MODERN TRENDS IN GLOBAL BANKING*

Since the last decades of the twentieth century global banking is constantly in search of new ways of development and experiences transformations that have diverse influence on its ability to effectively perform its inherent functions. Acting first of all as financial intermediaries, banks provide flow of funds from institutional sectors with surplus liquidity or capital to sectors that require additional resources. The main channel of interaction between banks and the environment is banking products, which attractiveness, accessibility and effectiveness are proved on the market. It is through bank financial instruments savers store, accumulate and capitalizes cash, and entrepreneurs develop, renew business, without waiting for the accumulation of the necessary amount of own resources. Therefore, the fundamental law of the banking development should be to comply with the strategic objectives of the national economy and to focus on the needs resulting from the social production process.

The banking system as an independent economic entity and as a part of a higher order system, solving current problems and meeting the growing needs of economic actors, faces new functional aims that are directly dependent on the degree of economic development of society.

According to most scholars, the main modern global trend that has a significant impact on all aspects of life in any country is globalization, which, from an economic point of view, is the highest stage of internationalization of production factors and, covering all national economies, is gradually forming an integral world economic system. This qualitatively new concept began to be used in the 1980s with the advent of works by American economists and sociologists J. McLean, T. Levitt, R. Robertson.

Summarizing the various points of view, the essence of globalization can be defined as the process of strengthening the relationship and interdependence of national economies, national political and social systems, national cultures. In other words, it is the objective transforming the world in a single unit, where the singular is the epitome of global relations, where goods, services, capital, information, labor move freely, ideas and technologies spread among individuals and communities. Spanish sociologist M. Castells defines global economy as one "whose core components have the institutional, organizational, and technological capacity to work as a unit in real time, or in chosen time, on a planetary scale" [1].

Financial globalization is one of the components of this process, understood as the free and efficient flow of capital between countries, functioning of the global financial market, formation of supranational regulation of international finance, the implementation of global financial strategies of transnational corporations and banks (table 1). Moreover, according to many domestic and foreign experts, today financial sector in terms of globalization is ahead of all other sectors including the real economy. Bank's for International Settlements data show that over the last ten – fifteen years the volume of funds traded in the international financial markets was growing rapidly, the number of participants and a variety of instruments were constantly increasing.

Should be considered that globalization is an objective and irreversible process characteristic of post-industrial society. This is a fact of the modern era that requires examination and consideration in all areas of human life, because their development is increasingly determined not only by national and regional but global factors as well.

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Table 1

The dynamics of financial globalization in 1980-2020

Indicator	1980	1990	2000	2007	2008	2020 f
Cross-border capital flows, % of world GDP	4.7	5.2	15.3	20.7	3.1	23-28
Accumulated foreign direct investment, % of world GDP	6.0	8.5	18.0	28.3	24.5	42-47

Source: UNCTAD

The impact of globalization on banking is many-sided and ambiguous. It is possible, in our opinion, to give below its manifestations:

- creating of foreign networks by national banks that transforms them into transnational, global financial institutions (table 2);
- increasing of foreign assets and liabilities shares in the balance sheets of banks, growth of international agreements and transactions, and of international business profit share, that in turn leads to increased risks inherent in these operations;
- increased competition in the international and national banking markets while strengthening trends towards cross-border cooperation, strategic alliances, etc;
- designing banks' strategies of development and risk management taking into account not only the characteristics of the national economy, but the prospects for change of the economic situation in the world as well;
- unification of the internal and external operations' rules, forming globally uniform service standards;
- through information technologies, which are an essential tool of globalization, providing round-the-clock access to any financial markets that greatly accelerates and improves the efficiency of banking operations;
- growing influence of banks' expansion in international financial markets on national monetary and economic policy requiring the implementation of global banking regulation;
- global spreading of information about any innovative solutions, products, and technologies contributes to their rapid diffusion and accelerates innovation process in the banking sector;
- increasing mobility of clients that puts additional demands on quality of their service, and more.

Table 2

The share of foreign assets in total assets of banks by regions, %

Regions	1995	2009	Share growth, p.p.
North America	10.2	21.0	10.9
Western Europe	23.0	28.7	5.7
Eastern Europe	25.1	58.4	33.3
Latin America	18.3	38.0	19.7
Africa	8.4	7.7	-0.7
Middle East	13.6	16.9	3.3
Central Asia	2.0	2.3	0.3
Eastern Asia and Oceania	5.2	6.5	1.3
All countries	15.2	22.8	7.6

Source: IMF

Thus, globalization, especially of financial markets, not only has a positive effect on the activity of the banking sector in terms of expanding the range of opportunities to fulfill its functional role, but also leads to the deepening of existing problems and risks, and appearing of new ones. In addition, the objective interdependence banking systems of different countries is the basis for the transmission of crisis impulses from the local to the global level, as evidenced by the Asian financial crisis of the late 1990s and the Great Recession of 2007-2009.

Liberalization of financial markets and banking deregulation that were most active during 1980-1990 brought a significant contribution to the increasing of global instability. The theoretical basis of deregulation was the thesis that the legislative provision of banking stability is achieved by reducing its effectiveness. In many developed countries restrictions on various financial transactions of the banks and other financial institutions were removed, investment banks became able to engage in commercial lending, commercial ones – in underwriting, securities and derivatives trading, insurance and so on. Consequently, there took place diffusion, erosion of clear boundaries between bank and non-bank financial institutions. Even the term "non-bank banks" appeared in the United States, reflecting the form of participation non-financial companies – retailers, auto dealers, etc. in performing a number of banking transactions.

Deregulation also showed itself in the elimination of restrictions on deposit interest rates, reducing taxes and duties on financial transactions, wide spread of off-balance sheet transactions that was due primarily to the securitization of assets. The traditional model of bank lending, so-called "originate-to-hold", that is retention of loan assets on the balance sheet until maturity, has been replaced by "originate-to-distribute". Today, large-scale securitization and related processes of creation and dissemination of complex structured securities are rightly considered as one of the main causes of the global financial crisis. It became clear that in fact the global financial system had functioned not in the interests of national economies, but to create fictitious capital, flows of which had ensured high speculative profitability of financial markets' transactions. Banks in developed countries, trying to ensure the growth of profitability for shareholders, became more engaged into highly profitable operations in the stock markets at the expense of traditional banking.

The conditions for this were created by the processes of disintermediation as well. It means lenders' and borrowers' giving up services of financial intermediaries and their orientation to direct funding. Thus, in developed countries funding model based on the stock market (the so-called Anglo-Saxon) was becoming more and more explicit. Equity market flexibly, efficiently, and adequately satisfied the needs for large-scale fundraising of economic entities, including not only corporations, but governments. The classic bank loan gradually lost its importance for large companies as an instrument of corporate finance only remaining as the source for additional funds for small and medium business, and individuals. The result was a decline in the share of banks in total financial assets, in particular in the US economy, from 40% in the mid-1970s to around 27% – in the mid-1990s, and to 18% in 2013 [2; 3].

On the wave of disintermediation individuals also became to avoid applying to banks to solve their financial problems. Attracted by high profitability of non-bank financial instruments, they reduced their investments in the banking system. In addition, in recent years individuals actively have been engaged in self-financing, using web portals that support the organization of direct loans – Prosper.com in the US and Zopa.com in the UK. According to Prosper.com data, in the US in 2005 such loans were granted to 118 million dollars, and in 2014 – 1.6 billion dollars, up more than 350 percent from the previous year [4].

Today, most scientists and banking experts agree that after the crisis the banking system should return to the model of "classical banking" where banks act as financial intermediaries, and capital flows are tied to the movement of real property (goods, services, natural resources). It is significant that in early 2009 during G20 summit devoted to financial markets and the world economy, the former British Prime Minister Gordon Brown in an interview to Observer pointed out that banks had to act in the long-term interests of their shareholders and therefore of the economy as a whole, not in the short-term interests of bankers: "We want to ensure that the new banking system that emerges over the coming years meets all these requirements – and becomes the servant of our economy and society, never its master" [5]. It is assumed that this "new classical model" will be simpler, more transparent, more risk averse, will take into account the interests of all stakeholders – from governments to society as a whole, but must be no less innovative than the previous one [6].

A notable trend of global banking business in recent decades has been the significantly increased competition both at the national and global markets. Their oversaturation and increasing demands of customers cause a transition from price to non-price competition. Under these conditions financial institutions that offer diverse, including unique, but understandable products, especially comfortable and flexible supply channels gain advantage. The ability to find new activities, particularly related to the supply of information in the form of risk assessment, financial planning, counseling, etc., and to create new and modernize existing business models is becoming the differentiation factor.

The competition between banks and non-bank intermediaries is also growing, and its results are not in favor of banks. Thus, in 1990 the share of bank assets in the financial sector declined in almost all developed countries: in France – from 81.1 to 64.5%, Germany – from 83.5 to 72.1% in the UK – from 75.1 to 66.7% the US – from 57.5 to 49.9% [7, p. 93], and this process continues. So, being formerly the dominant component of the financial market institutional structure, banks are moving into a state of parity with non-bank intermediaries.

Considering the declining of banks' liquidity, particularly acute problem for them is to raise funds of individuals. This is an area where they recently lost their positions. While in the early 1980s, bank deposits amounted to half of financial assets of households, at the beginning of the XXI century their share dropped to 15-20%. Now individuals prefer placing money in various investment or hedge funds, which provide greater return on investment than banks. Large amounts of money are directed in retirement savings, which are accumulated primarily by investment firms. For example, in the US these pension assets form more than 16 trillion dollars that is almost four times more than the size of personal bank deposits [3].

Due to the fact that the barriers to entry the financial market decreased as a result of deregulation, banks are now forced to compete with absolutely new its participants – telecommunication and IT companies, which undermine the traditional chain of value creation and focus on certain specialized services, primarily in the area of payments. The tendency to establish subsidiary banking units of high-tech companies is observed (for example, the Sony Bank, General Electric Money Bank, etc.), also like attempts of large supermarkets such as Wal-Mart in the US to enter the banking.

In general, progress in IT technologies accelerates all of above mentioned trends and increases their impact on the banking. IT technologies reduce information asymmetry, increase market transparency, making information more accessible to consumers, resulting in the banks gradually lose their benefits of exclusive partners, especially for corporate clients.

It should be noted that the banking automation process started relatively recently, since the mid-1960s, when there appeared the first automated systems for accounting, processing transactions for client accounts and payments by check. However, for a long time IT systems were used primarily to remove manual labor, reduce costs, and automate the collection and processing of banking information. Today, IT technologies are the main driving force of radical structural changes in the banking business. Online communications provided by the Internet create entirely new conditions of servicing both retail and corporate clients, functioning of marketing complex and banking management.

However, the rapid development of IT technologies leads to some problems in the banking, the main among which is the need for increased control over the safety and reliability of transactions.

And moreover, the introduction of new technologies, the development of electronic distribution channels requires significant investments that in the short term reduce the business profitability. This is contemporary challenge to which banks must constantly seek and find the answers.

New conditions for the banking activities contribute to the consolidation of bank capital at a national and international scale. The banking sector is one of the most highly concentrated in the modern economy. Increasing the size of banks through mergers and acquisitions, as well as their cooperation with other financial institutions, aim to strengthen their competitive position at the national level and win new segments of the global market. This process particularly intensified in 2008-2009 under the influence of the global financial crisis that led to the bankruptcy of a number of investment and retail banks, which had substantial mortgage assets.

However, it is believed that the classical economic theory position that concentration provides companies a dominant position in the market and economies of scale can not be applied to banks due to their specific "production". Banks can achieve increasing profitability by expanding clientele and diversifying their own activities more effectively than by increasing their size. So the size is not an absolute criterion of profitability, as evidenced by the successful work and high incomes of many medium-sized banks [8]. Therefore, the future structure of the banking sector will include the banks of different sizes, both large and medium, and small.

At the same time, it is assumed that the small banks will continue to be involved in the sphere of influence of large banking groups which will be the main backbone elements of the banking sector. The development trend of banking systems, in our opinion, is the formation and strengthening of horizontal, network relations (as opposed to hierarchical) that is reflected in the development of correspondent relations, inter-bank market, syndicated lending and underwriting, outsourcing, formation of various banking alliances, unions, and associations.

It should be noted that the consolidation of the banking business also cause some problems. Previously, large systemically important banks were assessed as "too big to fail", thus emphasizing their full support by the state because of their fundamental role in the development of the national economy. Now they say that these banks are "too big to manage". The issues of restructuring, optimization and standardization of business processes, designing of a common corporate strategy, creating unified IT platforms, a unified corporate culture – this is just a small list of problems that arise during mergers and acquisitions of the banks.

For a long time the debate has been taking place over what should be the future model of the banking in order to be able to meet the modern challenges and effectively use the arising opportunities. These are universal and specialized banks. In the global survey conducted in 2008 by the research division of IBM, which was attended by about 650 bank managers from 89 countries, it was found that the benefits of specialized banks were consistency of services provided, understanding customer needs, personal relationships and world class products/service. However, universal banks have a much higher reputation in the public mind and have convenient sales channels [9].

It was concluded that a successful model for the near future should be universal "multyspecialized" or "focused" bank, which was a financial institution that provided a wide range of services through specialized business units. The last do not intend to subsidize, if necessary, each other, but to compete effectively with other universal and specialized financial institutions. Focusing, according to well-known Swiss banking expert H.-U. Doerig, "means concentration on the core capabilities and therefore selected areas of activity" [10]. Such a bank can not only comprehend the dynamic structural changes in financial markets, but also beneficially apply them using the "economies of diversity".

An important feature of modern banking, to which scientists not always pay attention, is that the form and technology of banking services to private persons are increasingly getting closer to retail. Banks create client-oriented business model, offering specific services to specific groups of customers, trying to implement the principles of personal servicing to mass-market retail banking.

Banks' responsiveness, that is their ability to respond to changes and new needs of consumers, is growing. Thus the bank staff comprehensive training becomes of particular importance. From the place of conducting transactions bank branches are gradually turning into the sale and financial advisory services centers, so their design is radically changing. The main differences between traditional banking services and retail are listed in table 3.

Table 3

Features of traditional banking services and retail banking

Characteristic	Traditional banking services	Retail banking
Model	Product-oriented	Client-oriented
Relations "bank-client"	Bank prevails, universal approach is applied	Client prevails, individual approach is applied
Mentality of bank personal	Psychology of exclusivity, master of the situation	Psychology of supermarket assistant
Customer product selection	Search for the most favorable conditions in the various banking institutions	Flexible service on a "single window"
Methods of service	Direct sales in bank branches	The customer has a choice among many service channels
Getting information	The client himself is looking for information about the bank and the product	Information interaction via call centers, the Internet, mobile communication, etc.

In summary, it's necessary to note that the modern trends of the global banking create entirely new conditions for the activities of financial institutions. Their traditional benefits such as long-term relationships with customers, reliability of existing distribution channels, economies of scale in the provision of basic services, which previously allowed an inert bank to maintain market position over time, are gradually losing their importance.

Above mentioned objective circumstances are not favorable to the realization today by the old methods the main goal of bank management, recently defined as an increase in the market value of the bank. Therefore, the strategic trend of the global banking is innovation in all its spheres, which allow combining income growth, minimizing costs, better meeting customer needs and strengthening the competitive position of financial institutions. Nowadays, innovation is the best brand of the bank; it attracts customers, partners, investors, qualified personnel. So, the effective strategic management in the field of innovation becomes more and more important. Banks that do not have clear strategic installations in this area, do not try to develop innovative strategies and do not create an integrated mechanism of their implementation in new, complicated conditions compromise their position in the financial market.

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