bank with a lot of necessary information about the foreign market, making it easier for it to learn about local conditions.

Four phases can be distinguished in the internationalisation process (Figure 4.5). Each of them had different patterns, different motives for entering foreign markets, and different leaders. Particular attention should be paid to phase IV, as during this period, the issue of geographical area and physical markets ceases to matter. This is due to technology, which has allowed for completely different forms of expansion.

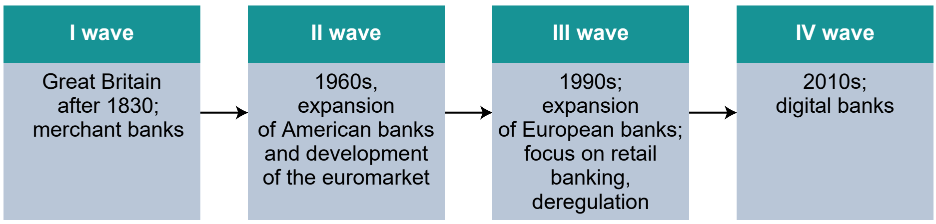

Figure 4.5. Phases of the internationalisation of banking institutions

Source: own elaboration.

Internationalisation also intensifies the processes of deregulation and liberalisation of financial markets and institutions, forcing international co-operation in regulating banking activities. Both of these concepts, although closely related, are not the same. **Deregulation** is understood as the abolition of legal barriers separating particular types of institutions and financial markets, which is accompanied by adjustments to national tax systems and prudential regulations. **Liberalisation**, on the other hand, means freedom to undertake business activities and ensuring equal opportunities for individual entities (which may involve the need to increase, not reduce, the number of regulations).

The deregulation and liberalisation trends were common in most developed (and also developing) countries in the years before the (global) financial crisis. However, their effects are assessed as quite ambiguous. On the one hand, the benefits of deregulation were highlighted (faster pace of financial integration, higher economic growth), but on the other hand, the growing lack of transparency of financial markets and their increasing instability were pointed out. Undoubtedly, however, the beneficiaries of this process were financial institutions, which gained new opportunities to generate profits and, at the same time, began to have much greater independence in their operations.

Over time, banking internationalisation leaders began to take on the character of global institutions. The emerging **global banks** were among the most powerful institutions in the world economy. Only as a result of the crisis of 2007–2009 and the expansion of technology giants (BigTech) did they lose their relative importance. Moreover, both the above-mentioned crisis and the subsequent decade of polycrisis (Tooze, 2022), as well as geopolitical and economic changes, have changed the geographical structure of the world's leading banks (Table 4.2).

Table 4.2. Ten largest banks in the world (market capitalisations, as of January, 2024, million USD)

No.	Name	Country	Capitalisations
1	JPMorgan Chase	USA	491.76
2	Bank of America	USA	266.45
3	Industrial and Commercial Bank of China	China	219.45
4	Wells Fargo	USA	178.74
5	Agricultural Bank of China	China	175.69
6	HDFC Bank	India	169.84
7	HSBC Holdings PLC	UK	156.13
8	Morgan Stanley	USA	153.05
9	China Construction Bank	China	151.97
10	Bank of China	China	150.39

Source: own elaboration.

4.3. International payment infrastructure

Modern economies need secure and fast transaction services. The free flow of money between entities is possible thanks to payment systems. Despite the functioning of single currency areas (e.g., the Eurozone), where it would seem that transfers will be made in a relatively short time, it should be noted that each country has its own national payment system.

When carrying out foreign payments, banks use the international communication network **SWIFT**—Society for Worldwide Interbank Financial Telecommunication. Thanks to this, it is possible to transfer standardised information between over 11,000 participants from over 200 countries. This avoids communication problems and streamlines the transaction process as all information transferred between banks has a three-digit number. The first digit indicates the category of the information, the second, the group, and the last, the exact type of message (Table 4.3). Only standardised information is transmitted via the SWIFT network. The network is not used for accounting.

Table 4.3. Sample SWIFT messages

Message code	Message name
MT 101	transfer request
MT 103	credit transfer payment instruction
MT 700	order to open a letter of credit
MT 940	customer statement message

Source: own elaboration.

> There have been **only two** situations in history where banks operating in a given country were excluded from the SWIFT network. In 2012 this happened in the case of Iran, and in 2023 in the case of Russia.

For communication between such a large number of participants to run smoothly, it is necessary to clearly identify the participants of the SWIFT network. For this purpose, BIC (Business Identifier Code[1]) identification numbers are used, often called SWIFT codes. These may consist of eight (BBBBCCLL) or eleven elements (BBBBCCLLAAA) (Figure 4.6).

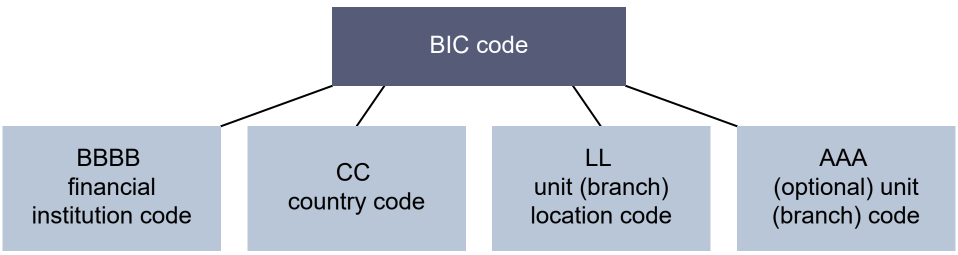

Figure 4.6. BIC code components

Source: own elaboration.

Although the SWIFT system is the most widespread in the world, this does not mean that there are not others that are also used for communication and information purposes. However, they operate on a much smaller scale. Alternatives to SWIFT could be:

- Chinese Cross-Border Interbank Payment System (CIPS),
- Indian Structured Financial Messaging System (SFMS),
- Russian System for Transfer of Financial Messages (SPFS).

[1] In its original version, it was called the Bank Identifier Code, but due to the increasing participation of financial institutions, its name was modified.

After sending messages and initiating payment, this must of course be settled. Various systems are used for this purpose, including **TARGET 2** (Trans-European Automated Real-Time Gross Settlement Express Transfer System), which was launched on November 19, 2007, replacing the TARGET system (in operation since January 4, 1999). It is used to process large-value payments in euros by central and commercial banks. Orders sent to the system are settled one by one, in real time. There is neither a lower nor an upper limit on the order value. It is worth remembering that all orders pass a duplicate check. Its purpose is to reject orders entered incorrectly more than once.

It should be noted that each Eurosystem central bank runs its own payment system which is a component of TARGET 2. Three central banks—Deutsche Bundesbank, Banque de France, and Banca d'Italia—provide services on one technical platform, enabling the transmission of orders on behalf of the Eurosystem. This system contributes to the free flow of money between financial institutions, which is crucial for the financial integration of EU Member States. Apart from six days (New Year's Day, Good Friday, Easter Monday, May 1, December 25 and 26), the system operates on all working days between 7:00 a.m. and 6:00 p.m.

Financial institutions (other than central banks) have the opportunity to connect to this system through a participating central bank, in four access ways (Figure 4.7). If such an institution has an RTGS account with a central bank based in the European Economic Area and can send and receive payments on its behalf or on behalf of its clients, it is called a direct participant. In a situation where this direct participant is used to execute an order, it can be said that there is an indirect participation in the settlement. In a situation where branches and subsidiaries of a direct participant are authorised to send payments using this participant's account, it can be said that multi-address access occurs. However, when a correspondent of a direct partici-

Figure 4.7. Ways of connecting to TARGET 2 via the central bank

Source: own elaboration.

pant has his or her own BIC code, regardless of the place of residence, the financial institution can use the opportunity of an addressable BIC.

In Europe, a pan-European initiative should be highlighted, whose aim was to simplify money transfers between EU member states, as well as Iceland, Liechtenstein, Norway and Switzerland. This area is called **SEPA** (Single Euro Payment Area). Banks that are located in this territory and have signed the agreement can offer their clients a SEPA transfer, which should be completed no later than the end of the next business day after the instruction is issued. It uses the SHA cost instruction (this means a situation in which the payer bears the costs of the sending bank's fees and commissions, and the beneficiary pays the fees due to the beneficiary's bank and intermediary banks). For the transfer to be completed, a total of four conditions must be met:

- euro currency,
- both the payer's bank and the recipient's bank participate in the SEPA system,
- the recipient's country is in the above geographical area,
- the payer provided the recipient's bank account number in the IBAN (International Bank Account Number) format.

> The shortest IBAN is in Norway (15 characters) and the longest is in Russia (33 characters).
>
> You can check the list of countries at: https://www.iban.com/structure

As mentioned at the beginning of this section, each country has its payment system. In addition, there may be commercial payment systems dedicated to retail customers. Therefore, the classification into **systemically important payment systems** (SIPS) and **non-systemically important payment systems** (non-SIPS) is used. The first group includes large-value payment systems but also retail payments that are of systemic importance. For example, the ECB is responsible for the supervision of the above-mentioned TARGET 2 as well as other systems, such as EURO 1 and STEP 2-T.

> On February 7, 2024, the European Parliament voted on new regulations updating the rules of the Single Euro Payments Area (SEPA). An instant transfer order is to be executed regardless of the day and time, and the funds must reach the recipient's account within 10 seconds. Payment service providers will have to inform the payer within 10 seconds whether the transferred funds have been made available to the designated recipients.

the need to study the digitalisation of banking is growing under the influence of globalisation and asymmetry in the development of financial markets and the intensification of competition in financial markets.

7.4. Socially responsible banking

Socially responsible banking is a relatively young branch of banking. It grew out of social initiatives advocating increased awareness of entrepreneurs' ethical and moral responsibilities. The scientific literature does not indicate a clear terminology for this type of banking. A literature search finds terms such as 'ethical banking' (Paulet, 2011) 'alternative banking' (Mettenheim & Butzbach, 2012), 'sustainable banking' (Bouma et al., 2017) or 'co-operative banking' (San-Jose et al., 2018). Often, these terms are used to discuss the same banks. Sustainable banks are institutions that place environmental and social responsibility at the centre of their activities and mission.

Social banking is primarily oriented toward providing financial services that support society. A social, ethical or alternative bank offers products and services related to social banking, such as loans to social enterprises, renewable energy projects or social housing. Social banks are institutions that pursue social, sustainable, environmental or other objectives that create 'added social value' as part of their core business strategy (Gower, 2021).

Banks have strong economic and social impacts. By directing financial capital to various sectors, they also have some social responsibility. In attempting to position ethical banks among those whose financial activities produce social or environmental effects, one can find pure social finance, which has one clear objective, i.e. to achieve positive social impact without considering any financial return. Typically, philanthropic support is based on this concept. At the other end of the scale are those offering financial products and services that only aim for high financial returns without considering any social impact. This applies to most financial products and services offered by conventional banks and other financial institutions.

Community banking is based on principles, among others (the broader context is presented in the box below): social and environmental impact and sustainability are at the heart of the business model, community-based, serving the real economy and enabling new business models to meet the needs of people and the economy, long-term relationships with customers and a direct knowledge and understanding of their business and related risks, long-term, self-sustaining and resilient to external disruptions, transparent and inclusive governance.

Principles of social banks

Ethical banks focus simultaneously on people, the environment and well-being, so products and services are designed and developed to meet people's needs and protect the environment. Achieving a reasonable profit is recognised as a core requirement of values-based banking, but is not a stand-alone goal. Importantly, values-based banks take a deliberate approach to business with a triple bottom line—not only avoiding harm, but actively using finance to do social good.

They establish strong relationships with their clients and are directly involved in understanding and analysing their business and helping them to act in a more value-based way. Appropriate risk analysis is applied to product development so that indirect risk management tools are not taken as a substitute for fundamental analysis or traded for their own benefit.

Ethical banks maintain a high degree of transparency and inclusiveness in their governance and reporting. In this context, inclusiveness implies an active relationship with the bank's broad stakeholder community, not just its shareholders or management.

Value-based banks take a long-term view to ensure that they can sustain their business and be resilient to external disruptions. At the same time, they recognise that no bank or its customers are completely immune to such disruptions.

Value-based banks serve the communities in which they operate. They meet the financial needs of these geographic and sectoral communities, financing businesses and individuals in efficient and sustainable economies.

They seek to embed these principles in the culture of their institutions so that they are routinely used in decision-making at all levels. Recognising that the process of embedding these values requires a conscious effort, these banks are developing HR policies that reflect their values-based approach (including innovative employee incentive and appraisal systems), and are developing stakeholder-focused practices to support values-based business models. These banks also have a defined reporting framework to demonstrate their financial and non-financial impact.

(based on GABV, n.d.)

To summarise, the business of social banking differs significantly from commercial banking. First and foremost, the latter focuses on profit maximisation. Socially responsible banking, on the other hand, is mainly oriented towards achieving social and/or environmental impact, although the financial aspect is also important. The social impact must be measurable and measuring it is crucial. In the context of growing social needs and environmental challenges, this model of banking can be expected to grow in importance.

Key takeaways

- Banks can be divided according to several criteria, which mainly include: form of ownership; range of services offered, business models (commercial, co-operative banks), functions (retail and wholesale banking, private banking, and corporate banking), origin of capital (private, state-owned banks), types of services and products and territorial coverage.
- In the category of special banks, there are e.g., investment banks, mortgage banks, and lately green banks.
- Considering the way of providing services and targeted customer, there are different types of banking, e.g., retail banking, wholesale banking, private banking and corporate banking.
- Global banks are systemically important institutions that, by virtue of their asset size, international activities and numerous linkages, can pose a threat to global financial stability.
- Sustainable banks are institutions that place environmental and social responsibility at the centre of their activities and mission. Social banking is primarily oriented toward providing financial services that support society.

Supplementary literature

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CHAPTER 8

BANK REPORTING AND PERFORMANCE

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Key terms:
bank financial reporting, bank non-financial reporting, bank financial statement, bank balance sheet, bank profit and loss account

8.1. Bank financial structure

The financial structure of a bank differs from the other non-bank institutions (Figure 8.1):

- the bank's main assets are loans and advances, granted and purchased financial instruments, not tangible assets,
- the main component of the bank's financing are liabilities from customers, not equity,
- there is a very high level of leverage—up to 90%, which is unusual in the case of a non-bank company.

Banks also differ from most companies in terms of revenue. Banks have no accounts receivable or inventory to assess whether sales are rising or falling. Instead, there are several unique elements included in a bank's balance sheet and income statement that help investors decipher how banks make money. The bank's profit mainly comes from interest revenue i.e. the spread between the income from loans granted and the costs of deposits

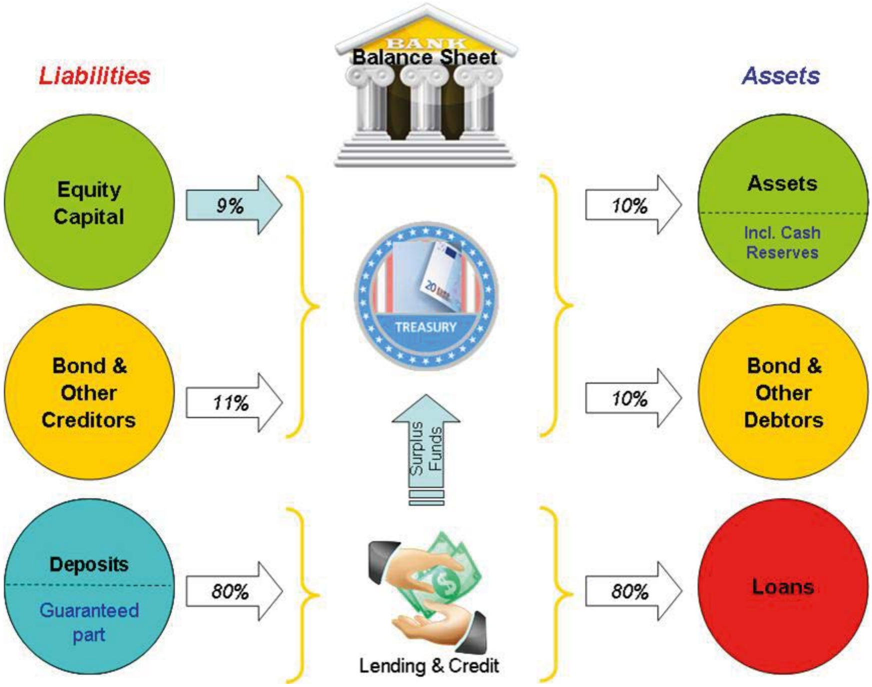

Figure 8.1. Bank balance sheet structure

Source: Savvides (2013, p. 109).

accepted, while the bank's other income is of a supplementary nature. Banks' non-interest revenues consist of ancillary revenue the bank makes in supporting its services. This can consist of:

- broker fees,
- commissions and fees from products and services,
- underwriting fees,
- gain on sale of trading assets,
- other customer fees (NSF fees, swipe fees, overdrawn fees).

8.2. International reporting (accounting) standards for banks

World banking today is characterised by:

- the internationalisation of banking activities expressed in banks crossing the borders of nation states and following their customers, operating internationally or globally with the provision of financial services, Congress in which he outlined his proposal for creating a national bank. Hamilton used the charter of the Bank of England as the basis for the proposed national bank. He argued that such an institution could issue paper money, provide a safe place to keep public funds, offer banking facilities for commercial transactions, and act as the government's fiscal agent, including collecting the government's tax revenues and paying its debts. Despite opposing voices at the beginning and much debate in Congress, the Bank of the United States, now commonly referred to as the First Bank, opened for business in Philadelphia in 1791, with a 20-year charter (Federal Reserve Bank Philadelphia, 2021a).

The First Bank, in addition to its activity on behalf of the government, also functioned as a commercial bank and made loans to individuals and companies. Thus, while in some ways the First Bank prefigured the Federal Reserve System, it also differed from it significantly by offering commercial loans, which the FED, along with most modern central banks, does not do (Federal Reserve Bank of Minneapolis, n.d.).

Although the First Bank's 20-year charter was not renewed, the War of 1812, and the ensuing inflation and economic turmoil, convinced Congress to try again, and it established the Second Bank of the United States. It was also given a 20-year charter and operated from 1816 to 1836; however, its charter was not renewed either (Federal Reserve Bank Philadelphia, 2021b). Unlike modern central banks, the Second Bank did not set monetary policy as we know it today. It also did not regulate, hold reserves, or act as a lender of last resort for other financial institutions (Federal Reserve History, 2015).

As a consequence, in the mid-nineteenth century, the United States still had no central banking authority, and dissatisfaction with the fragmented banking system had not improved. Fragmented banking and monetary systems were dangerous not only for financial stability but also for the country as a whole because they increased the likelihood that people would think of themselves as citizens of a state or a region rather than citizens of the United States. Therefore, in 1863, President Abraham Lincoln signed into law the National Currency Act (also known later as the National Bank Act) and created the Office of the Comptroller of the Currency, which exists to this day. The National Bank Act was the first attempt to establish a federal banking system after the failures of the First and Second Banks of the US (Federal Reserve History, 2022).

Finally, in 1913, President Wilson signed the Federal Reserve Act, creating the Federal Reserve System (FED) containing 12 District Banks to reflect the distribution of population and banking in the country (the Federal Reserve's founders designed a decentralised central bank to prevent the concentration of power) (Federal Reserve Bank of Minneapolis, n.d.). The Federal Reserve's primary purpose was to enhance the stability of the American banking system, within which at its all-time peak in 1921, there were 30,456 independent commercial banks, nearly all of which were unit (or one-office) institutions (Table 11.1).

To this day, the FED is the central bank of the US; however, the Federal Reserve itself has changed in profound ways since it was signed into law in 1913. Nowadays, the FED is best known for its monetary policy. It is the most powerful economic institution in the US and possibly the world. There has also been a huge change in the entire US banking system, and a shift from unit banking to large financial institutions with many branches and offices can be observed (Table 11.1).

Table 11.1. Structure of US commercial banking from 1921 to 2018

Year	Number of banks	Branches	Offices	Unit banks	Banks with branches
1921	30,456	1,455	31,911	29,909	547
1929	24,970	3,353	28,323	24,206	764
1933	14,204	2,786	16,993	13,623	584
1984	14,507	42,731	57,227	7,403	7,093
2008	7,087	83,040	90,117	1,714	5,363
2018	4,718	78,014	82,732	879	3,839

Source: Sylla (2020).

A summary of the most important events in the creation of the US banking system is presented in Figure 11.1.

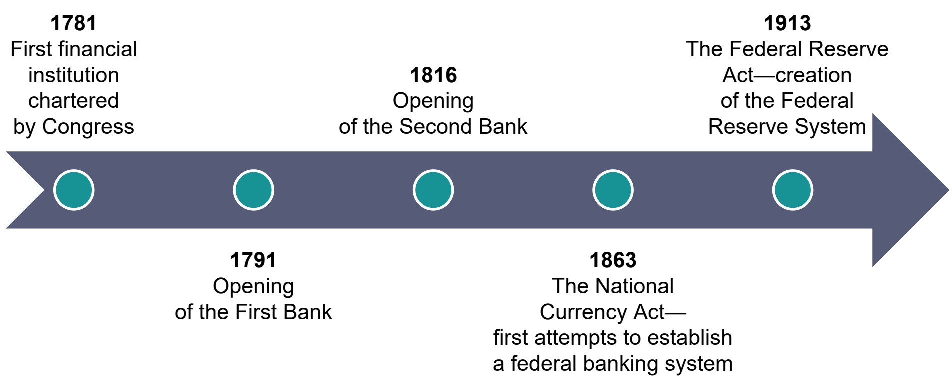

Figure 11.1. US banking system evolution

Source: own elaboration.

11.2. Structure of the US banking system

The financial system in the United States is classified as an Anglo-Saxon model (market model). The dominant role in this system is played by the capital market, which is well developed and provides financing for many economic units. Banks also play a crucial role in this system; however, they are not as critical as in the continental model.

The head of the banking system in the United States is the central bank, the **Federal Reserve System**. The FED was established in 1913 under the Federal Reserve Act of 1913 with the task of creating a safe, more flexible and stable monetary and financial system. There are three key entities in the Federal Reserve System: the Federal Reserve Board of Governors (Board of Governors), the Federal Reserve Banks (Reserve Banks), and the Federal Open Market Committee (FOMC).

The **Board of Governors** is the governing body of the Federal Reserve System. It is run by seven members who are nominated by the president of the United States and confirmed in their positions by the Senate. Each member of the Board of Governors is appointed for a 14-year term. After serving a full 14-year term, a Board member cannot be reappointed. The Board of Governors guides the operation of the Federal Reserve System to promote its goals and fulfil the responsibilities given to the FED by the Federal Reserve Act. The Board oversees the operations of the 12 Reserve Banks and shares with them the responsibility for supervising and regulating certain financial institutions and activities.

The **FOMC** sets monetary policy to promote maximum employment, stable prices and moderate long-term interest rates in the US economy. The Committee raises and lowers its target range for the policy rate, which is the federal fund rate. The FOMC should determine the appropriate stance of policy and ensure that this stance is effectively transmitted to financial markets. It is run by twelve members, seven board members and five Reserve Bank presidents. Each member is appointed for a 14-year term. After serving a full 14-year term, a Board member cannot be reappointed.

The **12 Reserve Banks** and their 24 branches are the operating arms of the Federal Reserve System. Each Reserve Bank operates within its own particular geographical area or district in the United States (Figure 11.2). The Reserve Banks examine and supervise financial institutions, act as lenders of last resort, and provide US payment system services. The Reserve Banks act as financial institutions for the banks, thrifts and credit unions in their District—that is, each Reserve Bank acts as a “bank for banks” (Federal Reserve System Publication, 2021).

The main goal of the FED's monetary policy is to promote maximum employment, stable prices and moderate long-term interest rates. Since long-term interest rates remain moderate in a stable economy with low expected inflation, this set of goals is often referred to as **the dual mandate**, comprising the co-equal objectives of maximum employment and price stability.

Federal Reserve District boundaries are based on economic considerations; the Reserve Banks in each District operate independently but under the supervision of the Federal Reserve Board of Governors.

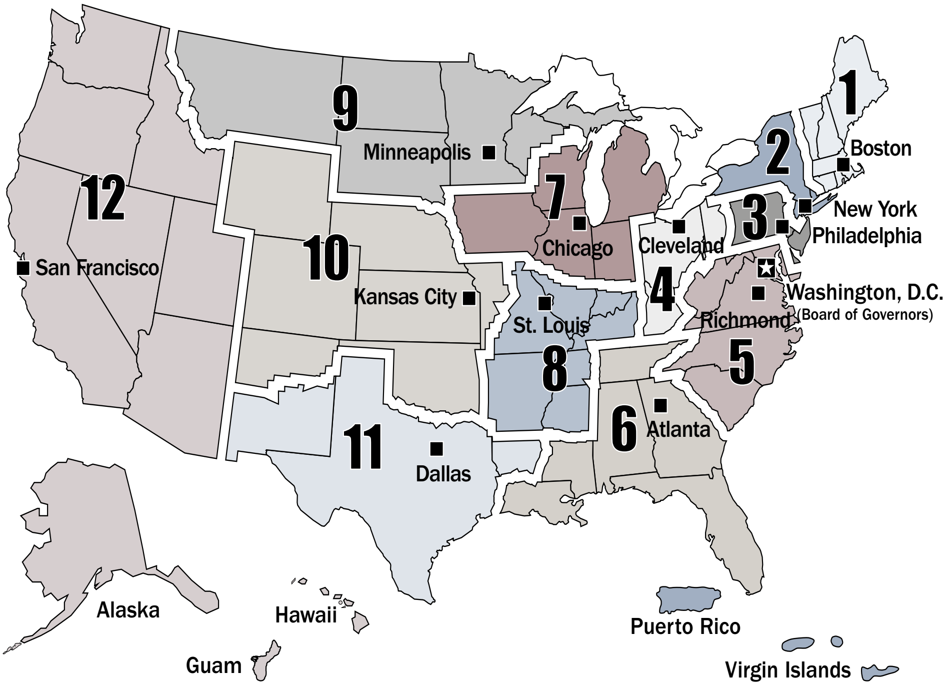

Figure 11.2. The Twelve Federal Reserve Districts

Source: Federal Reserve System Publication (2021, p. 3).

Price stability is defined as a low and stable inflation rate of 2% per year, measured by the annual change in the price index of personal consumption expenditures, while the maximum employment level is assessed by a broad range of labour market indicators (Federal Reserve System, 2021a). To achieve the main goal, the FED uses different types of monetary policy tools, such as open market operations, discount window and discount rate, reserve requirements, and many others.

The Personal Consumption Expenditures Index (PCE index) released each month in the Personal Income and Outlays report, reflects changes in the prices of goods and services purchased by consumers in the United States. There are a few basic differences between the CPI and PCE index.

Firstly, they are constructed from different index-number formulas. Secondly, the relative weights assigned to each of the CPI and PCE categories of items are based on different data sources. Thirdly, the CPI measures the change in the out-of-pocket expenditure of all urban households, while the PCE index measures the change in goods and services consumed by all households and non-profit institutions serving households (McCully et al., 2007).

In addition to the central bank, the FED, there are many financial institutions in the US banking system that offer various types of financial services and products. From 1933 until 1999, banks were required to choose the type of business they wanted to specialise in because of the prohibition on combining investment banking services with core deposit and lending activities imposed by the Glass–Steagall Act. In 1999, however, this ban was abolished, and banks could again offer different types of financial services to their customers by forming financial holding companies. Since then, in the United States, we can find both universal banks and banks that specialise in a particular area of financial services.

The Glass–Steagall Act was introduced by the United States Congress (signed into law by then-President Franklin Roosevelt) in 1933 in response to the Great Financial Crisis of 1929–1933. The main provision of the new act was a ban on combining the commercial activities of banks with investment activities.

The Gramm–Leach–Bliley Act was introduced by the United States Congress (signed into law by then-President Bill Clinton) in 1999. The GLBA is most well known as the repeal of the Glass–Steagall Act of 1933, as it allowed banks to offer financial services previously forbidden by the Glass–Steagall Act.

There are three basic types of banks operating within the US banking system (Figure 11.3):
- money-centre banks (as the part of large financial institutions),
- regional and superregional banks,
- community banks.

Table 14.2. Concentration ratio (CR5) in Brazilian financial sector

Segments	Bank and non-bank segment		Bank segment		Commercial bank segment	
Year	2018	2020	2018	2020	2018	2020
Total assets	69.3	67.0	79.5	76.0	81.2	77.6
Total deposits	78.4	72.7	82.8	77.7	83.8	79.1
Credit operations	70.9	68.5	82.2	79.2	84.8	81.8

Source: Banco Central do Brasil (2020).

segment, banking segment, and commercial banking segment for each of the accounting aggregates. Declining indicators reflect the reduction in the participation of the main state-owned banks.

14.4. Banking system in Mexico

The Mexican banking industry is one of the most developed in Latin America. Its strict capital controls and relatively low interest rates have contributed to its strong performance. Mexico's banking system is stratified, with large commercial banks taking a considerable market share. Mexican banking system consists of all types of banks, including commercial banks, development banks, savings institutions, co-operative credit societies and others (Figure 14.3).

These banks are regulated by the Ministry of Finance (Secretaría de Hacienda y Crédito Público) through a series of regulatory agencies: Banco de México BANXICO (the central bank), Comisión Nacional Bancaria y de Valores (the securities commission), and the Instituto para la Protección al

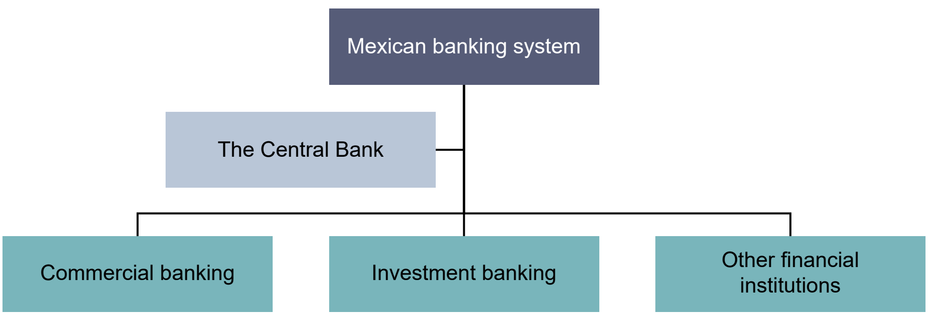

Figure 14.3. Mexican banking system

Source: own elaboration.

Ahorro Bancario (an independent entity). The government also has various programmes designed to stimulate banking activity in rural areas through microcredit loans. These loans are for small business owners or individuals who want to start businesses but do not qualify for normal financing options. The Secretariat of Finance and Public Credit (Secretaría de Hacienda y Crédito Público or SHCP), the National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores or CNBV), and BANXICO are the **principal regulators of the banking system**. The SHCP is concerned with institutional issues, such as licensing, and sets credit and fiscal policies. The CNBV, a semi-autonomous government agency, is responsible for supervision and vigilance. BANXICO (the central Bank) implements these policies and operates inter-bank check clearing and compensation systems. The Institute for the Protection of Bank Savings (Instituto para la Protección al Ahorro Bancario or IPAB, replacing the former institution FOBAPROA) acts as a deposit insurance institution. The Mexican Banking Association (Asociación Bancaria Mexicana or ABM) represents the interests of Mexico's banks (Freeman Law, 2022).

Banco de México (The Central Bank) is the primary regulator for the industry, ensuring all participants adhere to the set policies. An influx of foreign investment has further contributed to its resilience. The Central Bank is a constitutionally-created institution responsible for managing the country's fiscal policy. It is also responsible for supervising all banking transactions, ensuring the bankers and financial institutions adhere to the law. The National Banking and Securities Commission (CNBV) under the Ministry of Economy (SE) regulates the securities market. The institution works to protect companies and their shareholders by closely controlling the activities of investment markets. Its purpose is to provide the economy of the country with the national currency, to ensure the stability of the purchasing power of this currency and to promote the development of the financial system and facilitate the correct functioning of payment systems (Banco de Mexico, n.d.).

Commercial banks are the backbone of the banking system and are responsible for a large portion of lending activity. They offer various services, including accepting deposits, providing loans and selling financial instruments such as money market mutual funds or certificates of deposit. The commercial banks also provide individuals and corporations with access to foreign currency through the foreign exchange market, which is regulated by Banco de México. Commercial banks are supervised by Banco de México and are subject to a minimum capital requirement. The biggest banks when it comes to assets are: BBVA Bancomer, Santander, HSBC, Scotia, Inbursa, CitiBanamex, Banorte (according to data 48 banks operate in Mexico) (Privacy Shield Framework, n.d.). The commercial banking sector is heavily influenced by foreign investment. All of the major banks (except for Banorte) are under the control of foreign entities. The role of the most relevant institutions among Mexico's commercial banks includes a full spectrum of services ranging from deposit accounts, consumer and commercial lending, corporate finance, trusts and mutual funds to foreign exchange and money market trading (Freeman Law, 2022).

Investment banks work with companies to help them raise capital or finance by issuing debt and equity securities. These banks rarely provide traditional services such as checking accounts, savings accounts, advice on mortgages and loans, or other consumer-facing deliverables. Mexican investment banks can provide specialist advice to companies involved in mergers and acquisitions, restructuring, initial public offerings, or secondary offerings for companies based in the nation.

Besides the commercial and investment banks, Mexico has **other financial institutions** that perform similar functions. These include development banks, investment funds, savings and loans, securitisation and debt capital markets. Development banks are government-owned and lend money for projects such as building power plants or expanding roads (an example is the Banco de Ahorro Nacional y Servicios Públicos). Private companies across Mexico raise money from investors to invest in stocks, bonds, real estate or other assets—like hedge funds and mutual funds in the United States. Saving and Loans, also called thrifts, are financial institutions that offer savings accounts and home mortgage loans at low interest rates but do not issue credit cards or provide personal banking services beyond basic checking accounts. In Mexico, securitisation has been used as an alternative funding source for home mortgages. This process involves the transformation of mortgage loans into tradable bonds (securities) that can be traded on financial markets. This process allows banks and other lenders to obtain funds from investors instead of traditional sources such as depositors or other lenders. The Mexican debt capital market is considered one of the most developed in Latin America. The country's large and well-developed financial sector offers investors a wide range of options for investing in Mexican sovereign and corporate debt securities (e.g., government bonds, corporate notes and municipal offerings). Development banks, investment funds and debt capital markets also provide alternative financing options for local and foreign investors. Consulting a tax and finance legal team can help you navigate the complex financial environment in Mexico (International Monetary Fund. Monetary and Capital Markets Department, 2022).

14.5. Banking system in China

The activity of China's banking system is based primarily on the **People's Bank of China** (PBOC), the central bank with regulatory powers of monetary policy and over the **China Banking Insurance Regulatory Commission** (CBIRC). The PBOC is the central bank and authority of financial stability (Figure 14.4). The role of The People's Bank of China is to reduce overall risk and promote the stability of the financial system. The PBOC regulates lending and foreign exchange between banks, and supervises the payment and settlement system of the country (Bank of China, n.d.).

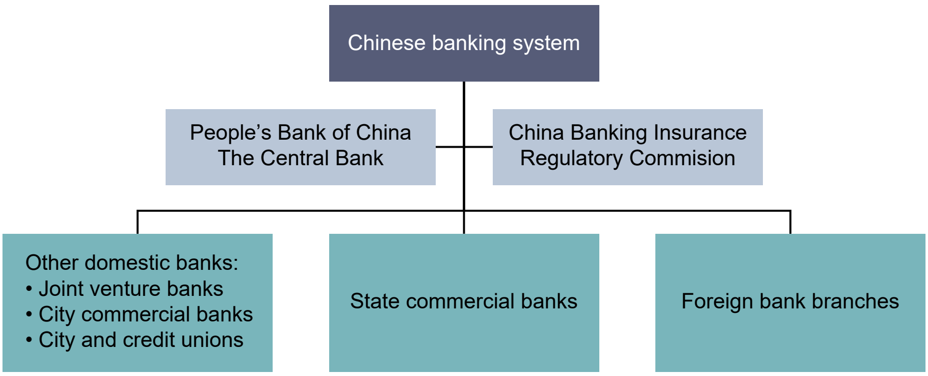

Figure 14.4. Banking system in China

Source: own elaboration.

The main regulatory body that oversees the Chinese banking system is the **China Banking Insurance Regulatory Commission** (CBIRC)—replaced the China Banking Regulatory Commission in 2018 (CBRC). The CBIRC has as its main objective the reform of the State-Owned Bank (SOB) and monitoring of the banking system. The CBIRC is charged with writing the rules and regulations governing the banking and insurance sectors in China. It also conducts examinations and oversight of banks and insurers, collects and publishes statistics on the banking system, approves the establishment or expansion of banks, and resolves potential liquidity, solvency or other problems that may emerge at individual banks.

Currently, the system is divided into two levels: the PBOC and other commercial banks. These are divided into state commercial banks and commercial banks in the form of joint-stock companies, banks of national interest, local banks and foreign banks. The Chinese banking system, however, is still characterised by the prevalence of public banks due to the gradual nature with which reforms have been introduced (Cai et al., 2017). The state-owned banks are created as special credit institutions competent in their respective fields, but over the years this specialisation has been reduced and today, they compete on all credit activities. In addition, the "Big Four"[1] are still used by the Government to support economic plans. Alongside them, since the 1990s, there has also been a gradual increase in commercial non-state-owned banks and other financial companies often traded and invested in by foreign investors. These new financial entities are characterised by a plurality of decision makers and do not have the State as sole shareholder, thus they experience limited interference and distortion of policy in the granting of credit, and reduce the assets of the "Big Four."

The number of banking institutions in China reached to 4,561 in 2022 (Figure 14.5). The number of banks increased until 2019 and has been

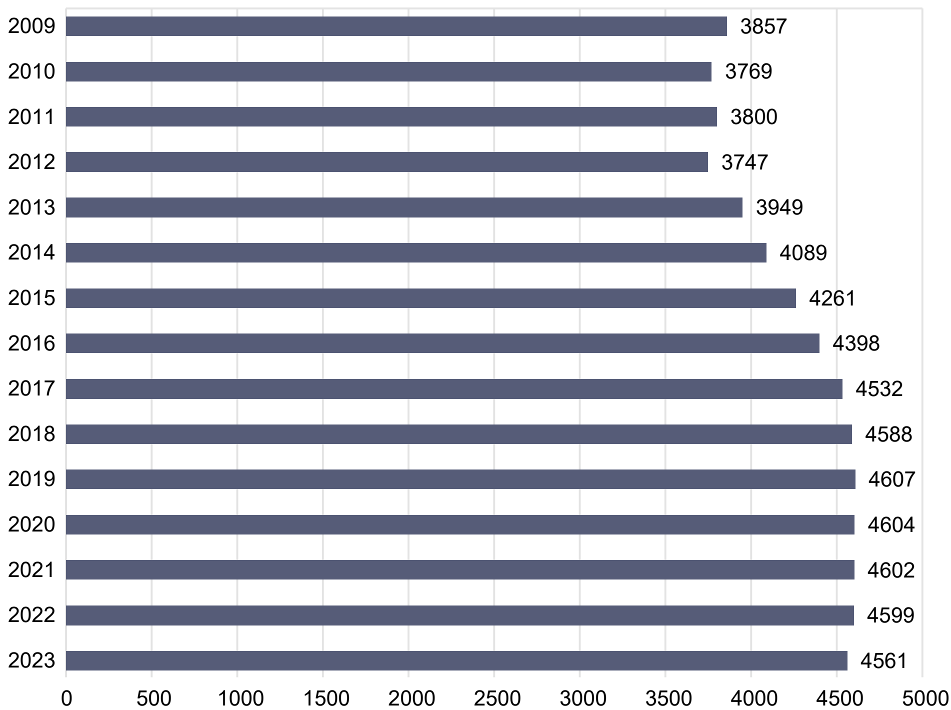

Figure 14.5. Number of banks in China 2009–2023

Source: Statista (n.d.).

[1] The big four banks are majority-owned by the government and are central to China's financial system. They are the Industrial and Commercial Bank of China (ICBC), the China Construction Bank (CCB), the Bank of China (BoC), and the Agricultural Bank of China (ABC) (Asian Banking & Finance, 2024).