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A distinguishing feature of the increasing internationalisation of the banking industry in the 1970s has been the proliferation throughout the world of national banks' representative offices, branches, subsidiaries and affiliates. Whereas in previous periods overseas offices were primarily those of 'colonial' banks which provided basic trade-financing services to developing countries, the new breed of such offices post-World War II has had a variety of objectives. The purpose of this chapter is to describe these objectives, analyse the structure and functioning of the networks and discuss how banks are resolving some of the principal issues which emerge from the growth of overseas networks.

THE OBJECTIVES OF A NETWORK

The principal objectives of a network of offices doing international business—some of which can be located in the parent bank's own national market—can be summarised as follows:

- Euro-currency interbank market dealing
- Customer service
- Base for penetrating new markets
- Market coverage for existing services
- Unit profitability

Tapping the Euro-currency market for wholesale deposits and lending out surplus domestic funds were among the original motivations for establishing the initial elements of an overseas network. German and American banks in particular, faced with regulatory restrictions on lending abroad from domestic sources, have found it necessary to use offshore sub-
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subsidiaries and branches to take in or lend out their national currencies, while other banks have found it more convenient to open branches in London and other Euro-currency centres than participate in this market primarily through their home office. As the Euro-currency market has broadened and become more sophisticated, major banks are finding it useful to run global deposit and foreign exchange positions which are carried from unit to unit in different time zones throughout the world, so that such an integrated position is truly run on a 24-hour-a-day basis.

What is essentially a defensive response to the requirements of existing customers has in the past often been the motivation for opening individual branches and representative offices abroad. Such requirements could range from a retail facility for home country tourists or expatriate workers to one which serviced the local requirements of the overseas subsidiary of a domestic corporate customer. In more recent years, however, as the level of competition and costs have increased, other objectives have taken priority.

Perhaps the principal such objective in today’s market is the penetration of what is for the particular bank a new geographic or functional sector. The combination of physical presence in a given market which facilitates doing business with local corporations and governments, the possibility of tapping sources of local currency funds for on-lending, and the ability to compete directly with local banks which an overseas unit makes possible, have motivated hundreds of banks to set up offices in national markets which appear intrinsically attractive. The potential profitability of a particular functional sector such as merchant banking or leasing has offered similar attractions.

Another motive of interest primarily to the larger banks is the drive to increase geographic market coverage so as to offer to customers a more comprehensive and efficient service. Such additional links in an international chain may represent a significant competitive advantage over a local or other foreign bank, which cannot service a customer’s world-wide requirements as effectively.

Finally, the great majority of operating units is expected to provide an incremental profit contribution to the bank in addition to meeting one or more of the above objectives. While many decisions to open new offices are made instinctively by the senior management of a bank, in other cases the decision is