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CONTEMPORARY ISSUES IN MULTINATIONAL BANKING: AN OVERVIEW

СУЧАСНІ ПРОБЛЕМИ У ДІЯЛЬНОСТІ ТРАНСНАЦІОНАЛЬНИХ БАНКІВ: ОГЛЯД

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The article provides an analysis of the changes that occurred in the multinational banking over the last decade, taking into account the consequences of the global financial crisis. The major changes in multinational banking are as follows: the rise of South–South banking, regionalization, the shift toward alternative sources of funding, dramatic increase in bank size, adopting increasingly restrictive policies, expansion of Chinese banks. The existing and new evidence of the causes and effects of these changes – in particular, for economic growth, shared prosperity, and poverty reduction are examined. The article investigates the activities of multinational banks, focusing both on their international brick-and-mortar operations and well their cross-border activities, the factors that contribute to these changes, their drivers and economic influences.
Keywords: multinational banks, fast-growing markets, south-south, regionalization, post-crisis period.

У статті проаналізовано зміни, які відбулися у діяльності транснаціональних банків за останнє десятиліття, враховуючи наслідки світової фінансово-економічної кризи. Основні зміни у діяльності транснаціональних банків включають: зростання банківської активності у напрямку «Південь-Південь», регіоналізація, перехід до альтернативних джерел фінансування, різке збільшення розміру банків, прийняття все більш обмежувальної політики, розширення експансії китайських банків. Досліджено передумови, причини та наслідки цих змін, зокрема для економічного зростання та розвитку, а також зменшення бідності. У статті досліджено діяльність транснаціональних банків, як через входження їхніх підрозділів на ринок країн–реципієнтів, так і їхні міжнародних операціях, з наголосом на факторах, що сприяють цим змінам та їхньому економічному впливі.
Ключові слова: транснаціональні банки, швидкозростаючі ринки, «Південь-Південь», регіоналізація, посткризовий період.

В статье проанализированы изменения, которые произошли в деятельности транснациональных банков за последнее десятилетие, учитывая последствия мирового финансово-экономического кризиса. Основные изменения в деятельности транснациональных банков включают: рост банковской активности в направлении «Юг-Юг», регионализация, переход к альтернативным источникам финансирования, резкое увеличение размера банков, принятия все более ограничительной политики, расширение экспансии китайских банков. Исследовано предпосылки, причины и последствия этих изменений, в частности для экономического роста и развития, а также уменьшение бедности. В статье исследована деятельность транснациональных банков, как через вхождение их подразделений на рынок стран-реципиентов, так и их международные операции, с учетом факторов, способствующих этим изменениям и их экономическом воздействии.
Ключевые слова: транснациональные банки, быстрорастущие рынки, «Юг-Юг», регионализация, посткризисный период.

Background. A decade after the global banking crisis 2019 looks like it could be a year of tipping points in the evolution of the industry. The banking industry worldwide is being transformed. The global impulses for change include technological innovation; the deregulation of financial services both at host and home countries levels and opening-up to international competition; and – equally important – evolution of corporate behaviour, such as growing disintermediation and increased emphasis on shareholder value. In addition, recent banking crises in Asia and Latin America have highlighted these pressures. The multinational banking in central Europe and Latin America have also been transformed as a result of privatizations of state-owned banks that had dominated their banking systems in the past.

In the light of the foregoing, the main changes and forces for change in multinational banking and are analyzed in the article. These topics raise a number of microeconomic questions, in particular, about economies of scale and scope, competition within the banking market and macroprudential issues, in particular, about the impact of consolidation on supervisory structures and economic stability.

Analysis of recent research and publications. Given these background, multinational banking has attracted increased attention from policy makers, scholars, and other financial sector stakeholders. The global economic crisis has definitely led to a reassessment of the potential pros and cons of bank globalization because many observers perceive multinational banks to have been in charge of the transmission of shocks across borders during the recent economic crisis (C. Jeanneau, M. Micu [1], R. De Haas, I. Van Lelyveld) [2]). Concerns about the effects of multinational banking–in particular, global systemically important banks, which are deemed to be too big to fail – have been voiced by the Financial Stability Board, the G-20, and policy makers around the world.

Despite the urgency of the problem, the study of the trends and issues on multinational banking in the domestic economic literature has not been sufficiently performed. These issues are usually considered in the context of studying the process of globalization of economy and finance. In the Western economic literature, the analysis of the multinational bank's activity has received much more attention, in particular, in the works by S. Timewell [3], S. Claessens, N.van Horen [4] E. Cerutti, S. Claessens, D. Puy [5] and others.

The main **aim** of this article is to present an original and newly collected information on trends in multinational banking.

Materials and methods. The analyses in the article is based on the methods of scientific knowledge, systematic analysis, comparison, induction and deduction, systematization of methodological approaches, scientific synthesis.

The result of research. During the decade before global economic crisis, multinational bank's activities across national borders increased dramatically. In many cases, the trend brought benefits, including additional capital, liquidity, and technological advances, which led to greater efficiency and financial development. The global crisis, however, led to a reassessment of the benefits of bank globalization, with multinational banks seen as drivers for transmitting the crisis across borders.

Multinational bank's activities may contribute to faster growth, greater welfare, and enduring stability in two important ways: first, by bringing much-needed capital, expertise, and new technologies, thereby leading to more competitive banking systems; and second, by enabling risk sharing and diversification, thereby smoothing out the effects of domestic shocks [6].

Depending on the conditions, however, multinational banking may also lead to costs. Risk sharing will inevitably expose host countries to systemic risks from time to time; and more recently, multinational banks have been criticized for playing a role in the transmission of shocks across borders during the global financial crisis. Cross-border bank flows also play a crucial role in transmitting global liquidity to local financial systems, and international banking may promote destabilizing boom-bust cycles in poor institutional environments [7].

Thus, the main trends in multinational banking are as follows: the rise of South–South banking, regionalization, the shift toward alternative sources of funding, dramatic increase in bank size, adopting increasingly restrictive policies, expansion of Chinese banks

In the wake of the global, the globalization trend has been partially reversed, as multinational banks from developed countries – "the North" – have scaled back their international operations, coinciding with a general backlash against globalization. While banks based in high-income countries drove exits, developing country banks continued their international expansion, accounting for the bulk of new entry into foreign markets. Cross-border bank claims and syndicated loans also saw significant retrenchments, but "South–South" transactions-from developing countries to other developing countries-started growing, starting to replace the leading role of "North–South" transactions in the aftermath of the global crisis. This greater South–South activity has also coincided with regionalization, both in the roster of foreign banks in many host countries and in cross-border flows.

Postcrisis supervisory and regulatory reforms intended to enhance bank balance sheets and financial stability, such as more stringent capital requirements for banks and macroprudential regulations, have been at least partially responsible for these changes, affecting the supply of credit. During the crisis, banks also reduced lending as demand for external financing abroad declined, and sovereign and other risks increased. In addition, the crisis highlighted the need for greater cooperation in resolving troubled banks with multinational operations and a more explicit ex ante understanding of the associated burden sharing. More generally, the regionalization of international banking is prompting countries to contemplate regulatory and supervisory approaches [7].

Open Banking regulations from Europe to Hong Kong, Australia, Singapore, and – soon – Canada are fragmenting traditional retail asset and liability gathering in most markets. Open Banking – a term for common interfaces among banks and other third parties to facilitate more competition – creates new business opportunities. For decades, banks have sought to become more "vertical," offering services from top to bottom. Now many new entrants want to be "horizontal," dominating a lucrative specialty. They're going after things like account aggregation (like Yolt in the UK) or back-office enablement (Cross River in the US and Clear Bank in the UK). Some are seizing upon esoterica – 'The Narrow Bank' arbitrages the US Federal Reserve deposit rate for corporate depositors. In response to Open Banking, the UK already has 62 registered third-party providers, all of whom plan to take advantage of a fragmenting value chain. Stripe, a 7-year-old specialist payments, now commands a valuation within touching distance of Deutsche Bank – a sign that horizontal can be very attractive. We will undoubtedly see more fragmentation in 2019 – along with, undoubtedly, efforts to re-bundle those components [8].

Multinational banks continue to grow their assets as the world economy expands. If no major economy falters, the expansion may continue. While there is some debate about whether China's economy is bigger than that of the United States, there is no questioning which nation is home to the largest banks. The power in banking is unquestionably shifting eastward to China. Out of the top 10 largest banks by assets, only two are American banks. They rank number six and nine. The leading banks by far are Chinese banks. China holds the top four slots in the top 10. Japan and France are also represented, and England has the number 5 bank. In short, only five countries are represented on the list of top 10 banks in the world. This concentration of financial activity does not necessarily represent a concentration of wealth. All of the banks on our top 10 list do international business, so wealth from countries with smaller banks is flowing through the top 10 players.

The rise of South–South banking and banking's greater regionalization come with benefits but also possible risks. Greater South–South banking is likely to increase local competition and financial development, as any other entry would. But to the extent that banks from the South are more familiar with the institutions and the culture of other developing countries, they tend to be better at serving smaller and more informationally opaque segments, such as SMEs and households. They are also likely to be more committed to host countries and less likely to exit during downturns. However, to the extent that shocks are more correlated within regions than globally, greater regionalization will limit risk sharing and the diffusion of the best banking technology and skills. Greater South–South banking also entails additional risks from having foreign banks from less regulated and institutionally weaker home countries. The net effect of regionalization is not clear a priori and is a topic for further research.

Another trend in bank internationalization is a dramatic increase in bank size. From 2005 to 2014, the total asset size of the world's largest banks increased by more than 40 percent.

After the crisis, there was also a disintermediation trend, whereby cross-border bank credit was substituted with capital market funding. The importance of well-functioning domestic capital markets as a "spare tire" was confirmed during the global crisis, when in many countries they substituted at least partially for the decline in bank funding. The patterns illustrated here highlight not only the benefits of having alternative sources of finance but also the need to broaden the policy discussion to consider the financial system as a whole, and not focus just on one type of financial intermediary such as global banks. These shifts do not alleviate the funding constraints of smaller firms without access to markets, however. For smaller firms with limited or no access to capital markets, the important role of banks remains [7].

Conclusions. The article provides a careful review and synthesis of recent and new research; it also notes where more research is needed. It argues that multinational banking is no panacea for guaranteeing development and stability, and that the right policies are central to generating benefits, while avoiding negative repercussions associated with cross-border banking. Consequently, to secure contract enforcement, governments and international bodies must strengthen regulations, improve information availability, and enhance legal and judicial systems. In designing policies to overcome institutional weaknesses, it is also important to take into account the differences in bank characteristics and conditions in both home and host countries.

Overall, multinational banking can have important benefits for development by improving efficiency and risk sharing, but benefits do not accrue unless the institutional environment is developed and the right policies are adopted. Thus, the challenge for policy makers is to provide an environment that will maximize the benefits from internationalization while minimizing the costs. The key to addressing this challenge is to devise policies acknowledging that benefits and costs vary, depending on bank characteristics and home and host country conditions. The rise of South–South banking ties as well as the emergence of new financial technologies will also present new challenges for policy makers.

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