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Effects of internationalization, privatisation and de-mutualization of the financial sector on supply of finance and stability

Alfred Janc, Paweł Marszałek

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Effects of internationalization, privatisation and de-mutualization of the financial sector on supply of finance and stability

Authors Alfred Janc, Paweł Marszałek

Affiliations of authors: The Poznan University of Economics, Department of Money and Banking

Abstract The last fifty years brought along rapid changes in the conditions of functioning financial and monetary systems. They were connected, among others, with such factors as globalization and internationalization of the financial markets and institutions, liberalization and deregulation, disintermediation, demutualization, technological progress or, last but not least, financialization. Those processes have contributed to changes in creation and regulation of money, in functioning of financial intermediaries (as well as changes of those institutions themselves), processes and savings and investments, as well as to changes in ownership and structure of the domestic financial systems and economies.

The aim of the paper is to characterize, also in the context of the Global Financial Crisis of 2007, features and consequences of three among mentioned processes, namely financial systems internationalization, demutualization of financial institutions and privatization of them, and to draw some insights on their potential influence on stability of financial systems and economic performance. First, we present internationalization processes and its different aspects. Then, we describe demutualization and its impact. After that we present survey of studies on privatization in the financial sector.

Key words: internationalization, privatisation, de-mutualization, financial sector, financialization

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Contact details:

Paweł Marszałek

Department of Money and Banking

Al. Niepodległości 10,

61-875 Poznań, Poland

e-mail: pawel.marszalek@ue.poznan.pl

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1. Introduction

The last fifty years brought along rapid changes in the conditions of functioning financial and monetary systems. They were connected, among others, with such factors as globalization and internationalization of the financial markets and institutions, liberalization and deregulation, disintermediation, technological progress or, last but not least, financialization. Those processes have contributed to changes in creation and regulation of money, in functioning of financial intermediaries (as well as changes of those institutions themselves), processes and savings and investments, as well as to changes in ownership and structure of the domestic financial systems and economies.

In the face of those phenomena, existing shape and model of financial systems end their effectiveness in supplying funds to the real economy, had raised more and more doubts[1]. It has been often pointed that the systems cannot keep up with changes in the environment. Serious doubts have been also raised with reference to adequacy of theoretical background of the systems, their potential "inherent vices", wrong decision made by the monetary and supervisory authorities and, finally, the very possibility of effective influencing the economy by the governments, central banks and supervisory authorities. Much attention has been paid also to ideological issues, connected – depending on presented option – with potential negative consequences of too big or insufficient state interference in monetary domain. Thus, in turn, had led naturally to quarrels about appropriate scope of regulation in monetary and financial systems.

Discussion became much more intense due to the global financial crisis, being the aftermath of the so-called subprime crisis in the US mortgage market. One might say that it exposed inherent instability of the contemporary financial and monetary systems (also the banking ones)[2]. It have manifested mainly with consequent periods of price instability and

[1] It must be pointed, hoverer, that there were also opinions of progress and better and better functioning of the financial markets and systems (see. e Trichet 2000).

[2] Still, supporters of efficient market hypothesis and, generally, free market solutions, claimed that the crisis is not the problem and prove for systemic inadequacies, but rather only temporary event and just "market correction"(Fama 2010, Lucas 2011).

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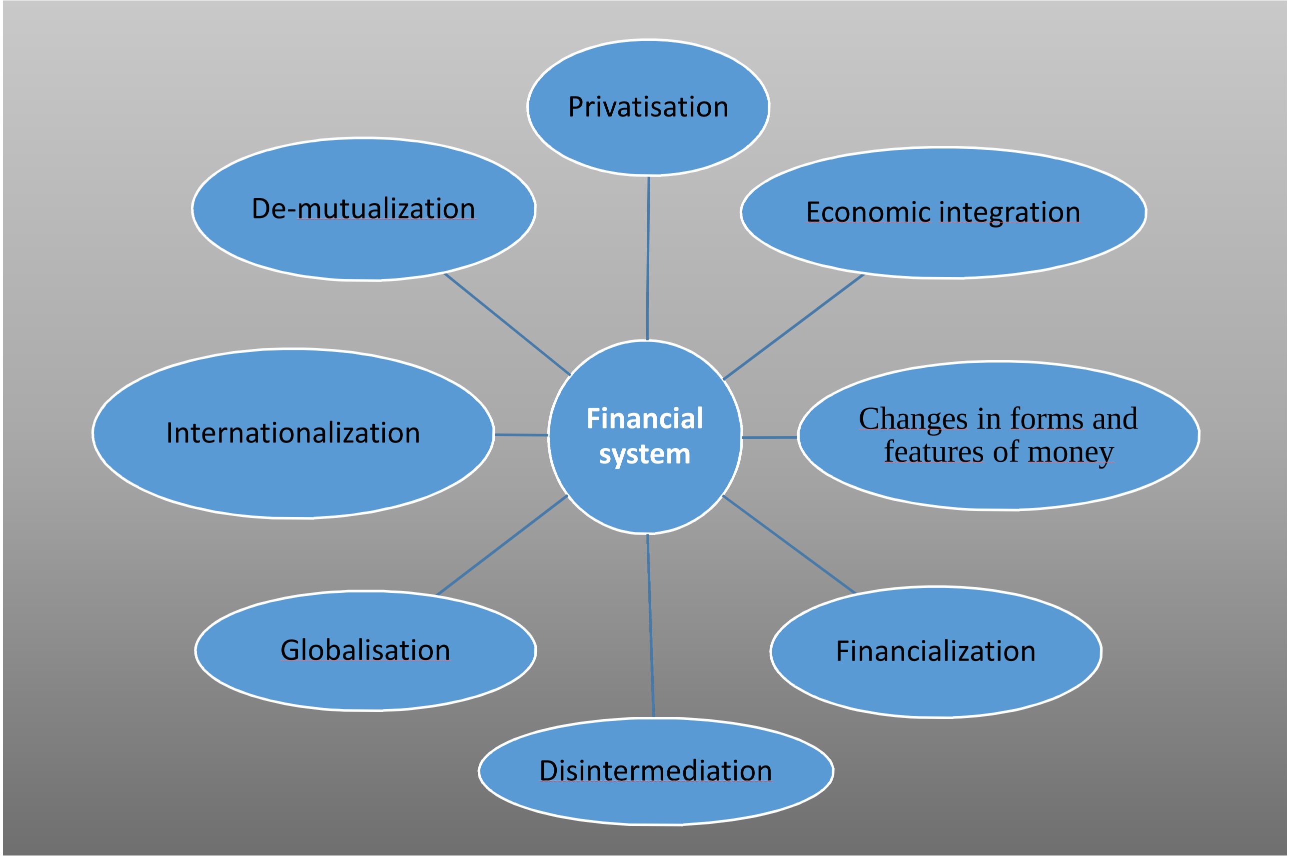
with more frequent (and most severe) financial crises. Under such circumstances, there appeared opinions on the need of radical reconstruction of individual parts of the financial systems and attempts to restore, at last to some extent, control of large financial institutions, their abroad activities and capital flows. It was also even more justified, as abovementioned processes and tendencies might be evaluated as rather destabilizing.

Origins of those phenomena were diverse. Some of them resulted from intrinsic market processes, while the others constituted the aftermath of specific decisions and actions made by politicians, policymakers and supervisors. The mentioned processes had, however, some similar patterns and consequences. Among them, one may list decreasing role of the government, growing linkages between domestic economies and their financial markets (connected with greater risk and scale of so-called contagion effects), slackening supervision of the latter ones and, finally, emancipation of financial markets and institutions.[3] Moreover, their influence was not only strictly economic, but had also clear social and cultural dimensions. [Kose et al 2006, Kowalski 2013, Scholte 2006].

What important, the tendencies were strictly connected with financialization. This very process was accompanied by many phenomena occurring in individual domestic economies, as well as on the supranational level. Some of them reinforced additionally financialization tendencies whereas the other were stimulated and aggravated by those very tendencies. Precise evaluation of causality is hardly possible here, nevertheless, one may point at most strict connection between financialization – its development, dynamics or scale – and such processes like globalization, deregulation, liberalization, changes of forms and types of

[3] What interesting those processes intensified after 1978, i. e. after formal abandonment of gold convertibility – the last officially existing relic of commodity money. Since then, money has entirely fiduciary character.

money and internationalization of financial institutions (mainly banks).[4] [Krippner 2005, Palley 2012]. At the same time, the processes, being closely intertwined and linked with many feedbacks, shaped contemporary financial systems (see scheme 1).



Scheme 1. Tendencies influencing contemporary financial system

Source: authors'.

[4] It must be noticed that dynamics of those processes and their impact would not have been so significant without technological progress. Of special importance were here rapid progress in computer sciences, the popularization of the Internet and new technics of communications and computing the data (together with their decreasing costs). All those factors allowed to increase tremendously possibilities of gathering and computing information. Actually, banks themselves were among pioneers of using computers for the purposes of business activity.

The multidimensionality and interdependencies visible at Scheme 1. constitute only one among many debatable issues with description and evaluation of those processes. Another problems is linked with their different intensity and different frequency. Not surprisingly, magnitude of considered processes was the biggest in developed countries with mature market economy and sophisticated financial system. By nature, dynamics of those processes was rather low or even negligible in countries with relatively closed economy, not playing (from various reasons) significant role in international trade and capital flows (like Poland or, more generally, majority of so called "new members" of the EU). Apart differences between individual countries, even at the domestic level various social groups, branches of the economy, stakeholders or even individual households and enterprises benefited in some periods from globalization or deregulation, whereas the others – suffered. Still, their consequences for development of a given country, supply of funds and contributing to the right allocation and redistribution of resources is even more severe just in the new member countries.

Thus, it is very hard, or even impossible, to make explicit, unambiguous assessment of considered processes and their consequences. Such assessment are, as it was mentioned, additionally hampered by ideological issues, connected with given perception of, for instance, globalization or liberalization by politicians or economists representing different political options. Still, thorough characteristics is very desirable and useful for better understanding influence and conduct of financialization process, as well as for identification of potential flaws in contemporary market and regulatory frameworks.

The aim of the paper is to characterize, also in the context of the Global Financial Crisis of 2007, features and consequences of three processes, namely financial systems internationalization, demutualization of financial institutions and privatization of them, and to draw some insights on their potential influence on stability of financial systems and economic performance. First, we present internationalization processes and its different aspects. Then, we describe demutualization and its impact. After that we present survey of studies on privatization in the financial sector.

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2. Definition, features and consequences of financial institution internationalization

Internationalization of financial systems is already established and well known phenomenon. It had started already in the XIX century, accelerating significantly during 1960s. The group of financial institutions that was the main object of internationalization were banks, but also involved in it ere other types of financial intermediaries, mainly insurance companies.

Internationalization, intertwined strictly with globalization processes contributed to profound changes in financial (mostly banking ones) systems of individual countries, especially developing ones. Large financial institutions took advantage of problems with insufficient level of national capital in those countries, taking active part in privatisation processes in the Central and eastern European countries. Banking institutions which took part in the process transformed into large multinational banks, conducting their businesses globally. It concerned also insurance companies. Moreover, both types of financial intermediaries often, in a way, melted together, creating large financial holdings, offering broad variety of financial services (Janc 2004).

Internationalization of financial systems may be considered from many points of view and with taking into account various aspects of this phenomenon. In the literature most definitions concerns banks but they may be applied also with reference to other types of financial institutions.

Thus, giving its precise and clear-cut definition is not a simple task. According to Solarz and Wyczański [1997], internationalization of banking systems may be understood in two ways: as a process of expanding activities by a domestic bank through expansion on foreign markets or as a process of entering foreign investors into domestic banks. The authors add simultaneously that under such circumstances foreign banks are treated as an institutional form of transmitting worldwide tendencies into the domestic banking sector. Bearing in mind that definition, the degree of banking system internationalization might be measured here by the share of foreign shareholders and creditors in liabilities of the consolidated domestic banking system.

Lewis and Davis [1987] emphasize different aspect of internationalization. They argue that the process manifests itself in establishing (or buying)financial institutions in the distant regions of the world and conducting businesses by owners of different nationalities.

Internationalization of financial systems has two dimensions: internal and external. The former can be measured by number of branches and subsidiaries which foreign institutions open in a given country and/or value of their assets compared to total assets of the consolidated domestic financial system. By analogy,with reference to banks, as the measures of the latter are considered the number of branches and subsidiaries opened by domestic institutions abroad and value of their assets also compared to total assets of the consolidated banking balance sheet [ECB 1999, Solarz, Wyczański 1997].

Internationalization of financial systems, as it was already mentioned, is strictly connected with globalization of banks and other financial institutions. As Paluszak [2001] stresses, in the area of banking both concepts are quite similar. There are no significant differences between them, since globalization of banking systems may be linked with such factors as global unification of banking technology, creation of products and services dedicated for global financial markets and deepening interdependencies between functioning of the domestic banking systems [Frąckowiak and Szambelańczyk 2000, Mullineaux 2006].

Generally, within the economic mainstream as the main outcome of internationalization is perceived as a positive phenomenon. It is argued that the process increases competition [Padoa-Schioppa 2001]. It occurs due to two reasons. First, internationalization makes number of financial institutions which seek clients favors larger. Second, larger becomes the very market, on which banks may run their operations. Additionally, international scope of banks' activity enforces improvements in safety net and supervisory frameworks. Moreover, through its interdependencies with deregulation, internationalization contributes in a way to international cooperation between supervisors from individual countries. That cooperation, in turn, is conducive to consistency of regulatory frameworks worldwide [Frąckowiak and Szambelańczyk 2000, Heffernan 2005, Krugman and Obstfeld 2007].

The most important group of financial institutions going abroad are banks. The institutions participating in the process of internationalization are called "multinational" or "international" banks. Sometimes both terms are treated as synonyms. Their content, however, varies. An international bank may be singled out by its functions. Any of those institutions is making transactions with non-residents, which are denominated in the domestic currency. Those transactions are aimed at financing the foreign trade and carrying other foreign operations. Moreover, international banks, as the active members of the euromarket, are also making transactions denominated in foreign currencies. Such type of transactions may be carried out with the both residents and non-residents. [Lewis and Davis 1987].

Both types of currency transactions may be conducted also by multinational banks. However, it cannot be necessary the case. Distinctive of multinational banks is the fact that they constitute specific type of multinational enterprise. The main feature of such enterprise is that it is conducting its businesses in many countries. Thus, an multinational bank has its units in more than only one country [Curry, Fung and Harper 2003].

In the process of internationalization the most involved are just multinational banks. According to Steuber [1997], before the age of internationalization in banking, a domestic bank that had tried to expand its operations abroad, had first to find so called "correspondent – any foreign bank willing to cooperate. Just after the internationalization started, direct presence of a given domestic banks on foreign markets turned to be feasible.

Organization and methods of functioning adopted by units of the multinational banks are subject to continuous modifications. It is connected with the transition from international banking towards global banking, as well as with ongoing and rapid, mentioned already, progress of information and communication technologies. Multinational banks are striving to create a single, unified network in place of heterogeneous groups of independent units, located in different countries, only coordinating by the headquarters in the home country. Such changes may be expressed in creating of homogenous, identical products and services offered by the bank, which are subsequently modified and adjusted in order to fulfill specific needs of clients from a given region. Possible – and in some cases even desirable – is also segmentation of bank clients from all its units and then, on that basis, preparation of products and services addressed to specific groups of clients worldwide [Curry, Fung and Harper 2003]

However, it was not always like that. Originally, the scope of services offered by the multinational banks on its home market and abroad differed significantly. The basic incentive for banks to go abroad was then the opportunity of conducting activities not allowed in the domestic banking system. Such limitations resulted from asymmetry in legal frameworks regulating activity of banks in individual countries. As a result of deregulation tendencies, such discrepancies have been eliminated systematically, with all – good or bad – consequences of that process.

Internationalization, intertwined with globalization, brought many profound changes in functioning of banking systems. After 1989 the process occurred also in the post communists countries from Central and Eastern Europe (CEEs), among them – also in Poland. It caused there vivid debate about benefits and disadvantages of entering foreign investors into newly created (or drastically restructured) banking systems of those countries.[5] But then process of internationalization was quite mature. Discussed tendencies reshaped already banking systems of almost all developed countries. However, somehow in the shade of transformation of banking systems, there were also changes in the structure of other segments of the financial systems, in some case even more spectacular than in the case of banks themselves. It concerned mostly insurance companies, which, in some countries (like e.g. Poland and Hungary) became dominated by the foreign capital.

Internationalization has been positively influenced not only by political and economic factors. Important and positive impact have also had formulated theories. Their authors attempted, among other things, to identify incentives of financial institutions to transform into multinational ones. It must be stressed that the theories referred mainly to banks, but their predictions and regularities mat be spread also for other types of financial intermediaries.

[5] The scale of the opposite process, namely expansion of financial institutions from CEEs on foreign markets, was, from obvious reasons, negligible.

Their origins were rather universal, referring to all types of enterprises, not only the financial ones.

As the first complex attempt to build a theory that could explain the phenomenon of banking systems internationalization is usually perceived the research of Aliber [1975a, 1975b, 1984]. The author tried to explain the process of internationalization already in the 1970s. He put emphasis on so-called internalization of banking, understood as implementation of solutions and procedures developed by a given bank on the domestic market also in the units functioning abroad.

Aliber recognized that in the developed countries a crucial factor in decisions on going abroad by the banks are differences in the interest rates on individual financial markets. According to him, the most effective banks would face the strongest incentives to open their units in other countries, since they would have significant competitive advantage. Elaborating this idea, Aliber assumed that banks, confronted with liberalization of both capital and good flows, would lend to those enterprises, which would be prone to accept even the least favorable conditions of acquiring funds. On the other hand, the enterprises would tend to borrow from those banks which offer would be the most beneficial. In consequence, interest rates in individual countries will tend to converge. Such phenomenon will not occur only in situation of legal barriers, preventing foreign banks from entering a given domestic market. Such barriers might be, and usually are, effect of specific regulatory policy of the government [Peinado 2001, Williams 1999].

Aliber's theory gave rise to discussion on the motives for expanding banks' activities beyond the borders of their home country. During the discussion variety of conceptions was formulated. They are also located in the strain of internalization, as the initial theory of Aliber. According to them, the main reason behind internationalization of banks are their attempts to use competitive advantage. This, in turn, makes diversification of products and services easier, allows benefiting from economies of scale and enables banks to apply more effective management methods and techniques. All these concepts are presented in the table 1. It must be, however stressed that there also theories of internationalization not referring to the concept of internalization. Those theories form the second, separate strain in the studies of banking systems internationalization, describing as "eclectic" theory of internationalization. Concepts counted to this strain also will be presented in this section. First, however, in more details will be discussed theories from the strain internalization

[please insert table 1 here]

Among them the most popular is, as it was already mentioned, competitive advantage theory, put forward by Aliber [1976]. It constitutes a specific application of traditional neoclassical Heckscher-Ohlin trade theory. According to this theory, as was briefly indicated, decision on expanding activity abroad will be taken only by those banks, which have competitive advantage and thus are able to offer loans and accept deposits on more favorable conditions than the domestic banks.[6]

The banks with a comparative advantage in offering bank products and services will gain access to the world capital markets on increasingly favorable terms due to their higher relative profits. This – due to lower costs – will accelerate their increased market share, and as a result, further increase their profits. Moreover, due to market imperfections, the multinational bank will not sell its advantage and will instead internalize it via various forms of representation overseas. In the result, banks with a comparative advantage in producing and offering bank products and services will tend to dominate the world banking market. [Curry, Fung and Harper 2003, Williams 1997].

It is worth mentioning yet that bank without competitive advantage can obtain it through purchase of any foreign bank that has such advantage. The actual aim of transforming into the multinational bank will be then obtaining of innovative technology or solutions/devices from the purchased bank. They will be subsequently used in activity of the multinational bank on its home market, as well as in foreign branches and subsidiaries [Curry, Fung and Harper 2003, Williams 1977].

[6] In this approach interest rates (price) are the primary factor in choosing a bank product.

Similar point of view was adopted by authors of the surplus entrepreneurship theory.[7] They argue that the multinational banks apply entrepreneurial skills such as technology, management expertise and techniques or *know how* to overseas markets at low or even zero marginal costs. By applying these skills on the foreign markets, the bank has chosen to internalize its advantage rather than sell it on the market [Curry, Fung and Harper 2003, Grubel 1977].

According to the authors of the defensive expansion theory (also called "follow the clients" motivation), internationalization of bank's operation is, in a sense, its defensive reaction to changes in its close environment. Namely, the domestic banks transform into the multinational institutions under the influence of legal restrictions.[8] The latter significantly limit scope of activities allowed on the domestic market.

The second cause of going overseas is in this theory pressure of financial institutions' clients. They have to respond to the expansion of their clients abroad to defend their client-bank relationship. If the institutions do not follow their client abroad, it is very likely that the client will establish a new banking relationship that could expand to supplant existing domestic arrangements. Apart from loss of the client, the institutions loses also potential opportunities. It is so because relationship with client present and active abroad generates a flow of information for a bank. This information enables the institution to assess any new service proposal at low marginal cost, as most of the assessment has occurred previously. This lower marginal cost gives a foreign unit of the bank a competitive advantage over its competitors. Moreover, like in the competitive advantage theory, this information – due to market imperfections – cannot be traded or priced within the market. Thus, it must be exploited by the owning institution (bank). It is, of course very useful – knowledge of market conditions and access to funds supplied easily by the parent company, allows the foreign

[7] According to Williams [1997], the theory is the application of Kindleberger's (1969) surplus entrepreneurship approach to multinational retail banking.

[8] As it was described, such factors were crucial for expansion of the US banks during the second stage of internationalization

branch of the bank to offer much more attractive conditions than its local rivals. It refers to both active (loans) and passive (deposits) operations with reference to banks, as well as with operations made by others financial institutions [Callier 1986, Curry, Fung and Harper 2003, Williams 1999].

Besides those two motives of internationalization indicated within the entrepreneurship surplus theory, it must be stressed that banks' decisions of going overseas may be influenced also by changes in level of exchange rate. The multinational banks should track both the exchange rate of their national currency and the exchange rate of the currency from the country they are intended to invest in. Without any doubts, changes in the levels of those exchange rates will influence profitability of planned investment [Curry, Fung and Harper 2003].

The horizontal and vertical integration theory combines incentives presented in the both competitive advantage and entrepreneurship surplus theories. Authors, identified with this concept, seek the causes of banking systems internationalization in benefits which the multinational banks derive from horizontal and vertical integration. Explaining this, they refer often to economies of scale and economies of scope.

As Lewis and Davis [1987] argue, the horizontal integration provides a mechanism for the allocation of technology and knowledge to new locations at low marginal costs,. With reference to the multinational banks, horizontal integration may be considered as the creation of self-contained domestic banking operations in different countries [Casson 1990]. Therefore, it consists in using on different national markets technological devices, knowledge, experience and management techniques developed on the domestic market, similarly to assumptions of the entrepreneurship surplus theory.

On the other side, vertical integration provides the multinational bank the opportunities to internalize the process of production and providing banking products and services.[9]

[9] The desire to internalize may be the result of many factors. Among other things, the multinational bank may want to control the upstream quality control process, to benefit from

The final result of such actions will be their unification on all the markets where a given bank is present. [Curry, Fung and Harper 2003, Peinado 2001].

The vertical integration is very advantageous to the multinational institutions (banks). According to Lewis and Davis [1987] and Williams [1997] gains from this activity are especially visible in foreign exchange trading, trade finance and risk management. With reference to the first of listed areas, the authors argue that, the multinational bank, when trading foreign exchange, is able, by using its global banking network to internalizes the alternative arrangement (that of correspondent banking). This reduces transactions costs due to increased interest from the interbank float, reduced transactions processing charges and the use of netting exposures amongst all the branch network. As far as trade finance is considered, a well-developed foreign network of branches and subsidiaries allows the multinational bank to provide trade finance at both ends of the transaction and thus – to internalize the fees from the transaction. It also allows to manage any exposures across time zones and allows the bank netting and possible arbitrages when making a market in risk management products.

Implementing both types of integration, the multinational bank will be able to provide foreign clients with better conditions than the local banks. Unlike them, it has broad access to sources of funds. It can freely and at a lower cost refinance at its parent bank.

Theories of oligopolistic competition combine elements of all presented so far conceptions. Authors of those theories stress that multinational banks have to compete within domestic banking markets which are often oligopolistic in nature. These oligopolies are often the outcome of barriers to entry, imposed by the government in the form of licensing restrictions. However, this market imperfection may be also exploited by the multinational

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economies of scale, to exercise market power, to control product innovation and thus to control the underlying technology. The bank may also desire to minimize (or even avoid) taxes [Williams, 1997] bank when it already will be allowed to operate behind the barriers to entry, generated by the oligopoly. In other words, it becomes the member of that structure.[10]

Nevertheless, it must be noticed that existence of oligopolies in domestic markets, besides opportunities it provides, constitutes also the obstacle to the multinational agents' expansion. It is especially apparent in the very beginning of entering the domestic market. In the first stage, the situation of the multinational bank is much worse than its domestic competitors. However, if this institution will manage to overcome all legal barriers, to get all required permissions and, finally, to start its activity, it will be able to compete effectively with local rivals. Its advantage may stem from innovative technologies, better procedures and more efficient organization. As these factors were developed and tested on the home market, its implementation overseas will be relatively cheap. First of all, however, the multinational bank may compete with the oligopolistic banks with its price policy. It can easily offer higher interest rates for accepted deposits and lower – from loans. [Peinado 2001, Williams 1997].

In the theories of international investment and multinational wholesale banking the emphasis is put on profitability of banks and issues of risk management. Namely, operating in many countries makes diversification of risk and its reduction easier. According to the conceptions situated within this stream of theory, banks with greater risk aversion will rather open their branches and offices in countries similar to their home country with regard to culture, language and institutions [Curry, Fung and Harper 2003, Williams 1999].

On the other hand, spreading activity on foreign markets may generate significant profits due to lower cost of raising funds on the Euromarkets. According to Grubel [1977], these markets have been created and exist solely because of narrower interest margin spreads. He listed three sources of this narrowness. First, intrinsic service value is associ-

[10] Obviously, with every foreign bank that starts to operate in a given domestic banking system, the oligopolistic structure of the industry will be weakened.

ated with certain key currencies such as the US dollar. Second reason is the lack of government enforced externalities in the Euromarkets and the third – the comparative advantage generated by products offered on those markets.

Apart theories exploiting the idea of internalization there is also another theory that tries to explain the process of banking systems internationalization. It is so called eclectic theory. The concept is based on the multinational corporations theory, formulated by Dunning in the second half of the 1970s. This theory enriched significantly studies on internationalization, being, in a sense, complementary to internalization theories.

According to the eclectic approach, there are three main groups of benefits which multinational institutions can derive from internationalization. Cho [1985] list here five specific advantages: (1) availability and cost of fund transfers within the multinational banks, (2) efficient customer contacts, (3) transfer pricing manipulation, (4) improved networks for information gathering, and (5) potentially reduced earning variability.

The second group – so called location advantages – is connected with the foreign network of bank units. It encompasses, among others, advantages from differences in national and foreign legislation, access to skilled personnel and managerial resources, favorable financial sources, knowledge and experience in multinational operations, expertise in servicing a particular customer type, and differentiation of banking products and services [Williams 1997].

The last group includes so called ownership advantages. They stem from the fact that customers prefer to transact with bank incorporated in the country of origin of the transaction currency due to that bank's established mechanisms for those transactions. It gives special advantages to multinational banks from those countries which have stable and popular currency. These instutions are able to differentiate easily their products and services. For instance they can offer innovative financial instruments, based on their domestic currency. Moreover, their competitive advantage increases with their reputation as subjects which can create such innovations. [Peinado 2001, Williams 1999 Yannopoulos 1983]. According to Cho [1985], however, these advantages are rather transitory.

Thus, one may notice some similarities between the both discussed theories. The most important difference between the eclectic theory and theories from the internalization strain comes down to perceiving costs connected with expanding activity overseas. Adherents of the eclectic theory argue that these costs should not be treated as a part of the global costs, incurred by the whole multinational bank, but should be treated separately. On the other hand, supporters of internalization theories consider the costs of building competitive position abroad only as a component of the costs of global operations. The decision to invest in the other country is not made on the basis of "local" costs versus "local" benefits, but rather on the basis of comparison their total values, for the hole bank [Casson 1987, 1990; Williams 1997].

Summarizing discussion on incentives of internationalization, one may find that there are many different reasons and motives why banks try to expand their operations overseas. Moreover, how Tschoegl [1987] argues, an impulse to transform of the domestic bank into the multinational financial institutions, often was just accident or the desire to exploit favorable conditions in a specific country – often with culture, language and institutional structure similar to the home country. Internationalization was also positively influenced by the growth of the banks themselves and their higher capacities, liberalization and deregulation and supportive role of the banks' client. By providing necessary information, they facilitate recognition of local arrangements and conditions. Thus, in turn, contributes to better and more accurate decisions taken by the multinational bank.

By no means, multinational financial institutions have played a key role in the financial integration of global financial markets and the economic integration of individual countries. They have also been important actors in financialization process. Assessment of the consequences carried by internationalization appears, however, ambiguous. They can be also considered on many levels and in different sections. Moreover, these consequences likely to shape differently when one takes into account the perspective of multinational bank itself and its home country (usually a developed one) and perspective of the host country, especially when the latter one is classified as a developing one. Such situation, as was already presented, was rather common – countries being frequent destination of the multinational banks were emerging markets from Latin and South America and post-communist countries from Central and Eastern Europe.

Considering benefits (advantages) of internationalization one may take into account gains acquired by individual institutions and the financial system as a whole, their clients, as well as economies of individual countries. Those benefits may be short-term or more profound, expressing in permanent changes of a domestic banking (and financial) system. All identified advantages of internationalization are synthetically described in the Table 2.

With reference to the banking institutions, such gains are in literature evaluated with reference to the presented incentives (premises) of going abroad. In details, it is proved that multinational banks gained from their competitive power in the markets of host countries (especially those with underdeveloped financial and banking market), allowing them to mobilize more funds from deposits, conducting "cherry picking" strategy and maintain wider net interest margin. All such actions contributed to high profitability of overseas activity. An additional benefit for the multinational banks s was linked with possibility of supporting by them enterprises from home countries, operating abroad.

At the same time internationalization is perceived as beneficial to the whole banking system of country in which multinational banks had started its activity, as well as to the home banking system of the bank. The former, as research has shown, benefitted from high profits, while the latter had possibility to overcome problems connected with lack of domestic capital, to recapitalize local banks. Multinational banks constituted also factor driving modernization and increasing competition in the whole sector. Their activity was also for domestic sector better solution than cross border lending, as such banks, with a local presence on the ground, were more stable providers of credit).

Concerning clients and their gains from banks' internationalization in the literature are usually listed such factors as: broader and more diverse offer, spread of financial innovation (especially with reference to corporate sector) and lower than local banks' profit margins, enforcing more efficiency of local banks that translates into lower-cost of financial services

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Finally, among macroeconomic benefits individual economies may draw from internationalization, it is assumed by some authors that multinational financial institutions operating in different regions of the world have helped transfer capital to countries and regions that previously had difficulty attracting funds.

[insert Table 2 here]

From this point of view, this phenomenon appears to be quite positive. There is also, however, the other side of the coin. Some negative consequences of internationalization are also indicated. There are two mains strains of the critique. The first one is connected with a kind of asymmetry and in many cases harmful influence of internationalization on the economy of developing countries. The second, more intensified and visible in the last years, line of argument against internationalization considers the phenomenon under discussion as one of financial crises triggers.

Pro-crisis influence of internationalization is in the literature discussed mainly with reference to the crises in Latin and South America countries in the 1990s and 2000s and the subprime crisis of 2007 in the US and being aftermath of it the Global Financial Crisis. Because of poor risk and liquidity management, the banks are supposed to played a central role in the 2008–2009 financial crisis and following it contagion processes.

In details, multinational financial institutions (mostly banks) contributed to emergence, proliferation and transmission of financial innovations and highly risk prone operators. All activities of those institutions connected with spreading and distributing products of financial engineering on individual domestic markets (often offered to agents with lack of sufficient knowledge) contributed to greater risk (political, operational, etc.) in the individual markets as well as to great instability of the overall financial system (for more details see table 3).

[insert Table 3 here]

Thus internationalization contributed in a way to the crisis. On the other hand, according to Buch et al [2013], the crisis ended unprecedented period of expansion of banks' international financial assets and liabilities. The authors stress that in response to the crisis, banks decreased their international activities as – due to regulatory restrictions – they had to shrink their balance sheets. They discuss the case of German banks. While total international assets of those institutions grew, on average, by 8% per within the years 2002-2007, they dropped by almost 20% in just 2008. These adjustments occurred mainly due to changing risk perceptions, changing regulations, and changes in the sensitivity towards financial frictions. In the end, German banks withdrew from foreign markets, both along the extensive and the intensive margin. The withdrawal was relatively stronger for activities of foreign subsidiaries compared to direct cross-border assets or assets held through branches.

3. Demutualization

Demutualization, in principle, is a phenomenon that occurred after the Second World War and intensified during the last few decades. The process is variously defined. For instance, according to Chaddad and Cook (2004) it may be perceived as a change in the ownership structure of user owned and controlled organizations from a mutual to a for-profit, proprietary organization. As a result of demutualization, residual claim and control rights are reassigned among stakeholders with implications to firm behavior and performance. In particular, cooperative membership rights are converted to unrestricted common stock ownership rights in a corporate organization.

Another definition proposes, in the context of the stock exchange, Elliot (2002). According to her, demutualization may be understood as transition from a mutual associations for exchange members operating on anon-profit basis to a limited liability, for profit company, accountable to shareholders. The essence of the process is separation of ownership (and voting rights) from the right of access to trading.

Generally, one may say that demutualization is the process of converting (financial) institutions from non-profit, member-owned organizations to for-profit, shareholder owned corporate entities, or put it in another way, the process by which mutual organization or co-operative changes legal form to a joint stock company.

Among organizations involved one may point mainly at stock exchanges (for instance Stockholm stock exchange in 1993, Amsterdam stock exchange in 1997 and the London stock exchange in 2000), insurance companies, building societies and – especially often discussed in the literature, cooperative banks.

There is lots of reason of demutualization process of the last decades. They can be, according to Battiliani and Schrotter (2010) divided into five groups. The first one is organizational isomorphism. According to this approach conversion in investor oriented enterprises would be the final stage of a non-congruent isomorphic trend aimed to get legitimacy from society, from market or from financial institutions (see e.g. Bager 1994, Hawley 1968, Mayers and Smith 1986).

The second group consists of cultural reasons. As Birchall (1998) stresses, the same cultural environment that supported privatization from the 1980s onwards created a sympathetic attitude to the process of demutualization. Indeed, some similarities between the processes are visible and their roots, connected with free-market ideology seem also similar.

The third group of reasons that stood behind demutualization processes is connected with expropriation by managers (Hind 1997; Mayers and Smith 1986), whereas the fourth – with political reasons. Namely, the fall of the socialist system in Europe entailed a widespread demutualization, just because people perceived cooperatives as part of socialism and wanted to do away with it. During the anti-socialist wave which swept through the respective countries of the Central and Eastern Europe and the beginning of economic transformation during the 1990s people in many quarters thought demutualization as positive and being in public interest in order to liquidate possible pockets of socialist resistance (Wegren 2009, Ameline 2002).

The fifth and last cause of demutualization sometimes is considered inefficiency or lack of growth perspectives. The starting point of this approach is, as Battiliani and Schrotter (2010) explain, the conviction that for some reasons (vaguely defined property rights, financial constraints, limited horizon of cooperative members) cooperative structure limits or even inhibits growth. Such point of view is somehow connected with the idea of market effectiveness and evolution of market structures toward creation of large financial holdings, being superior institutions, dominating lee developed financial intermediaries (even if their actual effectiveness is ambiguous).

Demutualisation in emerging markets differs in certain respects from the process observed in more developed markets. Particularly, one may notice that demutualisation in emerging markets was often centrally planned by the government and regulator, as opposed to being driven by the exchanges themselves. In general, regulators in emerging market have made substantial progress in strengthening practices and improvements to infrastructure in their capital markets by following this route. It is important that regulators and market participants continue to work together to create policies and market conditions that are conducive to such changes and are in the overall best interest of the market.

Demutualization, known already earlier in the insurance sector in USA, UK and Australia, started at the turn of the 21st century, after many years of demutualization, the phenomenon started to spread also in other countries like Canada, South Africa, Japan, Ireland, and so on. Even if conversions seemed to be restricted to two sectors, agriculture and finance, nevertheless the international cooperative movement started to be more and more worried. Those tendencies appeared however to be less supported in the aftermath of the global financial crisis of 2008. Above all the financial crisis put on the agenda new issues. In some country like UK the failures of demutualized societies (e.g. Northern Rock and Bradford & Bingley), led consumers to transfer their business back to the mutual holding societies, like for example cooperative banks [11]) . In other words a new interest on mutualization emerged. However, in other countries, like Japan, the demutualizing process went on.

[11] It was for instance the case of Poland, where cooperative banks strengthened their position in the financial systems during the crisis and were generally perceived as more stable and predictable than big commercial banks (Janc, Jurek and Marszałek 2013).

[insert Table 4. here]

The advantages and disadvantages of demutualization are synthetically presented in the table 4. From the table it follows that the process may limit access to funds and financial services to some groups of clients, especially those with rather small financial potential and capacities. Such clients, being traditionally clients of mutual associations and not interest in sophisticated services and products , might be, due to changing character of their financial partners, in a way excluded from financial market or so to speak, condemned to relationship with big financial companies. Simultaneously, demutualization of stock exchange may contribute to short termism in decisions and inappropriate selection of activities. It leads also to increasing scale of speculative behaviors. On the other hand, there are also mentioned in the literature benefits of the process, connected mainly with greater elasticity and better perspectives of acquiring funds.

4. Privatisation

Privatization, among all discussed phenomena, is probably the most controversial one, in a sense that it is strictly connected with opinions and views on scope and appropriateness of state intervention into market mechanism. Thus, one may observe strong ideological blend here, being one of the most important factors in deciding about scale and forms of regulations. By no means, the problem is the subject of one of the oldest discussions within the field of economics and politics.

Privatisation, also with reference to financial institutions, became extremely important within few last decades, with growing importance of liberalization processes and neoliberal ideology in the major economies worldwide. It was also visible in Europe, where privatisation of the financial sector commenced in the early 1980s and intensified in the 1990s. Apart of changes in countries of the Western Europe, important factor contributing to the growing scale of privatization was also economic and political transformation in the former communist countries (Poland, Hungary, Czech Republic and others), where privatisation of the economy constituted crucial part of the economic reforms, being perceived as one of the most important factors of fast economic changes and restoring market mechanisms.

The course and directions of the process, as well as its impact on the performance of the financial sector's functions, were discussed in other deliverables of the FESSUD WP8, namely paper D8.03, titled "*Privatisation and nationalisation of financial-sector institutions: an impact on performing the sector's functions towards the national economy: business units and households*", where general insights on the process were formulated and presented. On the other hand, the general outcome of this process, i.e. the current ownership structure of the financial sector, was presented in paper D8.02, titled "Report on the structure of ownership in the financial sector across the EU". Thus, in the paper, only most important factors and problems connected with privatisation will be emphasized.

Generally, privatisation may be considered in two sense – the narrow and the broad one. According to the former, privatisation may be defined as a transfer of property rights from public holders to private ones. The broader meaning of privatisation is connected with increased participation of private entities in the activities of a given sector or of the whole economy.

Privatisation of the financial sectors was driven by the same factors and incentives, as privatisation of other domains of economy. Among them, one may point especially at:

- theoretical reasons, connected among others with works of Alchian and Demsetz;
- ideological reasons, related mainly to the growing influence of the – already mentioned – neoliberal approach to economic theory and economic policy and following from the ideology attempts to limit the government's role in the economy;
- systemic reasons, connected with the previous ones and connected with attempts to strengthening market mechanisms and creating more favourable conditions for free competition. In general, these reasons arose from the desire to transform the existing socio-economic system (previously dominant welfare state and social market economy in Western European countries, as well as the socialist economic

system in Central and Eastern European countries, were to be replaced by a generally uniform European system of a liberal, free-market economy – see e.g. Dymarski, Brzica and Sawyer 2009, Hein 2012, Palley 2012);

- "socio-political" reasons, i.e. those resulting from the pressure of various interest groups (progress of privatisation treated as the result of activity of some groups, to which privatisation was an opportunity to gain benefits associated with the acquisition of existing public property).

All those factor displayed on the both microeconomic and macroeconomic levels. At the first one, the reasons for privatisation were mainly related to the intention of removing barriers to development and increasing the efficiency of financial institutions. On the other side, at the macroeconomic level, the reasons for particular decisions to privatise the public sector were related primarily to the expected benefits for the government budget, which were a consequence of decreased spending on subsidising (recapitalising) the public sector, and – in short run - of raising government revenues from privatisation (Dymarski, Brzica and Sawyer 2009, Kieżun 2010).

Kikeri and Nellis (2002) identify the following five main effects of privatisation: financial and operational performance at the enterprise level, the fiscal and macroeconomic effects of privatisation, broader welfare and economic consequences of privatisation, impacts on employment and a broader labour market and, finally, the effects of privatisation on income and wealth distribution. Characteristic is that there is wide discussion whether those effect have beneficial impact on the economy or are they rather harmful. Precise assessment is hard, as many factors are question of interpretation. Nevertheless, advantages and disadvantages of privatisation, formulated in the literature are synthetically described in the table 5.

With reference to financial systems of the CEEs privatization was perceived as rather positive. What characteristics, it was strictly connected with internationalization and active participation of the foreign capital in changes of ownership. In the initial period of transition, these countries lacked domestic investors agents with sufficient capital to participate in bank privatisations. Moreover the privatisation strategies focused on a search for strategic investors in order to protect financial system stability and increase the quality of corporate governance (National Bank of Poland 2003). Such action, initially beneficial, with time turned to be somehow short-sighted, as large foreign financial institutions dominated financial system in Poland, being part of contagion tendencies and generating some forms of credit rationing, especially with reference to small and medium enterprises and also, to some extent, also with reference to households. Similar problem was observed also in other CEEs.

5. Conclusions

Balance of discussed issues remains at least ambiguous. Results of discussed process in terms of profitability, efficiency and capitalization are not clear cut. By no means, all three discussed processes may bring some benefits to the economies of individual countries and the whole global economy. Moreover, some of their outcomes are visible more clearly just on the supranational level. As follows from the table 3-5., there are advantages and disadvantages of the phenomena under discussion. Generally, it can be stated that all considered processes were conducive to growing divergence of interests of customers, managers and shareholders. They supported also attitudes of managers towards focus on profits, with little attention paid to social aims. Common feature of decision made in large multinational financial holdings was rather short term horizon of decisions instead of broader perspective and investing rather in financial instruments and products (very often very complicated and artificial). As it was mentioned, such attitude was one of the cause of the global financial crisis and problems of many financial intermediaries, leading in turn to turmoil in the real sectors of individual economies.

This, altogether with loss of identity by demutualize and private associations and companies, limited supply of funds addressed to small and medium enterprises, interfering with processes of sustainable growth and generating growing inequalities in individual economies. More severe has become also problem of financial exclusion, especially in less developed countries, where, by nature, problem was already serious.

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Question more clear are strict interdependencies between the processes. Due to internationalization, foreign institution could take active part in the privatisation processes (especially in the financial sectors of the CEEs). Private owners were also more eager than national ones to demutualize associations which were under theory control or were influenced by them due to personal or capital links. At the same time, large international financial institutions have become so big and influential that they have been able to overcome actions of the governments of individual countries or even enforce some actions, beneficial form theory point of view. Al such factors generated problems with supervision on financial institutions, increased uncertainty and level of so moral hazard in the global economy and on the individual domestic markets. By no means, it was conducive to spreading financialization processes, with all its negative consequences. Also conducting economic policy (especially monetary policy) became harder, due to ineffectiveness of many instruments, aimed at influencing private institutions (especially banks). The latter institution have nowadays own sources of funds and liquidity are to a large degree independent of monetary authorities. They are also harder to supervise and regulate under current institutional conditions.

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Table 1. Theories of banking systems internationalization from the internalization strain

Theory	Main reasons of internationalization
Internalization theory (basic theory)	▪ differences in the levels of interest rates on individual markets ▪ competitive advantage over foreign banks ▪ exploiting economies of scale
Competitive advantage theory	▪ competitive advantage over foreign banks on the banking market ▪ possibility of taking competitive advantage through purchase of foreign bank that has such advantage ▪ lower costs and perspective of rapid increase of incomes
Surplus entrepreneurship theory	▪ cheaper implementation of devices and procedures (innovations, technology, management techniques, know-how) developed on the home market ▪ competitive advantage over foreign banks
Defensive expansion theory	▪ defense of a bank against changes in its immediate environment ▪ changes of regulations and limited scope of activity on the home market ▪ following clients conducting operations overseas (so-called attraction effect)
Vertical and horizontal integration theory	▪ economies of scale, resulting from the horizontal integration: implementation of devices and procedures (innovations, technology, management techniques, know-how) developed on the home market ▪ economies of scale, resulting from the vertical integration: internationalization of "production" of products and services, leading to their unification on every market the bank operates.
Oligopolistic competition theory	▪ competitive advantage over foreign banks, forming (due to given policy of the government) ineffective oligopoly; those banks do not want or are not able to compete with multinational banks ▪ opportunity for rapid increase of the market share at low cost

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Multinational wholesale banking theory	▪ internalization advantages ▪ ownership advantages ▪ location advantages
International investments theory	▪ attempts to non-systematic risk diversification of bank's portfolio on an international scale

Source: authors' work.

Table 2. Advantages from internationalization – conclusions from literature review

	Developed countries	Developing countries
Banks	- high profitability of foreign activity - greater competitive power on the foreign markets, providing more flexibility - mobilizing more funds from depositors - support for enterprises from home country - risk diversification	- transfer of capital, technology and management expertise - support of large international institution as the main investor - more efficient corporate governance
Banking system	- additional source of profits	- overcoming of problems connected with lack of domestic capital - possibility to recapitalize local banks - factor driving modernization and increasing competition in the whole sector - better solution than cross border lending (international banks with a local presence on the ground are more stable providers of credit) cross-border component of bank lending.
Customers		- broader and more diverse offer - spread of financial innovation - lower local banks' profit margins - enforcing more efficiency of local banks that translates into lower-cost of financial services
Economy		- integration with global economy -

Source: authors' work.

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Table 3. Disadvantages from internationalization – conclusions from literature review

	Developed countries	Developing countries
Banks		- higher competition - multinational banks edge out local banks by luring their best (lowest-risk) clients away. This forces local banks to provide services to higher-risk clients, which makes them less profitable, less efficient and less competitive
Banking systems	- proliferation and transmission of financial innovations and highly risk-prone operators - strong and robust negative effect of geographical distance on lending stability; distant borrowers more difficult to screen and monitor in general and their creditworthiness particularly difficult to assess - risk (political, operational, etc.) of operating abroad	- higher idiosyncratic risk due to maturity and currency mismatches - foreign banks may boost capital outflows - proliferation and transmission of complex financial innovations and highly risk-prone operators - strong and robust negative effect of geographical distance on lending stability; distant borrowers more difficult to screen and monitor in general, and their creditworthiness particularly difficult to assess
Customers		- foreign banks usually use wider net interest-rate spreads than local ones do and behave like rentier capitalists - lending supply in emerging markets affected through a contraction in cross-border lending by foreign banks; a contraction in local lending by foreign banks' affiliates; and a contraction in lending by domestic banks due to a funding shock to their balance-sheet
Economy	- susceptibility to financial crises - contagion effects	- susceptibility to financial crises - contagion effects

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		- problems of local banks caused by problems of their foreign partners - credit crunch

Source: authors' work.

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Table 4. Advantages or disadvantages of demutualization – conclusions from literature review

Advantages	Disadvantages
• more flexible decision making • removed conflicts of interest between owners and managers • greater ability to aquire funds • a wider range of investment products and sources of revenue	• Lack of close identity between the organization and the direct users • Detrimental to clients • Abandoning initial mission • Demutualized organization usually preoccupied with profits (short term perspective, weak regulation) • It weakens local communities

Source: authors' work.

Table 5. Advantages or disadvantages of privatisation – conclusions from literature review

Advantages	Disadvantages
• Greater efficiency, profitability and output • improved incentives • improved competition • free market appraisal • revenues for the state • in emerging market countries –way of overcoming problems with lack of capita	• Problems with accountability • Focus on profit maximization • Lack of transparency • Increased risk • Limited lending to some groups of clients • Conducive to creation large financial holdings

Source: authors' work.

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THE ABSTRACT OF THE PROJECT IS:

The research programme will integrate diverse levels, methods and disciplinary traditions with the aim of developing a comprehensive policy agenda for changing the role of the financial system to help achieve a future which is sustainable in environmental, social and economic terms. The programme involves an integrated and balanced consortium involving partners from 14 countries that has unsurpassed experience of deploying diverse perspectives both within economics and across disciplines inclusive of economics. The programme is distinctively pluralistic, and aims to forge alliances across the social sciences, so as to understand how finance can better serve economic, social and environmental needs. The central issues addressed are the ways in which the growth and performance of economies in the last 30 years have been dependent on the characteristics of the processes of financialisation; how has financialisation impacted on the achievement of specific economic, social, and environmental objectives?; the nature of the relationship between financialisation and the sustainability of the financial system, economic development and the environment?; the lessons to be drawn from the crisis about the nature and impacts of financialisation? ; what are the requisites of a financial system able to support a process of sustainable development, broadly conceived?'

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THE PARTNERS IN THE CONSORTIUM ARE:

Participant Number	Participant organisation name	Country
1 (Coordinator)	University of Leeds	UK
2	University of Siena	Italy
3	School of Oriental and African Studies	UK
4	Fondation Nationale des Sciences Politiques	France
5	Pour la Solidarite, Brussels	Belgium
6	Poznan University of Economics	Poland
7	Tallin University of Technology	Estonia
8	Berlin School of Economics and Law	Germany
9	Centre for Social Studies, University of Coimbra	Portugal
10	University of Pannonia, Veszprem	Hungary
11	National and Kapodistrian University of Athens	Greece
12	Middle East Technical University, Ankara	Turkey
13	Lund University	Sweden
14	University of Witwatersrand	South Africa
15	University of the Basque Country, Bilbao	Spain

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