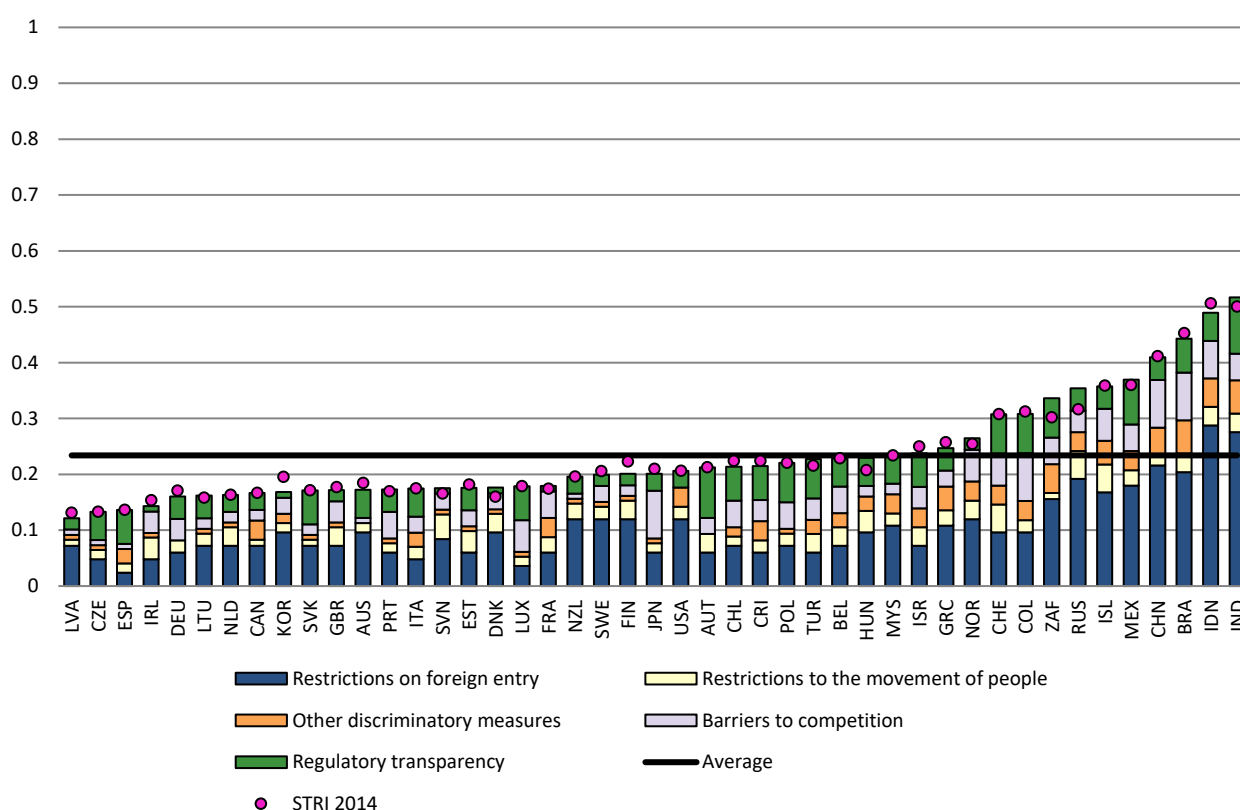


STRI Sector Brief: Commercial banking

This note presents the Services Trade Restrictiveness Indices (STRIs) for the 36 OECD countries and Brazil, the People’s Republic of China, Colombia, Costa Rica, India, Indonesia, Malaysia, the Russian Federation and South Africa for commercial banking services in 2018. Commercial banking is defined as comprising deposit-taking, lending and payment services. Major exporters of financial services (insurance excluded) are the United States, the United Kingdom and Luxembourg.

Commercial banking services are traded business to business, as well as business to consumer for retail banking. Efficient banking services are one of the backbones of dynamic economies; they provide financing for investment and trade across productive activities, underlying all value chains.

STRI by policy area: Commercial banking services (2018)



Note: The STRI indices take values between zero and one, one being the most restrictive. They are calculated on the basis of the STRI regulatory database which records measures on a Most Favoured Nations basis. Preferential trade agreements are not taken into account.

The 2018 scores in the commercial banking sector range between 0.12 and 0.52 with an average of 0.23. The distribution according to restrictiveness is slightly skewed towards the low end, as there are 31 countries below and 14 countries above the average.

The measures in the STRI database are organised under five policy areas as indicated in the chart. In the commercial banking sector, the results are mainly driven by three policy areas: *Restrictions on foreign entry*, *Barriers to competition* and *Regulatory transparency*. This reflects the special characteristics of the sector as well as the policy environment in which it operates. As the banking sector plays a core role in every country’s economy but can entail risks for financial stability, restricting entry and competition has sometimes been used as a means for authorities to retain control over its operations in the absence of effective prudential regulation. Commercial establishment through subsidiaries, branches and acquisitions is the primary mode of entry into

foreign markets for commercial banks, except for large-scale lending transactions which are often conducted cross-border. The rise of electronic distribution channels and the emergence of internet-only banks have expanded the potential for cross border trade in financial services.

Restrictions on foreign entry feature prominently in the indices. Only two out of 45 countries limit the foreign equity share in local banks, but 14 countries restrict the establishment of foreign bank branches, eleven countries impose more stringent requirements to grant a license to foreign-owned banks than domestic ones, and seven countries restrict cross-border bank mergers and acquisitions. In most cases foreign banks must to be locally established in order to provide a full range of services to residents. However in a quarter of the countries covered they only need approval by the prudential authority to engage in cross-border lending. Lastly 17 countries require at least one member of a commercial bank's Board of Directors to be a national or permanent resident, among which 9 countries impose this condition on a majority of the Board.

Barriers to competition also contribute substantially to the scores of the countries with the highest index values. Product-level regulations, including price restrictions and prior approval requirements for individual financial products, are significant drivers of this result. Another common issue is the lack of independence of the regulatory and supervisory authorities. In 25 countries full operational, management and budget independence from the government is not guaranteed. Government ownership is also widely observed in the sector. In 24 out of the 44 countries, one of the largest commercial banks is state-owned.

The *Regulatory transparency* policy area builds on information from administrative laws and regulations, information from the migration authorities on requirements for obtaining a business visa and the World Bank Doing Business Survey. Regarding transparency in the process of granting licenses, 12 countries do not mandate the authorities to provide grounds for rejecting an applicant, and nine do not specify a maximum time to decide on a banking license application. In addition the high time and cost necessary to resolve debtor insolvency contribute to the index in 26 countries.

Under *Restrictions on the movement of people*, there is no country in the database that does not limit market access for natural persons providing services on a temporary basis as intra-corporate transferees, contractual services suppliers or independent services suppliers. *Other discriminatory measures* specific to the sector contain impediments related to capital controls. In particular, eleven countries impose restrictions on banking operations conducted in foreign currencies, and nine countries restrict lending to non-residents.

Compared to 2014, denoted by the pink dots in the chart, the STRI index is unchanged for 14 countries, 19 have a lower (less restrictive) score, and 12 record a higher value of the STRI index (more restrictive) in 2018. Most of the changes reflect the evolution of general business regulation. Among countries that have introduced reforms, Korea has removed impediments to the entry of internet-only banks; Indonesia has enhanced compliance with international prudential and financial transparency standards; Colombia and Indonesia have strengthened the independence of their regulatory authorities from government funding; Lithuania has lifted a requirement for residency of at least one board member. Conversely, a few countries have put in place restrictions on the legal form that foreign-owned banks may take, or introduced interest rate regulation on specific financial products.

It should be noted that banking is a heavily regulated sector for the purpose of maintaining the stability and soundness of the financial system. Prudential rules and standards are set by national governments and regulators as well as international financial standard-setting bodies. The STRI does not seek to define the scope or nature of what measures would be considered prudential, but aims to record in an objective and comparable manner the state of legal and regulatory impediments faced by foreign banks.

More information

- » Access all of the country notes, sector notes and interactive STRI tools on the OECD website at <http://oe.cd/stri>
- » Read more about services trade policies and their impacts in this publication: [Services Trade Policies and the Global Economy](#)
- » Contact the OECD Trade and Agriculture Directorate with your questions at stri.contact@oecd.org.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.