GLOBAL BANKS AND THE INTERNATIONALISATION OF RETAIL BANKING

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Abstract

Numerous banks have expanded internationally in recent years. Research reluctant to accept that retail will prove a successful banking segment within those operations is not scarce. This study questions that notion by reviewing banks that operate on a wide international scale, and analysing their retail banking developments.

This paper finds that global banks rely heavily on retail as a source of income, especially from operations in foreign markets. Global banks successful in international retail banking are those that drastically improve foreign subsidiary performance to cultivate income-earning opportunities which may insulate them from adverse financial shocks.

Under that notion, this paper shows specific examples of relatively successful global banks, while also finding examples of banks not yet able to claim the same level of success.

Keywords: *Retail Banking, Global Banks, Financial Globalisation, Foreign Bank Participation*

JEL Codes: G21, G34, F21, F23

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INTRODUCTION

The late 1990s and early 2000s saw a rising number of banking institutions venture into foreign banking systems. While other examples of international expansion exist, the major trend was for large banking institutions from developed nations to directly purchase locally operating banks (including branch networks), seeking to establish a foreign presence. Naturally, activities taken up by such *global* banks in host markets are the subject of increasing interest. Given that branch networks are essential to that segment (Grant and Venzin, 2009), retail banking may be a main part of services global banks provide in local markets. Yet, some previous research seems unconvinced that global banks can succeed in retail banking on a truly international level.

This paper takes aim at the notion that retail banking is unlikely to be successfully internationalised by global banks. Providing concrete examples, this paper concludes the retail segment is now perhaps the most important segment of bank income for banks operating on a wide international scale. This is especially important given the global financial climate following the 2008 collapse of Lehman Brothers. Banks operating in a wide variety of countries, on multiple continents, both in developed and emerging countries, generate diverse income from retail, and as a result, might realize more stable earnings. Conversely, banks that stay relatively close to home, or hold relatively few international operations, may underperform in adverse global financial circumstances because they lack diversity. Given retail's weight in total income, future success in global banking may hinge solely upon the geographical diversification of retail banking.

This paper's qualitative approach analyses global banks using a case study approach. We select four banks – HSBC, Citibank, Santander, and Unicredit – according to criteria outlined below, and analyse their retail banking segments within overall banking operations. Statistical data are employed from *The Banker* for comparisons on assets and returns on assets (ROA). Data on the structure of loans and bank earnings were originated from annual reports and financial statements from respective banks.

The rest of this paper is organised as follows. The next section outlines the paper's definitions, and establishes the framework for determining specific global banking institutions to be observed, and also reviews previous literature. The section that follows it statistically defines institutions classified as global banks. Then, we discuss international retail banking developments for each of the global banks, prior to presenting concluding remarks for this paper in its final section.

DEFINITIONS AND FRAMEWORK

Clark et al. (2007) classified retail banking "as the range of products and services provided to consumers and small businesses" (p. 1). Smith and Walter (1997) described retail as "that part of commercial banking concerned with the activities of individual customers, generally in large numbers" (p. 101). This study elects to exclude products and services allocated to small businesses (SMEs), where possible, to define retail banking as the segment of commercial banking that provides financial services to individuals[1]. The main reason this study focuses solely upon activities with individuals is because data from sources outlined below are commonly organised only by terms such as *individuals* and *corporations*. More specific data by size of corporate borrower is not usually available, which makes distinguishing between small, medium and large enterprises statistically impossible.

Establishing a concrete definition for global banking is no simple task. A 2010 Bank for International Settlements (BIS) paper indicated, for credit extension, international banking services can occur via, "(i) cross-border lending; (ii) local lending by affiliates established in the foreign country; (iii) lending booked by an affiliate established in a third country" (pp. 4-5). For our purposes, both the first and third types are somewhat problematic. Issues with exchange rate vulnerability and difficulties monitoring large quantities of transactions with many individuals across borders render both ill-suited to a discussion on retail banking. Therefore, we seek to focus on financial activities conducted through local subsidiaries. Often times, subsidiaries, and their branch networks, have been established through the cross-border acquisition of local banks.

In recent years, ownership of foreign subsidiaries has become so common that it warrants narrowing the discussion to grasp which banks are the most *global*. Therefore, we identify banks operating on a large scale (in size), and a wide global presence (geographic reach). Below, we select banks according to the following three criteria based upon data from *The Banker*'s Top 1,000 World Banks publications. First, banks reviewed in this paper measure up to a certain asset size. Each bank had at least 200 billion US dollars in total foreign subsidiary assets in the July 2011 publication[2]. Second, to ensure we capture truly global banks; banks observed here are present in

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[1] Note that while the term commercial banking is used here, this does not equate to an exclusion of universal banks. This paper concentrates on retail banking activities whether part of a stand-alone commercial bank, or the commercial banking division within a universal bank.

[2] This paper focuses on the asset side of banking operations for two primary reasons: 1) assets provide an extremely valuable measure for bank size, and 2 retail loans, as examined below, are a share of total loans, themselves a common type of bank asset. Further meaningful research would do well to discuss liability developments. Asset sizes of 200 billion USD and 100 billion were selected as a means of preventing incomparability between very large banks and much smaller institutions.

multiple countries and regions. Banks must have been present in more than five countries (in the same publication), in more than one region, and in both developed and developing nations. Third, we establish a duration criteria whereby banks shall have relatively lengthy international experience. Specifically, we take banks with aggregate foreign subsidiary assets of at least 100 billion US dollars in the 2005 publication.

Previous Research

Foreign-owned bank entry has been the focus of research for well over a decade. A fair portion of that research has tended to focus on general characteristics of foreign entry. Thus research on global banks' international retail banking activities has room to grow. Wherever research has briefly discussed international retail, it has viewed the segment in a negative light. Smith and Walter (1990, 1996, 1997, 2012 with Gayle DeLong) highlighted shifts in corporate finance, deregulation, and technological development as important to the expansion of domestic retail banking. They also stressed globalisation has hastened the pace of financial innovation. While that allows global banks to transfer retail approaches to foreign markets, since financial products and services can easily be copied, maintaining an advantage is difficult. Additionally, they discussed difficulties in understanding local retail banking markets in foreign countries such as cultural intricacies and customer preferences. Eventually, Smith and Walter (1997) concluded, "failures in international retail banking are perhaps more common than successes" (p. 110).

Research falling into a similar camp on international retail is not in short supply. Heffernan (2005) indicated that multinational banks focused more on wholesale banking than retail, and that in the 21st century, many financial markets will internationalise, but the retail banking market will likely be an exception (p. 56). Grant and Venzin (2009) emphasized the complexity of local markets,

In retail banking, given that regulations and customer preferences vary greatly from county to country, the dominant feature is the need to adapt to national markets, and the potential to access cost economies from the international integration of function and activities is therefore limited. (p. 571).

Tschoegl (2005) similarly noted, "[f]oreign banks have not displayed any long-term *comparative* advantage in retail banking vis-à-vis host country banks" (p. 9). More specifically, "[a]s the banks, foreign and domestic-owned alike, become more competitive and adept, the foreign owners will no longer have a comparative advantage in general retail" (Tschoegl, 2005, p. 39).

Roberts and Amit (2003), Sturm and Williams (2004), and Fachada (2008), all provided statistical evidence showing domestic banks copied global banks in some capacity.

Roberts and Amit (2003) confirm domestically owned Australian banks copied financial innovations: "[o]f the numerous documented major innovations, none were conceived (in whole or in part) within Australia", but rather derived from foreign banks (Roberts and Amit, 2003, p.111). Furthermore, Sturm and Williams (2004) stated global bank entry was an important source of improvements in technology and operating efficiencies, and Fachada (2008) showed Brazil's domestic banks responded to foreign entry by improving operating efficiencies, and as a result, some global banks withdrew from the market in the mid-2000s.

The literature makes clear some challenging obstacles could prevent the internationalisation of retail banking. Acquiring local institutions may provide an opportunity to overcome prohibiting factors, but over longer periods of time, they may eventually lose advantages through competition. Locally owned banks should naturally have deeper knowledge of their home markets, putting global banks at a significant disadvantage. The nature of financial services and perhaps retail services in particular are such that competing institutions can easily copy products and strategies. That is the justification for the general consensus accepting that global banking institutions will find the retail banking segment too difficult, and as a result will likely be unsuccessful when internationalising operations.

This paper directly questions that notion. The central focus of this paper is actually to demonstrate the contrary: global banks can indeed successfully undertake retail banking operations on an international level. In doing so, this paper takes a case study approach to analyse global banks, verifying that international retail banking activities play a major role in global banking. Finally, we compare four global banks to consider which have achieved relatively greater success in international retail banking.

GLOBAL BANK SELECTION

This section statistically identifies the four global banks. We specifically describe which banks are most global in nature, the countries where they hold major foreign subsidiaries[3], the main entry method, and motivation for expansion. To begin, we statistically illustrate which banks are the largest in size and widest in international scale. Using the aforementioned threshold of 200 billion US dollars in assets and operations in more than five countries, we present banks in Table 1.

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[3] Note that this list comprises of each global bank's *major* operations, and therefore may not include some smaller subsidiaries. We employ these data because they allow for a relatively smooth comparison of international presence and scale.

Table 1: Major Foreign Subsidiaries of Global Banks in 2011 and 2005

Global Bank	2011		2005	
	Countries (No #)	Assets (Billion US Dollars)	Countries (No #)	Assets (Billion US Dollars)
HSBC *(United Kingdom)*	14	1643.0	9	744.7
Citibank *(USA)*	8	265.1	7	112.7
Santander *(Spain)*	9	985.9	8	457.2
BBVA *(Spain)*	8	231.5	6	74.4
Standard Chartered *(United Kingdom)*	6	209.5	1	6.2
Unicredit *(Italy)*	15	1012.2	3	230.8
Paribas *(France)*	6	630.0	1	7.9

Source: The Banker, Top 1,000 World Banks, Issues 2005 and 2011[4]

These statistics *temporarily* narrow down the discussion to seven institutions: HSBC, Citibank, Santander, BBVA, Standard Chartered, Unicredit, and Paribas.

As one of our aims is to observe banks with longer international experience, we also include statistics for the same banks' major foreign subsidiaries in the July 2005 publication. We now eliminate banks with less than 100 billion US dollars in foreign subsidiary assets at that time. Specifically, three banks did not meet this measure: BBVA, Standard Chartered and Paribas. We take that to mean their international experience is relatively short, and focus the remainder of the discussion on four banks: HSBC, Citibank, Santander, and Unicredit.

Foreign Subsidiary Locations

The geographic distribution of global banks' foreign subsidiaries varies widely by institution. Table 2 shows the countries where each of the four global banks hold major foreign subsidiaries.

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[4] Other banks, such as the Swedish bank Nordea, held over 200 billion USD in foreign subsidiary assets in 2011, however, their geographic distribution did not meet this paper's criteria.

Table 2: Countries Where Global Banks Hold Major Foreign Subsidiaries – July 2011

Assets are in Billion US Dollars

Global Bank	HSBC		Citibank		Santander		UniCredit	
Country	Presence	Assets	Presence	Assets	Presence	Assets	Presence	Assets
Argentina *	X	4.9			X	9.0		
Austria							X	258.1
Bermuda	X	11.8						
Bosnia-Herz.*							X	2.5
Brazil *	X	72.0	X	33.4	X	222.2		
Bulgaria *							X	7.7
Canada	X	71.4						
Chile *					X	47.1		
China *	X	31.0	X	19.2				
Croatia *							X	17.3
Czech Rep*							X	14.4
Egypt *	X	7.8						
France	X	281.9						
Germany							X	497.2
Hong Kong *	X	648.2						
Hungary *							X	7.4
Indonesia *	X	4.7						
Ireland							X	31.7
Japan			X	49.3				
Luxembourg							X	38.5
Malaysia *	X	20.7						
Mexico *	X	35.2	X	93.0	X	54.7		
Panama *	X	14.6						
Poland *			X	12.7	X	17.9	X	45.2
Portugal					X	64.4		
Puerto Rico *					X	6.9		
Romania *							X	6.5
Russia *			X	8.4			X	18.9
Serbia *							X	2.1
South Korea			X	47.4				
Switzerland	X	95.1						
Turkey *							X	59.6
U. K.					X	474.0		
Ukraine *							X	5.2
U.S.A.	X	343.6			X	89.7		
Venezuela *			X	1.6				

Note : * indicates Emerging markets

Source: The Banker, Top 1,000 World Banks, Issues 2005 and 2011

Three important observations can be taken from this data. First, the foreign subsidiaries of two global banks, Unicredit and Santander, appear somewhat concentrated in two markets. Unicredit has concentrated its subsidiaries more in Central and Eastern Europe, with the majority of its subsidiaries operating in countries in that region. At the same time though, by being present in Turkey and Russia, Unicredit has demonstrated a willingness to expand beyond the European Union. At first glance, Santander's foreign subsidiaries seem concentrated in Latin America, with operations in countries such as Argentina, Brazil, Chile, Mexico, and Puerto Rico. However, it is important to point out that Santander's operations are not limited to Latin America, as they include subsidiaries in the United States and various countries in Europe such as the United Kingdom, Portugal and Poland.

Secondly, Citibank and HSBC's major foreign subsidiaries are more spread out geographically. Citibank holds major operations in emerging Europe (Poland and Russia), Latin America (Brazil, Mexico, Venezuela) and Asia (China, Japan, South Korea). HSBC operates major subsidiaries in 14 countries, spread out across Latin America, Asia, North America, Africa and Europe. Perhaps significantly though, HSBC does not hold a major subsidiary in Eastern Europe, a place where all three of the other global banks operate.

The third observation is emerging markets comprise the majority of nations for each of the four banks. Certainly, major positions in developed countries account for a sizeable share of total assets, but in terms of the numbers of countries, more than half are emerging markets. Of the 15 countries where Unicredit operates 11 are emerging markets. Similarly, emerging markets account for 6 of 9 countries for Santander, 5 of 8 for Citibank, and 9 of 14 for HSBC, signifying global banks view emerging markets as an essential portion of their global business.

Entry Method

Another important element to consider is the method banks chose when venturing abroad. There are at least three ways in which banks domiciled in one nation could attain a presence in another country: 1) direct acquisition of local banks 2) organic growth of a branch network, or 3) partnering with a local institution. While examples of all three exist, by far and away the method most commonly selected by these four global banks has been the first, direct acquisition of locally owned banks. However, some major subsidiaries have taken shape via the other two approaches as well. Examples include Citibank's organic growth in Brazil, China and Russia, as well as HSBC's operations in China and Indonesia, and Unicredit's joint acquisition with a local institution in Turkey.

Table 3 (A) : Major Foreign Bank Acquisitions by the Four Global Banks[5] - HSBC and Santander

Bank : HSBC			Bank : Santander[6]		
Year	Bank	Country	Year	Bank	Country
1997	Banco Roberts	Argentina	1990	Caguas Central Federal Savings Bank	Puerto Rico
1997	Banco Bamerindus	Brazil	1995	Banco Interandino & Intervalores	Peru
1999	Republic Bank	U.S.A.	1995	Banco Mercantil	Peru
2000	Credit Commercial de France	France	1996	Banco Osorno y La Union	Chile
2001	Demirbank	Turkey	1996	Banco Central Hispano Puerto Rico	Puerto Rico
2002	Bital	Mexico	1996	Banco de Venezuela	Venezuela
2003	Household International	U.S.A.	1997	Banco Rio de la Plata*	Argentina
2003	PolskiKredyt Bank	Poland	1997	Banco Noroeste	Brazil
2004	Bank of Bermuda	Bermuda	1997	Banco Geral Do Comercio	Brazil
2004	Bank of Communications of Shanghai **	China	1997	Banco Comercial Antioqueño	Colombia
2005	Metris Companies	U.S.A.	1997	Grupo Financiero Inver Mexico	Mexico
2005	Dar Es Salaam Investment Bank	Iraq	1999	BancoSerfin	Mexico
2006	Banca Nazionale del Lavoro	Argentina	2000	Grupo Meridonial	Brazil
2006	Grupo Banistmo	Panama	2001	Bane spa	Brazil
2007	Banex	Costa Rica	2004	Abbey Bank	U.K.
2007	Chinese Bank	Taiwan	2006	Sovereign	U.S.
			2008	Banco Real	Brazil
			2010	Zachodni	Poland

Notes : * 35% initial stake raised to 98.9% in 2002.

**19.9% equity acquired.

[5]Acquisition refers to when the global bank took a controlling stake (50% or more) in the local bank unless otherwise stated. Includes subsidiaries in countries not listed in statistics from The Banker above.

[6] Santander has since sold the following operations: Banco Interandino & Intervalores, Banco Mercantil, Banco de Venezuela, Banco Comercial Antioqueño.

Table 3 (B): Major Foreign Bank Acquisitions by the Four Global Banks – Unicredit and Citibank

Unicredit[7]			Citibank		
Year	Bank	Country	Year	Bank	Country
1999	Bank Pekao	Poland	1998	Banco Mayo Cooperativo	Argentina
2000	Bulbank	Bulgaria	2001	Confia	Mexico
2000	Splitska Bank	Croatia	2001	Banco Nacional de Mexico (BanaMex)	Mexico
2000	Pol'nobanka	Slovakia			
2000	Pioneer Group	U.S.A.	2001	Bank Handlowy w Warszawie	Poland
2002	Zivnostenska Bank	Czech Republic	2004	KorAm Bank	South Korea
2002	Zagrebacka Bank	Croatia	2006	CrediCard Ownership[#]	Brazil
2005	Bank Austria (Creditanstalt)	Austria	2007	Grupo Financiero Uno	Central America
2005	HypoVereinsbank (HVB)	Germany	2007	Grupo Cuscatlán	Central America
2006	Aton	Russia	2007	Bank of Overseas Chinese	Taiwan
2006	YapiKredi[##]	Turkey	2007	Egg	U.K.
2008	Ukrsotsbank	Ukraine	2008	Nikko Cordial	Japan

Notes : # In 2006, Citigroup and Brazilian BancoItau dissolved their joint venture 'CrediCard', a consumer credit card business. In accordance with the dissolution agreement, BancoItau received half of CrediCard's assets and customer accounts in exchange for its 50% ownership, leaving Citigroup as the sole owner of Credi Card.

Joint acquisition via 50-50 joint venture within Turkey.

Sources: Grant &Venzin (2009), Schulz (2006), Guillén &Tschoegl (1999, 2008), Fachada (2008), and annual reports

Table 3 [3(A) and 3(B) above] represents a list of major international acquisitions by the four global banks. Until recently, Unicredit and Santander both exhibited a clear geographic strategy to their acquisition activities. Unicredit focused on acquisitions in

[7] Unicredit includes information from subsidiary websites. Unicredit has since sold Splitska Bank. Acquisition of Creditanstalt and HVB included the direct acquisition of banks in other Central and Eastern European countries.

Central and Eastern Europe, while Santander focused on Latin American acquisitions. In recent years though, each has made further acquisitions into countries further afield. Santander's purchase of Poland's Zachodni and Unicredit's joint-purchase of Turkey's Yapi Kredi are examples[8]. On the other hand, both HSBC and Citibank have spread their acquisitions over a wider range of countries and regions. In fact, they were the only banks to make acquisitions in Asia. Essentially, foreign acquisitions were a key element of international expansion for all four banks.

Motivation

Factors contributing to global banks' international expansion are commonly divided into microeconomic and macroeconomic-specific factors. Herrero and Simon (2003) pointed out banks may be profitable in foreign markets if they are able to realise gains from microeconomic factors such as competitive and efficiency advantages, and risk diversification. Similarly, Hernando et al. (2009) found evidence to support the claim banks with high levels of inefficiency were likely to be acquired. Global banks specifically targeted inefficient banks because they intended to improve efficiencies, and realise gains from their investments. Berger (2007) further discussed this idea by introducing the *lion's den* theory, whereby banks from developed nations are rarely eager to enter the *den* of other global banks' home countries. This explains, in large part, that banks from developed countries venture to emerging markets because they realize greater gains from acquisitions in those countries and are less likely to face fierce competition with banks of equal abilities.

Typically macroeconomic specific-factors are divided into push and pull factors. Push factors relate to conditions in home markets that provide banks incentive to expand internationally, or *pushing* them away. Contrastingly, promising conditions in host countries attract global banks, *pulling* them in. Some of the most important push factors include increasingly limited opportunities (i.e. market-saturation) and low interest rates in the home market (Guillén and Tschoegl (1999); IMF Global Financial Stability Report, 2010). Pull factors focus largely on host market conditions that present global banks with opportunities to capture earnings. Expectations for high economic growth and relatively low levels of financial development in emerging markets have indeed been driving forces in international banking (Focarelli and Pozzolo 2001). Thus, global banks have probably been pulled towards emerging markets with the hopes of gaining a slice of their growing banking sectors, and earning high returns in the process.

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[8] Unicredit's subsidiary in Turkey is Yapi Kredi Bankasi, which is the result of its 50-50 venture with Koç Financial Services. The Banker's July 2011 publication treats Yapi Kredi Bankasi as a foreign-owned subsidiary, and thus so does this paper.

GLOBAL BANKS AND INTERNATIONAL RETAIL BANKING

Next, we take the analysis a step further to explore which segments of global banking are the most prominent. Specifically, this section looks at the four global banks to statistically demonstrate the role international retail banking plays in their overall operations. We begin by looking into their lending structures, then income structures, and lastly offer reasons to explain why retail plays the role it does in global banking.

Loan Structure

By examining the structure of loans we can grasp which segments global bank emphasise. In this subsection we analyse loan structure in two ways. First, we examine retail as a business segment by showing its share in total loans, and then we illustrate share of total lending by geographic segment[9].

Retail loans accounted for significant portions of lending for each bank over the last ten years. Table 4 below outlines developments in retail loans as a percentage of total loans from the early 2000s until year-end 2011.

Table 4 – Global Bank Retail Loans as a Share of Total Loans at Year-End 2001-2011

Figures are in percentages

Year	HSBC	Santander	Citibank	Unicredit
2001	39.53	na	71.02	na
2002	42.22	86.99	75.41	35.87
2003	56.32	88.91	79.48	38.52
2004	56.56	89.65	79.30	40.36
2005	55.96	92.85	73.29	38.99
2006	54.00	91.39	71.23	na
2007	50.05	90.60	71.14	na
2008	46.01	89.62	69.34	29.43
2009	47.11	90.71	71.69	31.02
2010	43.47	89.83	70.24	46.42
2011	41.09	87.93	65.47	45.43

Source: Annual Reports and Financial Statements of Respective Bank

[9] Due to issues with the impact of foreign exchange rates on loan developments over time, we limit the discussion on geographic segments to year-end 2011.

Three important findings emerge from this data. First, all four banks increased retail lending during the first part of the decade. Admittedly, banks began the period at various levels, but all banks pushed retail lending to at least 40 percent of total lending by 2004. At 40 percent or more, retail comprised the largest loan type for all banks but Unicredit. Even in the case of Unicredit, that number may be much closer to the numbers achieved by the other global banks[10]. Second, all banks devoted a third or more of total loans to retail over the entire period. While Citibank and Santander devoted much higher amounts than HSBC or Unicredit, a third of the loan portfolio is a noteworthy share. Plus, as pointed out with the case of Unicredit above, this is likely to be much higher. Third, the global financial crisis appears to have had an impact on retail lending at all four banks. Furthermore, the impact may be ongoing for Santander, HSBC, and Citibank as their levels continued to fall after 2009. Unicredit however, saw retail loans jump up in 2010 and 2011, approaching half of the loan portfolio.

Observing loan share by geographic segment deepens our understanding of retail lending diversification. Table 5 depicts total loans by region for each bank at year-end 2011. Three important findings appear out of these statistics[11]. First, in three cases the home market was the largest for retail loans. Of course, this varies by institution, but for retail loans, the home market was the largest geographic location for HSBC, Citibank, and Unicredit. Santander's home market too was significant, but was slightly behind the U.K. Nonetheless, the second, and perhaps more interesting finding is that in all cases foreign markets contributed for a sizeable share of loans. Santander led all banks with over 70 percent of loans in foreign markets. HSBC came a close second with just over 65 percent. Unicredit was probably somewhere just behind HSBC depending upon Central and Eastern Europe levels. Data for Citibank makes it somewhat difficult to compare, but international retail loans comprised just less than one quarter of all loans. Third, emerging market retail lending accounts for a third or less of the total for all banks. Nevertheless, emerging markets are a rather significant location for lending.

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10 Data available from Unicredit does not separate the Central and Eastern European division into corporate and retail segments. Therefore, retail unquestionably consists of a larger share of lending (and earnings below as well), but this cannot be statistically demonstrated. So Unicredit too probably devoted the largest share of loans to retail. Ghizzoni, F. (2010), Kornasieqicz, A. (2010), Unicredit Group. (2010), and Alekseev, M. (2010) each agrees with this supposition.

11 Santander and Unicredit's statistics require some explanation. Santander does not segment retail loans by geographic location. However, since retail accounted for over 85 percent, and sometimes 90 percent, of loans we take these statistics to be an accurate reflection of overall geographic distribution (see table 4). Second, Unicredit does not breakdown Central and Eastern Europe statistics by business segment, so in their case, retail probably holds more weight within Unicredit's overall operations.

Table 5: Retail Loans by Geographic Distribution at Year-End 2011

Santander[@]	
Spain	29%
Portugal	4%
Germany	4%
Poland	1%
Other Europe	4%
U. K.	34%
Brazil	11%
Mexico	3%
Chile	3%
Other Latin America	2%
United States	5%

Citibank	
North America	43%
Latin America	6%
Asia	14%
Middle East, North Africa & Europe	1%
Other	2%
Corporate Loans	35%
Brazil	11%

Unicredit [#]	
Italy	38%
Germany	13%
Austria	7%
Poland	3%
Central and Eastern Europe	17%
Other	22%

HSBC[ϖ]	
U K	34%
France	3%
Switzerland	3%
Middle East & North Africa	1%
Turkey	1%
Hong Kong	16%
Australia	3%
China	1%
Malaysia	2%
Singapore	3%
Taiwan	1%
United States	17%
Canada	7%
Argentina	0%
Brazil	3%
Mexico	1%
Other	4%

Notes :

Excludes inter-group loans.

* *Retail loans only, by geographic distribution. No other loan type included.*

[@] *Includes some loans to corporate entities. Since Santander's retail loans comprise such a large share of total loans, we treat these statistics as an accurate depiction of retail loan geographic distribution*

Source: Annual Reports and Financial Statements of Respective Bank

Global Bank Income Structure

Examining earnings structures sheds further light on the weight international retail activities have in global banking. Below, the earnings of the banks are examined in three ways. First, each bank's return-on-assets (ROA) at home and abroad are discussed. Second, retail banking is looked into specifically as a source of earnings. Third, global bank earnings are reviewed by geographic location.

First, we look at ROA for global banks in home and host markets. This comparison allows us to make important comparisons on how much higher (or lower) bank performance was at home, as opposed to in foreign subsidiaries. Tables 6(A), 6(B), 6(C) and 6(D) show ROA figures for the four respective banks pertaining to 2006 and 2010.

Table 6(A): Global Bank Return on Assets in Home and Major Host Markets - HSBC

Bank : HSBC	Dec 2006		Dec 2010	
	ROA	Rank	ROA	Rank
U.K.	1.19%	13th	0.78%	6th
Argentina	Na	na	3.52%*	6th
Brazil	2.38%*	8th	1.46%*	13th
Canada	1.60%*	1st	0.98%*	5th
China	Na	na	0.49%	103rd
Egypt	Na	na	2.73%*	2nd
France	0.97%	3rd	0.24%	8th

Bank : HSBC	Dec 2006		Dec 2010	
	ROA	Rank	ROA	Rank
Hong Kong	1.65%*	5th	1.43%*	5th
Indonesia	na	na	2.87%*	6th
Malaysia	na	na	1.64%*	7th
Mexico	2.58%*	6th	0.55%	9th
Panama	na	na	1.08%*	5th
Switzerland	1.44%*	12th	0.97%*	7th
United States	0.90%	176th	-0.20%	160th

Table 6(B): Global Bank Return on Assets in Home and Major Host Markets – SANTANDER

Bank : Santander	Dec 2006		Dec 2010	
	ROA	Rank	ROA	Rank
Spain	1.05%	16th	0.99%	2nd
Argentina	1.43%*	7th	6.23%*	1st
Brazil	1.49%*	9th	2.67%*	5th
Chile	2.32%*	1st	2.53%*	2nd
Mexico	3.35%*	6th	2.41%*	2nd

Bank : Santander	Dec 2006		Dec 2010	
	ROA	Rank	ROA	Rank
Poland	na	na	2.55%*	1st
Portugal	1.63%*	2nd	1.13%*	1st
Puerto Rico	na	na	0.93%	1st
U.K.	0.22%	28th	0.70%	9th
U.S.	0.72%	185th	1.14%*	70th

Table 6(C): Global Bank Return on Assets in Home and Major Host Markets – CITIBANK

Bank : Citibank	Dec 2006		Dec 2010	
	ROA	Rank	ROA	Rank
U.S.	1.57%	114th	0.64%	117th
Brazil	1.86%*	14th	2.46%*	8th
China	na	na	0.91%*	88th
Japan	na	na	0.50%	12th
Mexico	4.75%*	2nd	2.40%*	3rd

Bank : Citibank	Dec 2006		Dec 2010	
	ROA	Rank	ROA	Rank
Poland	2.31%*	6th	2.51%*	2nd
Russia	0.84%	33rd	4.64%*	3rd
South Korea	0.92%	9th	0.77%*	7th
Venezuela	na	na	1.80%*	6th

Table 6(D): Global Bank Return on Assets in Home and Major Host Markets – UNICREDIT

Bank : Unicredit	Dec 2006		Dec 2010	
	ROA	Rank	ROA	Rank
Italy	1.00%	22nd	0.27%	20th
Austria	2.12%*	2nd	0.59%*	8th
Bosnia Herzegovina	na	na	1.03%*	1st
Bulgaria	3.26%*	2nd	1.63%*	2nd
Croatia	1.74%*	3rd	1.62%*	2nd
Czech Rep.	na	na	1.29%*	5th
Germany	0.32%	53rd	0.51%*	7th
Hungary	na	na	1.51%*	2nd

Bank : Unicredit	Dec 2006		Dec 2010	
	ROA	Rank	ROA	Rank
Ireland	na	na	0.43%*	2nd
Luxembourg	na	na	1.08%*	1st
Poland	3.26%*	3rd	2.31%*	4th
Romania	na	na	0.98%*	3rd
Russia	na	na	2.21%*	14th
Serbia	na	na	2.39%*	2nd
Turkey	na	na	3.05%*	5th
Ukraine	na	na	0.40%*	4th

Cells marked with (*) indicate foreign subsidiary ROA outperformed home-market ROA.
2006 statistics for France, Bulgaria, and Croatia are actually from December, 2005.

Source : The Banker, Top 1,000 World Banks, July 2007 and 2011

Three meaningful observations can be made from these data. First, for the most part, global banks achieved higher ROA performance in foreign subsidiaries than in home markets. While it is true that this development became more protracted after the 2008 financial crisis, in many cases host-market ROA was significantly higher before the crisis as well. Second, the best performance occurred mainly in emerging markets. Even after the crisis, global banks managed to earn relatively impressive returns in faster growing economies. Third, in many emerging markets, global banks ranked quite high in terms of ROA performance. Thus, the four global banks were outperforming host-market domestically-owned banks in most cases, which indicates global banks were relatively successful in their operations.

Next we turn to determining what role retail played within overall earnings by investigating earnings by business segment. Below tables 7 through 10 compare retail banking's position for each global bank. On aggregate, retail comprised the largest income segment for all four banks. Beginning with HSBC in Table 7, retail grew larger over the decade. In 2000, retail constituted fewer than 40 percent of the total. By 2005 though, retail had grown to nearly 60 percent. Other segments, such as commercial, investment, and corporate banking shrank drastically in those five years. Over the next six years retail regressed somewhat, accounting for just less than 50 percent in 2011, but was still by far the largest income segment of its global business.

Table 7: HSBC's Total Operating Income by Segment at Year-end

Business Segment (* : Corporate, Investment Banking & Markets)	**2000**		**2005**	**2011**
Retail Banking & Wealth Management	40%		58%	48%
Commercial Banking	22%		15%	19%
*Global Banking and Markets**	28%		18%	19%
Global Private Banking	5%		4%	4%
Other	5%		5%	10%
Geographic Segment (* : Asia-Pacific Mid-East in 2002,separate in 2011)		**2002**		**2011**
United Kingdom		30%		16%
Other Europe		10%		5%
Hong Kong		35%		27%
*Rest of Asia-Pacific**		12%		34%
North America		13%		1%
Middle East North Africa		na		7%
Brazil		1%		6%
Other Latin America		-2%		5%

Source: HSBC Annual Reports, All Information from most recently available report

Table 8: Citibank's Revenue by Business Segment at Year-End

Business Segment	**2003**	**2005**	**2011**
Consumer Banking	55%	53%	51%
Corporate & Investment Banking	31%	34%	na
Other Investments & Services	14%	7%	na
Global Wealth Management	na	6%	na
Securities Banking	na	na	33%
Transaction Services	na	na	16%
Geographic Segment		**2005**	**2011**
North America		57%	37%
Asia		20%	23%
Latin America		15%	21%
Europe, Middle East & Africa		8%	19%

Source: Citibank Annual Reports, all information from respective years' annual reports

Likewise, the majority of Citibank's income was from what they label as 'consumer banking', but we treat as retail banking. Actually, retail comprised more than half of income from early on, at 55 percent in 2003. On top of that, data from Citibank's 2008 annual report showed that figure went as high as 66 percent in 2007. The 2008 crisis had an impact though, as retail dropped to 50.46 percent in 2011. Nonetheless, for Citibank too, retail was by far the largest segment of banking income.

Santander saw retail grow to even higher heights than the previous two banks. Already at 60 percent in 2000, Santander's retail income was high by comparison even at that time. Thereafter, retail grew to nearly 80 percent of income in 2005, slipping slightly to 75 percent in 2011: suggesting that, for Santander too, the 2008 crisis impacted retail earnings. Still, at 70 percent or more of income every year after 2001, Santander's retail segment is obviously its most important business segment.

Table 9: Santander's Percentage of Total Profits by Business Segment at Year-end

Business Segment ('Other' segment only classified separately in 2000)	**2000**	**2005**	**2011**
Retail Banking	60%	78%	75%
Global Wholesale Banking	11%	13%	20%
Asset Management & Insurance	8%	9%	5%
Other	21%	Na	na
Geographic Segment (Spain differentiated from Continental Europe from 2009)		**2005**	**2011**
Spain		na	13%
Continental Europe		54%	12%
United Kingdom		14%	12%
Brazil		11%	28%
Other Latin America		21%	23%
United States		na	12%

Source: Santander Annual Reports, all information from most recently available report

Unicredit's retail segment increased to account for larger portions of income as well. In 2003, retail banking comprised over 43 percent of income. By 2011 that figure increased to just over 50 percent of total income from their Italian, German, Polish, Austrian and 'other' retail segments. Unfortunately, Unicredit's data does not permit us to nail down a percent of Central and Eastern European income originated from retail. Other recent reports published by Unicredit suggest retail is a significant portion of total earnings within major Central and Eastern European subsidiaries[12]. In fact, the figure may be as high as 60 percent of the Central and Eastern European total, which means total retail income may also be over 60 percent for Unicredit.

Table 10: Unicredit's Operating Income

Business Segment	**2004**	
Retail Banking	40%	
Corporate & Investment Banking	29%	
Central & Eastern Europe	17%	
Private Banking & Asset Management	12%	
Other	2%	
Geographic Segment	**2004**	
Italy	75.1%	
Other Western Europe	5.1%	
Other Eastern Europe	17.6%	
The Americas	2.1%	
Asia & Rest of World	0.1%	
Combined Segments		**2011**
Italy Retail		27%
Germany Retail		6%
Austria Retail		5%
Poland Retail		5%
Other Retail		8%
Private Banking & Asset Management		7%
Corporate & Investment Banking		30%
Central & Eastern Europe		19%
Adjustments		-7%

Source: Unicredit's Annual Reports (From most recently available report)
Data for geographic distribution only available from 2004

Lastly, analysing developments according to geographic location demonstrates where the majority of retail income originated. Income by geographic segment is also represented in tables 7 through 10.

[12] As mentioned above, these include: Ghizzoni, F. (2010), Kornasieqicz, A. (2010), Unicredit Group. (2010), Alekseev, M. (2010).

For HSBC, the United Kingdom and Hong Kong comprised 65 percent of income in 2002. Since HSBC is domiciled in the United Kingdom, we consider that to be its home market. However, it does have a long history in Hong Kong, and so we might consider that to be a special case. Almost a decade later, the United Kingdom and Hong Kong did not combine to form half of total income. In 2011, income was much more globally distributed, with more than 50 percent of income coming from other international markets. In particular, Latin America, Brazil, the Middle East, North Africa, and Asia-Pacific drastically expanded in importance, meaning those markets now contribute to over half of HSBC's total income.

Similarly, earlier in the decade, more than half of Citibank's income was generated in its home market[13]. Thereafter emerging markets grew, by 2011 Asia and Latin America combined to form 44.6 percent of income. In fact, when combined with Europe, the Middle East, and Africa, foreign markets totalled 63.4 percent of income. North America attributed less than 37 percent in 2011, a drop of more than 20 percent of income in just six years.

Santander too drew most of its income from familiar markets as recently as 2005. Regrettably, data published by Santander for 2005 does not distinguish between continental European countries, so where exactly its home market of Spain fell in that year is difficult to discern from available statistics. Nonetheless, since some of its continental European expansion, occurred after 2005, we might accept that Spain constituted a large share of 2005's continental European income. Even so, by 2011 the situation changed drastically, with 51 percent of income originating from Latin America alone. In fact, Brazil became the largest overall contributor to income at 28 percent, while the rest of Latin America brought in another 23 percent. Spain on the other hand, only contributed 13 percent, and together with continental Europe just 25 percent, or less than half of its contribution six years earlier.

Likewise, Unicredit witnessed an expansion in income from international operations between the first part of the decade and the end of 2011. In 2004, operations in Unicredit's home market comprised the lion's share of income at 75 percent. Eastern Europe accounted for just 17 percent of income in that year. By 2011, retail in Germany, Austria, and Poland contributed 14 percent of income. Central and Eastern European operations contributed another 16 percent. Of which, the most noteworthy countries in 2011 were Turkey at 21.5 percent, Russia 15.3 percent, Croatia 12.6

[13] 2005 data stipulates 57% of income originated in the "U.S.", while data for 2011 indicates 36.6% originated from "North America." The author treats both as Citibank's home market for two reasons. First, Mexico is included in statistics for Latin America in all cases. Second, even within the wider classification of North America, it is expected the United States comprises a much larger share than Canada.

percent, Czech Republic 8.4 percent, and Ukraine with 5.6 percent of the Central and Eastern Europe total. Ultimately, a minimum of 30 percent of Unicredit's retail income comes from abroad, and inserting Central and Eastern Europe would probably make that figure much higher. Similar to the other three banks, the share of Unicredit's home market earnings in overall retail banking earnings shrank over the 2000s.

Despite some slight statistical imperfections, we can emphatically say international retail banking plays a vital role in global banking. Foreign subsidiaries, especially those in emerging markets, contribute sizeable portions of overall earnings. In fact, banks observed here have some of the lowest home market retail income as a share of total income ratios in the banking industry (Capgemini, EFMA, and ING, 2008). Unicredit's domestic income, in comparison, is on the higher side but it still has a higher international retail income share than a number of banks not observed in this paper. Thus, the bottom line is, global banks now rely on international retail banking operations for huge portions of their earnings.

Reasons for Retail

This subsection formulates reasons retail has become a vital part of global banking. We draw three reasons from literature, and offer another possible reason for retail's importance.

First, a larger negotiation capacity gap exists between financial institutions and individuals than between financial institutions and corporations. Urdapilleta and Stephanou noted the "small size of individual clients does not typically allow them to negotiate rates" (2009, p. 19). Corporations are not only much larger than individuals in scale; they are also more adept to negotiation. When negotiating the terms of a loan, we should expect corporations borrow at more favourable terms for themselves than for individuals. Which means that loan rates to individuals are relatively higher than those to corporations, providing banks with a valuable incentive to increase retail loans: their comparatively high returns.

Second, Bertola, Disney, and Grant (2006) pointed out the "sharp increase in lending to households over the past decade…was spurred by financial liberalisation" (p. 94). Interest rate liberalisation opened the margin within which banks operate when extending loans. Rigid interest rate regulation priced individuals outside the upper interest rate band because, generally, individual borrowers are more opaque, and thus riskier than corporations. Even if banks had been eager to extend loans to individuals, they were unable to do so because regulation prohibited them from adjusting interest rates to levels that would compensate for higher risks. Through liberalisation, banks could adjust rates according to individual risk assessments.

Third, Berger's (2007) *concierge effect* theory may push non-financial corporations to relationships with local banks when venturing abroad. This effect occurs when non-financial corporations operating in foreign markets where a home country bank also simultaneously operates actually prefer the financial services provided by locally-owned banking institutions because they provide information on the host market that global banks cannot provide. Thus, if lending to home country corporations (while abroad) is not a reliable international segment, global banks could be substituting for that void with retail.

Fourth, limits to financial accessibility and expertise make the benefits of banking services greater for individuals than for corporations. Corporations have alternative means of accessing finance. Unlike corporations, individuals cannot procure funding via equity markets, bond issuance, or commercial paper. Furthermore, many individuals have limited financial expertise and a banking relationship offers support. Banks offer fee-based financial advice and asset management products, which many individuals may otherwise be unable to access. Plus, deposit insurance (where available) also offers a relatively secure method of storing savings. Suggesting that a relationship with a banking institution is perhaps the easiest, most effective, and secure method individuals have for accessing financial services.

Table 11: Global Banks' Average Return-on-Assets 2007-2011 (%)

Global Bank	Average ROI
HSBC	0.67%
Santander	0.99%
Citibank	-0.29%
Unicredit	0.23%

Source: The Banker, Top 1,000 World Banks, Various Issues

Global banks have been able to geographically diversify income via the extension of retail financial services in both emerging and developed markets. When considering which of the four global banks were more successful, we can point to some striking statistics in Table 11 above. Average ROA figures from 2007 through 2011 for the four global banks show HSBC and Santander had much higher ROA performance than Unicredit, and certainly Citibank, which was actually negative. Coincidentally, HSBC with an average of 0.67 percent and Santander with 0.99 percent were also the more geographically diverse banks. Both hold sizeable positions in numerous countries and multiple regions. Citibank is diverse in terms of regional distribution, but its number of countries is comparatively low, while Unicredit is unquestionably concentrated in Emerging Europe.

As we saw from the ROA rankings, in a number of cases the four global banks outperformed other banks operating in the same markets. Access to more emerging markets will be essential for global banks in years to come because emerging markets will contribute larger shares of global retail banking revenue (Table 12).

Table 12 : Total World Retail Banking Revenues

Region	2006 (Billion Euros)	2017 (Billion Euros)	Growth (%)
North America	433	580	33.95%
Western Europe	350	460	31.43%
Japan	125	160	28.00%
Australia	30	40	33.33%
Other America	95	145	52.63%
Other Europe	85	145	70.59%
China	35	110	214.29%
India	25	63	152.00%
Other Asia	35	90	157.14%
Middle East & North Africa	50	65	30.00%
Total	1,263	1,858	47.11%

Note: Figures for 2017 are forecasts

Source: Capgemini, EFMA, and ING (2008)

Some notable emerging markets, such as China and India, have yet to see major expansions by foreign-owned banks. Going forward, banks could miss out on the opportunity to further distribute and possibly stabilize bank income through wider geographic diversification if access to more diverse opportunities does not materialise.

CONCLUSIONS

This paper demonstrated retail is a very important segment within global banking. In fact, retail constituted the largest type of loans and source of income for each bank observed here, showing international retail operations play a particularly important role. ROA developments revealed the four global banks were able to generate higher rates of return abroad than at home. Local bank acquisition probably provided global banks with a means of lowering obstacles associated with operating in foreign markets.

Reconsidering the notion of success in international retail banking is now quite necessary. Deeper geographical diversification has the distinct benefit of augmenting bank income in the event of negative financial shocks. However, geographical diversification does not simply mean entering one or two foreign markets, rather it means being diverse across countries, regions, and types of economies. Therefore, the only way to conceptualise success in international retail banking are banks that achieve relatively strong performance in multiple foreign subsidiaries, cultivating various income-earning opportunities, and insulating itself from adverse financial shocks.

According to that notion, two banks were more successful in international retail. As noted above, HSBC and Santander had much higher ROA performance than Unicredit and Citibank. The reason HSBC and Santander showed higher performance may likely be that their retail banking operations are, comparatively speaking, more *geographically diverse*. HSBC operates in multiple regions, including Asia, which became a huge source of income by the end of the period. Santander may appear concentrated in Latin America, but its operations in the United Kingdom, the United States, Poland, and continental Europe actually provided diversity, to support income. While Citibank is present in Asia, Latin America and other markets, the number of countries in which it has a significant presence is low. Unicredit is unquestionably overly concentrated in Central and Eastern Europe. These facts limited the countries Citibank and Unicredit could draw upon to support earnings after the global financial crisis. Therefore, the results from this paper suggest promoting the internationalisation of retail banking may be a positive method for increasing financial stability.

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