**Banking System Globalization**

This study investigates how globalization in the banking sector affects bank performance, specifically profitability and cost efficiency, using data from 169 countries between 1998 and 2013. It examines both the benefits and drawbacks of foreign banks in host countries. Benefits include increased funding, improved financial services, and better regulatory practices, while drawbacks include potential instability, increased competition, and inequality. The study aims to provide insights for policymakers and bank managers on how to balance these effects to enhance economic stability and bank performance.

Globalization in the U.S. banking system refers to the increasing integration of U.S. banks with the global financial markets. This integration is evident through various indicators, including cross-border lending, foreign investments, and the presence of foreign banks within the United States.

**1.Cross-Border Lending:** U.S. banks have significantly increased their international lending activities. As of 2022, U.S. banks had substantial overseas loans, reflecting their global reach. For instance, JPMorgan Chase reported over $500 billion in international loans, demonstrating their extensive involvement in global finance.

**2.Foreign Investments:** U.S. banks are not only lending abroad but also investing heavily in foreign markets. This includes acquiring stakes in foreign banks, establishing branches, and participating in international financial markets. For example, Citibank operates in more than 100 countries, with a significant portion of its revenue coming from international operations.

**3.Presence of Foreign Banks in the U.S.:** Foreign banks have a notable presence in the U.S. financial landscape. By 2022, foreign banks held over $4 trillion in U.S. assets. Banks like HSBC, Deutsche Bank, and Barclays have established significant operations in the U.S., offering services ranging from retail banking to investment banking. These banks contribute to the U.S. financial system's diversity and competitiveness.

**4.Global Financial Ties**: The interconnectedness of U.S. banks with global markets means that economic events in one part of the world can affect the U.S. banking system. For instance, the 2008 financial crisis illustrated how global financial ties could transmit economic shocks. U.S. banks with significant international exposure faced considerable challenges due to their global connections.

**5.Regulatory Environment**: The globalization of the banking system has also led to changes in the regulatory environment. U.S. regulators, such as the Federal Reserve, coordinate with international counterparts to manage global financial stability. This includes participating in international regulatory bodies like the Basel Committee on Banking Supervision, which sets global banking standards.

In conclusion, the globalization of the U.S. banking system has led to increased cross-border activities, a significant presence of foreign banks in the U.S., and a greater need for international regulatory cooperation. These changes enhance financial access and opportunities but also tie the U.S. banking system more closely to global economic fluctuations.

**Evolving Banking Sector Globalization**

In this section, we begin by highlighting some of the forces behind recent advances in banking globalization and then overview some of the resulting international banking positions. Broader trends in global capital market integration have been discussed elsewhere in rich detail by [Obstfeld and Taylor (2004)](https://www.elibrary.imf.org/view/journals/024/2009/001/article-A006-en.xml#A06ref57) and in the empirical studies of Lane and Milesi-Ferretti ([2001](https://www.elibrary.imf.org/view/journals/024/2009/001/article-A006-en.xml#A06ref43), [2006](https://www.elibrary.imf.org/view/journals/024/2009/001/article-A006-en.xml#A06ref44)). More specific details on banking globalization in the latter part of the 20th century are nicely overviewed by [Turner (2006)](https://www.elibrary.imf.org/view/journals/024/2009/001/article-A006-en.xml#A06ref66).

The impetus for the globalization of banking varies by player, by time, and by country. From the perspective of the parent bank, some episodes of enhanced international positions originate in bank-specific searches for yield and diversification opportunities

Particular episodes of expanded global banking include the period following the dissolution of the Soviet Union, when bank entry into central and eastern Europe in the early 1990s led to a rapid growth of foreign ownership in local banking systems.

**Financial inclusion initiatives**

Financial inclusion has been on the rise across all demographics. In 2013, 93 percent of U.S. households had a bank account, up from 86 percent in 1989. Among households with a bank account, a full 20 percent were categorized as underbanked in 2013.

Financial inclusion refers to efforts to make financial products and services accessible and affordable to all individuals and businesses, regardless of their personal net worth or company size. Financial inclusion strives to remove the barriers that exclude people from participating in the financial sector and using these services to improve their lives. It is also called inclusive finance.

### **KEY TAKEAWAYS**

* Financial inclusion is an effort to make everyday financial services available to more of the world's population at a reasonable cost.
* Financial inclusion may refer to geographical regions, consumers of a specific gender, consumers of a specific age, or other marginalized groups.
* Financial inclusion may lead to greater overall innovation, economic growth, and consumer knowledge.
* Advancements in fintech, such as digital transactions, are making financial inclusion easier to achieve.

financial inclusion "facilitates day-to-day living, and helps families and businesses plan for everything from long-term goals to unexpected emergencies." What's more, it adds, "As accountholders, people are more likely to use other financial services, such as savings, credit, and insurance, start and expand businesses, invest in education or health, manage risk, and weather financial shocks, which can improve the overall quality of their lives."

**NEW INITIATIVES:**

To build on the progress achieved, today we are highlighting four new initiatives that can help more people access safe and affordable financial products and services that not only meet their basic needs, but also help build financial security and economic opportunity.

* **Financial Inclusion Fellows**: The State Department, Department of the Treasury, and USAID are announcing the Financial Inclusion Fellows.  Under the aegis of the State Department's Franklin Fellows Program, this initiative will strengthen and coordinate the federal government's financial inclusion efforts by bringing experts from across academia, nonprofit organizations, and the private sector into the federal government for one- to two-year assignments.
* **India's First Cashless City**: USAID's Catalyst initiative [signed a memorandum of understanding](http://r20.rs6.net/tn.jsp?f=0012x8rtseMJVYwBa8Zfz2G9lts6qhLF25uhjG1b1e0oD1gcHuYdA3_JQ4VnnlFhe8Em-5DlwW7iBCydCH5EHMMchzuV7veA6hqGx70eKeWHN4ygjqEzvb4tuLt8JJ5zuhRKZPKloBdcey1k8VblCztk8XlMPGewC51Khwhak66juAjfG78RK4menynQitTOq3Y5yDQR9v5Kgkaj1j1cujCDuiO0N5XacR0riFqzrS_3C0D0DhZDLyVPq_4y4lOvVKDUsHjsBb_441DeglPSDLvZmUMBSiSWEu-&c=Yk7YS6D1_6m09eOVHEjMGdAGOdIpMdUEvWtw3bemsyp3q6vius6PSg==&ch=HrWm91XXRe_n9Y9O4xXc2h9fsqW8M8taDvPTywcR-dzqL_O1E-Pwkg==)with the Indian state of Rajasthan to make Jaipur India's first cashless city, marking the next stage of this program, which was launched in October 2016.
* **Digital Development Advisor Program**: USAID's U.S. Global Development Lab launched the Digital Development Advisor program, which aims to build capacity in USAID regional and bilateral missions around the world to leverage appropriate digital tools in the Agency's development programs.
* **National Strategy for Financial Literacy Update**: The Department of the Treasury, together with the members of the interagency Financial Literacy and Education Commission (FLEC), released an Update to the National Strategy for Financial Literacy in November 2016.  This update identifies important recent findings and trends that inform and affect efforts to improve financial capability and well-being.

Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way.

* Financial inclusion has been identified as an enabler for 7 of the 17 [Sustainable Development Goals](http://www.un.org/sustainabledevelopment/sustainable-development-goals/).
* The [G20 committed to advance financial inclusion worldwide](http://www.gpfi.org/news/baden-baden-g20-communiqu-commits-advance-financial-inclusion) and reaffirmed its commitment to implement the [G20 High-Level Principles for Digital Financial Inclusion](http://www.gpfi.org/news/new-g20-high-level-principles-digital-financial-inclusion).
* The World Bank Group considers financial inclusion a key enabler to reduce extreme poverty and boost shared prosperity.

The ongoing COVID-19 crisis has also reinforced the need for increased digital financial inclusion. Digital financial inclusion involves the deployment of the cost-saving digital means to reach currently financially excluded and underserved populations with a range of formal financial services suited to their needs that are responsibly delivered at a cost affordable to customers and sustainable for providers.

Great strides have been made toward financial inclusion – the number of adults without access to an account has steadily declined from 2.5 billion in 2011 to 1.7 billion in 2017 to 1.4 billion in 2021. As of 2021, 76% of the world’s adult population had an account. But because account ownership is nearly universal in high-income economies, virtually all unbanked adults live in developing economies.

[Digital financial services](https://www.worldbank.org/en/topic/financialsector/publication/digital-technology-and-the-future-of-finance) — including those involving the use of mobile phones — have now been launched in more than 98 countries, with some reaching significant scale. As of early 2021, there are over 1.35 billion registered mobile money accounts worldwide. As a result, millions of formerly excluded and underserved poor customers are moving from exclusively cash-based transactions to formal financial services using a mobile phone or other digital technology to access these services.

When countries take a strategic approach and develop national financial inclusion strategies which bring together financial regulators, telecommunications, competition and education ministries, our research indicates that when countries institute a national financial inclusion strategy, they increase the pace and impact of reforms.

Data has a fundamental role in establishing a common understanding of the current state of financial inclusion. It can be used by regulators, policymakers, and financial services providers in all policymaking processes: diagnosis of the state of financial inclusion, designing appropriate policies, setting financial inclusion targets, monitoring and evaluation which provide a feedback loop to adjust targets and initiate policy reforms. The main stages for measuring financial inclusion are:

1) Country specific definition of financial inclusion  
2) Identification of data needs and data gaps  
3) Data gathering  
4) Data analysis, usage for decision-making process and dissemination

Financial inclusion has been on the rise across all demographics.

• In 2013, 93 percent of U.S. households had a bank account, up from 86 percent in 1989.

• Among households with a bank account, a full 20 percent were categorized as underbanked in 2013.

• In 2013, 79 percent of U.S. households in the bottom income quintile had a bank account, up from 56 percent in 1989.

• In 2013, 87 percent of minority U.S. households, including Hispanic and non-white households, had a bank account, up from about 65 percent in 1989.

• Financial inclusion has also increased across all geographies; while the South still lags other regions, the difference has diminished.

**Emerging trends in the USA banking sector**

## Customer centricity at scale

We believe bigger banks, especially among the top 15, will move to fully operationalize customer centricity at scale. To accomplish this, they will likely embrace enterprise-wise agile operating models. They will move beyond small pockets of agile teams driving digital product and feature development to reimagining operations for the entire company wholesale.

**Open banking in the United States**

Open banking, initially available in the United Kingdom, is designed to bring more competition and innovation to financial services. The Competition and Markets Authority, a regulatory department of the U.K. government, set up open banking to even the playing field between traditional banks and new challenger banks. The directive allowed smaller banks to access select data that larger banks had in their application program interfaces (APIs). Sharing non-personally identifiable information (PII) broadly achieved more personalization and enhance customer experiences.

**Core banking modernization**

Cloud computing can help banks keep up with the pace of technological change, reduce maintenance costs, enhance the customer experience, comply with regulations and accelerate engineering practices.

Moving to the cloud is becoming more affordable thanks to the availability of both cloud providers (Amazon Web Service, Microsoft Azure, Google Cloud Platform, etc.) and startups that build core banking in the cloud (Mambu, 10x, FIs, etc.).

## Expansion of embedded finance

Lastly, we expect the growth of embedded finance, digital banking services offered by non-banks, to continue. Telecommunication companies, hotels and auto manufacturers are increasingly integrating financial products and services into their digital platforms.

Aside from the B2C impact (e.g., Walmart, Marriott, Starbucks, etc.), we see the growing trend of B2B and B2B2B companies digitalizing their supply chains, simplifying their finance organizations and making it easier to vendors to pay seamlessly.

At its core, they are implementing capabilities typically common in digital banks, such as secure, real-time payments and collateralized borrowing.

**A continued focus on cost and efficiency**

Banks have responded to the current economic environment by re-organizing/restructuring, cutting budgets for technology and consulting, scaling back on new investments, reducing workforces, pausing hiring, and eliminating high-cost centers such as in-house operations or custom technology with inflexible fixed costs. This year, banks will explore [various frontiers for cost reductions](https://www.wipro.com/consulting/uncover-bankings-next-cost-takeout-frontier/) that reimagine operational expenses while creating open, agile, and flexible systems consistent with sustainable technology expenses.

**AI goes mainstream**

This year, AI (particularly GenAI) will go mainstream. During the past year, banks have been focused on building their GenAI strategies, refining GenAI governance and guardrails, and validating the likely ROI of their generative AI investments. This year, banks will move beyond GenAI prototypes, first scaling internal GenAI use cases (like banker/agent knowledge base and assistant tools) before turning to customer-facing use cases such as full-scale contact center and customer assistance transformation.

**Faster, more data-rich payments**

Banks need to ensure that consumer and corporate customers continue to experience simplicity even as payments accelerate and the backends become more complex from a data perspective. Banks have already come a long way in terms of payment automation.

**Evolving approaches to fraud identification**

Fraud identification is a perennial priority for banks, but the stakes are rising again, mainly because of the potential for GenAI-powered bad actors. In this context, behavioural biometrics and device intelligence will be more critical than ever, as will fraud analytics and AI. As GenAI-infused fraud comes onto the scene, AI will also be the best defence.

**Compliance challenges on multiple fronts**

US banks will need to engage in multiple compliance efforts this year. CFPB’s emerging [Personal Financial Data Rights](https://www.consumerfinance.gov/about-us/newsroom/cfpb-proposes-rule-to-jumpstart-competition-and-accelerate-shift-to-open-banking/) rule aims to set the parameters for open banking in the US. It will require banks to reexamine their practices around customer data collection and data use. At the same time, banks will be accommodating to [new reporting requirements](https://www.fdic.gov/news/fact-sheets/interagency-overview-cra-final-rule-10-24-23.html) related to the Community Reinvestment Act and must implement the final rule changes by January 2026.

As AI (including GenAI) scales, banks must ensure that governance practices promote adherence to statutes like the Equal Credit Opportunity Act, which holds AI outcomes to the same standards as human decision-making.

**A consumer lending transformation imperative**

Most consumer lending technology supporting originations, servicing, collections, and loss mitigation is now ten or even 20 years old. This is true across numerous products: auto, cards, personal loans, and mortgages. Last year, we saw unprecedented inquiries and initiatives in this otherwise dormant space. Interest rates have peaked, and lenders should prepare to take advantage of this space as the lending market bounces back. With some challenger banks making great strides in streamlining lending journeys, banks need to prioritize [rethinking onboarding, origination, servicing, and collections](https://www.wipro.com/banking/banks-need-to-transform-onboarding-and-origination/). The most successful banks will pair contemporary SaaS-based platforms with custom intelligence and UI/UX to orchestrate an enlightened customer experience.

**A year for treasury transformations**

Banks have a massive opportunity to help commercial clients integrate from accounts payable through accounts receivable and interpret the data to offer better products and services. This includes KYC/AML checks, API-driven customer experience integrations, and intuitive omni-channel platforms. As commercial customers demand solutions to enhance their corporate treasury activities, banks are increasingly partnering with fintechs and software players to provide quality treasury management offerings.

**Data transformation**

Most banks have already started their data transformation journeys, but they still need to be completed. While the initial focus was on data infrastructure modernization and the move to the cloud, data transformation will continue to expand into data consumption rationalization, bringing real-time drill-down analytics, enhanced data quality, better data definition, and due diligence. Banks now have an opportunity to harmonize this internal and external data in a unified fashion via a centralized data lake to support previously unimaginable analytics, AI, and GenAI use cases.

**Cloud migration and transformation**

Most banks operate in a hybrid cloud environment, blending on-premises solutions with services from cloud hyperscalers. [Cloud economics](https://www.wipro.com/blogs/santanu-kumar-patro/cloud-economics-driving-business-value-through-discipline/#:~:text=Wipro%20FullStride%20Cloud%20uses%20cloud%20economics%20when%20working,value%20throughout%20the%20organization%20and%20its%20cloud%20environment.) has recently emerged as a theme enabling banks to get the highest performance out of their cloud spending. The next stage in cloud maturity will lean heavily on [industry clouds](https://www.wipro.com/cloud/industry-clouds-become-catalyst-for-transformation/) to build new capabilities in core banking, lending, and decision management.

**A turning point for small and medium business (SMB) digitalization**

The SMB segment brings unique challenges due to the disparate nature of the customer base, divergent product use, and small ticket sizes. Even so, in an increasingly competitive market, it’s a sector that few banks can afford to overlook.

**Beyond Six Sigma**

Banks have historically employed re-engineering and cost-out thinking to optimize operations and experiences—the limitations were clear. Gen AI’s learning ability breaks this barrier and ushers in a new way of thinking that goes beyond Six Sigma.

**The key to the core**

New approaches and technologies—not least of which is gen AI and its ability to swiftly convert outdated code—are combining to finally free banks from the limitations of their aging core systems.

**From technology to engineering**

How does the role of technology in banking evolve? A subtle change, with major organizational implications: the shift from a technology management to an engineering mindset.

**Regulation recalibrated**

Bank regulations have ballooned since the 2008/9 Financial Crisis. We expect more collaboration among banks, central banks and regulators to work more effectively together.

**Time to think cloud first**

Most banks’ early experiences of cloud were like that of a novice driver put behind the wheel of a Ferrari: they tried to drive it like a family sedan. Lately they're moving up through the gears and discovering what cloud can really do for them.

**The power of pricing**

Banks have always known optimized pricing can hugely impact their top and bottom lines. Now they’re starting to combine intuition with gen AI and more comprehensive data to turbocharge scenario planning and move closer to personalized pricing.

**A whole new way of working**

Banks are realizing that people are just as important as technology to the success of their human + machine initiatives. They’re putting talent at the center of their strategies as they reimagine the future of work.

**All the risk we cannot see**

In 2024, banks will be confronted by a variety of risks—some familiar, others less obvious. We've identified five that deserve particular attention. Planning for the unplanned will pay dividends.

**Capturing the digital dividend**

While most banks have mastered digital, it has come at the cost of close customer relationships. Banks will need to focus on finding ways to have meaningful conversations with customers across these channels – AI may hold the key.

**The rise of gen AI**

Banks are likely to benefit more than other industries—our analysis indicates productivity could rise by 20–30% and revenue by 6%. Banks will need to not only utilize cloud and data effectively, but also to rethink work and talent.

**Traditional banking trends**

Traditional banks — those that have a physical presence — are still the predominant financial institution where people keep their primary bank accounts. However, their reach is declining.

Between 2017 and 2021, 9 percent of all branch locations closed, a loss of around 7,500 branches, according to the nonprofit National Community Reinvestment Coalition (NCRC). A third of those closures were in low- to moderate-income or historically marginalized neighbourhoods.

In 2023, the FDIC reported an additional 2,555 bank branch closures, or about a 3 percent loss of total branches. The advantages of online banking (lower fees, ease of access) have recently affected the way that many traditional banks do business. One significant change in traditional banking over the past few years has been the elimination or reduction of overdraft fees. Citibank, PNC Bank and U.S. Bank are three of several of the banks that have eliminated or decreased their overdraft fees.

Most large, traditional banks also now offer comprehensive mobile apps, where consumers can complete basic banking transactions such as transferring funds between accounts, checking account balances and making mobile check deposits. Some of these apps even come with advanced tools like automatic savings features.

Several traditional banks also offer account opening bonuses to incentivize consumers to open an account with them.

One feature common to traditional banks is the offering of in-person services with a bank teller. Data shows that older generations are more likely to prefer speaking to a bank teller as their primary method of account access than younger people. Here’s how it differs by age, according to a 2023 survey by the ABA.

Age group Percent who prefer in-person banking services

12-27 4%

28-43 4%

44-59 9%

60-78 16%

**Digital banking trends**

Digital banking encompasses a wide range of mobile and online platforms that provide banking services. While digital banking services don’t have branches, they may be part of large ATM networks or allow for in-store cash deposits/withdrawals.

Digital banking is becoming more popular with consumers. Use of mobile banking as the primary method of account access, for example, increased from 15.1 percent of consumers in 2017 to 48 percent in 2023.

Innovations in digital banking are also changing the way we pay for things. “Digital wallets, mobile payment platforms, and contactless payment options continue to rise in popularity, transforming the payment landscape and bringing consumers more choices,” Roberts of Citizens Pay says.

She notes how biometric technology is growing in digital payments. “Imagine tapping your finger to pay at the grocery store or receiving authorization on a loan with a quick eye scan – companies like Mastercard are even testing paying with a smile,” she says.

Another digital banking trend is the use of AI to aid in everyday banking needs.

Many digital banking services are implementing AI technology in their platforms, such as the neobank Dave. Dave’s CEO and Founder, Jason Wilk, says, “AI will become more pervasive across all functions, from marketing and risk management to member support, as neobanks discover effective ways to enhance the customer experience and increase productivity without adding cost. We’re witnessing impressive outcomes from our proprietary AI-driven underwriting model.”