Global Banks and the Internationalisation of Retail Banking

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Introduction

The late 1990s and 2000s saw many banks venture outside home market borders, becoming seriously engaged in foreign banking systems. A common characteristic has been the outright acquisition of local bank branch networks, commonly by large banks from developed nations. By transferring strategies to newly acquired subsidiaries, global banks are now contributing to the internationalization of financial services.

Important literature related to global banks, and their retail segments, includes works by Roy C. Smith and Ingo Walter (1997, 2012). They highlight shifts in corporate finance, deregulation, and technological development as vital factors in the expansion of retail banking, indicating retail as an important income source for many banks. From an international perspective, they stress globalization is hastening the pace of financial innovation. Innovation allows banks to quickly transfer retail strategies to foreign markets and exploit product and efficiency advantages. However, since financial products and services can be easily copied, maintaining advantages is difficult. Additionally, they stress on how attempting to grasp the intricacies of foreign banking markets is an ambitious, if not insurmountable, endeavor. Therefore, Smith and Walter (1997) concluded, "failures in international retail banking are perhaps more common than successes" (p. 110). That opinion has not faded with time. Other research, including Heffernan (2005), Grant and Venzin (2009), and Tschoegl (2005), express similar sentiment.

Justification

The global financial industry has experienced many ups and downs following the 2008 financial crisis. How banks have weathered the storm is an important question because their stability as global institutions is vital in preventing deeper international financial stress. If other large, international financial institutions were to collapse, the result would not only be a severe impact on emerging markets, it would worsen the recovery in developed countries. By demonstrating the significance of international retail in stabilising bank earnings, this paper's assertion is that the international financial climate could be improved through greater internationalisation of retail banking.

Objectives

The main purpose of this paper is to focus on global banks' international retail banking activities to decipher whether or not they can be *successful*. This paper questions Smith and Walter's assertion that international retail banking will likely be unsuccessful. This paper's goals are threefold: (i) to establish the role international retail banking activities play in global banking, (ii) to understand how domestic institutions respond to global bank entry, and (iii) where previous literature has stopped short, this paper adds to the literature by defining success in international retail banking.

Methodology

This study draws on the literature to define retail banking as the segment of commercial banking that provides financial services to individuals. Turning towards global banks, we make use of both the literature and data to focus in on banks with a truly global presence. Using a 2010 *Bank for International Settlements* (BIS) paper for assistance, we narrow the discussion down to financial activities conducted by banks with local affiliates within foreign countries. We implement a framework for employing statistics from *The Banker* to further focus the discussion on banks with wide international presence. The discussion emphasises the scale of global bank assets, ultimately focusing on four banks with significant foreign subsidiary holdings: HSBC, Santander, Citibank, and Unicredit.

Further, our study analyses data of four global banks to compare their *international* retail banking activities. From the global bank's vantage point, we qualitatively analyse *who*, *what*, *when*, *where*, and *why* of global banks' international retail banking segments, and then contribute meaningful conclusions to the current research. Statistical data employed are from *The Banker*, annual reports and financial statements from individual banks, IMF *Global Financial Stability Reports*, and *World Retail Banking* reports.

Results

This paper demonstrates that international retail banking is a hugely important segment of global banking. We show that international retail operations play a vital role in the lending and income structures for all four global banks observed, and increasingly for selected domestically owned banks as well. In fact, retail loans constituted the largest loan type, and the largest source of income for each global bank. Also, the four banks were industry leaders in the share of retail income sourced abroad. Ultimately, international retail operations were not only possible; retail provided global banks with a valuable source of earnings, especially after the financial crisis.

Conclusions and Policy Recommendations

Global banks can be successful in international retail banking. The main contribution this paper makes is to define success. Domestically owned banks can easily emulate global bank advantages, so global banks may not be able to grab huge market shares. Global banks require further incentive to remain committed to international retail. Banks with deep geographical diversification reap the benefits of more stable bank incomes during financial shocks. In order to maximise geographical diversification benefits, banks must be diverse across countries, regions, and types of economies.

After observing four global banks, we conclude which banks have been successful, according to this definition. Post-financial crisis, HSBC and Santander had much higher average return-on-asset performance than Unicredit or Citibank. The reason HSBC and Santander showed higher performance was because they were more *geographically diverse*. HSBC operates in a number of markets, including Asia, which became a huge source of income. Santander's operations appear concentrated, but upon further inspection, operations in the United Kingdom, the United States, Poland, and other continental Europe provided some diversity that supported income over the last five years. Citibank's presence was in too few markets; Unicredit's operations were overly concentrated in Central and Eastern Europe. Comparatively low diversity limited the countries Citibank and Unicredit could draw upon to support earnings.

Essentially, understanding international retail banking depends upon taking a panoramic view of its importance within bank income, and concluding geographical diversity is imperative to success. Since retail is a huge portion of bank income, future success in banking may rest with how global banks approach retail banking in emerging markets.

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