

High Finance

International business means international banking. We asked banking experts to tell us about some of the most important global finance issues.

Working with foreign banks

The 1980s were witness to a dramatic increase in foreign bank presence in the United States. From 1981 to 1988 total assets of foreign banking institutions grew from \$26.1 billion to \$638.8 billion, approximately 21.8 percent of total US banking assets, and \$164.3 billion in

cent study by Greenwich Associates, US companies used an average of 5.3 foreign banks in 1988 up from 3.2 in 1984. During the same period their use of US banks dropped from 15.5 to 9.7. In addition, more foreign banks are being designated as a principal bank by American companies.

Foreign banks are increasing their market share and becoming more important players in the US financial services marketplace for several reasons. First, they

Foreign banks used to focus on the Fortune 500. Now they've got their eyes on the small and medium markets too.



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commercial and industrial (C&I) loans, approximately 27.5 percent of total US (C&I) loans. The growth of international banking has been fueled by the increasing interdependence of national economies, the expansion of world trade, deregulation of financial services and advances in transportation and communication technology.

In addition to increasing their share of the US market, foreign banks are also playing a more important role with their American customers. According to a re-

are seen as being stronger financially, an impression substantiated by the fact that only four American banks are among the world's fifty largest banks. Second, foreign banks are offering lower prices for their financial products because their cost of funds is often markedly less than that of their American competitors. Finally a foreign bank's international service capabilities are often stronger than those of domestic institutions. This is due in part to the withdrawal from foreign markets of a

significant number of American banks.

While the increasing use of foreign banks has been most evident among large corporations, a significant number of small- and medium-sized companies interested in getting into or expanding their overseas activities are looking to foreign banks to provide financial services and advice. Moreover, the spread of foreign banking has not been limited to New York, California and Illinois; foreign banks have also established themselves in other parts of the country.

Foreign banks, which initially concentrated on serving US subsidiaries of firms back home or the American Fortune 500 corporate market, increasingly seek to penetrate the small and middle markets. Competitive pricing, along with their experience in serving the international banking needs of home country companies, make foreign banks an attractive alternative to American middle- and lower-market companies looking to expand into foreign markets.

For a medium to small firm, knowledge of their industry, both domestic and international, as well as an integrated group of products, are most important when selecting a bank. In terms of products and service, foreign banks have the staff and expertise to conduct foreign exchange and international cash management, account clearing activities, export insurance loans and trade financing. These are particularly important assets: most small- and medium-sized companies do not have the in-house capabilities or expertise to conduct such activities. Nor do their local bankers. Through its home country network, a foreign bank can provide an in-depth understanding of the market and swift communication to a company's customers. In addition, foreign banks' worldwide involvement in non-banking commercial activities enables them to service their customers more efficiently and comprehensively. Through their relationships with export trading companies and other commercial firms, foreign banks can provide vital trade services as well as market knowledge and experience. Finally, and most importantly, large capitalization enables foreign banks to suffer risk in return for the benefits of a lasting and complete relationship in the future. With this long-term outlook, foreign banks are willing to provide assistance to small- and medium-sized firms in the initial stages of trade development.

There is little doubt that the demand for international banking services, particularly among small- and medium-sized

companies, will continue to grow as a reflection of the increasingly global nature of trade. In deciding on an institution to service its banking needs, an American company would do well, for the above-mentioned reasons, to consider a foreign bank.

Get a bank with a global reach

When a small manufacturer in upstate New York discovered that a simple plastic cap fitted on his product would virtually eliminate the breakage losses he had been experiencing during shipping, he did not drum his fingers on his desk and wonder how to get plastic caps. He drummed his fingers on his personal computer, called up an international trade and financial services network, and asked for sourcing information.

It didn't take him long to get a response. Via the same financial services and information network, his computer informed him that six manufacturers—one in Korea, two in Taiwan, and three in Hong Kong—all turned out plastic caps similar to what he needed. Within a week they all submitted bids based on his specifications. He spent a few days studying the

cial for companies in today's increasingly international business environment. The New York manufacturer did not have to leave his office to solve his problem. He found the information he needed by using his bank's global data exchange network.

And that's why international companies ought to work with banks which have branches around the world. Through its widespread branch network, a bank can verify sources and pass along the latest information on the type and availability of manufacturers and suppliers.

The concept of one-stop banking is heavily promoted but in reality seldom delivered, especially on an international scale. Customers should be able to arrange trade deals without leaving their offices. They should be able to handle any number of other banking transactions and keep daily tabs on their accounts. Larger corporations with offices in a number of different countries, should look for a bank that can help through numerous banking and foreign exchange (FX) transactions on a global scale.

Of course no corporate treasurer believes he can run his entire financial program through a desk-top computer wired to other computers around the world, particularly if it involves, for example, sophisticated currency or interest rate hedges. Those treasurers are right. Murphy's Law

International companies should have a single contact at the bank. If transactions go astray, it should take just one call to set them straight.



Clinton Marshall

bids and the samples he had received by overseas courier, and made up his mind.

Drumming his fingers on his PC keyboard once more, he arranged for a letter of credit to finance his order, and then waited impatiently for the first shipment to arrive. Again, it didn't take long, and the caps soon proved their worth. His shipping losses dropped drastically.

In case you're interested, the caps came from Hong Kong. But that's not the point. The point is that it does pay to deal with a global bank with an international branch network, trade finance expertise, and the global communications system to tie it all together.

The point is, simply, that dealing with an international bank is extremely benefi-

will occasionally intervene. And some problems defy computers. Again, however, a relationship with a major, international banking group can make life easier. Sure, a local bank with no international capability can try to transfer funds to a company office in Bombay. What happens, however, if the transaction is a bit complicated or goes astray? Too many assistant corporate treasurers have found themselves on the phone at 3 am dealing directly with the local bank's correspondent in India in an attempt to sort things out. That shouldn't happen. Banks involved in international trade should have international reach and top-notch local correspondents.

Several major financial institutions