

A study on International Banking

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Abstract - This paper asks how important distance is as a determinant of international banking and whether distance has become less important over time. If technological progress has lowered information costs and if information costs increase in distance, the importance of distance should have declined. I use data on assets and liabilities of commercial banks from five countries (France, Germany, Italy, UK, and US) in 50 host countries for the years 1983-99 to test this hypothesis. Generally, I find that banks hold significantly lower assets in distant markets and that the importance of distance for the foreign asset holdings of banks has not changed.

This article aims at providing a framework to assess corporate social responsibility with international banks. Currently, it is mainly rating institutions like EIRIS and KLD that provide information about firms' social conduct and performance. However, this is costly information and it is not clear how the rating institutions arrive at their conclusion. We develop a framework to assess the social responsibility of internationally operating banks. We apply this framework to more than 30 institutions and find significant differences among individual banks, countries, and regions. Furthermore, it appears that social responsibility of these banks has significantly improved between 2000 and 2005.

Index Terms - International Banking, Distant Markets, Social Responsibility, Economy.

INTRODUCTION

Banking is defined as the business activity of accepting and safeguarding money owned by other individuals and entities, and then lending out this money in order to conduct economic activities such as making profit or simply covering operating expenses. A bank is a financial institution licensed to receive deposits and make loans. Two of the most common types of banks are commercial/retail and investment banks. Depending on type, a bank may also provide various financial services ranging from providing safe

deposit boxes and currency exchange to retirement and wealth management.

In the United States of America banks are regulated by the U.S. Federal Reserve Bank which is one of the world's major central banks. Above all, central banks are responsible for currency stability. They control inflation, dictate monetary policies, and oversee money demand and supply in the market. Commercial or retail banks offer various services including, but not limited to, managing money deposits and withdrawals, providing basic checking and saving accounts, certificates of deposit, issuing debit and credit cards to qualified customers, supplying short-and long-term loans such as car loans, home mortgages or equity line of credits. Investment banks gear their services toward corporate clients. They provide services such as merger and acquisition activity and underwriting among other investment services.

in 2017, the Federal Deposit Insurance Corporation (FDIC) conducted to estimate the number of unbanked and underbanked American households. Survey executive summary revealed that approximately 8.4 million U.S. household or 20.5 million individuals were unbanked, which means no one in that household had a saving or a checking account.

Survey also indicated that approximately 24.2 million U.S. households or 64.3 million individuals were underbanked, which means the household had an account at an insured institution but also obtained financial products or services outside of the banking system.

But why is this important? because those who are unbanked or underbanked are hindering their financial lives from enjoying services that lead to financial well-being. Many must resort to services outside the banking system to cash checks or borrow loans and incur higher transaction fees and interest unnecessarily. Here are some of the reasons why

banking tops the list of pillars required in financial literacy.

DEFINITIONS

Dani Arbuckle “In the most basic sense, international banking is any type of banking that takes place across international borders. It's an old practice that originated in the Renaissance as lenders loaned money to foreign kings. In the contemporary world, it's used by individuals and companies seeking favourable banking conditions in a global marketplace”

According to the Bank for International Settlements' Committee on the Global Financial System, international banking is when a bank headquartered in one country extends credit to residents of another country -- for example, when a Canadian bank lends money to Americans. According to Eric Philip Davis, a senior researcher at the National Institute of Economic and Social Research in the United Kingdom, it also includes domestic loans made in foreign currencies, as when an American bank issues a loan to an American resident in euros, rather than U.S. dollars. Davis also includes deposits made to foreign banks, as when an American keeps money in a bank in Switzerland or the Bahamas.

Tonya Whitaker “There are quite a few phone service providers in North Carolina, each one offering plans geared toward a particular customer set. The plan structures, as well as the rates of these providers, vary greatly. Most national providers offer North Carolina cellular users' family and individual plans. While national providers tend to be the most popular, there are also some lesser-known local options available for cellular service in North Carolina.”

REVIEW OF LITERATURE

Challenges of International Banking

The ability to see and predict demand is one of the key challenges facing trade finance today. To rise to this challenge, banks must consider new solutions based on better market knowledge and knowing your customer expertise as well as releasing key professionals from constraints of location. International trade relies as much as on smooth cross-border financing as on the smooth cross-border flow of goods

As importers and exporters become more sophisticated in their demands, they will give their

trade business to banks that can work within multiple time zones and currencies that have on-the-ground experience of their markets and counterparts and have expertise to pull these offerings together in one seamless transaction.

Asked what they look for when choosing a bank for their financing needs, importers and exporters increasingly cite one key factor (sometimes about price)-market knowledge. Knowing your customer means understanding its business from a global perspective. That means an awareness of how a production slow-down in China impacts its African operations, how a hurricane in the US affects its shipping orders, and how legislative change in Eastern Europe affects the enforceability of its contracts.

Rules and Regulations Related to International Banking

The business activities which banks carry out beyond national borders can be conducted in various ways. In choosing between them, various different variables may have an influence-for example legislative requirements in the foreign country concerned and/or in the home country, or the individual business objectives of the concerned.

Banks operating in the United States and in most other countries must contend with heavy regulations, rules enforced by federal and state agencies governing their operations, service offerings, and the manner in which they grow and expand their facilities to better serve the public.

No new bank can enter the industry in the United States and in most other countries as well, without government approval. The types of deposits and other financial instruments banks sell to the public to raise funds must be authorized by each bank's principal regulatory agency. The quality of a bank's loans and investments and the adequacy of its capital are carefully reviewed by bank examiners. When a bank, seeks to expand by constructing a new building, merging with another bank, setting up a branch office, or acquiring or starting a non-bank business, regulatory approval must first be obtained. Finally, a bank's owners cannot even choose to close its doors and leave the industry unless they obtain explicit approval from the government agency that granted each bank's original charter of incorporation

The Principal Reasons Banks are Subject to Government Regulation

- To protect the safety of the public's savings.
- To control the supply of money and credit in order to achieve a nation's broad economic goals (such as high employment and low inflation).
- To ensure equal opportunity and fairness in the public's access to credit and other vital financial services.
- To avoid concentrations of financial power in the hands of a few individuals and institutions.

RESEARCH METHODOLOGY

The major problem cited by the respondents is the lack of good communication system between different government bodies. The communication problem between this government bodies create inconvenience for the customer to process their timely. Some of the major government bodies that lack a good communication system are National Bank of Ethiopia, Ethiopian Customs Authority, Ministry of Trade and Industry and Ethiopian Quality and Standard Authority. This communication problem could create a major problem when one government body design and disseminates procedures and rules the other government body could override this procedure and rules.

It has been established that one of the major issues of concern in the growth of international banking is risk. International banking has had over a century to evolve and for a major part of that period, institutions and regulators collected information and made analysis; scholars and other analysts drew models and came up with conclusions of the behaviour of international banking. They came up with game theory models that showed the risks that were eminent in international banking as well as those risks that were considered very unlikely to materialize. Banks across the world functioned within these analyses and flourished. However, just like other industries were developing in the 21st century, so was international banking. Situations that were thought improbable started occurring with risks increasing for financial institutions around the world; even the unimagined risks started to develop.

Another challenge in international banking operations considered by the respondents is the UN and USA

trade sanction. These sanctions are designed to prohibit business communication with specified countries that are considered as deviants with one or another reason. The UN sanction prohibits any banking communication with in the sanctioned countries. So that any transactions related to this countries is illegal and should be avoided in whatever conditions. The sanction imposed by USA mainly focus on business relation of its own banks to the sanctioned countries. The USA restricts any money transfer through its bank to the sanctioned countries .since the USA is the widest banking network in the world, a USA sanction means a big challenge both for the remitter of money and the receiver of money around the world.

New risks have been developing in the international banking scene. Traditionally, the one major risk associated with banking was credit risk, which is the risk that borrowers will be unable to pay back their loans, thus creating liquidity crisis in the banking system. Apart from credit risks other risks thought to be highly unlikely have now become a reality (ATIK, 2009). New operational risks such as fraud and theft have put financial institutions at risk of failing. These new risks have been instigate

Banking risks are mostly mitigated against by the reserves and even derivatives, however, extreme situations are responsible for causing banking crisis all over the world. It is important, therefore, for banks to continuously analyse their risks and develop new ways of mitigating them.

The other point raised by the respondents is the lack of international communication system within the organization. Since the international banking services is based on detailed contractual agreements and documents communicating this documents using modern communications application within the organization reduce the time and cost related to the manual processing of the documents .The absence of modern communication system within the organization is also a problem for the customers; it forces them to wait for longer time until their order is processed manually at various level, that could have be processed at one point with the help of modern communication system within the organization.

DATA ANALYSIS

Foreign banks play a relatively minor role in the Indian economy, as reiterated in Global Development Finance 2008, an annual publication from the World Bank. This fact is relevant right now for two reasons. First, the Reserve Bank of India is likely to open up the Indian banking market further in April, or around 300 days from now. Two, the global credit crisis has shown how problems in Western banks can reverberate through financial systems in emerging markets.

The advantages of greater foreign bank participation are clear: They tend to increase the efficiency of the local banking system, bring in more sophisticated financial services and have the ability to nurse weak banks back to health. That underlies the case for greater freedom for foreign banks. The credit crisis has brought the dark underside into focus. Global banks that boast of the best practices in the way they allocate capital and manage risks are also prone to make elementary mistakes, partly because of the imperfect nature of regulations and partly because bankers have perverse incentives to be loose with other people's money.

The main contention—that foreign banks account for just 5% of India's loan market—is misleading. Local banks have been on a borrowing spree abroad. They raised more than \$12 billion between 2003 and 2006, which is one reason that India could support credit growth of 28.1% despite the fact that deposits grew at only 18.5%.



Issuance of International Bank Guarantee

Answer	Yes	No	Total
No of respondents	24	11	35
Percentage	69%	31%	100%

The above data is filled by United Bank employees who have a direct relationship with international bank

guarantee service and their customers. The total respondents are thirty five. The 24 (69%) employees or respondents believe that the service given by the bank under the international bank guarantee is satisfactory. However, the remaining eleven (31%) respondents doubt the service given under international bank guarantee is satisfactory. In other words, they believe that the service is unsatisfactory for their customers.

Import Financing Capacity

Answer	yes	No	total
NO. OF RESPONDENT	23	10	33
Percentage	70%	30%	100%

As indicated in this table, 23 of the respondents (70%) said the import financing capacity of United Bank is sufficient for customers. The 10 respondents (36%) who said the import financing capacity of the bank is not sufficient for customers suggested a few reasons, which are categorized as follows:

- a) Because of the focus on export financing, the capacity of import financing is not sufficient.
- b) Even if the bank can expand its capacity, this is difficult because of authorization problem by government

Challenges on work unit

Answer	yes	No	total
No of respondent	29%	5%	34%
Percentage	85%	15%	100%

Among the respondents 29 (85%), feel that their work unit is facing challenges with regard to international banking operations, the rest of the respondents five in number (15%) feels that their work unit is not facing any international banking challenges. Specifically, 21 of the respondents (62%) feels that some regulations designed by the National Bank of Ethiopia are their major challenges, 9 of the respondents (26%) feel that the regulation designed by some government bodies create more challenges, 2 of the respondents (6%) feels that, of all the regulations, the most challenging one are designed by the commercial banks, the remaining 2 (6%) of the respondents feel that internal regulations by the bank are the main challenges for international banking operations.

FINDINGS AND CONCLUSION

Scope of International banking

International banking consists of the provision of banking services to non-residents and to residents in foreign currencies from offices located in the home country, as well as proprietary trading and on behalf of customers, without establishing a foreign presence. International banks offer a full range of services that seek to accommodate and facilitate diverse banking activities. International banks are equipped with advanced automated facilities that enable customers to bank freely and perform diverse transactions via online. Online banking as part of international banking services convert regular international bank accounts into internationally accessible accounts, whether they are current, corporate, personal or private banking accounts. These accounts can be conveniently consulted in the privacy of one's home and transactions can be made without hindrances in business operations. In addition to international loans and deposit placements, international banks may periodically allocate capital, through international capital markets, to investments such as foreign debt securities or debentures. Banks use the international capital markets to invest funds at a competitive advantage to lending.

The scope of international banking activities

Multinational Banking Corporation

Operate a range of facilities

- International department in their home office
- Full-service branch office in foreign market
- Shall branches on offshore island
- Representative offices
- Edge act and agreement corporations
- International banking facilities (IBFS)

CONCLUSIONS

International Banking is a process that involves banks dealing with money and credit between different countries across the political boundaries. It is also known as Foreign/ Offshore Banking. In another words, International Banking involves banking activities that cross national frontiers.

Globalization and growing economies around the world have led to the development of international banking facility. The world is now a marketplace and

each business wants to exploit it. Geographical boundaries are no more a concern. With access to technology, banking facilities.

A bank account is not only about saving money, it's also about managing money. Opening an account is a smart move _ it means that u can access a service that help you control your money and which may help you borrow at some time in the future, if you need to do so. International banks also make it easier for a company with an international presence to do business around the world.

Banks play very important roles in the economic development of nations as they, to A large extent, wield control over the supply of money in circulation and are the main stimuli of economic progress.

Banks are the life-blood of modern economy. They help in mobilizing the nation's saving and on the other hand, they channelize these saving into high investment priorities.

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