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After the global financial crisis: From international to multinational banking?

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ABSTRACT

The financial crisis has led to a reconsideration of banks' global business models. Using a dataset derived from the BIS banking statistics, this paper studies the geography of global banking. It distinguishes between "international" and "multinational" banks, their respective funding models and the associated degree of centralisation in their operations. As a result of post-crisis regulatory reform, the long-term trend toward local banking is likely to accelerate, especially if liquidity regulations are applied locally.

1. Introduction

The global financial crisis put internationally active banks' funding models to the test. Given the disruptions in international wholesale markets, banks with a decentralised multinational structure (e.g. HSBC, Santander) emerged relatively unscathed, while banks with more centralised or international operations (e.g. UBS, RBS) came under intense funding pressure on account of their greater reliance on wholesale and FX swaps markets.

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Table 1
Stylised balance sheet of a global bank.

Balance sheet item	Abbreviation	Comment
Assets		
Domestic claims[a]		(not part of the international banking statistics)
Foreign claims	FC	
Cross-border claims	XBC	Includes intragroup (=inter-office) lending[b]
Local claims[c]	LC	In all currencies
In foreign currency	LCFC	
In local currency	LCLC	
Liabilities		
Domestic liabilities		(not part of the international banking statistics)
Foreign liabilities	FL	
Cross-border liabilities	XBL	Includes intragroup (=inter-office) borrowing[b]
Local liabilities[c]	LL	Includes local deposits
In foreign currency	LLFC	
In local currency	LLLC	

[a] Domestic claims (respectively liabilities including equity) in the home country and in domestic currency.
[b] Some graphs in the paper break the intragroup component away from other cross-border positions vis-à-vis unaffiliated entities.
[c] Local positions booked by banks' foreign offices *outside* the home country. If the above balance sheet relates to bank n (or banks headquartered in country n), then LC_{ni} represents local claims booked by this bank in country i (e.g. used in the formula for the *local intermediation* measure).

Using a unique dataset derived from the Bank for International Settlements (BIS) international banking statistics, this paper characterises banking systems by the structure of their foreign operations. We observe a gradual, long-term trend toward local banking, amid a persistent diversity in banks' underlying funding models. Banks pursuing a more decentralised multinational model were less reliant on wholesale funding and swap markets, and were less affected by the disruptions to these markets during the global financial crisis. This effect shows up in the relative stability of two kinds of bank credit aggregates: cross-border versus local credit to borrowers in various regions. We find that local positions proved to be more stable during the crisis than those funded across borders and currencies, especially in emerging markets.

In the final section, we provide a review of ongoing regulatory reforms, and argue that they are likely to strengthen the trend toward decentralised multinational banking, particularly if liquidity requirements are applied by host regulators on a legal entity basis.

2. The dataset

The analysis in this paper relies on the BIS international banking statistics, the most comprehensive source of information on banks' international balance sheets. The BIS disseminates four sets of international banking statistics compiled from underlying data reported by over 6000 banks to monetary authorities and regulatory agencies in over 40 countries, including the major offshore centres.

An analysis of the geography of banking requires a consolidated entity to be broken down into the balance sheets of its offices in individual countries and jurisdictions ("locations"). This allows to distinguish *domestic* claims (or liabilities) booked at home vis-à-vis residents of the home country, from *foreign* claims that are either *cross-border* claims or *local* claims booked in the foreign jurisdictions where the bank has a presence. These breakdowns, used throughout the paper, are presented in Table 1 as part of the balance sheet of a global bank.

An important advantage of the BIS international banking statistics over other data sources, such as BankScope, is that the BIS data include not only subsidiaries but also branches which are normally consolidated into the parent's balance sheet.[1] Not being able to identify separate balance sheets of

[1] In addition to head offices, there are 1764 foreign branch networks and 1874 foreign subsidiaries reporting to the BIS banking statistics.