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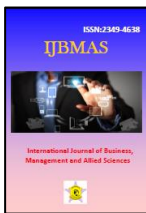
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BANK MANAGEMENT SYSTEM

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ABSTRACT

The prominence acquired by financial institutions in recent decades has stimulated studies on banking history. Banking history encompasses the behaviour of institutions, the legal framework in which they operated, and the typology they adopted, but it also includes knowledge of the individuals who promoted them, the networks that these individuals established and the societies in which they operated. Thus, studies on banking history can offer a mosaic of varied interests to researchers from different areas (banking history, business history, social history, etc.). In this volume, twenty specialists break down a set of histories of banking and financial institutions that span from the 19th century to the present day. Understanding a nation's financial system and fostering economic development toward financial stability, economic growth, savings security, cash flow, and money generation are two reasons why studying banking structure is crucial.

Keywords: Banking, category, commercial banking, Libyan banking

INTRODUCTION

In recent years, there have been notable advancements in the banking industry in the Arab world. Banks operating in the major Arab oil-exporting nations, particularly those in the Gulf Cooperation Council, have seen a liquidity boom as a result of the ongoing increase in oil prices and earnings [1]. Due to a rise in foreign financial flows, banks operating in several other Arab nations have also experienced a relative gain in liquidity. Officials and experts in the Arab countries are now interested in the banking industry's capacity to draw in resources from the financial boom and then effectively redistribute them to support economic growth. Given the reforms implemented in this sector and the degree of preparedness to allow foreign competition by allowing international banks to operate in Arab financial markets, this chapter seeks to provide insight into the evolution and performance of the banking industry in the Arab world [2].

Origin of Banks

Since the development of trade, it gained an international character, necessitated the formation of institutions related to money, money changers emerged first. For this reason, it is possible to describe money changers as the forerunners of bankers and banks. The word bank originates from the Italian word 'banco', the word for "table, desk" on which money changers carried out their transactions. When some of these money changers failed to fulfil their commitments and went bankrupt, the public would break their 'banco'. This is why in Western languages, people who go bankrupt are called 'bankrupt', which comes from the word 'banco'. The expansion of the money changers' fields of activity, their acceptance of deposits as well as transfer transactions and their provision of credit to their customers transformed their workplaces into 'deposit and transfer banks'. Money trade in its true sense emerged only with the classes involved in goods and capital trade, the bourgeoisie consisting of moneylenders and merchants. The development of merchant capital transformed the institution called bank into an important element of economic life. The Industrial Revolution led to the rapid development of banking [3-4].

Origin of Banks in Libya [5]

In 1868, during the second Ottoman era (1834-1911), the Agricultural Bank was established as a branch of the Ottoman Agricultural Bank, marking the beginning of banking activity in Libya. In 1906 and 1911, respectively, two additional bank branches were opened in Tripoli and Benghazi. The opening of a Bank of Rome branch in 1907 marked the arrival of commercial banks into the nation as well. Several Italian banks established branches in the country during the Italian occupation (1911-1943); these included the Bank of Sicily in 1912, the Bank of Naples in 1913, the Bank of Italy in 1912, the Tripoli Savings Fund in 1923, and the Barqa Savings Fund in 1924. In 1935, these funds were combined to form the Libyan Savings Fund. During the British occupation of Tripoli (1943-1951) and Barqa (1943-1949), Barclays Bank entered the nation to supply the British government with currency. The Bank of Naples, the Bank of Rome, and the Bank of Sicily were among the Italian banks that resumed operations in 1951. The British Bank of the Middle East, the Arab Bank, the Bank of Egypt, and the Algerian-Tunisian Real Estate Bank were among the new institutions that joined the nation in 1952, 1953, and 1955, respectively. The Libyan Currency Commission, which took over as the director of the Libyan currency from Barclays Bank, was superseded by the Central Bank of Libya, which started operations from Tripoli for the first time in 1956. Three other banks – the Bank of America, Morgan Guaranty Bank, and the Eastern Bank – were added, bringing the total to eleven institutions in the early 1960s [5]. The banks that operated in Libya were requested to form a Libyan joint-stock corporation in 1963, with Libyans owning 51% of the firm. Three banks agreed to this in 1964, and Libya joined the Eastern Bank to form the Commercial Bank – another bank, not the National Commercial Bank. Libya's involvement in the Bank of America and the Bank of Seychelles led to the establishment of the Sahara Bank. In 1966, the British Bank of the Middle East changed its name to the North Africa Bank, of which Libyans controlled 51%. Morgan Garantie Bank and the British Bank of the Middle East shared the remaining shares. When the Bank of Rome changed its name to the National Bank in 1970, the country's biggest bank was born. Barclays Bank also changed its name to the Republic Bank, the Arab Bank to the Arab Bank, and the Bank of Naples to the Independence Bank. The National Commercial Bank, the city branch of which is currently located in the Andalusia neighbourhood, was created by the merger of the Independence Bank, the Arab Bank, and the Commercial Banking Operations Department. The management headquarters of the new bank were located in Al-Suwaihi Square. This merger made the National Commercial Bank the second-largest commercial bank in the nation. The Unity Bank was also formed by the merger of the African Banking Company, the Commercial Bank, the National Caravan Bank, the North Africa Bank, and the Arab Renaissance Bank (previously the Bank of Egypt). The Republic Bank (Barclays Bank) and the National Bank (previously Banco di Roma) amalgamated in 2008 to establish the Republic Bank, which is now the biggest bank in the nation [7].

Bank Management system

Banking, or banking system, is the set of entities or institutions that, within a given economy, provide banking services, that is, manage and lend money. To this first definition, we must add three characteristics: habitual nature, profit motive and typically banking activity (understood as the taking of deposits and the granting of loans as fundamental banking operations). In our current financial system, banking is the most relevant factor - more than any other - as proven by the fact that banks provide more than 60% of financing to the public sector and more than 50% of that to the private sector, with the main criterion for classifying banks being nationality, together with residence. However, there are others such as ownership, nature or geographical area. In the financial markets, banks play a significant role. Financial organizations known as banks facilitate the distribution of money obtained from people with surplus finances as loans to people in need of money. As organizations that guarantee the most suitable interchange between savings and investments, banks thereby fulfil a significant responsibility [8].

Apart from facilitating the flow of funds throughout the economy, banks also play a significant role in the creation of registered currency, the implementation of fiscal and monetary policies, and the distribution of wealth and income. Strong national economies are also guaranteed by a robust banking industry.

The economy will grow and develop as a result of the expansion and advancement of banking. Economic growth will increase with the strength of the banking industry inside the financial system.

Banking System Flowchart [9]

Banking system flowcharts are mainly based on banking systems, such as deposit systems, withdrawal systems, loan systems, etc. This flowchart describes the flow of data in a banking system and aims to show the different systems more clearly. Let's take the deposit system as an example to show you what a banking system flowchart is and how to draw it.

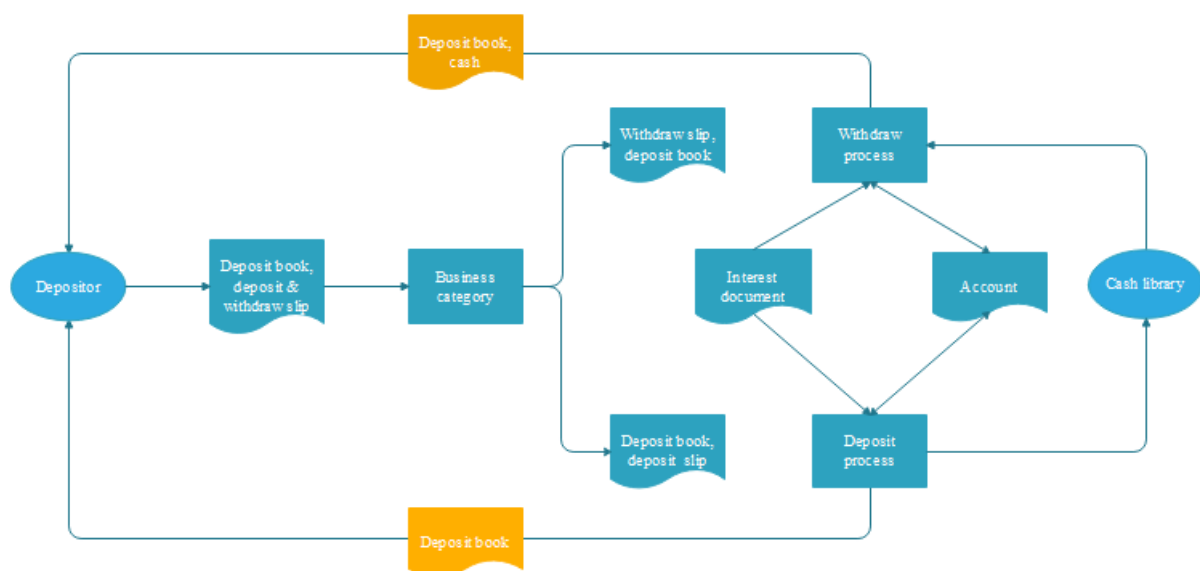


Figure 1: Banking System Flowchart

This study aims to provide information about the history of banking, especially the Libyan banking system. In the first part of our study, the concept of bank and the reasons for the formation of banking are tried to be explained. In the second part, information is given about the historical development of banking in the world. In the last part, today's Libyan banking system is evaluated, and our results and suggestions are given.

Bank ownership structure:

Commercial banks are divided into large commercial banks, the public ownership of which is still the dominant one in the Central Bank of Libya, namely: Bank of the Republic, Sahara Bank, National Commercial Bank, Al-Wahda Bank and North Africa Bank, while some banks have entered into a strategic partnership with foreign banks in ownership rights, namely Al-Wahda Bank with the participation of Arab Bank (Jordan) by 19.0%, Sahara Bank with the participation of BNP Paribas (France) by 19.0%, United Bank for Trade and Investment with the participation of Ahli United Bank (Bahrain) by 40%, Al-Aman Bank with the participation of Espirito Santo Bank (Portugal) by 40%, and the Bank of Commerce and Development with the participation of the Qatar National Bank (Qatar) by 49%. The State of Qatar participates by 50% in Al-Nouran Bank, and the UAE participates by 50.0% in the Libyan Gulf First Bank, as these banks monopolize the largest share of the banking market [10].

The foreign partnership aims to the Libyan banking sector is primarily concerned with transferring knowledge and using it to support and develop banking services, while the rest of the banks are owned by the private sector. Despite the small size of private banks, their performance is developing rapidly.

Commercial Banking system

The structure of the commercial banking system may vary from country to country, but in general, it is made up of financial institutions, savings banks, credit institutions and commercial banks:

- **Multiple banking:** Set of commercial banks
- **Development Bank:** Government institutions that support specific sectors
- **Commercial Bank Sectors:** Public, Private, Foreign and Reserve Banks

The purpose of a country's banking system is to channel the savings of lenders and ensure the security of money movements and payment systems.

The Commercial Banking System's Structure

The Central Bank is the main component that distinguishes Libya's banking system. In summary, a bank is a financial organization that engages in three key functions: funding, lending, and banking services. These functions are intended to raise the standard of living and welfare of a large number of people. We can conclude that a bank is a financial intermediary institution that channels customers' excess monies that are kept for security considerations and return those funds to customers in need of more credit.

Different Bank Types According to Ownership: When viewed through the lens of ownership, it refers to the bank's owner. The establishment deed and the shareholders of the relevant bank attest to this ownership.

The following are the categories of banks as perceived from the perspective of ownership.

- a. Banks owned by the government. Where the government owns the capital and the deed of establishment, the government also owns all of the bank's profits.
- b. Private national banks. A national private firm owns all or most of this kind of bank, and the private sector also created the establishment document and the profit-sharing plan for the private sector's advantage.
- c. Bank cooperatives. This bank's shares are owned by a business with a cooperative legal structure.
- d. Internationally owned banks. This kind of bank is a branch of a bank located overseas that is either owned by a foreign government or a private firm. A foreign entity also owns it.

- e. Banks with dual ownership. Both domestic and foreign private parties possess shares in mixed banks. Libyan people possess the majority of the shares.

Bank Types according to Their Status: This position or status shows how well the bank can serve the community in terms of capital, amount of goods, and service quality. As a result, tests with certain requirements are necessary to get this status. The bank in question is currently following:

- a. Bank for foreign exchange. Is a bank that can do transactions overseas or about foreign currency in general, such as opening and paying Letters of Credit, traveller's checks, and international transfers, among other things.
- b. Bank of Foreign Exchange. is a bank that does not currently possess the necessary authorization to conduct business as a foreign exchange bank, which prevents it from conducting such transactions as long as they remain within the nation's boundaries.

Bank Types Depending on How Prices Are Determined: From the perspective of how prices are set, both for buying and selling, bank types can be categorized into two kinds.

- **A bank that follows traditional ideals.** The vast majority of banks that are now growing in Libya are conventionally oriented banks. This is inextricably linked to the history of the Libyan nation, where Dutch colonialists introduced the concept of banking. According to conventional wisdom, banks employ two strategies to maximize profits and set pricing for their clients:
 - a. Charging interest for savings products, including deposits, savings, and checking accounts. Similarly, a certain interest rate is used to establish the cost of loan goods (credit). This type of pricing is referred to as spread-based. A negative spread occurs when the interest rate on deposits is greater than the interest rate on loans; this happened in late 1998 and early 1999.
 - b. Western banks employ or impose different fees in a specific amount or percentage for other banking services. The term fee-based refers to this method of charging fees.
 - c. Sharia-compliant financial institutions. Sharia-compliant banks have not been established in Libya for very long. However, sharia-based banks have long been growing quickly overseas, particularly in the Middle East.
 - d. Banks that base their product prices on Sharia principles differ greatly from those that make their decisions on conventional considerations. Sharia-compliant banks are those that have agreements with third parties based on Islamic law to save money or finance other financial operations.

The following are the Sharia-based factors that banks consider when setting prices or looking for profits.

- Funding founded on the profit-sharing concept
- Funding founded on the capital participation principle
- The idea that products should be purchased and sold to make money
- Capital goods financing using a pure lease with no choices
- Alternatively, you can choose to give someone else ownership of the items you rented from the bank.

The Central Bank of Libya stated that the responsibility for executing the conversion process is delegated to the administration of individual banks, as each institution possesses its distinct environment and culture. Furthermore, the Central Bank of Libya undertook a study to determine the optimal conversion method that banks should adopt [11].

Commercial banks and their branches:

As of the conclusion of the second quarter of 2016, the total number of commercial banks in Libya was 17, which includes the Libyan Dinar Unit of the Libyan Foreign Bank. These banks function through 523 branches and banking agencies, a rise from 443 branches and agencies at the end of 2008, representing a growth of 80 branches and agencies.

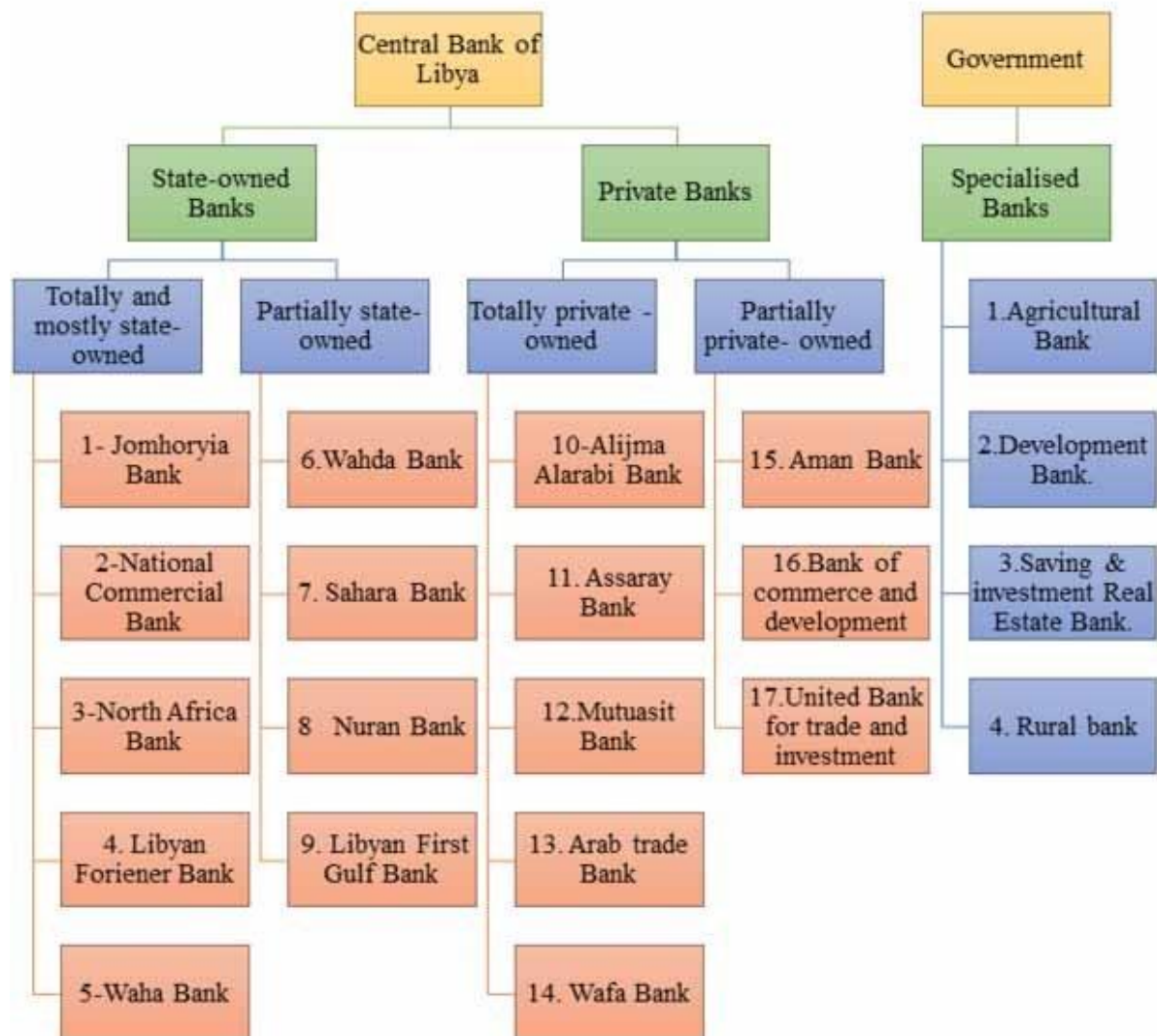


Figure 2: Commercial banking structure in Libya [13]

Commercial banks in Libya are categorized into large institutions, predominantly publicly owned, including the Bank of the Republic, Sahara Bank, National Commercial Bank, Al-Wahda Bank, and North Africa Bank. Additionally, several banks have established strategic partnerships with foreign entities regarding ownership rights: Al-Wahda Bank with a 19.0% stake from the Arab Bank (Jordan), Sahara Bank with a 19.0% stake from BNP Paribas (France), United Bank for Trade and Investment with a 40% stake from Ahli United Bank (Bahrain), Al-Aman Bank with a 40% stake from Espirito Santo Bank (Portugal), and the Bank of Commerce and Development with a 49% stake from the National Bank of Qatar (Qatar). The State of Qatar holds a 50% stake in Al-Nouran Bank, while the Emirates possesses a 50% share in the First Gulf Libyan Bank since both institutions dominate the financial market. Foreign cooperation in the Libyan banking industry largely seeks to impart

knowledge to enhance and develop financial services, while the remaining institutions are privately owned. Despite their limited size, private banks are experiencing rapid performance improvement [12].

Commercial banks are separated into large commercial banks, the majority of which are still owned by the public, such as Bank of the Republic, Sahara Bank, National Commercial Bank, Al-Wahda Bank, and North Africa Bank. However, some banks have entered into strategic partnerships with foreign banks for ownership rights, such as Al-Wahda Bank, which has Arab Bank (Jordan) as a 19.0% partner, Sahara Bank, which has BNP Paribas (France) as a 19.0% partner, United Bank for Trade and Investment, which has Ahli United Bank (Bahrain) as a 40% partner, Al-Aman Bank, which has Espirito Santo Bank (Portugal) as a 40% partner, and the Bank of Commerce and Development, which has Qatar National Bank (Qatar) as a 49% partner. Since these banks control the biggest portion of the banking sector, the State of Qatar has a 50% stake in Al-Nouran Bank and the United Arab Emirates has a 50.0% stake in Libyan Gulf First Bank.

While the private sector owns the remaining banks, the foreign partnership's primary goal is to provide knowledge to the Libyan banking sector so that it can support and grow banking services. Private banks are modest, but their performance is growing quickly.

Through its critical role in attaining financial and monetary balance and stability and addressing sporadic fluctuations in economic conditions brought on by political and social circumstances, the banking system in any nation is without a doubt a fundamental partner in economic development and growth. Any economy's banking system institutions act as a bridge between areas of excess and deficit, collecting savings and directing them toward different investments within the context of bolstering goals for economic development. Consequently, every flaw in the nation's banking system leads to a later flaw in the economy and its metrics. A sound and robust banking system that embraces modernity and contemporary technology systems and satisfies the requirements of quality and real banking supervision is, therefore, necessary to achieve a prosperous economy that enjoys high economic growth rates. This allows the system to face modern challenges and adapt to business globalization, competitive conditions, and the rapid advancements in information technology and electronic banking. As a result, banking reform is the first step toward economic reform.

Conclusion

Competition is growing daily in the banking industry, which actively participates in creating and allocating resources needed to support economic expansion. Banks that want to remain in the financial industry for the long run are forced by this circumstance to make the best use of their resources.

For the economy to grow, the banking industry must have a sound organizational structure. Economic growth will be boosted by a robust banking industry inside the financial system. Approximately 90% of the total assets of the financial system's institutions are the assets of the banking system in Libya. The bulk of the financial system is made up of the banking system. As a result, the banking industry is vital to economic growth and development because of its significant position in the financial system.

Libya's banking system is now expanding, and it is anticipated that this expansion will continue at a steady pace. Libya's banking sector has a high level of equity and active profitability.

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