

Ocbc bank is the longest established finance essay

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OCBC Bank is the longest established and the third largest bank in Singapore which controlled by LEE family. OCBC was established in 1932 through the amalgamation of the three former banks serving the Fujian community in Singapore which are Chinese Commercial Bank LTD (1912), Ho Hong Bank (1917) and Oversea-Chinese Bank (1919). In early 1970s, it was a new era in the banking history in Singapore as the Government encouraged foreign banks to set up offices in the new republic. As a result, OCBC bought the Four Seas Communication Bank which established in 1954 to prepare for the new competition.

In the early 1990s, the government-linked Keppel Group bought the Asian Commercial Bank and renamed it as Keppel Bank. In 1998, Keppel Bank further merged with the Tat Lee Bank to form Keppel Tat Lee Bank which subsequent acquired by the OCBC group. The OCBC group had growth its total assets to S\$277 billion as at December 2011. It has a network more than 500 branches and representative office in 15 countries including Malaysia, China, Hong Kong, Japan, Australia, United Kingdom and United State of American. Nowadays, OCBC Bank was the second largest financial services group in Southeast Asia by assets and one of the world highest rating banks, with an Aa1 rating from Moody's. It was ranked by Bloomberg Market as the world's strongest bank in 2011.

OCBC Bank offered a wide range of financial services including consumer, corporate and private banking, global treasury, corporate finance, capital market, assets management and stock broking services. OCBC Bank's insurance subsidiary, Great Eastern Holding, is the largest insurance group in Singapore and Malaysia by assets. Its assets management subsidiary, Lion

Global Investors, is one of the largest private sector asset management companies in Southeast Asia. Private banking services are provided by subsidiary Bank of Singapore, which continue to gain industry recognition in 2011 including being voted “ Outstanding Private Bank in Asia Pacific” by Private Banker International.

In order to OCBC Bank growth in the future, OCBC had set a mission of “ We help individuals and businesses across communities achieve their aspirations by providing innovative financial services that meet their needs.” The mission will be achieving when the following value has been fulfil:

Customer – We listen to our customers and understand their needs. We build enduring relationships with them by delivering superior products and quality service.

People – We treat each other fairly and with respect. We support our colleagues and invest in their development to help them realise their full potential. We recognise and reward outstanding performance.

Teamwork – As team members, actively support each other across the organisation as we work towards common purpose. As individuals, we expect total responsibility from ourselves.

Integrity – Fair dealing is the basis of our business, we assume everything we do is in public view.

Prudent Risk Taking – We are prudent risk takers because our customers rely on us for safety and soundness.

Effectiveness – We actively invest in infrastructure, process improvement and skills to lower our delivery costs. We do the right things right the first time, on time, every time.

Q1) ENVIRONMENTAL SCANNING

Part A.

Analyze to what extent these broad environmental forces have or will affect the achievement of the company's missions and objectives set by the company.

Banking industry is similar with other businesses which also have the same risks in business operation. One of which popular model to analyze is the PEST analysis. PEST analysis consists of Political factor, Economic factor, Social factor and Technological factor that will affect business operation. The module is applicable to bank, as bank is required to study and analyzed in order to be competitive in the market.

Our current assignment, we had chosen OCBC bank as our subject of studies. As per annual report its stated that its mission “ We help individuals and businesses across communities achieve their aspirations by providing innovative financial services that meet their needs”.

As banking industry in Malaysia are being regulated by government and government have high intervention, hence using PEST analysis is one of best method for bank to analyze its politic, economic social and technology. These few areas are very crucial for a bank to ensure its survivability and competitive advantageous.

Political Factor

Political factors include government regulations and legal issues and law and define both formal and informal rules for the firm which must operate. For examples tax policy, employment laws, environmental regulations, trade restrictions and tariffs and political stability.

Banking industry in Malaysia can be considered as a safe industry because laws are made and banks are being monitor tightly compared to banks in the US.

In Malaysia, government is part of the industry, which is indirectly governed by the Minister of Finance (MOF). The central bank in Malaysia will be the regulator for banks in Malaysia that is called Bank Negara Malaysia (BNM). Laws, interest rate, rules and other that related to banking industry will be regulated by BNM, hence bankers will need to follow rules and guidelines by BNM in order to operate in Malaysia, or otherwise license will be revoked.

Despite this, banks have to be aware of current changes in finance and banking law, unlike in the US, which bank firms are treated as business firm whereby profit or loss is barred by the bank itself. Due to this bank in the US can collapse meanwhile banking industry in Malaysia can be considered as one of best system.

In addition, financial budget are proposed by the government, banks have to be aware of the proposed budget, to see if there is any new budget that will affects its mission statement. For example, the recent proposed budget which benefits the newly fresh graduate to purchase their first house, due to

this the bank has to work out a feasible plan that will create win-win situation, and a solution that can uphold its mission.

Moreover, Malaysia is on a democratic based country, bankers too have to be aware of its change in political powers. Changes in political power will lead to change in rules and regulation hence banks policy will be affected.

With a government whom has high intervention in the industry and has high powers, bankers should be aware of its existence in the Mendelow matrix.

Economic Factor

Economic factors are factor that affect the purchasing power of potential customers and the firm's cost of capital. The examples of this factor are economic growth, interest rates, exchange rates and inflation rate.

No doubt in Malaysia we very much depended on the giants such as the US markets. Bear of bull markets are very much depending on their market condition.

For instance the recent fall of US which resulted in the collapse of Lehman Brothers very much affect the market here as not only bank affected , insurance company, AIG was on the hook of bankruptcy if there is no bailout from the government of the US. Warren Buffet once said that insurance company is one of the safest industries to invest in, if OCBC invest all its capacity in insurance company, this will greatly affect its mission as customer will lose confidence and would take out their money from the bank.

Despite this economy policy given by government such as in the recent proposed budget 2013, whether it will improve the economy or not is in a question. How it affects the bank on upholding its mission will depend on the bank strategy to overcome unforeseen circumstances?

Social Factor

As for social factor, it includes the demographic and cultural aspects of the external environment. This factor will affect customer needs and the size of the markets. Examples of social factors are health consciousness, population of growth rate, age distribution, career attitudes and emphasis on safety.

In the world of globalization, bankers have to carefully segment its markets to identify the “ social” market. Without conducting a detailed and carefully segmentation of market, bank can hardly attract customers or uphold its mission. There are minorities that believe in keeping cash instead of taking the cash for investing purpose. Although the world is evolving into a better and more informative social, no doubt majority are in the mist about investing, with customers or soon to be customer who is lack of knowledge in investing field, bank have to play its role by explaining or expose information on investing to their customer and potential customer. This will then lead banks to uphold its mission.

Despite this, banks are also facing another problem, the “ fast rich scheme” that is done by swindlers around. With swindlers around conning people’s hard earn money throughout the years, no doubt the victim peers will tend to avoid investing or will not even have a thought on investing, they will rather keep cash in hand or even save it up into a biscuit containers

This issue will greatly impact OCBC bank to achieve its mission if remedies are not taken.

Technological Factor

Finally, the technological factor is factor that will affect the future economic benefit and achieving company objective.

With technologies improving every minute, banks have to be aware of how technologies can be useful in helping them to achieve its mission.

Bank mission is to help customer to invest their money instead of keep it in safe box. With the help of tech, banks can offer application for phones and computers to allow the customers to keep track of its investment instantly with a click of a button.

Bank like CIMB click is one of which that helps their customer in handling their investment and banking facilities provided.

If OCBC bank still does not evolve parallel with the technological changes, soon they will be left out and more customers will then choose other bank as their investing partners.

Q1) Part B

Analysis that the competitive forces that will intimately affect the operations and profitability / cash flow of the company.

We use Porter's 5 forces approach as a means to examining the competitive environment at the level of the SBU or the immediate environment of the organization, so as to provide an understanding of what forces influences the

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degree of competition and opportunities for building the competitive advantage. According to Porter, the state of competition in an industry depends on 5 basic forces; there are threat of new entrant, threat of substitute, threat of bargaining power of customers, threat of bargaining power of suppliers and threat of rivalry among the existing firms.

Threat of new entrant

Competitor's potential can influence the industry; this might affect ones survivability and profitability. Banking and finance industry influence the magnitude of the threat of new entrants. It can get a high profit with good management and it will attract more new entrants looking for the potential profit in banking service industry.

Threat of new entrant is an important factor in external competitive environment, thus, companies have to be prepared to face the external environment problem. In the competitive markets, new entrant into the same industry can pose a big challenge to company, because new entrant may have more effective strategies to attract customer such as the loan interest rate is cheaper, extent the time period of life insurance policy or more benefits in life coverage insurance policy. For example, Julybank is new entrant bank from Singapore, they have large financial outlay and capital investment in Malaysia, thus this pose a big challenge to OCBC bank to compete in banking and finance industry due to OCBC bank's promotion and offer are not attractive enough. It may cause loss of profitability in the long run.

Threat of Substitutes

Substitute product is product that performs the same function or satisfies the same need as an existing product. The threat from substitute products is particularly severe if the substitute products are effective. It influences the marketing mix which is product, price, place and promotion.

Change of the economic is also an important factor to this threat such as inflation factor to make customer switching their preference to substitute services. For example, the credit card holder of OCBC bank may changes to Public Bank due to OCBC banks credit card have to charge RM68 annual fees and Public Bank without charge any fees with Debit card and get a same function with Credit Card.

There are many ways for a customer to satisfy his needs from substitute product or service available in market. Customer will make a comparison between their prices, quality, and the benefits customer want based on their buying motive and make procurement decision. The final decision of customer is depending on their preference. Customer preference is a very important factor to the company as customer can always find a substitute and they are not worried that they can't get a better plan for them. OCBC bank have to make research on what is the public preference and needs such as more ATM machine all around, it can attract more customer create an account. Customers will always prefer to pay for the same quality of services with cheaper price. So OCBC bank is facing a huge threat from substitutes as they only have a few brand outlets compare with other bank which is not convenient for customer.

Threat of Bargaining Power of Buyers

The bargaining power of consumer described as the market output, the ability of consumer to put the firm under pressure, which also affects the consumer's sensitivity to price changes. Consumers power is the forces that influence the value of a product produced by an industry. The bargaining power of consumer is representing by how many of pressure they can give to the banking and finance industry. This bargaining power can be used to reduce profits of the bank through price reduction, increase in customer preference.

Banking and finance industry only sell services to customer, for example financial service, OCBC bank need consumers to use their financial services. Without customers, OCBC bank will not be able to earn any profits. So customer is said to have influence power over the bank. Customer can make a choice to invest in which bank he prefers such as Hong Leong Bank or Public Bank. Customer will always chooses the plan that gives the same benefit but comes with lower investment price and lets customer feel more worthy.

Threat of Bargaining Power of Suppliers

The bargaining power of suppliers is also described as the market inputs. Suppliers of raw material, components, labor and services to the firm can be source of power over the firm. When there are only few substitutes. Suppliers may refuse to work with the firm. Supplier with influence power will be able to influence the profitability.

The power of suppliers will be increase when there is a very high switching cost from one supplier to another supplier, in this situation, the price of demand normally will be higher than normal price. For example, the ATM machine of the OCBC bank used outsources of security company, such the alarm alert system, installation of CCTV, thus security company have more economic power than OCBC bank because OCBC bank do not have sources install the system by their own firm.

Threat of Rivalry among existing firm

The intensity of competitive rivalry major determines the competitiveness of industry. Rivalry among industry may affect the profit though some of factor, increase innovation, advertising and improve service and products among other competitor. Competition between existing industries will be high if the industry has a lot of competitor in same size and same strategies.

Banking and finance industry in our country had large number of competitor, there are increasing the competition with the same type of customer and services type. OCBC bank had provided financial service such as free financial consultation with financial advice for customer. On the other hand, our competitor, Citibank are also providing free financial analysis to customer. There is greater rivalry competition in equal power and size for market competitor rivalry. Banking and finance industry has limited and not much different feature in services compared to others, such as fixed deposit, personal loan, home loan etc. There are low of switching cost exist to alternative service, therefore, high difficult to banking and finance industry exist for compete with other competitor.

Q1) Part C

Porter's national competitive advantage 'diamond'

Porter (1990) argued that the creation of such competitive advantage does not happen merely by chance. He contended that there are four key elements that will constitute the 'diamond of national advantage'. The four elements are: factor condition, demand condition, related and supporting industries, and firm structure, strategy and rivalry.

Since OCBC Bank is an international bank and the head quarter placed at Singapore, therefore porter diamond is relevant to applied. So the 'diamond' of OCBC Bank will base on the Singapore national condition as following:

Factor Condition

These are the basic factor endowments referred to in economic theory as the source of so called comparative advantage. The factor condition can be divided into two sorts:

Basic factors which are defined as generic factors that are available to all general activities airport, seaport, raw material, semi-skilled or unskilled worker and initial investment capital. These are largely 'natural' and not created as a matter of policy or strategy.

Singapore is a small island country situated at the tip of Peninsular Malaysia. Singapore had perfect advantage on geographical location which located at the central between the East and the West which made it an ideal place for OCBC bank to develop an international financial hub. Singapore location also

is an ideal place to set a network which people all around the world can be gather in one place since it is located central between the East and the West.

Advanced factors are the important factors that generate the competitive advantage such as infrastructure, level of training and skill, research and development and etc. as OCBC Bank is providing financial services, advanced factor should included productivity , communication infrastructure, sophisticated and specialised worker, research and development and etc. As Singapore was proactive in improving the country facilities as the research and development expenditure in 2008 was contributed 2.66% of GDP which is the highest among the other country like China, Malaysia, and Hong Kong. Therefore, OCBC will be competitive since the government is concern about the research and development which will improve country's skill base. Besides that, Singapore government had relaxed their policy on employment of foreign worker and on immigration. This action had created good feedback as the high-skilled worker has been attracted to the energetic business environment. As at 2010, percentage of international migrant to Singapore in total population is 38.74%. Hence, OCBC bank can recruit the skills and experiences from the different country to develop a world class banking services.

Demand Condition

Demand condition are important to the home market since the demanding buyer in the home market is pressure the firm in order to meet the highest standard. Therefore, when a firm is facing a sophisticated and demanding

home market, the firm is forced to innovative and sell better-quality products to the market.

Banking industries in Singapore had dominated the GDP for 18.1% in 2010. It shows growth financial services. In respect of the sophistication of the demand it could said that Singapore financial consumers were less demanding and sophisticated due to the pass rules restriction. However, since the Singapore government deregulated the rule in 1999, the government has introduced more qualifying full bank licenses to the foreign bank. Besides, Singapore government encourage the domestic bank to consolidate their operation in order to compete in future competition offering by foreign bank player. Hence, the foreign bank would certainly drive up the innovative and sophistication of consumer. The more the foreign competitions in the country, OCBC bank have to force to come out an innovative and quality financial product and services in order to meet the local consumer. Furthermore, increases in the sophisticated demanding in the country, OCBC bank able to serve the global with world-class quality in order to compete in international.

Related and Supporting Industries

The internationally competitive firm must have, initially at least, enjoyed the support from the world-class producer of components and related product. Moreover success in the related industry maybe due to expertise accumulated elsewhere.

A world-class related and supporting industry can have the most effective influences on the rapid development of the banking and financial industries

due to the related and supporting industries can be cost effective and be incredible attractors. This will attract more foreign bank investor to Singapore. Nowadays, Singapore government had emphasised on the information technology. The reason of the government development this industry is to develop a world-class IT infrastructure for the information economy. The IT industry provides the hardware and the software not only supporting the banking industries but also the other industries as well. The rise of IT will improve the inter-connection between the worlds where the financial services can be serving to the customer through the IT network. Hence, by the advance technology had been developed in the Singapore, OCBC can now inter-connected the branches with IT network. IT also enable customer to experience the world-class financial service through the world-class database and information available in the network.

Firm Structure, Strategy and Rival

This refers to the manner in which an industry has been created, organised and managed and the nature of domestic competitors that could help a nation to achieve sustained competitive advantage.

When Singapore government authorise the qualifying full bank licenses to the foreign bank, the local bank such as OCBC bank is trying to strategy their firm in order to compete with the foreign bank. Since the OCBC is the longest bank established, it is capable hold its own domestically against the major international bank. Besides, it also increase the competition between the domestic banks to comes out an innovative and quality financial service in order to gain market share and compete with the foreign bank. The will and

motivation of improve and compete with others will bring OCBC bank to the international level and gain market share in around the world.

Q2) BUSINESS PORTFOLIOS ANALYSIS

Part A

An analysis into the portfolio (operating segments) of the chosen corporation with respect to the following dimensions:

Apply an appropriate model to evaluate the attractiveness of the different business portfolio of the chosen corporation.

All businesses need to focus on those areas of activity that give them competitive strength and the greatest opportunity for future growth. I think the most appropriate model to evaluate attractiveness of OCBC Group on the different business portfolio is BCG portfolio matrix. The BCG matrix is a portfolio planning model that had been created by Bruce Henderson for the Boston Consulting Group in early 1970's. BCG is an analysis tool that helps corporations with analyzing their business units or product lines. BCG Matrix (2x 2 matrixes) is a 4 basic categories matrix that helps to determine their future potential of the corporate product and business. The 4 basic categories is Stars, Question mark, Dogs and Cash Cow. It provides a graphic representation for an organization to examine different business in its portfolio on the basis of their related market share and industry growth rates.

The two measures in the model which represent the respective axes are market share and market growth. Market share is the percentage is calculated as the firm's market share against their largest rival. The higher

your market share, the higher the proportion of the market you control.

Market growth rate is the annual percentage change in sales volume in the industry as a whole or we call it market's attractiveness. Corporate that have low growth are ones where the total market is mature and slow growing.

Resources are allocated to the business units according to their situation on the grid. Each of these cells represents a particular type of business.

OCBC Group offers a range of specialist financial services that included consumer, corporate investment, premier and transaction banking and global treasury services. OCBC Group's businesses are presented in the following customer and product segments: Global Consumer Financial Services, Global Corporate Banking, Global Treasury and Insurance. The main rival of OCBC Group is Citigroup because presented their product portfolio in same segments.

Global Consumer Financial Services

Global Consumer Financial Services comprises a full range of products and services offered to individuals, including deposit products (checking accounts, savings and fixed deposits), consumer loans (housing loans and other personal loans), credit cards and wealth management products (unit trusts, banc assurance products and structured deposits).

OCBC

For year 2011 OCBC achieved RM 468 million operating profit compared to the year 2010 RM 525million, there is a decrease of RM 57 million on operating profit which is -11%.

Citibank

For year 2011 OCBC achieved RM 2, 606 million operating profit compared to the year 2010 RM 2, 624 million, there is a decrease of RM 18 million on operating profit which is -1%.

Global Corporate Banking

Global Corporate Banking serves business customers ranging from large corporate and the public sector to small and medium enterprises. The products and services offered include long-term loans such as project financing, short-term credit such as overdrafts and trade financing, deposit accounts and fee-based services such as cash management and custodian services.

OCBC

For year 2011 OCBC achieved RM 1, 500 million operating profit compared to the year 2010 RM 1, 265 million, there is a decrease of RM 57 million on operating profit which is +19%.

Citibank

For year 2011 Citibank achieved RM 6, 273million operating profit compared to the year 2010 RM 8, 446 million, there is a decrease of RM 2, 173 million on operating profit which is -26%.

Global Treasury

Global Treasury engages in foreign exchange activities, money market operations, fixed income and derivatives trading, and also offers structured

treasury products and financial solutions to meet customers' investment and hedging needs.

OCBC

For year 2011 OCBC achieved RM 780 million operating profit compared to the year 2010 RM 582 million, there is a increase of RM 198 million on operating profit which is 34%.

Citibank

For year 2011 Citibank achieved RM 4, 874 million operating profit compared to the year 2010 RM 5, 225 million, there is a decrease of RM 351 million on operating profit which is -7 %.

Market growth

Market growth rate = $(\text{industry sales this year} - \text{industry sales last year}) \div \text{industry sales last year}$

Global Consumer Financial Services

Year 2011 operating profit RM 468 million.

Year 2010 operating profit RM 525million.

Market growth rate = $(\text{RM 468 million} - \text{RM 525million}) \div \text{RM 525million}$

= -0. 11

= -11%

Global Corporate Banking

Year 2011 operating profit RM 1, 500 million.

Year 2010 operating profit RM 1, 265 million.

Market growth rate = (RM 1, 500 million – RM 1, 265 million) ÷ RM 1, 265 million

= 0. 19

= 19%

Global Treasury

Year 2011 operating profit RM 780 million.

Year 2010 operating profit RM 582 million.

Market growth rate = (RM 780 million – RM 582 million) ÷ RM 582 million

= 0. 34

= 34%

Growth is seen as the best measure of market attractiveness. According to research and calculation done, Global Treasury is currently having the highest market growth rate among the portfolios of OCBC Group which is 34%. It is followed by Global Corporate Banking which is having a market growth rate of 19%. Global Consumer Financial Services are having the lowest market growth rate which is only 0. 7%. Others revenue portfolios such as consignment revenues, cafes, exports etc are having a total growth rate of 4. 58%.

Relative Market Share

Market Share = Business segment revenue in this year ÷ Rivalry business segment revenue in this year

Global Consumer Financial Services

OCBC

Year 2011 operating profit RM 468 million.

Citigroup

Year 2011 operating profit RM 2, 606 million.

RM 468 million ÷ RM 2, 606million

= 0. 18

Global Corporate Banking

OCBC

Year 2011 operating profit RM 1, 500 million.

Citigroup

Year 2011 operating profit RM 6, 273 million.

RM 1, 500 million ÷ RM 6, 273 million

= 0. 24

Global Treasury

OCBC

Year 2011 operating profit RM 780 million.

Citigroup

Year 2011 operating profit RM 582 million.

RM 780 million ÷ RM 582 million

= 1.34

From the BCG matrix we can see that

Global Corporate Banking

Question marks stage. Most of the business start with this stage, they will absorb great amount of cash if the market share remain unchanged Question marks represent business units having low relative market share and located in a high growth industry are commonly known as problem children. These products are in a high growth market which means that it is early in the product life cycle and therefore has the potential to repay present investment over its life cycle. The low relative market share, however, means that this business unit is unlikely to survive in the long run because it will have a lower cost competitor.. This is potential for a company to go into star and cash cow but eventually but can become a dog. They often require more cash to be invested in them than the return. If sufficient cash isn't available, they often fail. The main feature of a problem child is that a lot of money must be invested for it to gain a bigger market share. Global Corporate Banking's in OCBC Group operating profit after allowances grew 19% to RM 1, 500 million in 2011. Higher net interest income, led by robust

loan growth, and fee income more than offset lower net interest margin, higher expenses and portfolio allowances. For 4Quarter year 2011, operating profit after allowances rose 17% year-on-year to RM 370million, but registered a decline of 10% compared to the previous quarter, largely attributable to higher allowances.

Global Treasury

Stars, very competitively strong due to high relative market share, although their current results will be poor due to the need to invest considerab