

Example of research paper on factors that led to the growth of international bank...

[Finance](#), [Investment](#)



One of the most remarkable developments in Florida in the 70's was the emergence as an international financial world. Florida's economy, until then, relied almost entirely on agriculture, tourism and the construction industry but had now acquired a new dimension- international banking. Its proximity to both Central and Southern America, its multilingual population coupled with the promulgation of international banking regulations that were deemed favorable led to the country becoming a specialized Latin American banking centre (Bove & Richard, 1991).

With international banking as a major financial activity, the economies has experienced spiraling growth and also increase employment levels in the multinational banks as well as economic multiplier effect of the sector.

The purpose of this paper is to investigate the factors that have led to the growth of the banking industry in Miami, with particular emphasis on the liberalization of the banking sector in Florida, the alleged involvement of the banks in money laundering and drug cartels, as well as the immigration into Florida in the 80's among other factors. The paper will however, start by an analysis of the size of the international banking in the state, as well as the largest players in that industry.

Israel Discount bank limited was the first foreign bank opened its doors in Miami in 1978. Since then; there have been more than 100 foreign banking institutions that have been licensed to operate in Florida. At the end of the fiscal period 1999, already 51 banking institutions operated in the country of which 23 came from Europe, over 20 from the Caribbean, 5 from Asia while the rest had been incorporated in North America (Colomiris, et al, 1994).

These banks operated in different legal forms some were agencies,

representative offices, or even fully fledged commercial banks

The assets bases for the 38 national agencies that operated in the state then amounted to \$20 billion with the single largest asset item being loans and leases that accounted for close to 63%. The largest of the Miami agencies included Barclays PLC, Lloyds TSB and Dresdner which accounted for over 53% of all the assets of the agencies.

Regulatory Frameworks

There were sweeping amendments in the state and federal laws and regulations that attracted the international banking community around the 70's and 80's. While there are other factors that have had an important impact on the banking, the regulatory changes were the most significant, especially in the 1970's through to the 90's. Since 1992, the legislative framework of Florida has allowed the international banks wishing to open business in the state to do so through a branch representation. Such a branch was allowed to perform the same function as the parent institution and also to offer the same services under the name and legal obligation of the parent bank. However, due to economic implication of the recent past, the state has required that the banks operate mostly through agencies. Enactment of the state legislation in 1977 allowed the foreign banks to use the agency as the business vehicle of choice; this law had predated the federal government enactment of the same. An agency is an operational part of the parent company that has full support of the parent company to offer similar services and in the same magnitude as the parent bank.

It maintains its own sets of books and assets that are separate from those of the parent company. Agencies however could extend loans to locals as well

as foreigners but were not allowed to take deposits from locals. An agency is also expected to maintain deposits but only from international or foreign transactions but not the locals.

The regulations also allowed the foreign banks to set up an administrative office. An administrative office however could not do general banking activities. It may assist in deposit taking, lending or other financial activities of the parent bank. Generally, an administrative office allowed a foreign bank to be able to serve its clients in Florida without having to establish a branch or agency in Miami.

A representative office was permitted to act as a liaison with the parent bank, to offer financial advice, to offer investment advice and also watch over the parent companies banking relationship with clients in Miami. One of the major advantages of a representative offices is that should the parent bank decides to open a branch in Florida, then the representative office would act as a base and would be able to easily market the new entrants as there would be existing clients in place.

Also introduced in 1983 is yet another banking investment vehicle in Florida, the administrative office. This is a vehicle that allows the foreign bank to engage in a broader range of activities, mostly the back office activities which are not allowed for the representative office. More specifically, the administrative office is allowed functions such as personnel and administration, data processing, records management, loans appraisal, and extension of credit and investments.

The Edge Act And Agreement Corporations

An edge Act Corporation is a domestic subsidiary that is owned by either a local or foreign bank. Over the years, due to regulatory frameworks, the edge act agreements have become the most recognized vehicle to conduct international banking.

An edge act corporation may perform an array of activities. These include dealing in equity investments, taking part in foreign banking, acting as commercial banks, and also participating in international business.

The edge corporations are however limited to engaging in investments as long as it does not engage in businesses in the United States. The trend in the 60's and 70's was that foreign banks would set up edge corporations in New York for conducting of international banking and also to trade in the foreign currency. Expansion of these edges then saw the establishments in Miami, Chicago and San Francisco. These were appealing than the agencies to the international banks because of their restriction to lending of international and foreign businesses.

Banking subsidiaries in the Miami as of

June 30, 2007 (Source: Federal Reserve Board)

Services offered

The growth of international banking in Miami has been majorly driven by the range of services offered and these include trade financing, loans to banks in foreign countries and also domestic banking.

Trade financing

Miami's multilingual population and the strategic proximity to markets in central and South America had a profound effect on the development of these markets in the 70's. the role of Miami as a gateway as a gateway to Latin America and the Caribbean led to the emergence of South Florida as a strategic transshipment zone not just for us exports but also those from Europe and middle east. The growth in foreign trade meant that these banks were called upon to offer financing to meet customer needs. It's notable that during this time, the regulations had led to the development of international expertise among the local banks and also in the attraction of foreign banks and edge Act Corporation in Miami. These banks have been a very key source in the import and export financing in the United States, which was great business for these foreign banks.

Loans to banks in foreign countries

International trade financing is still a large source of business for the international banks. As the banks continued to do business with the international customers, they got familiar with banks on those countries as they occasionally provided correspondence services. This familiarity led to the extension of lines of credit to these financial institutions which increased the growth and profitability of these Miami banks.

This was made possible by the states liberalized situation that could allow them to give credit even to foreign banks and thus profitability of these foreign banks increased. It's notable that these loans that are extended to

other banks are less risky and presented a better opportunity for investment for these banks.

Private banking

A significant attraction to foreign banks is the domestic banking market.

Miami banks have evolved over the years from simple deposit taking institutions to sophisticated service handlers in the region. The provision of wealth management services to high net worth individuals and businesses in Florida and the rest of the Latin America has been a major source of growth for these banks.

Some of the most important services offered to these banks include investment management, custodial services, real estate, handling investments in precious metals, handling currencies, commodities and provision of Tax and financial management services.

In a nutshell, we have seen how the regulatory framework has been very crucial in aiding in the development of international banking in the state of Florida. This has been very helpful in ensuring that the GNP of the country is stabilized and that the people of Florida live in above average lives. There is however a downturn to this relaxed regulatory framework. Historically, the freestyle framework has been blamed for the concentration of money laundering and harboring of money got from drugs trafficking cartels. This is discussed hereunder.

International Banking And Drug Cartels In The Miami

Involvement in international banks in drugs cartels money has been a thorny issue. Many large international institutions have been called upon, on a

number of occasions to answer to the allegations of dealing in drugs money. A number of years ago, Britain's largest bank HSBC's manager was lined up before the senate's permanent subcommittee on investigations to answer charges of dealing in dope money (Berger, et al 1995).

The bank was alleged to have taken many years to close suspicious accounts in operation and this was against the money laundering laws and policy. The suspicious account was that of "casa de campio" which was a currency exchange house and operated in Mexico on behalf of the largest criminal syndicate globally. Wachovia bank, a Miami based international bank was also caught in the midst of US investigations after more than \$11 million was recovered from her Miami office in 2010.

Wachovia was fined \$50m and forced to surrender \$110m in proved drugs profits that it had dealt in for years. The bank was noted to have inadequately monitored the casa de campio money which amounted to \$ 376 billion over the last four years.

The impact of the drugs money can be summed up with a story that was carried in the evening Independent of June 5 1980. (Adopted from.)

According to the then newspaper, Miami suspected drug traffickers had deposited close to \$109 million in Miami international banks in one year alone. This was no small money at the time trust me. This was according to the report of a secret treasury department that had been set up to investigate the magnitude of drug dealing in the state's economy.

The report was the only official document that detailed the drug peddlers, the banks involved the moneys stashed and also the account numbers and the nationalities of the drug peddlers involved.

Most of the funds depositors were money dealers who operated exchange bureaus in the US and also Columbia.

According to the report though, the Miami banks did not solicit these deposits and in fact, some of the deposits were done without the banks knowledge. According to the report, one Columbian drug dealer, Arturo Fernandez deposited above \$32, million in Miami in 1978 alone.

Conservative figures placed the magnitude of drugs money in Miami international banks to be in excess of \$100 million while other suspicious deposits amounted to close to \$10 million. An overwhelming amount of \$94 million had been deposited in the Continental National bank of Miami. Other beneficiaries of these moneys included the South East First national bank, the Manufacturer's National Bank, the Biscayne Bank, and then the pan American bank, all of which carried just under \$1 million of drugs money. Officers from these banks refused to comment on the issue despite the glaring evidence that most of these banks had over the years thrived on drugs money.

The above information tells us just how much the drugs industry had corrupted the banking industry. Naturally, the international banks were very much attracted to the city since such huge sums of money meant great business for them

Immigration

One other major reason for the growth of the international banking in, Miami is the immigration to the city at the times of the 80's. Its common knowledge that a large and affluent population means good news for business and this is also true for the Miami based international banks

There have been many instances of documented history of immigration into Florida city of Miami. One of the most significant one is the Mariel Boatlift of 1980 that is known to have brought 150, 000 Cubans to Miami, the largest in civilian history. This led to a rise in the small Miami population. Around the same time, Miami also started to see immigrants from Haiti and this resulted to the concentration of Haitians in a place famously known as the little Haiti (Aidun, and Christopher, 1995) . So large had the immigrant's population become that Xavier Suarez was elected as the first Cuban mayor from Cuba. Another major Cuban exodus to Miami occurred in 1994 which resulted to the Clinton administration deciding to amend the US foreign policy with regard to immigration.

The Latin and Caribbean friendly atmosphere of Miami has made it a popular tourist destination and immigrants from all over the world. And the third largest immigration port city after New York and Los Angeles. Modern times have seen very affluent people with high disposable income stay seasonally at Florida, which has also meant good business for the banking industry and especially the international league.

References

Aidun, Christopher K. " A Primer on Asset Securitization." Journal of Commercial Lending.

(September 1995): 19-32.

" America's Latest Financial Fling." The Economist. (June 24, 1995): 65-66.

American Bankers Association. Report of the Market Share Task Force.

Washington, DC,

June 27, 1994.

Bank for International Settlements. Recent Developments in International Interbank

Relations. October, 1992.

Berger, Allen N. and Gregory F. Udell. "Securitization, Risk, and the Liquidity Problem in

Banking." In Structural Changes in Banking, edited by Michael Klausner and Lawrence

J. White, (1993): 227-291.

Berger, Allen N., Anil K. Kashyap, and Joseph Scalise. "The Transformation of the U. S.

Banking Industry: What a Long, Strange Trip It's Been." Brookings Papers on Economic Activity. 2 (1995): 55-218.

Bove, Richard X. "Bank Technology Reshapes Industry." The Bankers Magazine.

(May/June 1991): 17-21.

Boyd, John and Mark Gertler. "Are Banks Dead? Or Are Reports Greatly Exaggerated?"

Federal Reserve Bank of Minneapolis Quarterly Review. (Summer 1994): 2-23.

Brooks, Robert. "Derivatives: Beyond the Rhetoric." Risk Management. (July 1995): 37-40.

Colomiris, Charles and Mark Carey. "Loan Market Competition Between Foreign and U. S.

Banks: Some Facts About Loans and Borrowers.” in *The Declining Role of Banking*,

Federal Reserve Bank of Chicago, (May 1994): 331-369.

Cumming, Christine. “ The Economics of Securitization.” Federal Reserve Bank of New

York Quarterly Review. (Autumn 1987): 11-23.