News_BMFE_2003-32.pdf

Business Reach

Daily News

Editor - 429221 Fax - 429220 e.mail - business@dailynews.lk

Point of view

State Bank privatisation and role of marketing in financial intermediation

by Somachandre Wijesuriya

In terms of financial intermediation, private banks have not shown any innovative marketing efforts. One reason could be the fiduciary dilemma faced by bankers in this country who have been exposed to British banking systems. Another reason is our banks are organized as operational entities and not as marketing organizations.

Financial intermediation is the exchange of money between borrowers and lenders accomplished through a financial institution. Financial intermediary is the go-between in the exchange process and brings together the borrower and lender. Banks, savings and loan institutions are examples of intermediaries.

The advantages of financial intermediation to an economy are many. Under conditions of dis-intermediation, transaction costs, increase and deficit and surplus units are not synchronised. The borrower and lender will have conflicting objectives on long-term and short-term transactions, as well as maturity period and collateral requirements. The development of an economy will depend on the efficiency of the intermediaries, comprising banks and other institutions comprising the financial industry of the country.

This economic concept of financial intermediation is based on empirical observations.

There are certain limitations in this notion, which arises out of philosophical considerations that led to the concept. An examination of this philosophical trend will reveal the reliability of the models that are offered by economists.

Therefore, let us begin a philosophical exploration of economics.

Economics

The subject, economics originated in United Kingdom where, empiricism, as a trend in modern philosophy developed. The test of truth untrammelled by experience of humanity was the basis of this philosophical trend. Scientific experiments that supported empirical hypotheses brought great advances in natural sciences. Yet, this philosophical trend has been challenged because it does not have a universal application. For example, in quantum physics empirical observations has been questioned to arrive at scientific conclusions. However, in some branches of sciences the concept is applied. Practice of Western medicine relies on empirical observations to this day. That is why most of innovations in medicine are attributed to other branches of sciences and not to physicians themselves.

Another weakness of the school of Empiricism is it assumes that outside one's experience a model world exists. In other words perfectly managed banks, savings institutions etc. are available and they act as model intermediaries. This assumption is not realistic. The performance of Pramuka Bank is just one example that contradicts the notion.

History

In Sri Lanka, the attempts of policy makers and economists for the last twenty-five years were the history of a failure to improve the process of financial intermediation.

Continued on page 44