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Universal Banking Challenges and Solutions: Literature Review

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Abstract - The article aims to review universal banks for you by reviewing concepts, tracking global events and variables that pushed banks towards globalization, and then identifying the distinctive characteristics of universal banks and the challenges they face and proposing solutions for them: Industry in Europe and the search for new markets and other global events, the most important of which is the invention of the Internet and the growth of electronic commerce. In conclusion, the researcher emphasized the necessity of developing the financial market, strengthening the banking environment, and a legislative support system.

Index Terms - Universal banks (UB), Development, liberalization, financial markets.

I. INTRODUCTION

Universal banks are the state of the bank's interaction with the world and the integration of its activity internationally, bypassing the banking specialization, to achieve economic and social development. The article includes a historical review of the topic to define global and economic transformations since 1700 that pushed banks to the world in the I paragraph, which distinguishes the characteristics they achieved from within II paragraphs, what are the challenges in III paragraph, and finally discussing a set of proposals to address them.

II. CONCEPT

Universal banks area case of a bank’s interaction with the world, integrating its activities internationally [1].Bypassing specialization by providing many services directed to a wide base of internal and external customers funded from multiple sources without committing to all of that [2]. But payment services are An advantage for most of them[3], depend on advanced technology and large size to reduce cost fluctuations[4]and achieve economic development[5].

III. GENESIS AND EVOLUTION

Universal banking developed as a result of a number of global events, as in the following [6]

A.industry needs and new markets.

During 1700-1800 Banks developed with industry in Germany and were owned by major merchants such as the Bonds Bank, Deutsche Bank, and Cromers Bank[7]. In 1870 Founded the first transcontinental companyStandard Oil of Ohio the sole oil operator in the Northeast and the U.S.1871 Ottoman foreign debt crisis, caused the expansion of trade, and transfer of capital to the colonies: India, South Africa. as new markets for the products of the major countries such as England, France, and America, later 1890 - The US Congress passed the Sherman Antitrust Act[8].

B. Fighting monopoly and searching for an alternative to the European market.

1900-1903 the value of bank assets increased from 10 to $21 billion, the demand for capital to finance corporate mergers and the Boer and Russo-Japanese wars, in 1910-1911 The US Department of Justice filed a lawsuit against the Standard Oil Company and dismantled into 35 companies,1913 The birth of the US Reserve System, which solved many financial and banking crises. During1914-1918 World War I, the world turned to the United States of America to finance the war[9]. thus the volume of trading in international stock exchanges decreased, such as the Vienna, Rome and Berlin Stock Exchanges, then the London and New York Stock Exchanges. in additional to 1916-1929 the closure of small banks in areas far from cities because of The development of the global automobile industry, then paved for the Great Depression[10].

C. New solutions to meet the demands of World War II, &the Internet

1930-1944 World War II, Great Depression. The first and second New Deal programs aimed at withdrawing money from outside America and refinancing banks at home which caused the internationalization of the American banking crisis.in order to stabilize the forex market 1945,After the conclusion of the BettonWoods conference , establish Fund ,the International Bank . 1950-1960 creating the Internet and its use in transmission, data preservation, information delivery and money transfer, was1961-1966 The beginning of electronic commerce: financing, information transfer and management, and the emergence of exchange markets[11].

D. commercial liberalization, Applications of the Trade Liberalization Agreement and World Trade Organization

cause the collapse of the dollar's peg to gold in 1970 , 1974 Basel Committee on Banking Supervision1986 Declaration of Puntadablesti, the gradual liberalization of trade in services and followed by the GATT agreements to 1993 Entry of banks in the areas of investment, marketing and feasibility studies, 1994 Marrakesh Agreement it helped established the WTO system during the second round of the agreement in 1995, then1999 Seattle Conference China's entry into the World Trade Organization at the Doha Conference 2003 Singapore Conference to support the differences between developing and developed economies, 2005 The sixth conference of the organization and the adoption of the European Union initiative, ledto next stage[12].

E. Increase the number of banks, intercontinental financial institutions.

The 2008 Securitization of debt and the American mortgage crisis2011- 2013 و Rapid growth Emerging markets in China and India, were reasons to increase the number of UB in the world is 1000, of which 75 are Arab banks in 2020.

IV. PROPERTIES

Adopting universal thought in banking operations achieves: [13][14]:

1) The strength of the financial position with increased risk exceeds its levels in commercial banks due to conflicts of interest, causing the internationalization of financial crises.
2) Maximizing the economic surplus: entering into world trade agreements, offset by the concentration of economic power (monopoly).
3) Creating and revitalizing financial markets leads to speedy exchange of information and reduces costs. On the other hand, focusing decisions on a few to serve their international interests is far from the public interest.
4) Difficulty in censorship, in addition to the countries bearing huge financial subsidies for the purpose of continuity.

V. CHALLENGES

Universal banks face many challenges[15]. The lending decision is taken by the lending officer and reviewed by the board of directors. This means bearing additional costs (the agency) and the possibility of neglecting the loan for small companies even though it is a good opportunity because of the size and granting such loans to small companies. It means risking relationships and mergers with partners [16]. Which calls for increased focus on identifying conflicts of interest between shareholders and managers and intimidating them [17]. The most important risk is making banks very conservative[18]. The decrease in the return on investments due to the exaggeration of the profitability numbers before the merger, which causes its decrease later ([19]. The growth of non-interest income is more sensitive than the loans themselves in light of the fragility of the economy and its interdependence between countries[20], in USA[21]. After the abolition of regulations in 1996, companies turned to bond markets to obtain financing for underwriting, which reduced the demand for local loans and thus the companies' appetite for the bond market, i.e. an increase in the supply of loans offered by banks or loans to less productive companies (real estate), either in the Arab countries[22]. The increase in the volume of commercial exchanges, maximizing the banking sector will have a limited impact due to its dependence on oil.

VI. TREATMENTS

Despite the cases mentioned above, the literaturesuggested the following:

1) Developing the market for primary, secondary and derivative securities, by imposing taxes on dealing in securities and financial instruments, separating clearing and supporting sovereign funds[23].
2) Increasing banking resources and liquidity, imposing non-price conditions on global loans that are greater than the interest rate and in smaller amounts for longer periods contributes to increasing the supply of borrowing and attracting outside investors[24].
3) Developing the banking sector: qualifying human resources, enhancing technological resources, innovating new products and promoting a marketing culture for electronic commerce.[25]
4) Legislative support: developing an independent law for foreign transactions, amending existing legislation, adopting governance principles to achieve, combating financial and administrative corruption, for financial institutions and financial markets[26][27][28]

CONCLUSION

The decline in revenues from traditional services has prompted banks to become global in order to maximize returns, reduce risk and provide a combination of more services to achieve development. Since 1700, there have been global events, the most important of which is the Internet and the growth of electronic commerce, which has led to an increase in the number of universal banks to 1000 until 2020. Despite the characteristics it provides Universal banking, but there are challenges: additional costs, lost investment opportunities. The article proposes solutions, the most important of which is the development of the financial market and the strengthening of the banking environment and a legislative support system. This could be a new ear for universal banking industry. The new age of economy around world required to strengthen banking industry, particularlyproviding steady services alongside to e-banking services as basic requirement.

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