

Integrative Case 5

The Changing Landscape for Domestic and Global Financial Markets

You have just been hired in the policy and planning department of a multinational banking firm. Over the past 10 years or so, the pace of change in the financial services marketplaces, both here in Canada as well as around the globe, has been phenomenal. The forces that are reshaping the industry are the globalization of finance, advances in information and computer technologies, and regulatory reform. You are asked to write a report for the senior administration looking at the risks and challenges that these developments are creating for your firm.

You know that almost 80% of the countries in the world are currently considered “open,” compared to 50% about 30 years ago. This greater openness is the result of financial system reform and modernization, increasing capital mobility, common currencies (such as the recently introduced euro in the European Community), and economic communities and trading blocs, such as NAFTA. You are familiar with the Internet and the recent advances in telecommunications that have significantly changed domestic and global financial markets.

You also know how governing regulatory bodies can shape domestic and international financial markets by choosing and accommodating a variety of strategies. For example, in the United States and the United Kingdom, regulators have promoted open competition; in the Netherlands, Switzerland, and Spain they have supported the formation of strong national and globally competitive financial institutions. Other countries, like Australia and Canada, have pursued a middle road approach, by considering the trade-off between the benefits of open competition and the long-run costs of greater consolidation.

In preparing your report, you don’t know where to start, so you visit again the web site of the International Monetary Fund (IMF) at www.imf.org, with the hope that you’ll find some relevant literature. You click on *Publications*, then on *Periodicals*, and then on *Finance & Development*. You find a recent interesting article in the March 2002 Volume, with the title “The Globalization of Finance,” written by Gerd Häusler, Counsellor and Director of the IMF’s International Capital Markets Department. This article puts your thoughts into perspective and you decide to address the following questions in your report.

1. How financial globalization is affected by:

- Deregulation
- Capital mobility
- The introduction of common currencies
- The formation of economic communities and trading blocs

2. Discuss how the Internet and technological advances in computing power and communications have affected:

- The provision of domestic and global banking products and services
- The degree of competition in the world’s financial markets
- Domestic and global financial system reform

3. Discuss how regulatory reform:

- Is an important element by itself in reshaping the financial services landscape
- Is a reaction to the other forces of change affecting financial markets

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