



# So, why is international banking so difficult today?



Do you also get the feeling that international banking, as you used to know it, is now dead and buried? Not only it seems that banks don't really want you as a client anymore but also the ones you are banking with don't seem to like your cash anymore!

In this article I am exploring why is it difficult to get a bank account these days and why a bank would say no to parked funds. The lists are not exhaustive as this is intended to be a short article and not an encyclopaedia!

Following the 2008 events, it seems, that there is regulatory pressure for banks to consolidate and for them to 'come back

home'. More and more banks have exited numerous jurisdictions and maintain fewer booking centres. It is not unheard of for clients to receive exit letters simply because the booking centre does not exist anymore, or because they are residents in a country their banks does not like anymore. Very well known banks like RBC, Barclays and RBS have gone through such changes recently and even more are announcing they are currently reviewing their business model, considering 'extreme solutions'.

The main drive of this consolidation is of course the regulatory requirement to hold more capital, so as banks become safer and less likely to need support from the taxpayer. Higher capital requirements result in actual costs for the banks, as they need to raise more capital, and of course opportunity costs for the banks, as they need to carefully consider the optimal use of their limited capital. On top of this, higher capital requirements result in lower profitability which results in cost cutting exercises.

Compliance is another significant contributor to banking consolidation. The more jurisdictions a bank is present in, the more cross-border comes into effect. The moment a bank operates into a jurisdiction, it has to invest significant amounts of money to control risks and support that business, including employing relevant personnel, drafting and maintaining cross-border policies, etc.

We have to acknowledge that it is not easy to run a bank today. People blame banks for the recent credit crunch, they read about the sizes of bonuses paid and of course the numerous scandals that have surfaced. The reputation could not be lower, which of course results in extreme actions to avert bad publicity and 'fix' situations. And as if this was not enough, the bank has to perform well in stress test, maintain a strong credit rating, reduce non-performing loans, reserve for hefty penalties and present strong ratios (capital, liquidity, leverage, etc).

It is fair to say that banks are under a lot of pressure and of course this is, unavoidably, passed on to their clients.

Why is it difficult to get a bank account?

- New risk policies – in an attempt to prevent any wrongdoings and hence heavy penalties, banks are introducing new risk policies to address the changing environment. This results in lower appetite for ‘risky’ business, exiting from different countries, aversion to Politically Exposed People, etc.
- You reside in the wrong country – banks maintain a risk matrix by which they rank all countries. If you happen to live in a country that is ranked high risk, you are more likely to be rejected.
- No business activity in the region – more and more central banks are expecting the banks they oversee to onboard clients with actual activities in the region they are based.
- You have too little money – smaller accounts cost the same as large accounts but only generate little.

Why would a bank say a big NO today to your parked funds?

- High(er) capital requirements result in high(er) cost of capital.
- Low(er) interest rates (sometimes negative) result in low(er) (sometimes negative) earnings.
- High(er) leverage ratios resulting in low(er) lending (therefore low(er) earnings).
- High(er) bank deposit levies resulting in high(er) costs.

*This excellent article was first published at [www.offtax.com](http://www.offtax.com) where it was contributed by [B2B Lateral Thinking Solutions](#)*

*All thanks and credit to them!*

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