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BANKING COMPETITION IN INTERNATIONAL BANKING SERVICES MARKET

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ANNOTATION

The article shows the peculiarities of competition in the international market of banking services. The specifics of the activities of subsidiary banks, branches of foreign banks, transnational banks in the banking system are described, the main areas of banking activity where banks can compete are listed

Keywords: global banking services market, international banking competition, subsidiary bank, competitiveness, clearing services, market of deposits, factoring, investment banks, currency operations

INTRODUCTION

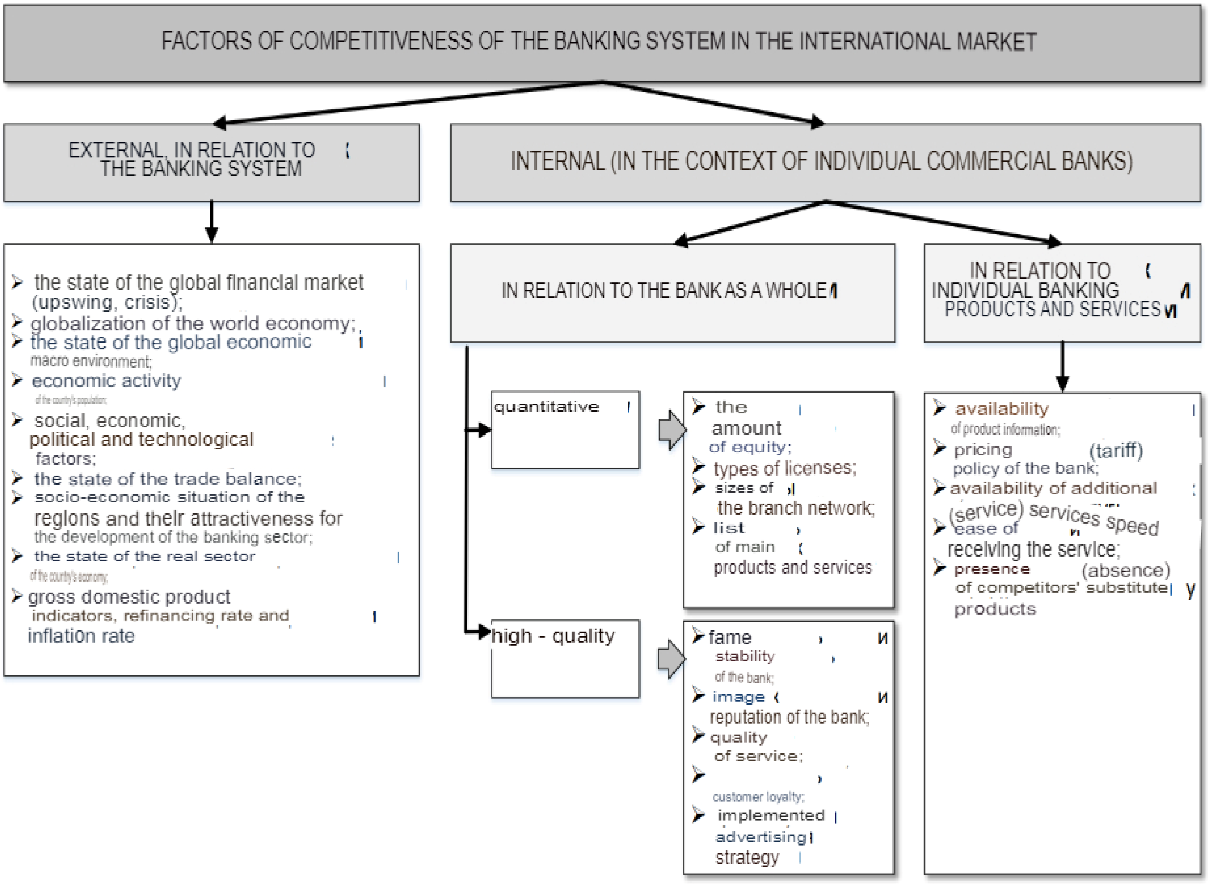
Commercial banks carry out their foreign economic activity within the framework of country's legislation, laws and other regulations of the countries where their subdivisions are located, and as well as international agreements related to the banking sector. How as a rule, active participants in the global banking services market are large national and transnational banks, whose activities have a significant impact on national banking systems and their constituent banks, even if they are not participants in foreign economic activity.

National regulators of banking systems take into account world market conditions, interstate relations, as well as a number of other factors, and reflect them in regulatory acts related to activities of individual banks, but having a systemically significant character, for example, Basel III requirements and regulations. National regulators control the level of risks of supervised banking systems and individual banks, and this work is becoming increasingly global character. As the global financial market develops, diversification of the activities of banks involved in this process, which is the subject of attention of regulators and an expanding field competitive struggle. The success of the domestic banking system in global banking services market, its competitiveness is largely determined by the state of the domestic economy, its own characteristics, the degree of use of the national currency as reserve, foreign banks and the policies of the major powers in towards our country.

International banking competition is segmental, territorial and extraterritorial character. Basically it's a struggle. for the implementation of their own banking products, but having a number of distinctive features. When a foreign bank opens in the territory of another state, a subsidiary (subsidiary bank) for branch, there is competition with local or other foreign banks for selling their own products and services and attracting liabilities at the lowest affordable prices. At the same time, an important point affecting the competitiveness of a foreign bank is organizational and legal form of its presence.

The subsidiary bank requires the formation of an authorized capital in the amount determined by the legislation of the country of presence, and maintaining own capital at a level not lower than that established for banks of this states. The parent bank is required to divert funds and compliance with local legislation in terms of maintaining capitalization subsidiary bank. Certain difficulties may arise when liquidation or sale of a subsidiary bank and withdrawal of previously invested funds or parts thereof. When opening a subsidiary bank in a developing country there is a risk of nationalization of a subsidiary bank with financial losses for the parent structure. In addition, the level of capitalization subsidiary bank affects the volumes of its passive and active operations, which, in turn, creates additional requirements for capitalization of the subsidiary bank. Regulation of the taxable base subsidiary bank also carries certain difficulties.

Speaking about the banking system, the factors determining its competitiveness is divided into external and internal factors. At the same time, external factors affect both the entire banking system and the system of commercial banks that are part of it.



Scheme 1. Determining factors competitiveness of the banking system[1]

When opening a branch by a foreign bank, mostly there are no such difficulties with the subsidiary bank. Main question is the freedom to withdraw from the country the profits earned by the branch, which is governed by the laws of the country in which it is located and interstate agreements. When operating a branch or subsidiary bank in the territory another country, the

[1] Chalik A.V. The main directions of the development of international competition in the banking system / A.V. Chalik // Youth Scientific Bulletin. – 2017. – № S6 (19).

competition between it and other banks is direction of profit maximization. At the same time, it appears specifics of international competition.

In the market of deposits for individuals, especially large ones, clients may prefer a foreign bank offering lower rates, but with a high reliability rating. Moreover, in some cases the deposit may involve the placement of funds in the parent bank, which essentially means the withdrawal of funds abroad by residents from under the jurisdiction host country. Similar operations are carried out by legal persons, providing, in their opinion, the best protection of their capital.

Similar operations are carried out by national banks, competition between which and foreign is rather not a price, but a brand nature, suggesting a higher level of customer confidence. Actually, the withdrawal of funds from the banks of one country to the banks of others is component of the global capital market. All transactions are carried out through banks that are members of international payment systems.

If there is an offset of counterclaims, then the clearing. Clearing services in the global banking market are closely associated both with passive operations carried out by banks in their interests and on behalf of clients, and active. Their price attractiveness for customers, as well as speed and convenience implementation depend on the perfection of the technologies used by banks and the number of correspondent accounts opened by them in foreign banks. Meaning clearing is especially large in the field of international economic relations, especially interstate, since it is based on offsetting the cost of large volumes of goods sold by the parties and services. It is banks that play a leading role in cross-country clearing, acting as a reliable intermediary and providing the need for loans to pay off clearing debt and conduct payments. National clearing companies may create competition to national and foreign banks in local markets, but the priority of banks in transnational transactions is obvious and is with greater capitalization of the latter and, accordingly, higher reliability, and the likelihood that with the said lending there will be a disproportion in the counterclaims of clearing participant's deals.

The role of banks in currency clearing is especially great when countries or one of them, do not have enough freely convertible currencies for mutual settlements on foreign economic transactions. Then on banks, as a rule, are large, procedural and control functions of carrying out clearing operations.

The role of banks is also great in carrying out factoring export-import operations, when monetary claims are acquired, denominated in foreign currency to the debtor, and the debt is collected in in favor of the creditor through the bank serving him, with which the bank the creditor has a short-term relationship and relevant agreements.

Similar in economic content to factoring operations forms of lending to foreign trade transactions, defined as forfaiting, when a bank (forfeiter) buys back from an exporting enterprise credit obligations of the importer with their subsequent collection. The scale and profitability of such transactions are largely determined by interbank agreements, the practice of their execution and trust between banks closely related to the reliability ratings of financial institutions and the duration of the interbank interactions.

In terms of investment activities in global markets, banks have to compete with investment funds and pension funds savings, although the latter are more focused on financial investment in national securities. In terms of direct international investment banks mainly compete with each other for financing major projects (financing the construction of hydroelectric power plants in Brazil by a consortium of German banks, a new block of nuclear power plants in Hungary by russian VTB, etc.). scale similar projects and the complexity of assessing their effectiveness and timing implementations necessitate their financing from large banks with appropriate funds and specialized subdivisions that carry out financial monitoring of development allocated funds. As a rule, the feasibility and implementation of international projects regulated by intergovernmental agreements, which the participants in their financing are also indicated. International market direct investment has significant administrative barriers to entry, as well as the exit. International financial investment market more competitive, especially when it comes to freely tradeable stock exchange, but also has significant administrative restrictions, if the acquisition, for example, of shares, leads to the establishment foreign control over the national company.

Similar problems may also arise in the international capital market, when the growth of debt of the national company to foreign banks face a prospective loss of control over it by local business. In general, the role of the international debt market, serving the sphere of interstate relations, is so great that will require separate consideration

An interesting international aspect of Internet banking and related him and the market that has been significantly transformed in recent years plastic cards. Virtually any national bank that imitates plastic cards of international payment systems (Visa, Mastercard and etc.) creates the conditions for conducting international transactions with its clients. From these positions, almost all domestic banks are participants in international business. At the same time, individual banks do not have own processing and correspondent accounts in foreign banks, working through currency accounts opened with other national banks and having such accounts in foreign counterparty banks. Probably not worth considering similar banks to participants in foreign economic activity, according to at least significant, and their participation in the international banking business can be attributed to the properties of the national banking system. When a banking structure operates in the financial market of another country there is product competition with operating in this market banks, including those not represented by their divisions.

For example, a national corporation may obtain a loan from abroad in bank not represented in the country. The effectiveness of such an operation for the bank the lender will be determined by the marginality of the loan and through the bank funds specified by the agreement.

absence in the country divisions of a foreign bank limits product competition the latter due to the complexity of the implementation of banking products and services, requiring at least episodic direct contact with the client.

The development of banking digital technologies is gradually leveling this problem, but it will remain a deterrent in the medium term perspective, as well as the language of communication of bank employees with foreign clients. In addition, differences in laws and regulations of various countries related to banking sector.

In general, the global banking services market is subject to a strong administrative regulation both from the side of the regulators of the countries penetration of foreign banks, as well as their own, and therefore often price competition between banks of different jurisdictions is deformed. Sometimes there are direct prohibitions on opening branches in the country foreign banks. The opening of a branch of a foreign bank, products which have a certain set of competitive advantages in terms of compared to existing in the local market, improves efficiency activities of local companies that reduce their own costs and sometimes receiving new banking services.

On the other side, domestic banks begin to lose profits and may get into trouble a situation that is fraught with bankruptcy. There may be danger liquidation of the national banking system itself. Breeding on competitive level of national banking systems in developing countries requires the solution of complex economic problems and depends on the political positioning of the country at the world level. For example, Poland is integrated into the EU and has close ties to the US. In these conditions, the share of foreign capital in the banking sector of the country is approaching 70%, the cost of loans for enterprises has approached the average European level, which was one of the factors to ensure high GDP growth rates (4.8% in 2018 and 3.7% in 2019).[2]

Expansion of the international banking capital contributes through the mechanism of competition improving the quality of banking products and services for consumers (reducing the cost of loans, expanding the product range, accelerating transactions, etc.). But at the same time, the degree financial dependence of the national banking system, and the country in in general, from external economic factors. In the modern world, there are two components penetration into the countries of foreign capital: economic and political. The motive for banking expansion in both cases is to obtain a higher rate and mass of profit for compared to the markets of their own country. The differences are that with direct, economic, expansion of banking capital the bank is the direct beneficiary, and in the second case, politically, a wider range of beneficiaries, including and not banking corporations. With the direct export of banking capital in one or another form, the movement of funds very often occurs from the banks of the country former metropolis to previously dependent countries (British banks open their structural divisions in Hong Kong, India, USA, Spanish banks - in Latin America, etc.). But this trend is not is of a universal nature and is associated with public policy as the country of the exporter of bank capital, and the importer. Chinese banks conduct all export operations through their divisions, open branches, subsidiaries, are included in the capital of the banks of the country of penetration to ensure, first of all, the stability of the business of Chinese companies. Spanish and Italian banks, pursuing a policy of expansion capital, tend to get higher profits, like other Western European banks.

In general, the world market of banking products shows trend towards equalization of the marginal returns of internal and international operations. This is especially true for international transactions, the profitability of which has declined by more than 60%. There is an opinion that competition in the banking sector reduces the stability of banks and creates prerequisites for a decrease in the level adequacy of bank capital (bank capital ratios), according

[2] Chalik A.V. The main directions of the development of international competition in the banking system / A.V. Chalik // Youth Scientific Bulletin. – 2017. – № S6 (19).

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to M.S. Keely[3], J. Gun, B.D. Smith,[4] T.F. Hellman and his collaborators, R. Repallo.[5] The position of these authors is based on the fact that price interbank competition leads to a decrease in profits of banks, and this creates a tendency to make high-risk decisions managers of financial institutions. In practice international banking business in recent years there have been two similar case. The management of the Singapore bank Societe generale group conducted high-risk operations in the global banking market, which led to significant losses and loss of equity capital adequacy.

Cypriot banks were actively buying high-yielding Greek bonds, which called into question the existence of the banking system of Cyprus under Greek default on its debt obligations. However, there are no massive empirical evidence of a decline in the stability of banks in the process of competition. At least in the global banking markets services. As with any competitive struggle, weak players leave market, and the rest are strengthening their positions. In domestic markets, one of the forms of competitive interbank struggle is to reduce the demands on the economy the borrower, which naturally increases the risk of default on loans, but contributes to the growth of loan portfolios. Such processes sometimes are observed in the competition of national and foreign banks on domestic market, but not common in global banking markets, where the regulation of interstate agreements is strongly manifested. In general, competition necessitates reliability of banks, increase their capitalization, which is due to emergence of risks associated with new banking products and processes, costs for their creation and promotion. Significant contribution to increased competition in the banking sector financial investment companies also contribute, especially on global markets, which also contributes to the growth of bank capitalization. [6]

Diversification of activities of financial and credit institutions is a steady trend, especially in international markets where all major players are universal banks, constantly expanding their product range. At the same time, researchers of the processes of banking diversification activity, there is no unambiguous opinion about whether it reduces cumulative risks in the activities of banks or not.[7] Generally unequivocal attitude to the impact of banking diversification there are no activities for its effectiveness. Apparently, this is due country differences in national banking systems and forming their banks, levels of their capitalization, technological development, management and a number of other factors. But whatever point of view researchers said that in the global banking markets, the largest banks, there is a relative decrease in the share of net interest income from traditional lending and deposit activities and growth in commission income from the sale of new banking products.

The above analysis of the activities of banks in the world, global markets allows us to draw a number of conclusions. National banking systems are inseparable from the economies of their countries and reflect the position of states, their role and importance on the world stage. In

[3] Keeley M. C., 1990, Deposit insurance, risk and market power in banking. American Economic Review, Vol. 80, pp. 1183-120.

[4] Smith B. D., 1984, Private information, deposit interest rates, and the ‘stability’ of the banking system. Journal of Monetary Economics, Vol. 14, pp. 293–317.

[5] Repullo R., 2004, Capital requireents, market power, and risk-taking in banking. Journal of Financial Interme-diation, Vol. 13, pp. 156–182.

[6] Banking Competition and Capital Ratios Klaus Schaeck and Martin Čihák IMF Working Paper September 2007

[7] DeYoung, R and KP Roland (2001). Product mix and earnings volatility at commercial banks: evidence from a degree of total leverage model. Journal of Financial Intermediation, 10, 54-84; Esho, N, P Kofman and IG Sharpe (2005). Diversification, fee income, and credit union risk. Journal of Financial Services Research, 27, 259-28

major world economic powers concentrated the main banking activities, and the banks of these countries are the main players in global markets. However, there is no direct relationship between the size national economy and the market capitalization of its banking system, volumes of operations of banks in foreign markets. Yes, the economy The United States is still the largest in the world (in terms of PPP, it has been inferior to China), and China's banks are the largest in the world in terms of indicators and show a higher expansion in the world markets The foreign economic activity of banks is very dependent on ongoing interstate policy and intercountry relations. The activities of foreign banks are regulated by law countries of the object of expansion of banking capital from the possibility of opening its division and its organizational and legal form to regulation of banking products, the possibility of withdrawing from the country profit and other aspects of work.

Changing centers of the world economy leads to transformation global banking sector in the direction of the dominance of banking systems in the Asia-Pacific region. At the same time, at the position national banking systems are greatly influenced by the reserve the nature of their national currencies and the nature of their relationship to world payment systems. Thus, the continued dominance of US dollars in global settlements (approximately 50% at the beginning of 2020) and control international transfer system SFIFT, which is still main, provides significant competitive advantages American banks. The scale and diversification of the international activities of banks also depend on the level of their capitalization, the reliability of the confirmed internationally recognized ratings, which allows them to actively work on global world markets for banking services, to carry out a wide range of operations, increasing the amount of profit received.

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