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Banking Globalization: From Origin to Development and Internationalization.

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ABSTRACT

The globalization of financial markets has encourage internationalization of banking to finance cross-border trade and business, banks which was localized initially having their presence globally to provide financial services to their customer. There are several push and pull factor which had been encourage offshore banking activities as well as huge presence on global market. These banks in different counterpart may be known with different names i.e. investment banks, universal banks and global banks, and basically having almost similar nature of business but had been differentiated either due to the geographical identities, or on the basis of legal separation under the specific law.

The paper have been explaining many reasons that why banks become global banks. Indeed, the individual banks decision to expand abroad are for multiple reasons out of which few are critical which encourage domestic banks to offer services globally. The objective of paper is also to see the growth of offshore claim, contingent liabilities and internationalization.

KEYWORDS: *Gloabal banks, Cross-boarder trade, Foregin claims, investment banks, banks internationalization.*

JEL Classification : B26, G33, G21.

UNDERSTANDING THE NATURE OF GLOBAL BANKING

Once banks go global and spread their activities abroad by offering various type of services to the global customers recognized as their internationalization with different names, amultinational banks, international banks, universal banking or global banks are termed interchangeably. To make clear distinction between these terms are very difficult. The connotation varies due to geographic diversity as in European counterpart banks offering services globally recognized as universal banks while in the U.S.A they recognized Investment banks, and other counterparts of the land they have been recognized as global banks.

The cross-border operation and services offered by those banks mostly similar and very less distinction have been found which limits them due to their own structural parameters, regulatory conditions. However, Lewis and Davis (1987), made some distinction of international banks and explain traditional foreign banks offer and involves in the transaction with non-residents in domestic currency to allow trade finance and other international transactions. In the Eurocurrency banking banks participating in foreign exchange transaction with both resident and non-residents.

Buckley and Casson (1999),define multinational banking as an enterprise which 'owns and control activities in different countries'. So any bank own and control branches or affiliates in more than one country and involves an elements of foreign direct investment (Jones, 1992), Robinson (1972), Gray and Gray (1981) recognized that international banking do not require physical presence offshore distinguish from multination banking.

The forces that motivated the growth of multinational banking are expanding international trade, colonialism and the strength of the British Empire in early era of development. Which has been substituted by new source of funds, increasing competition due to gradual liberalization of domestic banking sectors in many countries (Huertas, 1990).

There have been many reasons that push domestic banks to become global banks. Indeed, the individual banks decision to expand abroad for multiple reasons out of which few are critical which encourage domestic banks to offer services globally. A banks go global to serve their domestic customers who have gone abroad- "the gravitational pull effect" that banks follow their domestic customers abroad to reduce the likelihood that they might lose their business to host-country banks (Metais, 1979). Indeed, each banks had a differentiated package of products, which sometimes give foreign banks advantage over domestic institution (Caves, 1977).banks headquartered in one country set up foreign subsidiaries in other countries or setup branch abroad- for as an entities banks maximize their own profits by providing services to as many foreign or domestic customers as possible, rather than looking at them as financial institutions that only move abroad when their domestic clients move abroad (Aliber, 1984). Dwenter and Hess analyzed banking theory based on asymmetric information between a bank and its customers, and concluded that banks' profits should differ between economic boom and busts (Dwenter ad Hess, 1998). These authors also suggest that one of the main reasons that explain expansion of banks globally in certain countries is due to protection that the legal systems of these countries offer to foreign financial institution (La Porta, 1977). For example Japan have laws that protect foreign banks, encouraging them to open branches in their counties.

Increasing competition in financial services and cross-border financial flows has result of less number of small banks operate in many countries, it also evident in different type of bank's including the mutual savings and cooperative banks as well as domestic commercial banks. However the number of foreign banks has increased in every banking market over the same period, reflecting the internationalization trend and the opportunities accessibility of trade and finance (Del Negro & J.kay)

STRUCTURAL FRAMEWORK OF INTERNATIONAL BANKING

The banking globalization is evolving, moving away from one place to other with primarily cross-border flows and cross-border transactions with internationally diversified ownership of banks. However, apart from international transaction the growth of banking also took place due to growing size multiple transactions extended by the branches and subsidiaries of parent banks that are located in host country markets, derivatives and other forms of offshore investment have also push banking globalization. These implications are visible as the developments of services of globally-oriented banks remain epicenter towards host countries from the parent countries of the same banks.

The main type of frameworks use by international banking to operate globally is that bank operates through holding companies, branches, separately incorporated subsidiaries, joint venture, special purpose vehicle, and simple representative offices (shell branch), apart from their most preferred option of foreign branches. Many of them banks also operate globally through separately capitalized foreign subsidiaries. Most U.S banks having their owned subsidiaries and controlled by the parent. Banks establish and acquire foreign subsidiaries for several reasons (J. V. Houpt and M.G. Martinson, 1982) as mention below.

- Native or foreign tax or banking law favors operation though subsidiaries
- The host government does not permit foreign banks to have local branches
- The parent banks seeks consumer business in the foreign market or it has specialized business that is facilitated by separate incorporation
- Law prohibited branches from engaging in certain activities that subsidiaries-i.e. underwriting corporate debt
- Acquiring an established institution helps the gain in the term of sizable, presence in the market.
- Limited liability is another reason for establishing separately incorporate subsidiaries.

Banks operated internationally through foreign joint venture and were more popular in 1970s, when many U.S banks have begun to enter in an international banking. Joint venture banking growth begin with advantage of appealing partners both side domestically and in the abroad.
With basic structure and historical development, organizational structure, universal (Global) banks constitute multi-product firms within the financial sector. They target all segment of the variety of product for their client in the domestic environment and provide full range of appropriate financial services. However, outside the home market, at naïve they adopt narrower competitive profile with the help of technical collaboration with the host banking or expanding their services focusing on wholesale banking and securities activities as well as international private banking (I.Walter, 1997). The global banks have been recognized in the different name by different economist over the world. The nature and work of global banking are so wide, and include large investment activities, as well off-shore countries investment with international operation of variety of financial instrument.

Banks can be term as a global banks on the basis of their presence in the international market to finance trade, cross border flow of financial capital, stocks of cross-border claims that capture inter-country exposure (Camelia .M and Javier.A Reyes,2011), providing debt, investment in equity with wider financial markets, including investment in stock market, advisory, providing loan and management to foreign counterparts, offshore-branching, (Goldberg and Saunders, 1981) acquiring shareholding in a foreign bank (subsidiary) being “globalized”. The process of globalization of banking nearly started in the 1970’s onwards with the internationalization of banking (Pecchioli, 1983), following financial innovation a period of rapid innovation in the capital markets, complex product such a ‘securitization’ in the 1980 for two purpose one is to making loan tradable and second use of asset-backed securities for enhancing the growth through financial product and innovation and use of financial derivatives (W.Mullineux and V.Mirinde) which enhance banks’ ability to generate liquidity and bringing down their cost to finance the rapid increase in international trade. Of which these international banking activities have reached in historical peak due to an increase in cross border mergers (Berger et al.2000)

Further, Kubelec and Sa (2010) conduct study of 18 advance emerging market and collected a large dataset of bilateral cross-border exposures by asset class (FDI, portfolio equity, debt, and foreign exchange reserves) to exhibit of financial interconnectedness over 1980-2005, and they prove that these financial network has become more clustered over the time and its central hubs are the United State and the United Kingdom. Comparison with the international trade network reveals that both networks have experienced increased connectivity over time, although it has been observed that financial openness increases much faster that trade openness.

The role of global banks is to reducing financing cost. In the broad sense global banks include all combination of activities performed by banks (i.e. acceptance of deposit, direct lending, investment in equity/debt, underwriting, insurance services trade financing etc.)

The strong expansion of banks internationalization is possible in a three way that banks can be follow in to expand their activities abroad(Goldberg and Saunders, 1981):

- **To provide loan and asset and liability management to foreign counterparts**,
- **Opening a foreign branch, and**
- **Acquiring shareholding in a foreign bank called subsidiary**.

Bank has been transformed from domestic- to-international and international to multi-national then global or so called them Universal banking particularly in Europe, To understand the nature of global banking and their motivation why they go globally?, and focus the global market required topology linkage between among the agents, markets, institutions, and countries. (Caballero, 2010).Aliber (1993) define multinational model of global banking expands in form of its home market and sets up subsidiaries abroad that borrow locally to finance assets operates with sizeable foreign branches and subsidiaries in multiple jurisdictions (Jones, 1992) and those out of the home country through major financial center and conduct cross-border business explaining under international banking model and later 1980s all banks shifted towards multinational model banking.

The second age of globalization are known a resurgence of international banking, continuing general expansion of international financial integration (Obstfeld and Taylor, 2004). And the share of country banking systems of banks with sizable foreign positions have grown tremendously.

Moreover, the form of banking globalization is evolving, moving away with cross-border flows to a system with both cross-border transaction and more internationally diversified ownership of banks. Apart from these other type international transaction has also been growing, including the transaction extend by the branches and subsidiaries of parent banks that are located in host country markets, derivative uses and other form of international investment made by banks (Obstfeld and Taylor, 2004). The broader trends in global capital market integration have been discussed by Obstfield and Taylor (2004) and in the empirical studies of Lane and Milesi-Ferretti (2001, 2006).

From the perspective of the parent banks enhancing international positions originate in bank-specific either for searching yield or diversification opportunities. Apart from these two other factors includes regulatory changes in the home of host country markets, which have increased the accessibility of expanding services to the host country, either as cross-border transactions or through establishing branches and subsidiaries in the host. Even, it was found that in the some cases foreign banking entry into previously restricted markets have increase as result of agreements made in conjunction with negotiations over international trade and specific forms of market access.

Direct lending is typically offered to large scale borrowers, such as states and multinational companies, often in the form of syndicated loans. It does not require the physical presence of the bank in the foreign country, although representative offices may prove useful.
Foreign branches are integral part of the parent bank and can offer a broad range of banking services to both domestic and foreign customers. Traditionally, their activity is primarily concentrated in the wholesale market. Finally, subsidiaries have identical banking powers as domestic banks and are typically retail oriented.

Banks having growth in central and eastern Europe in the early 1990s led to a rapid growth of foreign ownership in local banking systems. In the beginning of 21st century, foreign participation in the markets often exceeded 80 percent of local banking assets. In Latin American experience on financial liberalization it was first wave of liberalization that follow-your-customer type in the mid to late 1990s. The development of foreign branches and subsidiaries in the last 40 years has been largely uneven. Foreign branching can be considered a more mature form of expansion abroad. According to Brealey and Kaplanis (1996), the number of banks foreign branches increased very rapidly from about 1960to the mid-1980s and slowed significantly after 1985. In contrast, the number of cross-border merger and acquisition in the banking industry has risen most rapidly in the 1990s. However, they are still a small fraction of banking M&A activity within individual nations (Group of Ten, 2001) and they are rarer than in other industries (Focarelli and Pozzolo, 2001).

Three major factors explaining the pattern of bank internationalization have been identified in the empirical literature: **economics integration**, **institutional characteristics** and **profit opportunities**. It is a well-accepted fact in the economic literature that the pattern of bank internationalization is correlated with the degree of integration between the home country of the parent company and the country where the branch or the subsidiary is located. Integration related both to strictly economic variables, such as the levels of trade or foreign direct investment, and to non-economic aspects, such a linguistic and cultural similarities.

Regulatory restriction also significantly affect how banks configure their international activities. Governments, for example, may reduce the degree of cross-border consolidation either directly, by putting explicit limits on cross-border M&As or blocking single takeovers, or indirectly, by failing to harmonize structural differences among the financial systems or imposing limits on domestic banking activity. Moreover, the characteristics of the banking sector can also affect the probability of entry. Boot (1999), for example, argues that governments may wish to have the largest institutions in their nations domestically owned. If this is the case, it can be expected that in more concentrated markets the entry of foreign banks will be more difficult, because one single acquisition would imply the loss of a significant share to the advantage of foreign investors.

Profit opportunities are probably the most basic determinant of the pattern of bank internationalization. These can be related to bank-specific factors, to the characteristics of the country of origin of the investing bank, and to the characteristic of the country of destination of the investment. Among bank-specific characteristics, size has been found to affect mainly the patterns of internationalization: larger banks are much more international than smaller ones, most likely because they have larger and more internationally diversified customers (Berger et al., 1995). They have stronger incentives to diversify internationally their portfolio and to smooth the effects of asynchronous fluctuation in loans and deposits, they are involved in activities, and such as portfolio management and investment banking that are typically international and are characterized by economics of scale and scope.

Among the home country attributes those have stronger effect on the bank internationalization in term of the development of the financial markets or banks that operate in developed markets are seen to be more efficient and therefore to hold a comparative advantage with respect to their competitors of the destination country (Boot, 1999). There is no empirical evidence has been suggested on the importance, profit opportunities in the destination market of investment have been related to country risk (Grosse and Goldbreg, 1991: Fisher, and Moyneux, 1996; Yamori, 1998).

CHARACTERISTICS OF THE BANK AND OF THE COUNTRY OF ORIGIN

The size of the banks is a key determinant of the decision to expand abroad. Larger banks are more likely to have both foreign branches and foreign subsidiaries. Similarly, banks with a larger share of non-interest income are more likely to have foreign activities, probably because they have more innovative and aggressive strategies both at home and abroad. Banks in countries where the banking sector is more profitable are also more likely to expand abroad, consistent with hypothesis that they are specialized in the supply of more advanced services which are typically more lucrative. Overall, the factor describing the characteristics of the bank and of the country of origin has more than double, the marginal effect in the case of branches (11.4 percent) than in the case of subsidiaries (5.1 per cent); normalizing with the level of the predicting probabilities they have approximately the same size.

The form of banking globalization is evolving, moving away from a system with primarily cross-border flows to a system with both cross-border transactions and more internationally diversified ownership of banks. Other types of international transactions also have been growing, including the transactions extended by the branches and subsidiaries of parent banks that are located in host country markets, derivatives and other forms of international investment made by banks.

All of these developments could have profound implications for the host countries receiving global oriented banks, and for the parent countries of these banks some implications are the immediately evident, for example related to the international transmission of shocks. Other implication are longer term and more structural by nature, such as those associated with productivity and technology spillovers, growth consequences, and institutional developments.
The impetus for the globalization of banking varies by player, by time, and by country. From the perspective of the parent bank, some episodes of enhanced international position originate in bank specific search for yield and diversification opportunities. Other episodes have followed regulatory changes in the home of host country markets, which have increased the accessibility of expanding services to the host country, either as cross broader transactions or through establishing branches and subsidiaries in the host. Some cases of foreign bank entry into previously restricted markets have occurred in the aftermath of crises, or as a result of agreements made in conjunction with negotiations over international trade and specific forms of market access.

Particular episodes of expanding global banking include the period following the dissolution of the Soviet Union, when bank entry into central and Eastern Europe in the early 1990s let to a rapid growth of foreign ownership in local banking systems. By the early part of the 21st century, foreign participation in the markets often exceeded 80 percent of local banking assets. Another episode of expansion occurred with the liberalization of financial sector in Latin America through the mid to late 1990s. The first wave of liberalization was a follow your customer type, taking place in the aftermath of expanded FDI into manufacturing and resource extraction industries and enhanced competition that Latin American countries faced form Asian counterparts. Another burst of foreign banking activity within Latin America occurred as result of financial crises of the mid-to-late 1990s.

The US and Spain were particularly active in their expansion into foreign market during this period and measured in terms of value of positions or numbers of acquisitions. Indeed, the result was substantial in roads into central and South America, as well as into Mexico by both U.S and Spanish parent banks. By Contrast, as we further elaborate that the next most active group of banks in mergers and acquisitions were the U.K. banks and those from other euro-area countries. These banks took a regional focus, with targeted positions that were more concentrated across industrialized and developing Europe.

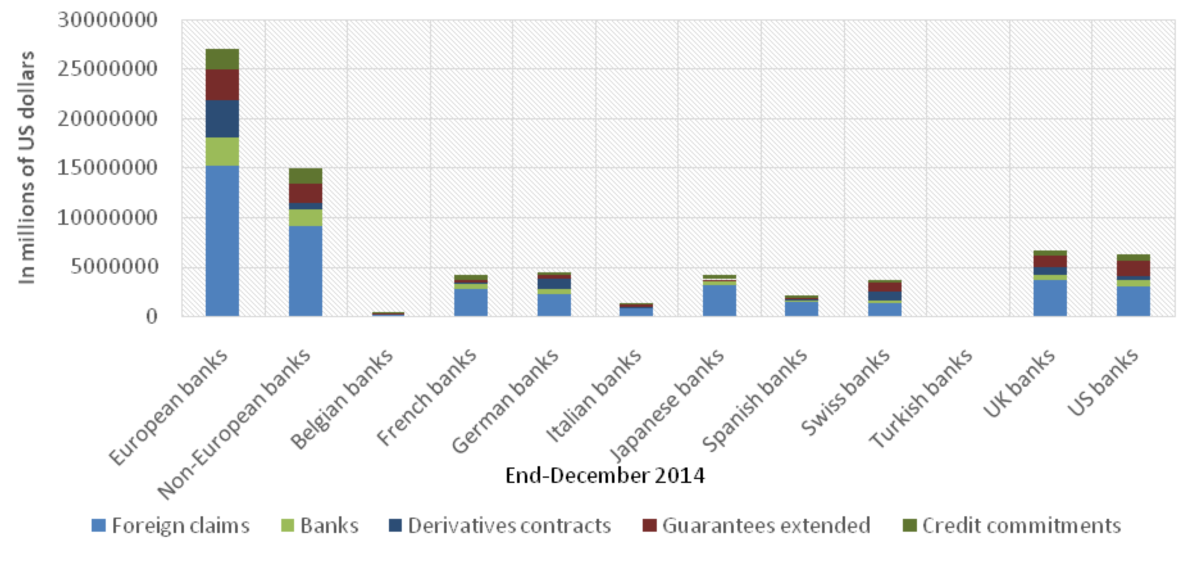
GLOBALLY-ORIENTED BANKS, CYCLICAL LENDING, AND INTERNATIONAL LINKAGES

As banks becomes globalized, the spread international movement of business cycles along with the transmission of shocks across markets. In principal, with banks are viewed as agents for international risk sharing, diversification, and financial intermediation, consequences for the host markets depend on whether the foreign bank is filling a gap and providing a service that previously was missing in the market, and on whether the foreign bank's lending activities are financed with alternative source funds or on alternative terms compared to in its absence. The globalized banks have business cycle consequences that also depend on whether host markets are served through cross-broader flows or in the host markets by branches and subsidiaries of the parent banks.

First, it is informative to consider how a change in the structure or ownership of banks in an economy may influence business cycles. There are lessons form a broader literature on banking, with the net effect on business cycles working in two general ways. As in the macro-banking model by Morgan, Strahan, and Rime (2004) use to study the implication of relaxed restriction on cross-border banking within the U.S. integration tends to dampen the effect of bank capital shock within borders, but amplifies the effect of bank-specific shocks across borders.

Banking foreign claims have increasing continuously including cross-broader claim and derivatives contracts, guarantees, and credit and other commitment. The table shows of BIS statistics that how banks are engaging in the foreign claims and other potential exposure

Figure 1.1 Consolidated foreign claims and other potential exposures

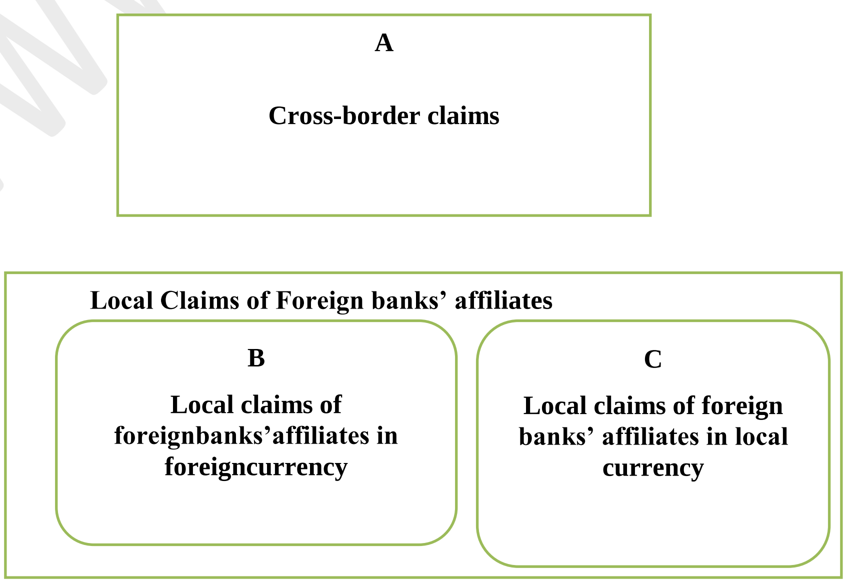


Source: consolidated banking statistics of BIS, 2014.

A cross-border activities encourage banks to shift from their cross-border activities to multinational banking with more local and likely locally funded operation. Another facts came to know that banks had reduced the number of subsidiary they hold abroad both includes advance and emerging market economics, while the total number of branches has risen sharply. But both subsidiaries and branch had been reduced in the wake of the global crisis and have continued to decline.

There are significant distinction have been identified between foreign claims and international claims which can be classified as:

Figure 1.2. Types of clams in Bank for International settlements, Consolidated Statistics



International Claim (A+B)

Foreign Claim (A+B+C)

Source: Cerutti. Claessens, and McGuire 2012

.A basic observation is that the availability of loanable funds via the deposit base contributes to pro cyclicality. If foreign –owned bank entrants are less reliant on host-country funding sources and more reliant on foreign sources that are their domestically owned counterparts. The pro cyclicality of their supply of loanable funds may be lower.

Most empirical studies of these issues find that foreign banks, like domestic banks, are pro cyclical lenders. In Chile, Colombia, and Argentina the lending patterns of private, domestically owned banks and longer-established foreign owned banks were similar. Especially when foreign bank entry occurred thorough acquisition of local banks (Crystal. Dages, and Goldberg (2001)). This is statistically indifferences across the banks that were weak. But mainly observed when existing banks foreign owned or domestic owned, were compared with newer foreign entrants. While foreign banks had higher average loan growth, they did not add significant volatility to local financial systems or act as relatively destabilizing lenders.

The related issue for countries of international transmission of shocks and change associated with financial globalization, and banking in particular, has been approached form different perspectives. As a first window into this theme, studies using macroeconomics aggregates as the main data provide ample evidence on international transmission of US monetary policy shock. However, most studies do not pin down the specific mechanisms for transmission.

The specific role of banks is nicely demonstrated in analyses using bank-specific data and caused on establishing the consequence of foreign versus domestically owned banks for international linkages. Overall, these studies support an explicit role for foreign-owned banks in enhancing the transmission of monetary policy and interest rate shocks across markets. Seminal work documented that Japanese banks transmitted the shock that hit their own capital bases, which arose from Japanese stock price movements, into the U.S. real estate market through Japanese bank branches operating in the U.S. (Peek and Rpsengren (1997,2000)). Recent concrete evidence of transmission through individual U.S. bank is established by, who examine individual bank balance sheet data for all U.S. banks is established by, who examine individual bank balance sheet data for all U.S. banks with global operation between 1980 and 2006 (Cetorelli and Goldberg (2008)). This analysis, which also considers the effect of banking globalization on the lending channel within the U.S. demonstrates that not only is the lending of foreign offices of U.S. banks affected by U.S. monetary policy, but these foreign offices can rely less on support from parent bank balance sheets in times of tighter liquidity condition in the U.S.

FACTORS THAT ENCOURAGE BANKS FOR GLOBALIZATION

There are several factors that encourage internationalization of banks and broadly can be classified in two phase: one push factor: factor involves a force which acts to drive banks away from a native country. Second as a pull factors: what draws banks to a new location (i.e. what attracts to the banks globally).

Table-1.1.why banks go abroad and become Global Banks.

Push Factor: factor involves a force which acts to drive banks away from a place.	*Pull Factors: what draws banks to a new location.*
Macroeconomic Factor.	*Search for yield (profitability).*
Policy environment (i.e. liberalized policy or banking reforms by host countries).	*Cyclical lending and International Linkages.*
Allowing competition by banks domestically.	*Cross-border lending activities.*
Institutional developments.	*Liquidity or Global Liquidity.*
Diversification Opportunities.	*OTC derivative and Interest rate derivatives contracts.*
Agreement under the International Trade Treaty of Market Access.	*Risk Transferring or risk minimizing strategies*
Merger & Acquisition and Takeover of domestic banks by foreign banking entities.	*Stability during financial crises compare to narrow domestic banking activities.*
Access to Bail-Out during the crises.	*Scope of Economics and X-Efficiency.*
Economic Integration	*Market Innovation*

SOURCE: RESEARCH FINDINGS FROM VARIOUS STUDIES.

The list has been shown that why bank globalized and several important factor constitute for their globalization process, even if they do not go abroad they have sever thereat in term of losing their clients domestically those who went abroad and secondly, they have been either takeover or thrown out by big banks in the term of merger & acquisition activities. Going banks globally is win-win situation in such case as they are able to serve their clients globally but also they have diversification of business, more profit opportunities, innovation and large market shares with least cost or achieving higher efficiency in term of serving to the global client.

Structure of the global banks

The table-1.2. Represent the anatomy of global banks and their different structure in the various forms which shows that globalization of banks have been shaping in the different structure,

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particularly due to domestic regulation and law in the home land of country. The internationalization of banking structure have been classified in the four category.

The specific structures that universal banks adopt are driven by regulatory consideration, by the production-function characteristic of financial services, and by demand-side issues relating to market structure and client preferences. American regulation, for example, mandates a Type D form of organization, with the Glass-Steagall provisions of the Banking Act of 1933 and later the Gramm-Leach-Bliley Act of 1999 requiring functional separation of banking and insurance (taking deposits and extending commercial loans) and most types of securities activities. Each type of business must be carried out through subsidiaries under a qualified holding company structure. British universal banking follows that the Type C model, with securities and insurance activities carried out via subsidiaries of the bank itself. Most continental European countries seem to follow the Type B model, with full integration of banking and securities activities within the bank itself (despite functional regulation), and insurance, mortgage banking and other specialized financial and non-financial activities carried out through subsidiaries. As noted, the Type A universal banking model, with all activities carried out within a single corporate entity, seems not to exist even in environments characterized by a monopoly regulator such as, for example, the Monetary Authority of Singapore.
From a production-function perspective, the structural form of universal banking appears to depend on the ease with which operating efficiencies and scale and scope economics can be exploited-determined in large part by product and process technologies as well as the comparative organizational effectiveness in optimally satisfying client requirements and bringing to bear market power.

Table-1.2. STRUCTURE OF THE GLOBAL BANKS.

No.	**Nature**	**Global Banks: activities**	**Structure**
Type-A	***Full Integration***	***Banking activities Securities activities Insurance activities Other***	***Monopoly Banking***
Type-B	***Partial Integration***	***Banking activities including securities, commercial and investment banking Insurance activities Assets Management Mortgage banking (subsidiary)*** *Management consulting*	***European Banking E.g. Deutsche Bank A.G.***
Type-C	***Bank Parent Structure***	***Banking activities including commercial banking Subsidiaries activities in securities, Insurance and Financial services.***	***British Banking*** *E.g. Barclays plc.*
Type-D	***Holding Company Structure***	***Subsidiary activities in: Banking, Securities and Insurance.***	***American Banking E.g. Citigroup. J.P. Morgan Chase & co.***

Source: banking structure and function, Ingo Walter.

European Universal banking how it's different from U.S originating banks

Banking have been classified on the basis of nature, activities, area & scope. They have also been categorized by their foreign operation, investment activities, engaging in insurance then normal banking activities. In U.S under the rugged law "The Glass-Stegal Act-1933" made separation between banking activities or their line of business.

The Glass-Stegall Act which brings significant changes in the American banking then the other banking structure particularly European banking. Before the Act came All Banks and Financial Institution are in U.S engaged in all financial services beside their core banking activities they may sell insurance, underwrite securities, advisory, diversified investment and carry out securities transaction on behalf of clients (Benston. 1994). The Glass-Stegall act made separation of banking on the ground of their activities. Banks who engaged in core banking activities (i.e. accepting deposit, lending and primary banking) or fiduciary services not permitted to engage in to sell insurance, underwriting of securities and to offer financial services.

To offer variety of financial services including investment activities, merchant banking, insurance, mortgage banking are now permitted to only specialized banks known as an Investment banks. Thus the primary Laws of Glass-Steagall Act or called National Banking Act prohibits commercial bank and investment banks on the basis of the activities of business and offering full range of financial services.

However, it has been observed that U.S. banks are permitted to offer full verities of services before the act came and later on 1900 under the Gram-Lichie-Belly Act, and National Banking reform act (1956) permitted commercial banks to engage in financial services as till now they were prohibited as these services could be provided only by investments banks.

The state of international baking can be examined in two ways: (1) by looking at the number and size of offices of different types:-for example, the assets of foreign branches, subsidiaries, and other foreign offices and the volume of internationally related credit extended directly from the head office. And (ii) by reviewing data on total credit exposure to foreign parities, by country. Thus here we look the number of foreign branches to examine the structure for international banking by U.S banks is in large part a reflection of efforts to restrain banking power throughout this country's history, government policy has sought to restrain concentration in banking and other financial activities. Until 1997, U.S banks generally were not allowed to branch across state lines (although, by then their parent holding companies could own banks in different states) and barred from underwriting corporate securities and from conducting other financial activities typically permissible for foreign banks.

Although the U.S banking main structure for international banks were unique in the term of bank holding and offices used by U.S foreign banks in the various forms (e.g. branches, subsidiaries, etc.) to provide international banking services. The graph shows growth of foreign U.S banking growth during the 1970s to 1998 period how U.S banks operate internationally, and most of the foreign counter part are wholly owned by U.S banking parent.

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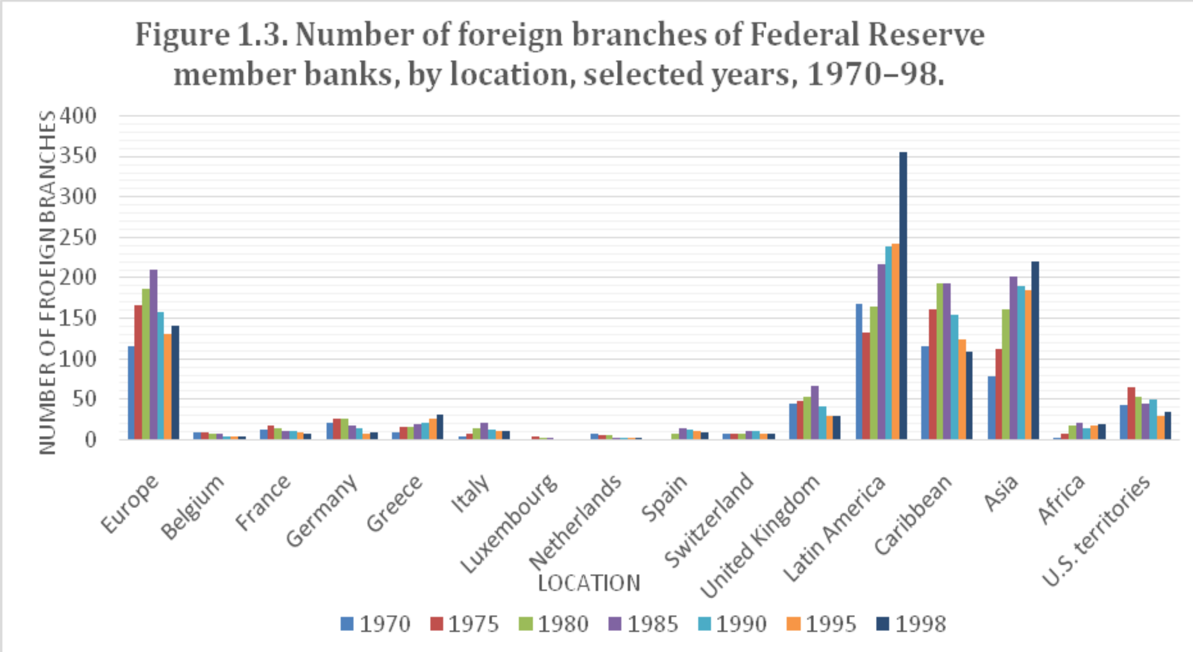

Source: James V. Houpt, International Activities of U.S. Banks and in U.S. Banking Markets.

In the federal republic of Germany a credit institutions engage in all types of business typically commercial and investment banks, insurance and mutual funds activities classified as a universal banks since late 1850s. and they were not restricted to the limited scope of banking as in earlier U.S commercial banks was but apart from providing traditional services of 'accepting deposits and making advance', they were engaged in a diverse kind of banking and financial business including insurance and housing finance activities and categories as financial conglomerates, as a part of financial supermarkets (Gurusamy, 2009).

In Europe and particularly the Germany the financing done by German universal bankers *(kredit banker)*to the large-scale industrial financing and referred to the joint-stock or credit banks structure. These banks operate national wide branching networks and provided an unrestricted rage of financial services including lending, underwriting, trust services and deposit banking. After European Unification banks operated nationwide along with branch networking, provide full range of financial services beside basic services, (i.e. commercial banks and investment banking operation), trust services, investing in the firm's shares, and advisory by a single commercial banks known as Universal Banks (Charles w. Calomiris, 1995).

CONCLUSION

Banks had been globalized based on their nature and activities which includes cross-borders transaction and flows, and also their diversified ownership structure has been recognized as bank internationalization. However, they have been called with different name due to several reasons, since in early period to now banks have been spread across the region and sectors to offering their services to their clients. Studies suggested that it is not only the reason to whom banks have been globalized beside their core activities i.e. searching for yield, cross-broader lending there are several technological innovation and market integration development took place which encourage banks to globalized and if they are not to be globalized they somehow threaten in the wake of merger and acquisition activities by other big banks. So even domestic or states banks if they get the opportunities to render services to their client has gone globally.

Once banks become international or global they provide the several benefits to their customer in different ways i.e. low transaction cost, high liquidity, easy access of borrowing and lending. This represent that once trade opportunities encourage between the nation's banks also move to the other nations for providing trade facilities, fast settlement and discounting the business opportunities with the objective to minimizing cross-border risk. The presence of banking globally had been changed from their origins as earlier banks used to show their presence in the form of shell banking, opening their affiliates, or subsidiaries and in other forms such as representative offices, Joint Ventures has been substitute by branches, acquiring domestic banks in the host countries or in the form of subsidiaries are the twenty first century global banks.

The strong expansion in banks internationalization in recent periods have been changed the shape of the global banking industry. These banks particularly follow their activities abroad: (i) to provide loans and asset-liability management for foreign counterparties. (ii) Opening as a foreign branch with acquiring shareholding (i.e. subsidiary). The declining trend have been capture of branch banking during the 1990s, in Europe except (such as Germany, Italy and Spain) where branch of banks have proliferated during 1990's mainly due to removal of branching/territorial restriction that were in place. Most of the European banking characterized by a declining number of banks, although most systems have a large number of small local and regional banks.

We have explain several factors that why banks go globally, primarily the objective is to find the profit opportunity. While the others important factors of globalization of banks have been classified into two broad category. First, push factors are those factors which involves a force which acts to drive banks away from a place, and secondly, pull factors are those factors: which draws banks to a new location. These two have been explained important factors that encourage banks to be globally and become global banks.

There are some debates for internationalization of banks that host country augmented with higher growth and better technology transfer from the foreign banking and they also benefited in term of wages, as the expansion of human capital should manifest in a greater worker productivity with rewarded by higher wages. Studies on banking FDI conclude that growth may occurred in both through technological transfer and through improved intermediation of capital flows between savers and investment opportunities.

These global banks are also subject to transmission of business cycles as the international trade theory suggested that trade are heavily influence through the transmission of cycles. In banking, once the internationalization took place they faced sever transmission of business cycles with growth and depression and further spread contagion across the markets. Then these global banks are immediately evident of international transmission of shocks.

While in the optimism of business cycle, the global banks are to encourage for the development in term of long term structural change associated with productivity and technology spillovers and institutional development. Global banks are also play important role for the regional and international capital market development with integration, which have been empirically proven

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that the development of banks globally integrated with the growth of capital market. These global banks playing more stabilizing role in the host credit market during the crisis.

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