

Bank of China (Canada)

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HISTORY

Bank of China Limited (BOC) was first established in February 1912 pursuant to the approval of Mr. Sun Yat Sen who is the first provisional president when the Republic of China was founded in 1912 (China Briefing, 2008). In 1994, in the reform of China's financial sector, Bank of China was converted into one of the four wholly state-owned commercial banks (BOC, 2012). In 2006, Bank of China Limited started listing on the Hong Kong and Shanghai Stock Exchange.

As a Chinese financial institution with a history of almost a hundred years, the Bank is well known for its continuous business innovations, introducing many new products and services. In terms of tier one capital, it was ranked 9th among the world's top 1,000 banks in 2011 (Forbes, 2011).

Bank of China Limited provides a comprehensive range of high-quality financial services to individual and corporate customers as well as financial institutions worldwide. BOCL is the most international bank in China and has built up its network in 29 countries and regions worldwide. Currently, it has over 10,000 domestic and 600 overseas operations (BOC, 2012).

Bank of China (Canada) - BOCC, a wholly owned subsidiary of Bank of China Limited, was incorporated in Canada on September 8, 1992 and commenced its operation on May 18, 1993 (BOCC, 2012). It is licensed to operate in Canada as a foreign bank subsidiary with full banking power under the Bank Act (Canada). It offers various kinds of personal and corporate banking services, through its 141 staff and 9 branches (BOCC, 2012). The Bank's mandate is to promote and facilitate economic and trade development between Canada and China, and provides a high quality of financial services to the customers of their two countries.

The Bank's Head Office is located in Toronto. As at July 31, 2011, there were 9 branches under BOCC head office and 3 in Vancouver. The total number of staff is 141 versus 99 employees (head office – 55, branches – 44) as at December 31, 2011 (BOCC, 2012).

EXTERNAL ANALYSIS

General Environment

Banking in Canada is widely considered one of the most efficient and safest in the world. According to the reports by the World Economic Forum, Canadian banking system is ranked as the world's soundest banking system for the past three years. The reasons include the following:

- National banking system with diversified and managed institutions
- Canada has a strong regulatory system with 2 primary regulators (OSFI and FCAC), and five year updated Bank Act
- Canada's banks are well-capitalized
- Mortgage lending in Canada is stable and prudent

Canadian banking is one of the strongest industries in Canada, the industry serves as a crucial catalyst for Canadian economic growth. Due to the attractiveness of the banking environment in Canada, more and more foreign-owned banks have entered the market in recent years to compete with the domestic banks as well as the other foreign banks that have operated in Canada for years.

Industry Environment;

Rivalry among established competitors (high)

- The big five dominate the banking industry of Canada RBC, CIBC, BMO, Scotia and TD.
- Intense competition: total 76 domestic and foreign banks, more than 100 bank account packages on the market.
- BOCC has a niche market in the banking industry "Chinese customers living and working in Canada". The situation is threatened if the large big five banks are interested with this market.

Bargaining power of suppliers (low)

- BOCC is a branch of BOC. BOC is a strong and powerful bank in China. Thus, it has a lot of resources and fund. There is a small probability that BOC will go bankrupt or out of its money.
- The supplier for BOCC is strong. It does not depend on other suppliers

Bargaining power of buyers (high)

- There are many choices for customers to choose banks.
- Customers can switch their bank services easily and the switching cost is not high
- BOCC has to find a best way (best service, best discount, etc) to serve its customers or it will lose them easily

Threat of substitutes (high)

- The substitutes can be products/services from competitors or new entrants
- Especially, customers can use the products/services with bank online. So they do not need a bank located in Canada -> more substitutes.

Risk of entry by potential competitors (high)

- Currently, there are 26 foreign bank subsidiaries operating in Canada and it's just as easy to do business through one of these subsidiaries as it is at one of Canada's domestic banks. Foreign banks capture 24.6% of this market ("Canadian bankers association," 2012).
- Many big banks from other countries also have the power and resources to expand in foreign countries, so they can also operating its banking service in Canada

Competitor Analysis

The top 2 Main competitors of BOCC are HSBC Canada and Industrial and Commercial Bank of China (Canada). They both have the same target market: Chinese customers in Canada

who in need of bank transactions, deposit, loan, etc. HSBC Canada is even more notable since it has strong retail presence with branches across Canada.

INTERNAL ENVIRONMENT

Tangible Resources

Financial Resources

Bank of China Canada receives strong financial support from parent company Bank of China. Bank of China is the second largest lender in China overall, and the 5th largest bank in the world by market capitalization value, with \$328 billion of operating income and \$115 billion of shareholder's equity as of 2012 year-end (BOC, 2012). Therefore, BOCC is one of the most stable foreign bank subsidiaries in face of financial deterioration and default risks.

Physical Resources

Quickly expanded as a new foreign bank subsidiary, BOCC has already launched nine branches in the main cities in Canada, where many Chinese people reside, which allows immediate services to its local clients. BOCC's parent company is the most international of China's banks and has branches in 27 countries on every inhabited continent, which facilitates its target customers (Chinese people) to access it easily while travelling internationally (BOC, 2012) .

Intangible Resources

Human Resources

The bank has many professional employees in variety of areas. In addition, most of the employees are able to speak English, Mandarin and Cantonese. Many employees have plenty of knowledge about business environment and cultures in both countries, so they may have more advantages when doing business with Chinese clients.

Reputational Resources

Bank of China is one of the biggest and most established banks in China with 100 years of history. (BOC, 2012). BOC is very well known by people with Chinese background and among companies that have connections with China.

Capabilities

The Board of Directors establishes a risk management system and policies to identify, analyze, monitor and control various types of risks that Bank of China (Canada) faces in its operation. The risk management policies covering credit risk, market risk, operational risk, and liquidity risk of the management committee, the risk policy committee and the audit committee. This provides very solid support to the Bank in facing financial deterioration. Moreover, with most of its customer representatives fluent in both English and Chinese, the Bank provides effective communication with both language-speaking clients. (BOC, 2012)

Core Competency

What differentiates Bank of China (Canada) from other banks is its specialization in RMB services. It offers RMB deposit, remittance, foreign exchange, and RMB banknotes services.

On the other hand, its parent company Bank of China maintains its first-place position worldwide in the global banking industry in terms of international settlements. Its RMB cross-border trade settlement services have covered more than 30 countries and regions by the end of 2010 (Hui, 2011). With this advantage from parent company and by connecting with its sister bank companies, Bank of China (Canada) is able to offer fast settlement services to its Canadian clients with international business.

THE CURRENT SITUATION AT BOCC

Bank of China (BOC) has being named one of the Global Systemically Important Financial Institutions (G-SIFIs) by the Financial Stability Board (FSB) since 2011 (Bank of China, 2011). SIFIs is a bank, insurance company, or another financial institution whose failure could trigger a global financial crisis. Bank of China faces both challenges and opportunities after this announcement

BOCC is categorized as schedule II bank in Canada (Canadian Bankers Association, 2009), which is a wholly owned subsidiary of its Parent Bank. As a schedule II bank, the liability is limited by the current capital of Bank of China (Canada). In order to expand its potential business, BOCC is applying for schedule III bank - a branch of its foreign parent bank. With the certification of Schedule III bank, BOCC is able to use the capital of its parent company, which is approximately \$100 Billion. However, the process will take about 2 years.

Financial Situation

As of July 31, 2011, the Bank's total capital was \$65.2 million and total assets worth \$690.5 million together with Customer Deposits \$448.9 million and Bank Deposits \$108.7 million (Bank of China Canada, 2011). Bank of China (Canada) continues to be profitable. The Bank achieved Retained Earning of \$16.4 million at the end of July. Our Return on Average Equity and Assets were 7.71% and 1.00% respectively. By the end of July 2011, the Liquidity Ratio reached 84.42% and debit/deposit Ratio was 101.25%. In the past six years (2005 to 2010), the Bank has paid corporate income tax and provincial capital tax to the federal and the provincial governments in total for about \$13.3 million.

Products and Services

Since BOCC is a relatively small bank in Canada, it mainly focuses on the niche market of banking business. BOCC has strong advantage on international settlement since the connection with its parent company – Bank of China limited, so the main customers of BOCC

are corporations have business with China, such as corporations which in oil & gas, utilities, mining, telecommunications, transportation and other sectors. By the end of 2011, the 10 largest depositors stand for 61.06% of total deposit of BOCC.

Employees Reward System

Information from the bank shows the fact that the pay of BOCC is around or slightly below the average of Canadian bank market. This may have negative effect on employee morale and leads to a relatively high employee's turnover rate. Due to the high portion of new employees, BOCC need to spend extra time and resources for training. Lack of training significantly affects the quality of customer service. The CEO of BOCC, Lijun Wang, has realized this problem, and implemented new performance and reward system in June 2012.

New Strategy, Glorious Future

Since the beginning of 2011, Bank of China (Canada) has launched a new development strategy, which has guiding principles “Grasp Opportunities, Expand Branch Network, Enrich Products, and Expedite Development” (Bank of China, 2011). The key objective in next 3 years is that the expansion of branch network to cover all the major economic areas in Canada, with 5 regional head offices established in Toronto, Vancouver, Calgary, Ottawa and Montreal; in order to position BOCC to become a top ten foreign bank in Canada. They believe in the near future, they will build an excellent bank with considerable competitive strength and profitability.

SRATEGIC CHALLENGES

BOCC is facing the challenge from the existing Canadian banks. Most Canadian credit markets are occupied by the Big Five banks. Most Canadian corporations usually have their own long-run credit partners, so the companies tend to choose other banks which they are more familiar with. Therefore, it

is very hard for Bank of China to explore its market by undermining the foundation.

BOCC also faces problem from the credit loan environment. Since Canada has a relatively mature financial market, corporations usually have multiple channels to raise funds. As a result, many companies do not rely on banks as their additional source of fund. The problem is very serious when the other channels have lower cost of capital than borrowing from the bank. If the bank is unable to lend out the fund collected from the deposit, it is impossible to make profit.

Bank of China's relatively small size also creates challenges. Due to its relatively small market share, many cards such as credit cards issued by BOCC can't be used in many places in Canada because many shopping places do not trust BOCC to pay them money for customers. The recognition problem can have negative effect on the quantity of deposits because people do not want to deposit their money in a bank which does not acquire enough reorganization for its expense cards, and that can create inconvenience for their consumptions. In addition, BOCC's limited size in Canada also creates barriers for its potential large loans because companies may doubt about the loan ability for the bank.

Other challenge is diversification of deposits. Currently, about 61% of BOCC deposit balance is held by the top 10 customers, and about 80% of deposit balance is either demand or with maturity day in 3 months. Since the less diversification of sources of fund, it significantly increases the risk of fund stability.

The current information system that BOCC is using has been running for 16 years, and the support is out of date. This old system is not user friendly and has limit function. Due to the limitation of system, BOCC is difficult to make satisfactory services base on it. One alternative for BOCC is to implement a new system. Bank of China limited is planning to build a unified platform all through the units over world. If BOCC heavily invest a new system right now, the system is very likely to be replaced in the next 2-3 years.

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