Chapter 2
The Restructuring of the Financial System in the 21st century

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ABSTRACT

The financial system on the first decades of the 21st century followed the trend of the last decades of the 20th century with corporate restructuring and international financial markets integration and delocalization being oriented by profits and mergers and acquisitions. The global economy and financial structure changes, in the current century, derived from financial innovations, market deregulation, globalization, technology, market structure changes, regulatory reforms, and (re)formulation of central banks' monetary policy. Currently, the financial system is interconnected, interactive, interdependent, and became over-leveraged. The present chapter focuses on the analysis of the evolution of the financial system and the main determinants of global financial markets restructuring on last decades to explain the relevant changes verified in the financial system in the 21st century. After a literature review, an evaluative and descriptive macro analysis of the financial system is presented to study the process of restructuring of the financial system in the main developed economies.

INTRODUCTION

The first decades of the 21st century reflected the changes occurred in the financial systems in the last decades of the 20th century, with corporate restructuring and international financial markets integration and delocalization; being oriented, essentially, by profits and mergers and acquisitions. These facts had repercussions on the economic and financial crisis verified in the first decade of the 21st century and in the way households and companies demand and supply the financial assets. The global economy and financial structure changes occurred both in the decade of 1990s and in the following first two decades of the current century, resulting from financial innovations, market deregulation, globalization, advances in technology, regulatory reforms of national (governments and national central banks) and international

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institutions (e.g., the World Bank, the International Monetary Fund (IMF), and the European Central Bank (ECB)), market structures and (re)formulation of central banks' monetary policy.

Currently, global finance is interconnected, interactive and interdependent; and the financial system became over-leveraged. The finance and banking corporate restructuring and business processes have been influenced by the quick growth of financial markets, where companies can rapidly change owners inside the country and across country borders, and also by the emergence of financial markets of increasingly internationally open countries, as for example the countries of former Soviet Union, China, India and other emergent markets, with effects on global finances. The financial market development is positively correlated with the per capita real gross domestic product (GDP) (Beck, Demirgüç-Kunt & Levine, 2010; Mishkin, 2017).

The subject under study, in this chapter, is of great relevance to understanding the changes occurred in the financial system restructuring, which have started in the 1990s in the international financial markets and that is of paramount importance for the proper functioning of the financial, banking and insurance systems. This issue is also at the heart of understanding the functioning of the financial system as a pillar of economic growth and development (Demirgüç-Kunt & Levine, 2010; Bofinger, 2001; Cecchetti, 2006) and as an explanation for the occurrence and contagion of crises that have occurred in recent decades (Lane, 2012). Like was the example's cases of what happened in the United States in the Great Depression of the 1930s, the economic collapse in Thailand and Indonesia with the Asian crisis of 1997 (Lindgren *et al,* 1999), the Russia bond default in 1998, the Korean banks default in 1998 and in United States and European countries with the Subprime crisis after 2007 (Cecchetti, 2006; Abreu *et al.* 2007). So, for the desirable countries' economic growth and development in required a healthy and sustainable financial system (Mishkin, 2017; Pereira, 2019).

To understand the restructuring and competitiveness needs of the financial system over time, it is necessary to provide an overview of the evolution of economies' environment and financial system and the main facts that succeed and that led to the system changes occurred in the last decades, which culminated in the current structure of the financial system. So, the present chapter focus, as main purposes, in an evolutionary causal description and identification of the main determinants of global financial markets' restructuring on the 21st century: international integration and delocalization, capital flows, financial sectors' regulation reforms, global risks interconnections, and ownership changes. A qualitative and descriptive methodology is applied in a macro level perspective. After this, is presented a background of the topics under study and of the financial system until the 1990s, as antecedents with culminating facts leading to the characterization of the financial system on the 21st century, both based on literature, an evaluative and descriptive analysis of the financial system will be presented to study the process of corporate restructuring, integration, regulation, and supervision of the financial system of the main developed economies.

BACKGROUND

The Description of Financial System and Main Concepts

The financial system had its origin on the money functions and on its developments over time, since the primitive society until nowadays. The money had a great development with the appearance of notes and letters of credit on the 15th and 16th centuries, which culminated with the establishment of the first

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