrangement within each system.

At present, a banking system to exist and to be viable in an independent economy, requires several fundamental **preconditions**:

A-The hardware:

1. A stable political and economic system
2. A central bank & a cultured supervisory agency as per BASEL II understanding
3. A national currency
4. Financial institutions such as banks, insurance companies, stock exchange ...
5. Financial instruments, utilized by these operating institutions, bills bond, shares...

6. Commercial Courts to judge
7. Trade and need for financing the economy including the state
8. Correspondent banks
9. Savers, investors and markets
10. Transactions, brokers, economic agents
11. A modern international accounting and auditing system
12. Information technology and advanced telecommunication network

Besides, there must be few other **preconditions**, the absence of which can create crisis of confidence, hence a weakening of the banking system, capital flights, bankruptcies and devaluation of the national currency. These few intangible elements are:

B- The Software:

1. Unquestionable reputation and integrity
2. Trust in the banking system and financial institutions
3. Loyalty and allegiance
4. Compliance to laws, rules and regulations
5. Discretion and professional secrecy
6. Honest and efficient management
7. Banking culture and code of conduct
8. Overall sound relations with all the major stakeholders of banks.

Practically speaking, Lebanon as a separate entity, dates from the second half of the nineteenth century. The Lebanese state was defined within the bounds of the Ottoman Empire, notably by the Protocole of September 6 1864 which set up in Mount Lebanon an autonomous fiscal regime.

Since then, a banking system has existed in Lebanon under foreign dominations; first the Ottoman rule, followed by the French mandatory authority until 1943. Afterwards, the banking system has evolved independently until 1975. During this period Banque du Liban (the central bank) was established in 1963, decree no. 13513 of August 1 1963. From 1975 till 1992, the Lebanese banking system during its darkest days, survived the war period, due to the tight collaboration between Banque du Liban and all the banks operating in Lebanon, as well as, the allegiance and loyalty of depositors and customers to Lebanon and their banks and vice-versa. Since 1993, the evolution and development of the banking system has been exceptionally very satisfactory, in spite of waves of internal political crises, the recurrent Israeli threats and invasions and the latest world financial crisis. We can say without hesitation, that we are heading to a new golden age of the Lebanese banking system. In this book, in Conferences nos. 2, 3 and 4, an elaborate structure of the present day Lebanese financial and banking system is presented.

Hence, since 1864, there has existed a banking system in Lebanon, under different political and economic systems; under foreign domination or independent Lebanon; with the Banque de Syrie et du Liban, a mandatory institution operating as a central bank or after the establishment of Banque du Liban; with the Lebanese currency in circulation or the adopted currencies since two centuries which included the Ottoman gold pound and various coins-silver, nickel and coppers or the Egyptian bank notes, the Sterling pound; or the Lebanese currency linked to the French Franc after 1920 or an independent national currency since 1946.

Most of the above stated preconditions have prevailed in the Lebanese banking system during the past two centuries, specially the hardware in an evolving manner. Several of these elements were adopted structures, from the foreign commanding authorities. This made the banking system in Lebanon and its currency subjected to the monetary, foreign exchange and fiscal policies and devaluations of the foreign dominating powers.

With respect to institutions operating in this system and financial instruments, most of the discount and exchange houses were Lebanese individuals or partnership. One can proudly state the House of Pharaon and Chiha, bankers since 1876 which had international recognition. I have included in this book a financial instrument: **a 90 days Bill of Exchange, dated October 8, 1919, drawn by Banque Française pour le Brésil , on Messrs. Pharaon and Chiha, Beyrouth. A rare document.** See annex number1. No present day financial instruments existed such as, the Lebanese Treasury Bills, or certificates of deposits ... during this period.

All banks operating in Lebanon today are privately owned. There are no state-owned banks except Banque de l'Habitat (the housing bank) founded during the 17 years war period, in which the State of Lebanon has a stake, jointly with commercial banks. Most of these privately owned banks, were either Discount Houses or Exchange Houses, established in the beginning of the 20th century. For a complete list of these institutions see annex number 6. Many of them are extinct at present or they exist as commercial banks under a different name and different shareholders or they still operate in the system as an Exchange House.

Foreign banks have operated in Lebanon, from late 19th century until the present days. In 1966, out of 90 banks, 30 were foreign owned, the U.S. majors and Canadians, the Europeans, Arab and other M.E. countries. The oldest of these were the French Compagnie Algérienne, today Banque Libano-Française, established originally in 1930; Crédit Foncier d'Algérie et de Tunisie, at present Fransabank, established in 1921 and Banque de Syrie et du Liban, originally established as a central bank under the French Mandate in 1921, today Société Nouvelle de la B.S.L, all leading financial institutions in the Lebanese banking system

The future of the banking system in Lebanon and its viability depend on a number of fundamental basic conditions. These have to be fulfilled by self-discipline by each institution and by the supervisory firm actions of the monetary authorities:

1. Liquidity must always prevail within the banking system and in particular, in each bank. Liquidity is a priority for every bank, in managing its private and public funds. Solvency is the key to success.
2. Sustained profitability and growth. Priority goes to liquidity in the case of dilemma.
3. Acceptable quality of loans and investments' portfolio and other earning assets. No speculative assets whatever the origin, diversification and size.
4. Well capitalized Tier I and Tier II configuration. Compliance to Basel I & II.
5. Strong shareholders support to the Tier I.
6. Mature and honest senior executives.
7. Efficient and wise management.
8. Acceptable and transparent corporate governance.
9. Applied banking technology , advanced IT and communications network.
10. Respect to orderly overall risks management and compliance to rules and regulations.
11. On-line supervision by the monetary authorities, since banking accounting is on-line.
12. Alert and far-sighted regulators at Banque du Liban.
13. A “*Centrale des risques*” for all correspondent banking transactions, funded or non funded. A score of Lebanese banks at present are taking risks on banking institutions in countries outside the Lebanese banking system, mainly in Africa and in the M.E. A few of these countries are sanctioned by the UN & foreign governments, or their supervisory system is not professionally oriented so far and a few of them face permanently foreign currency shortages.
14. International correspondent banking network.

When these conditions have been fulfilled thoroughly, then the reputation of banks will bolster further international confidence in the **Lebanese banking system**, in spite of the global financial crisis of 2008.