

## THE ORGANIZATION AND STRUCTURE OF BANKING AND THE FINANCIAL SERVICES INDUSTRY

Over centuries, bankers and the managers of other financial institutions have evolved different ORGANIZATIONAL FORMS to perform these various roles and to supply the services their customers demand.

### SMALL ORGANIZATIONS versus LARGE ORGANIZATIONS

Between two, mostly large organizations play a wider role than small ones in the financial services environment in terms of providing more offering as a bundle than others which are much smaller.

HOWEVER, the size does not mean that the organization is performing better than others and organizes itself better than others.

Commercial Banking Industry: WHO the dominant supplier of credit to business firms and of deposits payable on demand in the global financial system.

Size and concentration of assets: Size does not mean big. Holdings are the most important when measuring the size. The Largest banking company in US: CITIGROUP measured by total assets.

Concentration: should be in the local level; in the towns and cities where most people live and work.

### INTERNAL ORGANIZATIONS OF THE BANKING FIRM

1. SMALLER BANKS:

A) COMMUNITY: Strong focus on the local area.

B) RETAIL INSTITUTIONS: Primary role is to devote to the markets for households and small business loans and deposits is often called RETAIL BANKS.

NOTE: A bank can be Retail and Community at the same time. EX: Midwest.

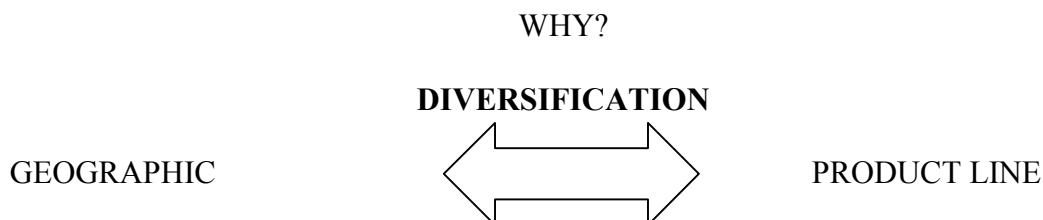
2. LARGER BANKS  
MONEY CENTRE, WHOLESALE AND RETAIL

A) MONEY CENTRE: Located in a large city and wholesale or wholesale plus retail in its focus. More complex than a community oriented bank.

CONS:

**Span of control:** Top management is often knowledgeable about banking practices but less well informed about the products and services offered by subsidiary companies. Because the bank offers so many different services in both domestic and foreign markets, serious problems may not surface for weeks and months. Monitoring is somewhat difficult and need a lot of attention by each member to catch up the missing point causing the complexity.

B) WHOLESALE AND RETAIL: More advantageous than community oriented institutions.



EX: Citigroup, Deutschemark

For more info about US system: [www.acbankers.org](http://www.acbankers.org) or [www.cbanet.com](http://www.cbanet.com)

## RECENT TRENDS IN BANK ORGANIZATION

### ➤ EXPANSION

Expansion means more complexity in the organization in terms of services, financial statements, management of risk & return and labour.

### ➤ SKILLS OF BANKERS

Development in skills should go with developmental changes in the market conditions and technology.

WHY?

REDUCE THE COST AS MUCH AS POSSIBLE...

## THE ARRAY OF CORPORATE ORGANIZATIONAL STRUCTURES IN BANKING

When a financial institution offers to public; customer services facilities....

Physical & Electronic networks...

Before offering any service to the public

### 1. CHARTER OF INCORPORATION: (US)

√ To the banking commission of the state where the bank is to be headquartered in order to form a state-chartered bank

OR

√ To the Comptroller of currency ; empowered to issue a certificate of association for a national bank.

### 2. JOIN FEDERAL RESERVE SYSTEM: FDIC

Certification ?

### 3. CREATE A MANAGEMENT

√ No of offices needed,

√ Types of physical and electronic facilities desired,

√ Preferred form of corporate organizations

## UNIT BANK ORGANIZATIONS

Unit banks offer all their services from one office, through some services (taking deposit, chasing checks, or paying bills) may be offered by some limited-service facilities; such as drive-in window, ATMs, Retail Store Point of Sale Terminal.

PROS;

- Capital, management, and staff are several limited until the bank can grow and attract additional resources and professional staff.
- Expand by websites, electronic resources and other services outlets to open up new markets and to diversify geographically in order to lower their overall risk exposure.

## **BRANCH ORGANIZATION**

Branch banking organization system are suitable for areas which are serving a rapidly growing region and finds itself under pressure either to follow its business and household customers as they move into new locations or lose them to more conveniently located financial-services competitors.

EX: HSBC

or

TUKEY IS BANK

(FULL SERVICES OFFERED BY ALL BRANCHES BUT LIMITED AUTHORIZATION)

PRONS:

- ❖ Drive out small competitors which are giving fewer choices for consumers.
- ❖ Greater operational efficiency
- ❖ Offering convenience (during tough economic times)

CONS:

More transaction cost for customers in branches if acquisition needed. WHY ACQUISITION?

THE MOST IMPORTANT NONBANK FINANCIAL RELATED  
BUSINESSES REGISTERED BANK HOLDING COMPANIES CAN  
ACQUIRE UNDER US REGULATIONS

**INTERSTATE BANKING AND THE RIEGEL-NEAL**  
**INTERSTATE BANKING AND BRANCHING EFFICIENCY**  
**ACT OF 1994**

Factors driving the act;

- The need to bring in new capital to revive struggling local economies
- The expansion of financial services of nonbank financial institutions that face few restrictions on their ability to expand nationwide
- Competition with neighbouring states
- Desire of diversification
- Belief that large banks may be more efficient and less prone to failure
- Advanced in the technology of financial services delivery, permitting banks to serve customers over broader geographic areas
- If larger banks cross lines than the stock price of small banks can possibly rise.

ASSIGNMENT :

1. INTERSTATE BANKING????
2. DEFINE TWO ALTERNATIVE TYPES OF BANKING ORGANIZATIONS AVAILABLE AFTER 21TH OF CENTURY
  - √ FINANCIAL HOLDING COMPANY
  - √ BANK SUBSIDIARIES
3. EFFICIENCY AND SIZE: DO BIGGER FINANCIAL FIRMS OPERATE AT LOWER COST?