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Research Report



Report on the Internationalization of Chinese Banks·Press Release

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Press Release

Report on the Internationalization of Chinese Banks 2015

Center for Internet & Financial Innovation (CIFI), Zhejiang University, *in partnership with* International Monetary Institute (IMI), Renmin University of China & International Finance Institute, Bank of China are pleased to release the progress report of a research project on Chinese banks' global expansion with the key findings and recommendations summarized below.

After nearly 40 years' development since China's Reform and Opening Up, the financial markets in China have gradually integrated into the global markets. Particularly for Chinese local financial institutions, their attempts to explore overseas markets and to expand their business abroad have achieved many remarkable successes, but clearly there is still a long way to go. In this report, we try to analyze Chinese banks' level of internationalization by introducing the Chinese Banks Internationalization Index (CBII). This index is designed to dynamically capture the internationalization process of different Chinese banks overtime, and the analytical results provide some insightful implications for both regulatory agencies and financial institutions.

The Chinese Banks Internationalization Index (CBII)

The CBII is constructed based on a multiple set of criteria: (1) the overseas assets accumulation, (2) the operation of overseas business, (3) the number of overseas branches, (4) the number of cross-border M&A, etc. We also differentiate the Big 5 large commercial banks, which have gained more experiences in the process of internationalization, and the shareholding commercial banks when selecting the key driving factors and their corresponding weights. The Analytic Hierarchy Process (AHP) method is then applied to find out the optimal weights for each factor.

Rankings & Major Findings

◆ Bank of China is most internationalized among the “Big 5” state-owned banks.

The CBII indicates that Bank of China has the highest level of internationalization with its index value 2.5 times (3.5 times highest) above all five banks' average from year 2007 to 2014. And Agricultural Bank of China is accelerating its pace of internationalization, although in general is still largely falling behind. As of 2014, the CBII value for BOC, ICBC, Bank of Communication, CCB and ABC were 20.99, 8.17, 7.12, 4.08 and 2.72 respectively.

◆ CITIC Bank is in the lead among shareholding commercial banks. In contrast with China Merchants Bank and Guangdong Development Bank, CITIC Bank is overall more internationalized, but on the other hand, its growth rate has slowed down largely over the past 5 years, while Guangdong Development Bank is quickly catching up. At the end of 2014, the CBII for CITIC Bank, CMB and GDB stood at 4.38, 2.29 and 1.22.

◆ Chinese banks' contributions from overseas business are still low. For the “Big 5” state-owned banks, from 2007 to 2014 the percentages of assets, revenue and net profits generated outside of China are only 8.09%, 6.12% and 6.30% respectively, which are significantly behind global banks like CITI Bank (60.29%, 50.59%, 50.32%) and HSBC (48.36%, 62.35%, 69.05%).

◆ But Chinese banks' overseas business is growing fast. Excluding the influences from 2008 global financial crisis and Chinese government's four trillion yuan (\$586 billion) stimulus investments, Chinese banks' overseas business have expanded at a much higher speed over the past 8 years, compared favorably with China's ODI and GDP growth rates during the same period. Particularly for the “Big 5” state-owned banks, the growth rate has reached 28.56% on average in recent years, with Agricultural Bank of China growing at a stunning 76.77% in 2014, albeit from a much modest base.

◆ Almost half of the overseas branches of “Big 5” banks are located in Asia. Geographically, nearly half of “Big 5” state-owned banks' overseas branches are

located in Asia. Besides, there are clearly more branches in more developed regions like Europe and North America than in less developed regions like Africa, implying that developed markets are still the major targets for Chinese banks' capital outflows. Among the Big 5, Bank of China and ICBC have the widest oversea branch network, taking up almost 3/4 of the total number.

Strategic Advice for Overseas Expansion

◆ **Banks should be more prudent, when developing their internationalization strategies.** The strategies should reflect banks' own capabilities and business priorities. Simply copying others is fraught.

◆ **Banks should follow the trend of (Chinese) government policies and priorities more closely. In this connection** banks should consider expanding their businesses and network along the "One Belt and One Road" countries and markets, while continuing making strategic deployments in developed markets.

◆ **Banks should pay more attention to the financial regulations in different countries.** For countries with lower regulatory barriers, banks could consider entering the market by establishing local branches, and further expanding the business by acquiring other local banks.

◆ **Different forms of foreign branches should be considered at different development stages.** At the early stage with a lot more "uncertainties" and "unknowns", a representative office is a quick way to establish some presence, while at more mature stages and with more global operating experiences, branch office or bank subsidiary should be considered.

The research has been conducted, over a period of 9 months by a team comprising of faculty and research assistants in Zhejiang University and is headed by Prof Ben Shenglin, Executive Director of IMI and Director of CIFI.

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