

THE OVERSEAS AND FOREIGN BANKS IN LONDON

The first banks established with head offices in London, but specifically intended to operate abroad, date from the 1830's. They were set up to serve a world in which London was a principal centre of trade, much of it between the United Kingdom and what were then its dependent territories. This country was the leading industrial nation, with a large domestic market for raw materials and food, favourably placed on the shipping routes between the primary producing countries and Europe; and its interest in the development of resources overseas encouraged the provision of both long-term capital and short-term finance which, in the circumstances of the time, helped to generate a large surplus on current account.

To-day many of the territories with which this trade was conducted are autonomous, with their own currency and banking systems and their own developed industries: yet the overseas banks, or their lineal descendants, survive. While many of them form an important part of the domestic banking structure in their spheres of operation, they still lead in their original function, the finance of international trade. To them have been added other banks of their own type and the London offices of banks with head offices abroad, both in the Commonwealth and in foreign countries.

By 1914 a numerous and intricate community of both kinds was in being, only to be curtailed, in numbers and business, by war. The progress made in the 1920's in re-establishing this community, albeit with a changing composition, was again gravely set back by war: and again has been resumed. There are now roughly as many overseas and foreign banks operating in London as there were fifty years ago; and their particular interest at present lies in the large part they play in the acceptance and deployment of funds moving to London from abroad.

To classify the overseas and foreign banks is not easy. Of the present total of some eighty, about half are the head offices of British banks most of whose other offices are overseas, or the London offices of banks whose head offices are elsewhere within the Commonwealth. These banks are usually described as "British overseas banks" and thirty-three of

them now belong to the British Overseas Banks Association. Among the overseas banks not belonging to this association are the London offices of the central banks of Australia and India.

The other half are the London branches or subsidiaries of banks with head offices outside the Commonwealth, generally known as "foreign" banks. The only formal association of these banks is the Foreign Banks and Affiliates Association, which has nineteen members of which six are French and most of the remainder European. The eight American banks with branches in London are not in this association; but they appoint a representative who forms a point of contact with the authorities in matters concerning the American banks as a whole. Some fifteen foreign banks conducting an active banking business belong to none of these associations and groups.

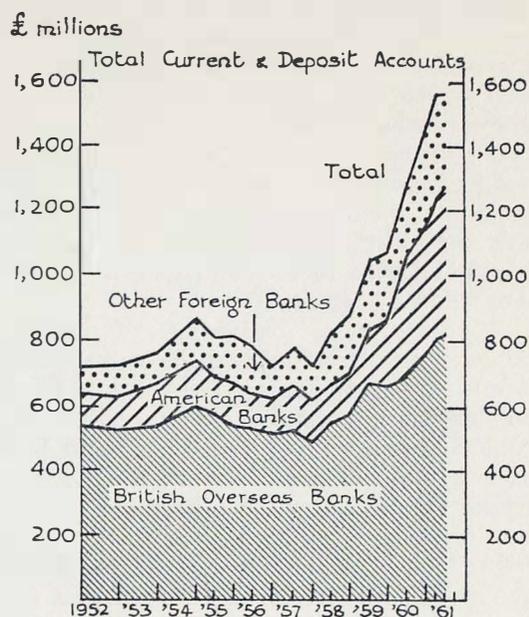
Besides all these, there are at the moment more than twenty "representative offices" of foreign banks which do not maintain branches in London. These do no banking business of their own but facilitate business between their own offices abroad and London banks, and provide a two-way service of information. Italian banks have the largest number of representative offices, followed by Japanese and U.S. banks. Needless to say, a complete list of London banks doing overseas business would include the clearing and other predominantly domestic banks, the merchant banks and the accepting houses.

Details of the main assets and deposit liabilities of the overseas and foreign banks for various dates from 1951 to 1959 were supplied to the Radcliffe Committee, which was the first time such figures had been made available. The series has been continued half-yearly from the 30th June 1959 to the 31st December 1960 and quarterly thereafter, and has been welcomed for regular publication in this Bulletin. These voluntary returns are made by the members of the two associations referred to above and by the group of American banks, and therefore do not yet cover all the overseas and foreign banks. Nevertheless they form a notable source of new information: but information that is not easy to interpret because

of the nature of the business which they cover. A list of the banks making the returns is given on page 23.

Deposits with the banks The overseas and foreign banks accept deposits in London both in sterling and in foreign currencies. The figures in Table 11 of the Statistical Annex do not distinguish between the two types, but include the foreign currency deposits at their sterling equivalents. Total deposits with the three groups of banks increased steeply during 1958, and the rise quickened after the extension of convertibility in December of that year. At the end of 1958 deposits totalled £873 million, and at the end of June 1961 £1,560 million. Of this total about three-quarters was due to banking offices overseas and to other overseas residents, and one-quarter to U.K. residents.

The three main sources of deposits with the overseas and foreign banks, the flow from each of which has grown greatly since the end of 1958, are shown in the table:



CURRENT AND DEPOSIT ACCOUNTS^(a)

£ millions

	Total	U.K. Residents	Overseas Banking Offices	Other Overseas Residents	Unallocated
British Overseas Banks					
31st December 1958 ...	572.6	113.0	327.2	81.9	50.5
30th June 1961 ...	819.2	246.3	365.2	207.7	—
American Banks					
31st December 1958 ...	129.0	58.5	28.9	38.6	3.0
30th June 1961 ...	447.9	95.1	216.9	135.9	—
Other Foreign Banks					
31st December 1958 ...	171.0	21.7	109.6	36.2	3.5
30th June 1961 ...	293.1	56.4	196.0	40.7	—
Total					
31st December 1958 ...	872.6	193.2	465.7	156.7	57.0
30th June 1961 ...	1,560.2	397.8	778.1	384.3	—

Most of the steep rise shown since 1958 has occurred in foreign currency deposits, predominantly in U.S. dollars or "Euro-dollars". These deposits are mostly made by banks in Western Europe, and are part of the greatly increased volume of short-term funds which now move readily from one international centre to another.

Any assessment of the volume of such funds outstanding must take account of double counting in the figures. There is double counting in the figures of the total of these funds when a bank in one financial centre lends to a bank in another which in turn lends to a third. There is also double counting in the figures of currency deposits outstanding within a

^(a) These figures are extracted from Table 11 of the Statistical Annex, to which reference should be made for definitions and notes.

financial centre; for instance, the figures for total foreign currency deposits with the overseas and foreign banks in London—which form part of the total deposits shown in the table above—include money lent by one of these banks to another. There can therefore be no valid comparisons of movements in the total deposit liabilities of, on the one hand, the overseas and foreign banks, and, on the other, banks in the United Kingdom doing a primarily domestic business.

When there is on-lending of currency deposits (to other banks in the United Kingdom) it normally appears in the assets of the lending bank as a balance with another U.K. bank, and in deposits with the borrowing bank as a liability to a U.K. resident. Even the figures for foreign currency liabilities to overseas residents are themselves not entirely free from double counting because, for example, currencies deposited by overseas residents with banks in London doing brokerage business in this field may be re-lent by them abroad and then may be re-deposited by the borrower with a different bank in London. In June 1961 the total of foreign currency deposits held with the overseas and foreign banks by banking offices overseas and other overseas residents was nearly £500 million, over 40% of the total of deposits with these banks from overseas. Of the total of £500 million, about £300 million was held with American banks and about £125 million with British overseas banks. There is no means of estimating the extent by which these figures would need to be reduced in order to eliminate double counting.

Sterling deposits with the overseas and foreign banks have also risen since 1958. They represent in part the working balances of the banks' overseas offices and customers, in part the reserves of the overseas offices, and in part balances of U.K. residents. The increase in resident sterling deposits with the overseas and foreign banks since 1958 may have been proportionately a little greater than that of other U.K. banks.

The rate offered by the overseas and foreign banks for resident sterling deposits is normally that ruling in London (namely 2% below Bank Rate for deposits at seven days' notice). The rates for other deposits, however, and particularly for foreign currency deposits, as shown by the graph on page 60, fluctuate. The other terms also vary widely, especially

the period of notice of withdrawal required; deposits may be "at call" or fixed for periods of up to three months or more.

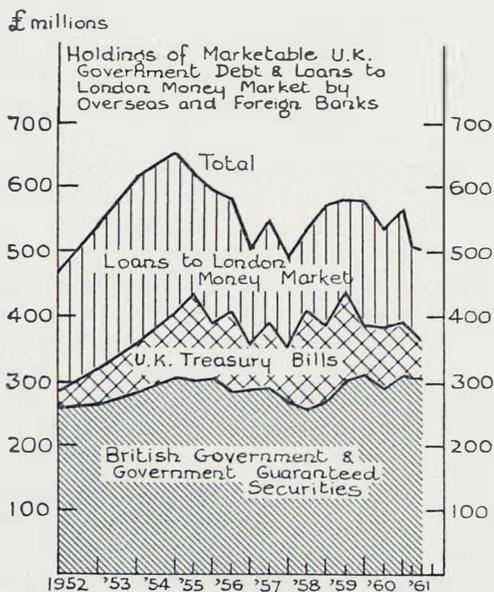
Foreign exchange dealing The growth of the Euro-dollar market has drawn attention to only one facet of the overseas and foreign banks' operations. They have however for long been prominent in exchange business. Naturally the British overseas banks have handled most of the business in the currencies of their countries of operation: both they and the foreign banks also contribute to the breadth of the London market in currencies of international status. There is insufficient information available to allow any calculation of the proportion of business in the foreign exchange market done by any one group of banks; but in numbers no less than two-thirds of the banks in London authorised to deal in specified currencies are overseas and foreign banks. Experience and status are the only criteria in such appointments.

Foreign currency assets Because the overseas and foreign banks are active foreign exchange dealers, they can quickly augment their deposits and assets, and rearrange their assets between foreign currencies and sterling. In practice they match nearly all (about nine-tenths in June 1961) of their total foreign currency liabilities with holdings of foreign currency assets; the remainder would be exchanged (or "switched") into sterling.

Foreign currency assets are included mainly under advances to overseas banking offices. The statistics do not show the sterling and currency elements of this item separately, but the total of such advances by the overseas and foreign banks rose from about £100 million in December 1958 to over £500 million in June 1961. Within these totals, advances by the American banks rose from about £10 million to about £270 million; probably representing, in large part, dollar deposits re-lent by these banks to their head offices. Some foreign currency business is also recorded under advances to U.K. residents and advances to other overseas residents.

Sterling assets Apart from the balances which they hold with other U.K. banks, the banks' sterling assets fall into four main groups:

holdings of government debt; loans to the money market; loans to local authorities; and holdings of commercial bills and advances. The form in which the banks hold their sterling assets is determined wholly by commercial requirements. Because the activities and the spheres of operation of these banks vary so widely and because their London operations form only a part of their total business, they neither observe a conventional minimum liquidity ratio nor indeed have an agreed definition of liquid assets. Consequently they are neither automatic lenders to the money market nor holders of Treasury Bills; but practical needs lead them to hold a proportion of their sterling assets in these forms; and many banks supplement their liquidity by holding government bonds.



1. *Holdings of government debt* In June 1961 the overseas and foreign banks held some £360 million of marketable government debt (Treasury Bills and British government and government guaranteed securities). Although this was only about 2% of total marketable government debt at this date (compared with 11% held by the clearing banks) the holdings of the overseas and foreign banks are large enough, and, as the graph shows, fluctuate enough, to be an important factor in the markets. The Treasury Bill holdings of the banks have dropped considerably since their peak in

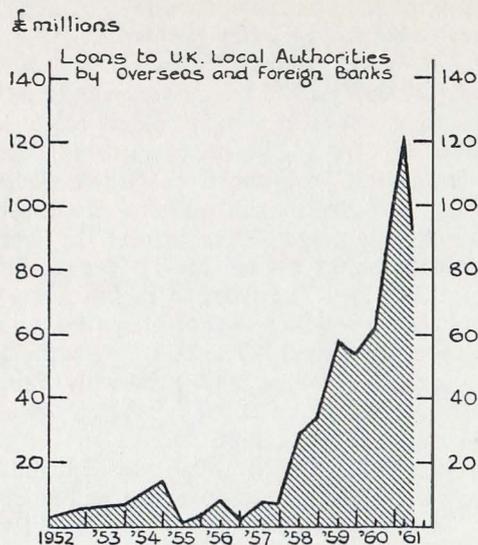
1958, perhaps because loans to local authorities have proved more profitable.

The British overseas banks, many of which keep at least part of their reserves in London, are much more important holders of government debt than the other two groups. Until March 1961 investments in British government and government guaranteed securities formed the largest item among the British overseas banks' assets. Most of the securities held had over five years to run to maturity, but the proportion of short-dated bonds has recently increased. The ratio of investments to deposits, which had previously ranged between 45% and 55%, fell below 40% in March 1961; but total investments at that date (£309 million) were only £8 million below the peak reached in December 1959.

The American banks and the "Other foreign banks" are less important as holders of government stocks.

2. *Loans to the London money market* The overseas and foreign banks are an important source of funds for the discount houses. All three groups of banks lend to the money market on a substantial scale. At the 30th June 1961 their lending totalled £137 million, or 15% of the funds (excluding capital and reserves) borrowed by the discount houses at that date. This percentage has frequently been higher; in December 1953 it was 25%.

3. *Loans to local authorities* Local authority borrowing from the market, rather than from the Public Works Loan Board, has risen sharply during recent years and become increasingly short-term. The overseas and foreign banks have provided an important, and until very recently, an increasing share of such short-term finance. At the 31st March 1961 their loans totalled £121 million. This was probably about 15% of total local authority temporary borrowing at that date. The "Other foreign banks" are the main lenders. Their loans rose from £2 million in December 1957 to £85 million in March 1961. A part of this increase may represent the sterling counterpart of those foreign currency deposits which have been switched; but, as can be seen from the graph on page 60, it is not always profitable to use foreign currency deposits



in this way if the switch into sterling is covered by a forward sale of sterling. Few British overseas banks make loans to local authorities, but the total lent by them rose from £4 million in 1957 to £30 million in March 1961.

Total loans by the overseas and foreign banks to local authorities fell from £121 million to £93 million during the second quarter of 1961; this fall was no doubt associated with the outflow of foreign money which occurred at that time.

4. *Commercial bills and advances* The overseas and foreign banks' holdings of commercial bills have changed little since December 1958, but advances have risen sharply. Those by the British overseas banks to U.K. residents more than doubled between December 1958 and June 1961; but this rise may include an increase in lending, in the form of deposits by the banks, to other financial institutions such as hire purchase finance companies.

The American banks' advances to U.K. residents have also risen, if not quite so steeply. Apart from any foreign currency component, it may be recalled that there are eight hundred or so U.K. subsidiaries of American corporations. The "Other foreign banks'" advances to U.K. residents have almost doubled since 1958; but in no case

are separate figures available for the components of the increase in reported advances.

Advances to overseas residents, other than to banking offices overseas, have also increased during the period, from some £40 million to over £100 million. Part of this increase may have been in foreign currency, but sterling advances to overseas residents have probably also risen.

The finance of international trade Much of the overseas and foreign banks' lending by way of commercial bills and advances to U.K. residents—not to mention their advances to overseas residents—will have been closely connected with the finance of international trade. This was their original function; and is still a main function.

A number of methods of finance are used: bills of exchange in respect of shipments may be drawn by an exporter, in the United Kingdom or abroad, on the overseas or foreign bank in London, or they may be drawn on the consignee of the shipment and discounted by the bank. In the first case the bill, after acceptance by the London office of the bank on which it is drawn, can be discounted with other banks and discount houses. Occasionally also funds may be made available in the form of a cash advance. Generally speaking, overseas and foreign banks endeavour to limit their finance to the period between despatch of the goods from the seller's country and their arrival in the buyer's country.

No statistics exist for the total finance provided. It is possible, however, to make some estimate of the relative importance of the overseas and foreign banks in one form of finance in which they participate, that is the acceptance of bills for account of overseas residents. The total of acceptances outstanding by all banks and accepting houses in the United Kingdom for account of residents abroad was £150 million on the 30th June 1961; of this total £27 million was for the British overseas banks, £17 million for the "Other foreign banks" and £13 million for the American banks. In other words, the overseas and foreign banks together accounted for nearly 40% of the total of such acceptances at the end of June 1961. The equivalent figure for the accepting houses, which specialise in finance of this kind, was £39 million (26%) at that date.

British Overseas Banks Association

Australia and New Zealand Bank Limited
The Bank of Adelaide
Bank of Ceylon
Bank of India Limited
Bank of London and South America Limited
Bank of Montreal
Bank of New South Wales
Bank of New Zealand
Bank of Nova Scotia
Bank of West Africa Limited
Barclays Bank D.C.O.
British and French Bank Limited^(a)
The British Bank of the Middle East
Canadian Imperial Bank of Commerce
The Chartered Bank
The Commercial Bank of Australia Limited
Commercial Banking Company of Sydney Limited
Commonwealth Trading Bank of Australia
The Eastern Bank Limited
The English, Scottish and Australian Bank Limited
Ghana Commercial Bank
The Hongkong and Shanghai Banking Corporation
Lloyds Bank (Foreign) Limited
Mercantile Bank Limited
National Bank of Australasia Limited
National and Grindlays Bank Limited
The National Bank of New Zealand Limited
National Bank of Nigeria Limited
Netherlands Bank of South Africa Limited
The Royal Bank of Canada
The Standard Bank of South Africa Limited
State Bank of India
The Toronto-Dominion Bank

Foreign Banks and Affiliates Association

Anglo-Israel Bank Limited
Anglo-Portuguese Bank Limited
Banco de Bilbao
Banco Español en Londres S.A.
Bank of China
Banque Belge Limited
Banque Belgo-Congolaise S.A.
Banque de l'Indochine
British and Continental Banking Company Limited
British and French Bank Limited^(a)
Comptoir National d'Escompte de Paris S.A.
Crédit Foncier d'Algérie et de Tunisie
Crédit Industriel et Commercial
Crédit Lyonnais
Italo-Belgian Bank
National Bank of Greece
Société Générale
Swiss Bank Corporation
Živnostenská Banka National Corporation

The American Banks in London

The American Express Company Inc.
Bank of America National Trust and Savings Association
Bankers Trust Company
The Chase Manhattan Bank
Chemical Bank New York Trust Company
The First National City Bank of New York
The Hanover Bank
Morgan Guaranty Trust Company of New York

^(a) Although a member of both the British Overseas Banks Association and the Foreign Banks and Affiliates Association, the British and French Bank Limited contributes only to the latter group's statistics.