Global Retail Banking in Emerging Markets
Developments in Brazil & Beyond

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Rising incomes and large populations in emerging markets are building increased global demand for retail banking services. How financial institutions respond will be an important area of research for years to come. This paper analyzes the overall retail banking developments in an emerging market, and, further focuses on the role international retail banking activities hold for banks operating on a global level. The emerging market examined here is Brazil, a large, fast growing economy, with high potential for banking sector growth. Indeed, in comparison to other BRIC countries, Brazil has received considerable attention from global banking institutions.

Previous literature appears reluctant to accept that retail banking can be a successful business segment within global banking. This study seriously questions that notion, and seeks to demonstrate whether global retail banking operations can be successful. Thus, the main purpose of this paper is to uncover i) the role played by global banks within retail banking developments in Brazil and ii) the role emerging markets hold for global banks. Drawing from this analysis, the author arrives at a new theory on international financial interconnectivity as it relates to global retail banking.

This research provides three essential factors that have drastically altered retail financial services in Brazil. First, in comparison to the 1990s, Brazil was able to successfully stabilize macroeconomic conditions over the 2000s. Second, retail banking became an important source of income. Third, global banks influenced domestic banks to place more emphasis on their retail segments. Therefore, global banks can indeed play a vital role in emerging market retail banking developments, and further, they can be successful in generating income in those markets. Perhaps most importantly, this study shows that more than simply being capable of success, retail banking is now <u>the most important business segment for some global banks</u>. At the same time, though, this paper suggests caution is necessary because higher nonperforming loans and debt-to-income ratios may lead to financial instability.

We theorize the nature of global retail banking as transitioning like a seesaw. Sitting on either end of the same beam, developed countries and emerging markets are interconnected via their common connection to global banks. But since retail is a main business segment, global banks constantly seek opportunities where individual income growth is strongest. Therefore, when home market incomes stagnate; incentive to shift focus towards emerging markets grows, elevating that side of the seesaw, and lowering the home market side. Credit expands in the emerging market, while stagnates in the home market. In this way, global retail banking is contributing to a *decoupling of credit cycle momentum*. The central conclusion of this paper states the degree to which home and emerging market credit cycle decoupling develops depends on two factors. First, increased severity in home market income contraction strengthens global bank incentive to focus on emerging markets. Second, global banks' geographical diversity is immensely important in determining which emerging markets experience increased focus from global banks. Both of these factors led all three global banks observed in this paper to increase their focus on emerging markets, and, on Brazil. For one bank in particular though, the focus on Brazil increased much quicker because its home market saw deep income contraction, and because the bank was not as geographically diversified as the other two global banks.