CONTEMPORARY TENDENCIES OF BANKING GLOBALIZATION

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Abstract

Banking globalization is a specific form of financial globalization. It is manifested through the following: performing global banking operations, concentration of banking capital, expanding activity of transnational banks and emergence of global banks, standardization of national banking systems, emergence of single banking model, substantially change nature and forms of competition in financial markets, reorientation of banking business from traditional to innovative, development of outsourcing of certain functions and operations of global banks. Banking globalization has a number of positive aspects: increasing market efficiency and expanding competitive banking environment; formation of a universal banking culture; fundamental changing of global banking system functioning and altering the quality of banking activity. At the same time, banking globalization has also negative aspects: development of offshore banking has contributed to creation of an international infrastructure to serve shadowy financial flows, to launder money and to carry out the hostile acquisitions of banks. Banking globalization has also led to unjustified stimulation of global lending and the international distribution of risks, thus becoming a financial instability factor. The conducted study allowed to outline the essence of banking globalization and main channels of influence on banking system of Republic of Moldova: banking regulation, participation in the capital of domestic banks, diffusion of innovations in banking products market and participation in international financial flows. This impact, on the one hand, has beneficial effects on the implementation of modern banking technologies. However, on the other hand, it generates a complex of problems. The research has shown the contribution of banking globalization to the emergence of recent banking crisis in Republic of Moldova. All this requires reviewing prospects of domestic banking system developing and banking regulatory process continuously improving.

Keywords: *bank, banking globalization, transnational banks*

JEL classification: *F36, F65, G15, G21*

Introduction

By virtue of market dominance, banks become main participants in the process of financial globalization. They exert an active influence on financial markets, stimulate their integration and modernization while simultaneously changing themselves.

Many researchers point to the fact that current trends in the globalization of the economy contribute to transforming the role of the bank into the economic system, becoming the important financial intermediary that provides all the participants of international economic activity with the necessary financial resources. As a result, banks not only carry out international financial activity as autonomous institutions but also contribute to the international business of other economic entities.

The transformation of global banking system takes place under the influence of a complex economic, socio-economic, political and geopolitical problem, which differs by degree of mutual influence, combining and confronting vectors of evolution. The controls on this system, are required to adapt to these processes and elsewhere to change them in their interests, but these processes can only be influenced by countries with a high potential and obvious competitive advantages.

Inevitably, financial globalization exerts an increased influence on the functioning of banking system in Republic of Moldova, which implies the need to study this impact.

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Description of the problem

Banking globalization is the stage where banking services have spread worldwide, becoming universal. (Savu, 2006)

It is a separate direction of economic globalization. As result of banking globalization change the nature and forms of competition on financial market. Banks are forced to compete simultaneously on many financial market segments, not only with each other but also with other financial institutions: insurance companies, investment funds, non-state pension funds and other financial companies. (Davlatov, 2015)

At the same time, banking globalization represents the highest degree of international banking development, which is reflected in the implementation of commercial banks transactions with foreign counterparts and on global financial markets. International banking business has developed along with development of world trade, international business of non-financial institutions.

Authors Ştahovschi and Butulescu (2010) said: „Globalization of banking activity appears as a natural consequence of multiple transformations carried out in the processes of production, movement of goods and services on a global scale. On the other hand, given the vital role of assuring and distributing financial resources in all development processes, globalization of banking activity is said to be a promoter and a supporter of globalization in all compartments and sectors of economic life."

According to Ivanov (2018), banking globalization has developed in the following stages:

- In 1960-1970s. banks have begun to form a foreign network necessary to service activities of their multinational customers. Foreign branches changed the orientation and priorities of activity. The passive and indirect influence of banks on globalization, characteristic of first stages of development of this process, has been replaced by an active one. Along with serving international trade and following their customers, banks have included local companies and the public in the sphere of their interests.
- In 1970-1980s. the largest banks have moved to direct participation in globalization. This transition was accompanied by the emergence of a global financial market headed by leading US banks. Therefore, at the first stage, banking globalization was practically reduced to Americanization of financial market - leading financial banks were determined by leading Wall Street banks. As the financial positions of London were restored in the process of globalization, British banks entered. Then European financial markets appeared and leading European banks shifted to global operations. As Japanese financial capital grew rapidly, its banks also became involved in the globalization process.
- A significant acceleration of banking globalization has been observed over the past quarter century. At this time, the emergence of new market economies and emergence of new global financial centers, as well as the rapid development of offshore financial zones occured. The mastering of these processes took up not only already established global banks. In the wake of accelerated accumulation of capital in this area, the nouveau riches appeared who quickly gained financial strength and occupied key positions in global banking network. Nevertheless, new banks have not yet mastered all levers of global development and most often were content with subordinate roles and occupied second positions in the global banking empire.

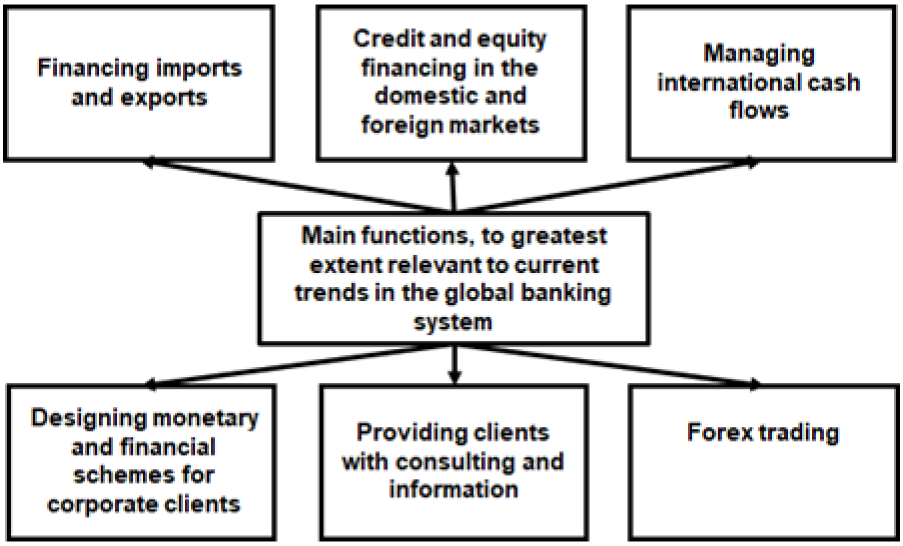
Also, in Ivanov's opinion, the leading actor of banking globalization has become tglobal bank is a bank with a worldwide business or a bank that is active in international markets and has a presence on several continents. Global banks offer a platform for global access to management of accounts, assets, liquidity and risk. It uses funds received in foreign markets to finance its claims to borrowers in the same or other foreign markets

At the same time, transnational and international banks remain important. Transnational bank is a large financial institution with a wide network of overseas offices, branches and offices. International bank uses funds received in domestic market to finance its claims to borrowers

in the foreign market. Along with these financial institutions, World Bank and the International Monetary Fund, as well as various other intergovernmental credit and clearing institutions, play an important role in banking globalization. They are involved in shaping the overall favorable climate for international banking.

Researcher Shestopalova (2013) introduced main functions to greatest extent relevant to current trends in the global banking system (Figure 1).

Figure 1. Main functions to greatest extent relevant to current trends in the global banking system



Source: (Shestopalova, 2013)

Shestopalova also points out that international financial integration in modern conditions poses many problems for banking institutions:

- It is quite difficult for investors to obtain reliable data on activities in the global capital market.
- Integration processes in capital markets led to simplify the procedure for capital flow. So, governing links in the banking sector is quite difficult to predict in a timely manner or identify destabilizing flows of funds for the purpose of formulating adequate strategy for further development.
- Market integration can increase the vulnerability of monetary and financial market and, therefore, complicate the problem of control over its activities.

According to some economists, banking globalization determines the transformation of banking business as follows (Samarina, 2011), (Vlezkova, 2012), (Davlatov, 2015), (Gabbasova, Mirzagaleamov, 2015), (Zaitsev, 2010):

- *Performing global banking operations*, which imply the presence of powerful financial institutions in different world markets, as well as their knowledge of the economic situation, financial services industry, state of economy sectors and cultural characteristics in each particular country of a particular region. This is necessary in order for global banks to be able to provide a full range of financial products and services that are most suitable for a particular financial market, as well as to offer innovative banking solutions for both local and cross-border customer needs, which are often large transnational companies.
- *Increasing influence of growing expansion of corporations* on national monetary policy (ie. central bank activity) has, banks and other financial institutions in global capital markets, including in direct investments sector.
- National banking systems, which are designed to accumulate and redistribute financial resources within national economic system, are *in ever-increasing dependence on international capital markets*, which in era of globalization has become an independent factor in development of world economy.
- Development of a network of transnational corporations and their affiliates around the world has led to increase in their need for adequate banking services and provoked *emergence of new non-traditional banking services*.
- Non-financial sector of economy, financial and banking systems of national economic systems are becoming more standardized at work in domestic and global markets. This leads to convergence of regulating rules of internal and external economic transactions. Process of financial globalization and formation of global banking industry promote the *standardization of national banking systems* and emergence of *single, dominant banking model*. It can also be about *standardization of banking supervision*.

- *Concentration of capital*, including the merging of insurance and banking capital, lead to formation of transnational financial corporations, which capital is spreading beyond national economies, size of assets of corporations is comparable with budgets of entire countries.
- It takes place *banking management objectives adaptation*. The main of which consists in to enhance market capitalization of the bank as a company. The increase of market value of bank and increase of capitalization of banking industry in general ensure compliance with their banking socially significant features that contributes to economic growth.
- *International portfolio investments is growing* which enhance active banking operations.
- Globalization is accompanied by *deregulation of banking business* and the *liberalization of financial markets*. This erases the institutional distinction between different types of banking and financial activities (commercial, investment, insurance, and others). Liberalization, on one hand, creates conditions for development of an overseas branch network of banks and formation of international banking business, which naturally increases the competition, but on other hand, at the same time activates consolidation of bank capital. This leads to increase of mergers and acquisitions number in banking sector, to expand and increase the diversity of banking cooperation between themselves and non-bank financial institutions, growth of bank alliances of all kinds.
- *Substantially change nature and forms of competition in financial markets*. Banks are forced to compete simultaneously in many financial market segments, not only with each other but also with other financial institutions (insurance and investment funds, finance companies, etc.) and in liberalized environment - not only with residents but also with non-residents.
- Banking, globalization is associated with the *reorientation of banking business from traditional to innovative*, reducing the share of traditional banking operations in favour of increase of new, qualitatively meeting of customers needs changing. Improvement of banking products and services, channels of their promotion on modern information and communication technologies, carrying out to achieve adequate compliance of banking business to changing customer demands.
- *Offering new and expanding streamlined channels for delivering banking products and services to customers*, this mainly being due to e-banking, which has significantly expanded the scope of consumer coverage with financial services, primarily limited to operations of traditional bank branches. This channel is today critically important for both retail and wholesale banking in sectors of cash circulation, capital markets, securities and international trade. The growth of electronic banking is directly related to advent of advanced communication technologies and computer platforms.
- *Development of outsourcing of certain functions and operations of global banks* wanting to reduce costs, replace fixed (fixed) costs with variables, and focus all attention on the core business. There are several areas in which global banks outsource their functions and operations. Firstly, the geographical factor plays an important role, when banks transfer some of their functions to the outsourcing companies representing cheap labor countries. Some data centers here serve one client, i.e. one global bank, others - several clients at the same time. Most popular nowadays as territories for business process outsourcing of global banks.
- Of great importance is the *further improvement of integrated risk management* as a way to determine, evaluate and control the effect of all internal and external factors, the change of which may adversely affect the value of a portfolio or a bank as a whole.

These transformations were determined by the following factors (Vlezkova, 2012):

- Increasing dependence of national banking systems on international capital market;
- Strengthening competition on global financial market between both banks and banks with other financial institutions;
- Increasing opening of national economy;
- Standardization of banking supervision;
- Development of information and communication technologies.

Ştahovschi and Butulescu (2010) noted that, „...two-thirds of surveyed multinational firms chose a bank with headquarters in the host country, and less than 20% of them chose a bank in their home country. Branches of multinational companies prefer to use services of a bank that knows local market, culture, local language and regulations, rather than banks that are familiar with market conditions of home country. This suggests that expansion of globalization will remain limited. However, in countries with low financial development (such as former socialist countries), multinationals prefer to work with banks in their home countries or with global banks rather than with local banks".

Methodology and data sources

The research was conducted on the basis of examining opinions of various specialists in the field of banking globalization as well as reports of institutions authorized in the banking sphere of Republic of Moldova. As a result, certain assumptions have been made on the existence of channels for banking system integrating with international one under the influence of banking globalization processes. These assumptions have been confirmed by examination of analytical materials.

Results obtained

As a result of the researches carried out, main channels of integrating the banking system from the Republic of Moldova with the international one were determined:

- Implementation of banking standards;
- Innovation process promoting;
- Significant foreign investments in capital of banks in Republic of Moldova;
- Attracting banking system from Republic of Moldova in shadow activities of banking globalization.

Implementation of banking standards

Financial globalization has led to unification of standards and methodologies for organization of banking activity, which in turn are also applied in Republic of Moldova.

In 1992, Republic of Moldova became a member of International Monetary Fund and of International Bank for Reconstruction and Development, which contributed to beginning of establishment of banking regulatory and banking system based on international standards.

In 1995, Law on National Bank of Moldova and Law on Financial Institutions was approved, which at that time was largely an attempt to implement international best practices in banking. As a continuation of this process, in 2017 came into force Law on activity of banks, which aims to strengthen the banking regulatory and supervisory framework by aligning itself with European standards.

The basis for international banking is standards and methodologies for banking regulation that are accepted by a large number of countries, which are developed by Basel Committee on Banking Supervision of Bank for International Settlements. In this context, Basel Accord on capital adequacy is highlighted.

The banking regulatory system in Republic of Moldova is based on international standards. Firstly, it refers to activity of National Bank of Moldova (NBM), which is responsible for licensing, supervision and regulation of commercial banks' activity.

Implementation of Basel I provisions started in 1998. In 2004 the Basel II was approved, which created additional opportunities for improving banking supervision system in Republic of Moldova. And in 2017 NBM proved Basel III Implementation Strategy in the light of European legislative framework.

Based on international standards and legislation in force, NBM promotes banking regulatory and banking policy through:

- Establishment of bank authorization criteria, capital requirements, exigencies to owners and their shares;
- Establishing requirements for commercial bank administrators;
- Establishing requirements for quality and functionality of banks' internal control systems;
- Establishing and supervising compliance by commercial banks with prudential requirements;
- Undertaking actions related to application of corrective measures, sanctions, establishment of special supervision or, as the case may be, special administration for solving problems with banks with increased vulnerabilities.

It is also important the endorsement in 2006 of Recommendations on country risk management and transfer system by banks in Republic of Moldova, which had as object the management of two categories of risks:

- Country risk expressed by possibility of a negative impact of economic, social and political conditions and events in country on the activity of bank;

- Transfer risk related to impossibility for a foreign entity to convert financial bonds into currency required for payment due to lack or unavailability of this currency as a result of restrictions imposed by that country.

Innovation process promoting

Much of new banking products have been implemented in Republic of Moldova by way of diffusion, ie the supply of these products after testing their effciency on financial markets of other countries and on international market.

This process takes place in two ways. The first is related to coverage of new products under national law to ensure not only their functionality but also security for both customers and banking institutions themselves. The second is through the application of new banking technologies within commercial banks. The most eloquent example in this respect is innovations within Moldovan payment system. Since 2002, central authorities have begun actively promoting the use of non-cash payment instruments. Also, the Strategy for development of national payment system of Republic of Moldova, which determined the current configuration of Moldovan payment system, was approved.

New regulations have been approved, in particular, was defined instruments and payment documents used to make cashless payments on the territory of Republic of Moldova:

- Credit transfer - a payment instrument used to make a wide range of payments initiated by individuals and businesses. It is worth mentioning that in international practice this is the most widespread non-cash payment instrument.
- Direct debit is used to collect payments due by consumers to suppliers of goods and services.
- Incontestably perception is payment instrument, through which the law-mandated bodies initiate forced collection of money from bank accounts. Related stipulations have elucidated certain aspects related to work of concerned bodies.

In Republic of Moldova the development of remote banking services was possible according to type of used application by the holder and means of communication: ATM-banking, POS systems, Internet-banking, PC-banking, mobile-banking , telephone-banking, SMS-banking.

Since 2013, The Law on Payment Services and Electronic Money has been enforced, harmonized with EU law.

At present, Moldovan commercial banks issue and serve payment cards only within international payment systems. Their use is gradually increasing each year, being supported by Internet-based banking solutions and development of necessary infrastructure. It is remarkable in this respect the development of self-service systems within commercial banks.

It is also important to increase the supply of auxiliary services.

Of great importance was the provision of services related to international systems, such as PayPal.

Commercial banks in Republic of Moldova increasingly use the packaging of offered services in complex banking products.

Based on international experience, since 2003, Deposit Guarantee Scheme has started to function and activity of Deposit Guarantee Fund in banking system was launched. Level of deposit guarantee ceiling (the maximum amount payable to a depositor) was originally set at MDL 4500, and then in 2010 – MDL 6000, irrespective of number and size of deposits or currency in which they constituted in bank. In March 2017 the sum of ceiling was increased to MDL 20000. However, in some experts' opinion, this system is still a little efficient. (For comparison, EU rules provide for guarantee schemes of EUR 100,000 per depositor.) Since the implementation of official bank deposit guarantee scheme in Republic of Moldova, five banks have been liquidated, but no payment has been made from the fund.

The activity of Credit Bureau started in 2008, which was an important moment for organizing information exchange between commercial banks, microfinance organizations, leasing companies, savings and loan associations, in order to provide information aimed at describing the situation regarding compliance to borrowers of their obligations under credit agreements, monitoring and identifying credit risk, including fraud, as well as other information required for credit.

Offerings of deposits and loans at present can be considered classical rather than innovative, with only some hybridization and combination attempts being made in complex banking products.

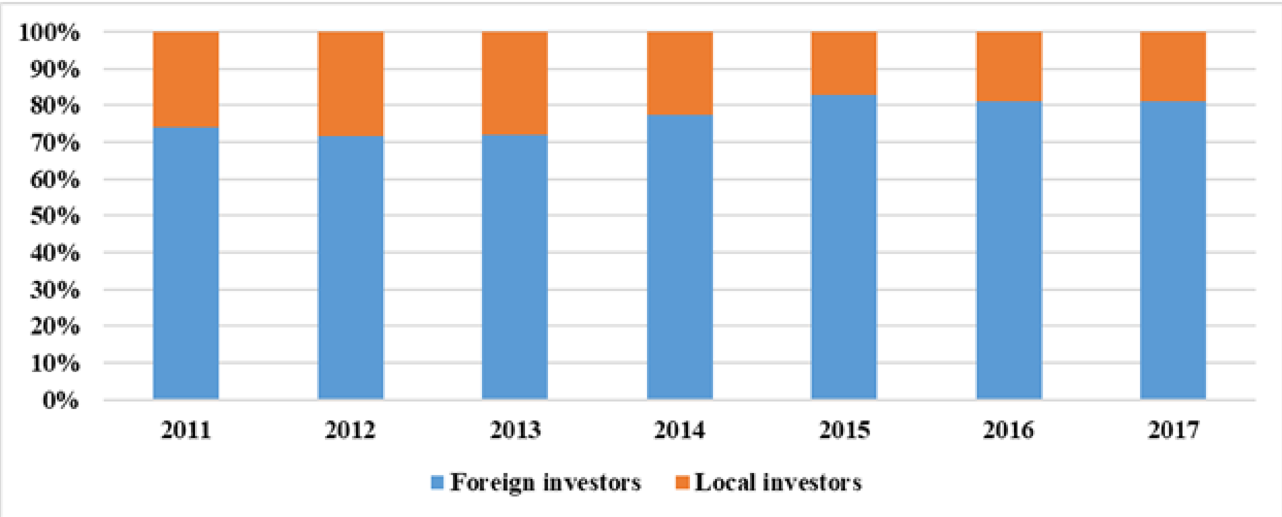
At the same time, the process of technology transfer in banking industry is not a mechanical and simple one. So far, there are many issues, which are partly related to specific corporate culture within banks and financial culture of clients.

Some innovations are very difficult to develop (for example, premium banking services, bancassurance services). Other products spread in Western practice have not been implemented in Republic of Moldova. For example, classical fiduciary services, investment and multivalued bank deposits as well as metal bank accounts can be used. Up to now, there is no known case of granting domestic consortium credit by domestic banks.

Significant foreign investments in banking capital in Republic of Moldova

The main way of integrating national banking system into the world is through foreign direct investment. During 2011-2017 the significant share of foreign investments in the capital of banks in Republic of Moldova was maintained (Figure 1).

Figure 2. Dynamics of structural changes in share capital of banking sector in Republic of Moldova according to source of investments



Source: Annual reports of National Bank of Moldova for years 2011-2016

During the analyzed period it had the general trend of growth, the minimum being in 2012 (71.7%) and the maximum level - in 2015 (82.9%).

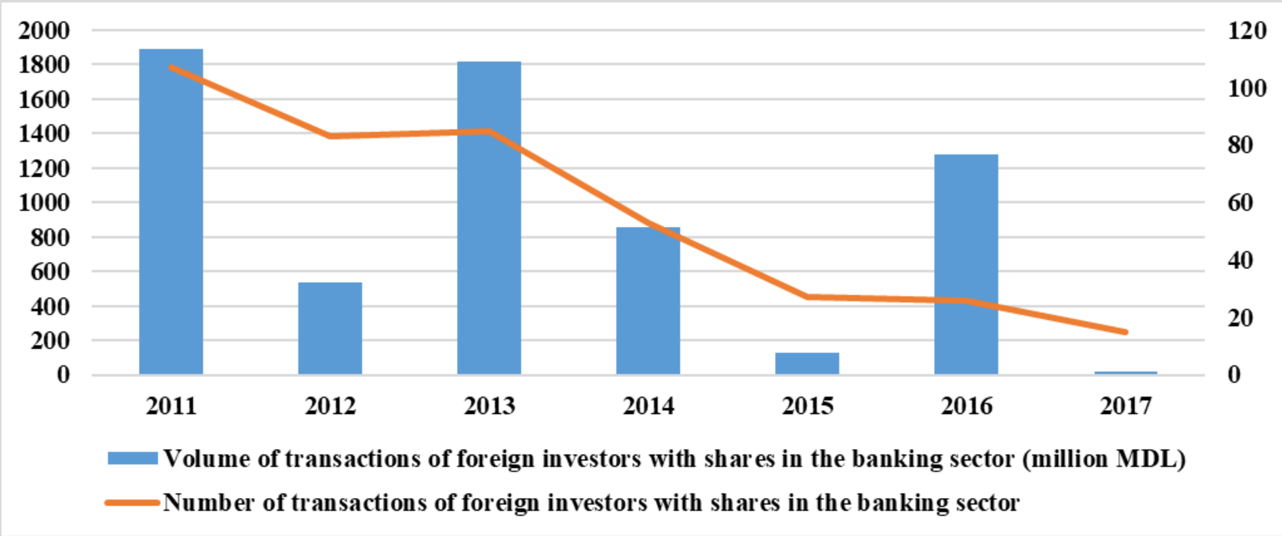
As of December 31, 2016, the level of indicator was 81.0%, decreasing by 1.9 percentage points as compared to the end of 2015, following the cancellation by Moldova-Agroindbank on July 1, 2016 of 389760 nominative ordinary shares with a nominal value of MDL 200 / share and FinComBank's partial redemption of its own shares (MDL 10.1 million) from Western Nis Enterprise Fund (USA). Among foreign investors participating in the formation of capital of banks of Republic of Moldova are: European Bank for Reconstruction and Development, banks from Italy, France, Romania, as well as corporate investors from Germany, Austria, UK, Ukraine, Cyprus, Russia, USA, Netherlands, Liechtenstein, Switzerland, Czech Republic.

As of December 31, 2017, the share of foreign investments in banks' capital remained practically at the same level.

Of total number of banks, four banks have full foreign investment capital (including 2 branches of foreign banks: Eximbank and BCR Chisinau) and 7 banks - capital made up of foreign and domestic investments.

The activity of foreign investors with shares of banks was unstable (Figure 2).

Figure 3. Dynamics of banks' foreign investors' transactions with banks' shares



Source: *Annual reports on activity of National Commission for Financial Markets and functioning of non-banking financial market for years 2011-2017*

The number of transactions of foreign investors with shares of domestic commercial banks tended to decrease - from 107 in 2011 to 15 in 2017. However, their volume varied between MDL 1890.8 million in 2011 and MDL 20.5 million in 2017.

In 2017 negotiations were started for the acquisition of package of shares issued by Victoriabank. On January 16, 2018 Banca Transilvania together with European Bank for Reconstruction and Development acquired 39.2% of shares in Victoriabank.

In June 2018, NBM approved the acquisition by an international consortium of investors of 41.09% stake in share capital of Moldova-Agroindbank through an investment company specially created for this purpose - Heim Partners Ltd., registered in UK based in London.

Attracting banking system from Republic of Moldova in shadow activities of banking globalization

Banking globalization, besides beneficial aspects, also has some negative ones. First of all, it is the issue of money laundering, as well as the danger of getting national banking system into shadowy international financial schemes. In 2007, banking regulation on prevention and combating of money laundering and terrorism financing was approved. And in 2011, recommendations on banks risk-based approach to clients oriented towards risk prevention and combating money laundering and terrorist financing were approved. But contrary to formal measures taken by authorities, domestic banking system is increasingly drawn to national and international money laundering, most famous of which is Laundromat. Secondly, it is attempts to illegally seize banks' shares in Republic of Moldova by conducting raider attacks. Thirdly, it has now become evident that the plunder of three native banks (Savings Bank, Social Bank and Unibank) would have been impossible without the use of global infrastructure provided by offshore financial centers. Fourthly, international collaboration of domestic commercial banks with banking institutions in other countries linked to international investment has caused over the past decade additional problems related to unjustified assumption of excessive risks.

Thus, banking globalization has become a fundamental factor in triggering financial crisis in Republic of Moldova in 2014-2015, which was manifested by acute shortage of bank liquidity related to bankruptcy of said banks and collapse of exchange rate of national currency in foreign exchange market.

Conclusions

Banking globalization contributes to the spread of banking services throughout the world, banking activity becoming universal one. It can be considered an important factor in the development of banking system in Republic of Moldova, its integration into world banking system. On the one hand, it impose the improvement of banking regulation and supervision. On the other hand, it contributes to the spread of new banking products in domestic banking market. Also, the process of integrating the domestic banking system into the world is remarkable. But at the same time, banking globalization is a source of financial problems, becoming a risk factor. This implies the need to deepen collaboration of national banking supervisors with international financial institutions and banking supervisors in other countries.

Future Directions to Be Approached

The continuation of studies will be to follow the further evolution of international banking regulations and their implementation in the Republic of Moldova. It is also interesting to continue the innovation process on the Moldovan banking market..

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