International Banking System. Conceptual Approach, Advantages and Risks
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Abstract: In a highly volatile business environment the internationalization of banking is a major issue of the international economy of the business. However, minor number of researchers has indulged to the conceptual definition of ‘international banking’. In this light, the aim of this paper is to indicate not only the conceptual approach of the term ‘international banking’ but the evaluation of the advantages and disadvantages of the international extensions of the banks. Through an extensive review of the international literature the results of the research confirms the resulting set of benefits arising from the internationalization of banking. The support of the results using modern statistic methods is a proposal for future research.

Keywords: International banking, banking system, risks, international economy, management

1. INTRODUCTION
Globalization has rendered international expanding activities increasingly important for the survival, growth and success of modern firms (Spyropoulou et al., 2011). Simultaneously, the banking industry has been undergoing major consolidation in recent years, with a number of global players emerging through successive mergers and acquisitions (Lambkin and Muzellec, 2008; Konstantopoulos et al., 2009). Competition is generally considered a positive force in most industries; it is supposed to have a positive impact on an industry’s efficiency, quality of provision, innovation and international competitiveness. However, this issue has always been controversial in banking, as the perceived benefits derived from increased competition have to be weighted against the risks of potential instability (Casu and Girardone, 2009). Within this fluid business environment, which is characterized by international mergers and acquisitions and extreme competition between the enterprises, the internationalization of banking work is a subject of major importance for researchers and economists. However despite of the major importance of banking internationalization, up to recently, small number of researchers has focused on the conceptual framework of ‘international banking. Under this prism, the aim of this article is the imprinting of both the conceptual approach of term “international banking” and the evaluation of advantages and disadvantages of the international extension of banks.

Taking into consideration the more complete imprinting of the aim of this article, initially the conceptual delimitation of international banking is analyzed. Then the more important forms of international extension of banks are mentioned. Aiming at the export of completed conclusions the more important profits are presented on one side while the more essential risks at the process of internationalization of banking activities are also included. The present article is completed by presenting the main conclusions, the restrictions of the current research and the proposals for future research.
2. CONCEPTUAL FRAMEWORK OF INTERNATIONAL BANKING

The industry was transformed in the 1970s. Until then most banks concentrated on their home markets, considering themselves as domestic institutions that handled foreign business. With the rapid expansion of international networks, the talk is of global banks (Glover, 1986). Now, the banking sector occupies a pivotal position in the global economy (Thunman, 1992; Jayawardhena and Foley, 2000; Malul et al., 2009), as it has access to the capital, the technological capabilities, and the international network to facilitate these activities. Banks monitor the business sector through the evaluation, pricing, and credit-granting functions (Verbrugge et al., 1999; Arteaga et al., 2007). In this context, the operations of an international trade of services, that have as a consequence either the creation and management of financial means, or the transport of capital from surplus units of country in an other, or the mediation in the frame of national financier system are called “International Banking activity”.

When studies refer to “the internationalisation of banks”, they are concerned with two different aspects of internationalisation (Drogendijk and Hadjikhani, 2008). The first aspect refers to the exchange in terms of import and export of banking services and transactions in foreign currency. The second aspect, however, is related to the strategy of banks when internationalising (Vasiliadis, 2009).

Swary and Topf (1992) concluded that the loss of a comparative advantage by commercial banks as providers of credit to large borrowers, competition from non-bank financial firms, and increased competition from foreign banks have created the impetus for adoption of universal banking (Cameron, 1995).

Through an extensive review of relevant literature, it was also found that the basic motive for the achievement of cross-border banking activities is the redistribution of international fluidity and international capital between the various countries. In relation to the above approach, the profit from the internationalization work of banking is the increase of the so called surplus of the consumer, that is to say the difference between the initial sum that the consumer has to pay for a banking service and the final sum that he finally pays (Germanidi, 1982).

Moreover, the international extension of financier Institutions is always in relation to their size, their international experience, the sufficiency both in human potential and in capital but also in the nature of the domestic and international work. Finally, on one hand the forms or the basic operations, with which a financier institution is developed in a international banking network are the following two: financial and credit. On the other hand, the operation of the international banking is achieved through the services in the banking market of foreign country with either in direct or indirect way. More specifically, the direct way for the transport of capital from the savers to those who are lented money is used, mainly, by the investment banks and the Stock Exchange companies; while the indirect way is used by the commercial banks.

3. TYPES OF INTERNATIONAL BANKING EXPANSION

The financial crisis and the subsequent distrust of the existing banks have created an opportunity for new competitors to enter the market for financial services (Worthington and Welch, 2011). An international bank is able to adopt for its presence in a country various forms. More specifically the Creation of representative office is the simplest form of extension, as it formed for an initial investigation of the foreigner banking market. The bank's branches of this form do not handle any funds neither they execute financier transactions, while the bank that they represent, is not considered present in the foreigner country, either legally or for tax reasons. The basic advantages of the representative office are: 1) cheap way
of work search and investigation of the banking market with a small operation cost 2) the office does not have problems with the correspondents banks as it does not have any financial flows 3) it is not involved with the legal and tax regime of the country of installation and a direct control of all the work of the branch exists from the 'mother' bank. On the other hand, the most essential disadvantage of the representative office is the limited field of action.

Today, the most common form of direct extension constitutes the company's branch. Even if it maintains, for internal reasons, its own accountant books, however, from a legal side its sizes are added and included in those of the 'mother' bank. A branch carries out all the banking works, and the control of 'mother' bank is direct. The branch presents in his operation some disadvantages, as: the height of investment, both in constant equipment and in personnel, is very high. Particularly if it wants to extend his work in retail banking, depending on the legislation of the country where it is located, the entire bank-mother can be considered responsible. This is also the main reason that a lot of banking groups they create subsidiary companies and no branches.

The subsidiary company has legal and accountant independence and follows the laws and the rules of the banking system of the country where it is located. It constitutes the unique solution for extension, when the legal frame of the country prohibits the foundation of branches. Among the advantages of a subsidiary company is the autonomous legal and accountant presence that exempts the maternal bank from potential entanglements and responsibilities and bigger independence in the decision-making. The disadvantage is the loss of the complete control of the 'mother' bank in the decisions of the subsidiary company.

Another form of international banking is the agency. The agency constitutes an intermediate form of extension, between representative office and branch. It does not accept deposits from residents of the country where it is located, however, it develops a big activity in the sector the commercial and industrial credits and in the financing of international transactions.

Another form of presence is the indirect installation. The bank selects no its natural presence in the foreign country, but its collaboration with local institutions. The forms that this collaboration could take are:

- **Connected bank.** The foreigner bank decides its attendance in the participial capital of the bank in the other country. This attendance is subsidiary. The local bank maintains its name and the control in its administration.

- **Joint venture – Consortium Bank.** The C.B. is common company (joint venture) with shareholders from two or more banks of different nationalities. The C.B. is an autonomous legal entity and it functions n a permanent base. In international joint ventures between a foreign multinational and a domestic firm, the MNC usually provides the superior technology, management knowhow, capital, access to finance, etc., while the domestic firm provides a knowledge of local conditions, access to distribution channels (Takac and Singh, 1992; Miller et al., 1996; Chowdhury, 2009)

- **Off Shore banking activities (Off Shore).** The bank is installed in a foreigner country, in order to provide services not in residents of this country. The state of installation places as a condition that the activities are “Off Shore”, which means that they concern transactions in exchange between residents who are not physical or legal agents, from whom one is the foreigner bank or the responsible permitted native bank, that functions in the off shore market.

- **Cross-border banking transactions.** Contrary to the off shore banking activities, in the cross-border banking transactions, the involved financier institutions include itself organically in the financier system of the country where it is located (Casu and Girardone, 2009). With the globalisation of the financial industry the ability to provide cross-border financial services has become increasingly significant and the
need for a physical presence in target markets has been reduced (Steck and Landegren, 2003).

4. BENEFITS AND RISKS OF INTERNATIONAL BANKING

Globalization is the universal trend in economic markets and the focal point in the twenty-first century (Tsai et al., 2006; Gordon, 2011). Banking organizations shifted from highly centralized domestic organizations to dispersed global organizations (Krumm, 1998). The main profit of the internationalization of banking work is the increase of the surplus of consumers. For the banking services the surplus of consumer is increased when the interest-rate of sponsoring is decreased, while the interest-rate of deposits increases. More specifically, for a healthy competition, the profit in question is maximized, after it increases the interest-rates of deposits by decreasing the interest-rates of sponsoring and the cost of supplies.

A second profit from the internationalization of banking work is that the international banking extension increases the effectiveness of international capital by improving and their flow. This means that, the effectiveness of distribution of capital brings in economic contact lenders and borrowers from different countries.

Another profit from the internationalization of financier markets, is the increasing degree of convergence of interest-rates of domestic market with those that exist in the Euromarkets. At the same time, the internationalization of financier markets leads to the weakening of the phenomenon of deportation of private investment in the public sector, as in an environment of free market of capital, the prevention of the private investments from the state, is compensated, relatively easily, with the foreigner saving capital.

The cost from the internationalization of banking activities is found in the loss of income for the countries, as the internationalization of work leads to the escape of capital to countries where the committed deposits have higher interest or still, the central bank of that country keeps smaller compulsory percentage of capital from the commercial banks.

In relation to the cost from the internationalization of banking activities, as they have been mentioned above, two important riks exist: the “country risk” and the risk of no-efficiency of financing. More specifically, the “country risk” that is basically connected with the lending of a country, has two aspects: a) there is the risk that the new political situation will not recognize past actions and to deny to undertake past engagements and b) it exists the risk of not settlement of loans due to unfavorable development in the balance of payments. Consequently, this danger of is of a macroeconomic nature. “Country risk”, that is connected fundamentally with the public deficits and the involving debit of state, they could be overcome with techniques of international financing, those financings are based to the fact that the financial institutions have specialized relations between them, providing banking operations in other banks. Thus the risks of country can be minimized: A) with the financing plan of an economic unit B) with plans of co-financing and with other financier institutions, that are found outside by the country, and C) with the distribution of danger, that is emanated from the danger of country, with loans of multiple attendance, with a lot of foreigner currencies

On the other hand, the “risk of not efficiency of loans” comes from the big fluctuations of interest, which is the difference (spread), between the interest-rates of sponsoring and the interest-rates of deposits. This threat that in essence is crisis of confidence for the future, puts in test the basic operation of Bank, that is the transformation of short-term resources in longer-term financing. Moreover, the efficiency of investment or loan, runs through the danger from changes, to the worse, of a legislative regulation of terms of operation of banks,
that imposes the Central bank of country, in a change of the monetary policy. The biggest
danger from such a development is the increase of obligatory reserve funds that will have an
additional cost, which will lead to the reduction of profit from a lending. At the same time,
there is the danger, during a mediatory process, of the transformation of currency in other,
which is known as risk of exchange (Kapopoulos and Lazaretou, 1997).

5. CONCLUSIONS AND FURTHER RESEARCH
Transactions are increasingly conducted on an international playing field (Aslett, 2003).
Nowadays, there are no more easy profits and the risks are far more difficult to control
(Emerson, 2007). The internationalization of the banking works constitutes a major subject in
modern economy with a main profit the increase of the surplus of consumer. Despite the
distinguished importance of the cross-border banking activities of internal control, sporadic
(but worth mentioning) efforts have been done, which show the basic advantages and
disadvantages of those activities. Through the present bibliographic research, an effort to
depict the theoretical delimitation of modern approaches was done by referring the role of
international banking. The limitations of this particular research are due to the limited time
and in the lack of presentation of quantified data. Under this prism, a future research will be
able to create a quantitative research with more variables which on one side will confirm or
reject the conclusions of present, while on the other hand, via utilisation of more complicated
statistical methods it might quantify the variables and find the interrelations. In conclusion, it is
undeniable fact that the internationalisation of banking work is essential for the survival and
success of the world economy.

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