

The Role of Banking Systems

U.S.

Australia

China

Korea

Group 7 : Valiance Rose David Eric Jay

2010.1.5

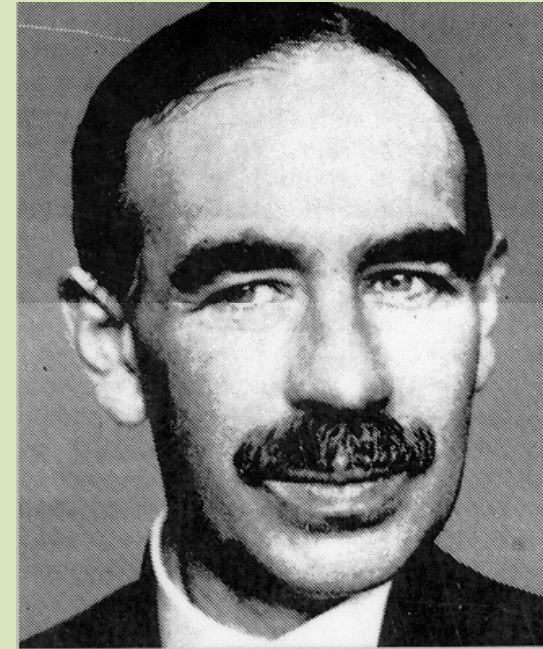


Chinese Professor Dan Li

All Star Team



U.S. President Barack Obama



John Maynard Keynes



Carl Menger

Overview

Party one:

Introduction of American, Australian,
Chinese, Korean banking systems

Party two:

A comparative study: banking system
faces crisis

United States banking system

History of U.S. Banking

- 1863: National Bank Act leads to dual banking system
- 1913: Federal Reserve Act
- 1929-1933: Great Depression, 1/3 U.S. banks fail
- 1932-1933: Glass-Steagall Act and Banking Act
- 1980's: Deregulation of U.S. banks
- Modern Day Banking...

National Banks vs. State Banks

National Banks	State Banks
Federally chartered through OCC in Department of the Treasury	State chartered
Members of Federal Reserve System	Member Banks or Nonmember Banks
	Local access to decision makers

Only state owned Bank of North Dakota:

“As the only state-owned bank in the nation, our mission, established by legislative action in 1919, is to **promote agriculture, commerce and industry** in North Dakota. The Bank acts as a funding resource in partnership with other financial institutions, economic development groups and guaranty agencies. We have four established business areas: Student Loans, Lending Services, Treasury Services and Banking Services. BND’s support services and dedicated employees provide you with the best customer service. “

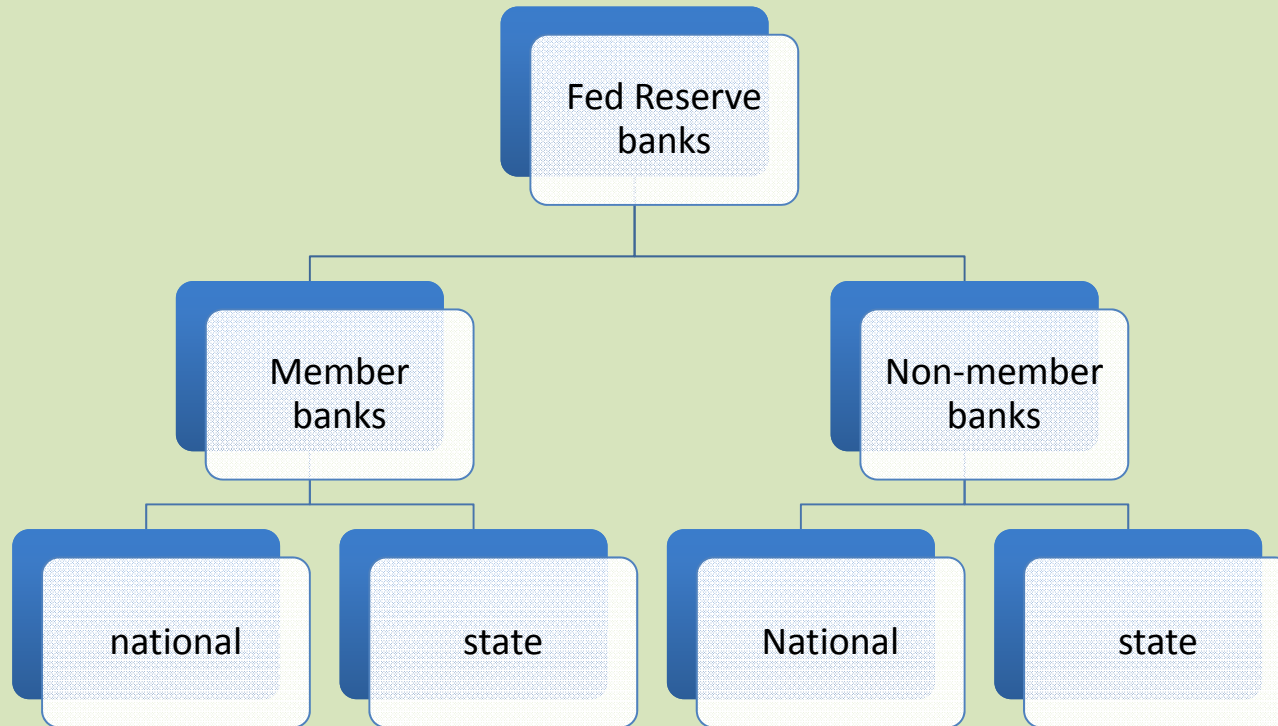
Regulators

Anti-Money-Laundering Program

Following the terrorist attacks of September, 11, 2001 Congress passed the USA Patriot Act which were regulations for stopping money laundering and terrorist access to US financial system .

Securities and Exchange Commission (SEC)	Organized exchanges and financial markets	Requires disclosure of information, restricts insider trading
Commodities Futures Trading Commission (CFTC)	Futures market exchanges	Regulates procedures for trading in futures markets
Office of the Comptroller of the Currency	Federally chartered commercial banks	Charters and examines the books of federally chartered commercial banks and imposes restrictions on assets they can hold
National Credit Union Administration (NCUA)	Federally chartered credit unions	Charters and examines the books of federally chartered credit unions and imposes restrictions on assets they can hold
State banking and insurance commissions	State-chartered depository institutions	Charter and examine the books of state-chartered banks and insurance companies, impose restrictions on assets they can hold, and impose restrictions on branching
Federal Deposit Insurance Corporation (FDIC)	Commercial banks, mutual savings banks, savings and loan associations	Provides insurance of up to \$100,000 (temporarily \$250,000) for each depositor at a bank, examines the books of insured banks, and imposes restrictions on assets they can hold
Federal Reserve System	All depository institutions	Examines the books of commercial banks that are members of the system, sets reserve requirements for all banks
Office of Thrift Supervision	Savings and loan associations	Examines the books of savings and loan associations, imposes restrictions on assets they can hold

Structure of banking system

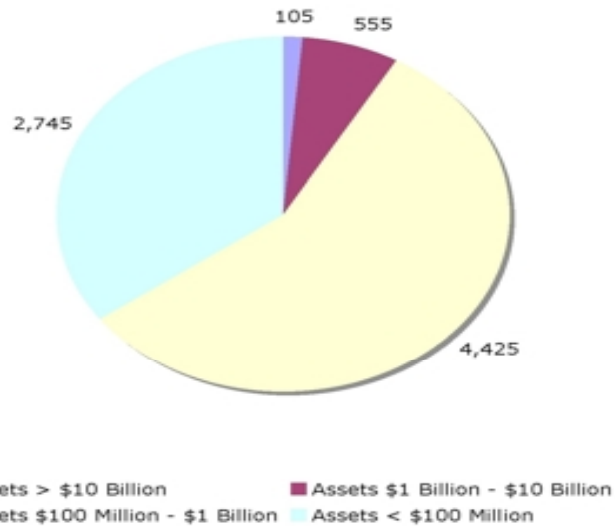


Investment banks commercial banks savings and loans retail banks online banks

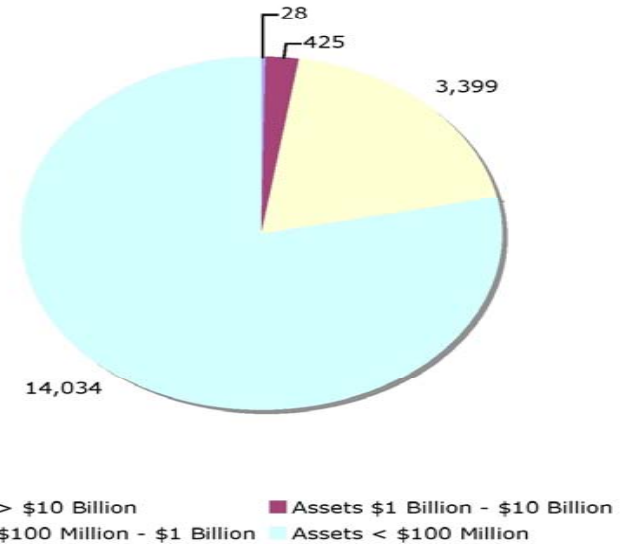
Regional (Thrift) vs. Mega Banks

Assets of \$100B Banks as Pct of GDP.

Number of Institutions by type (2010)



Number of Institutions by type (1984)



Australia banking system

The top 4 Australian banks are all ranked in the top 10 in terms of Asia's most profitable banks .

profitable

Stable

The 2008-09 Global Competitiveness Report ranked the soundness of Australia's banking sector 4th in the world, out of 134 countries.

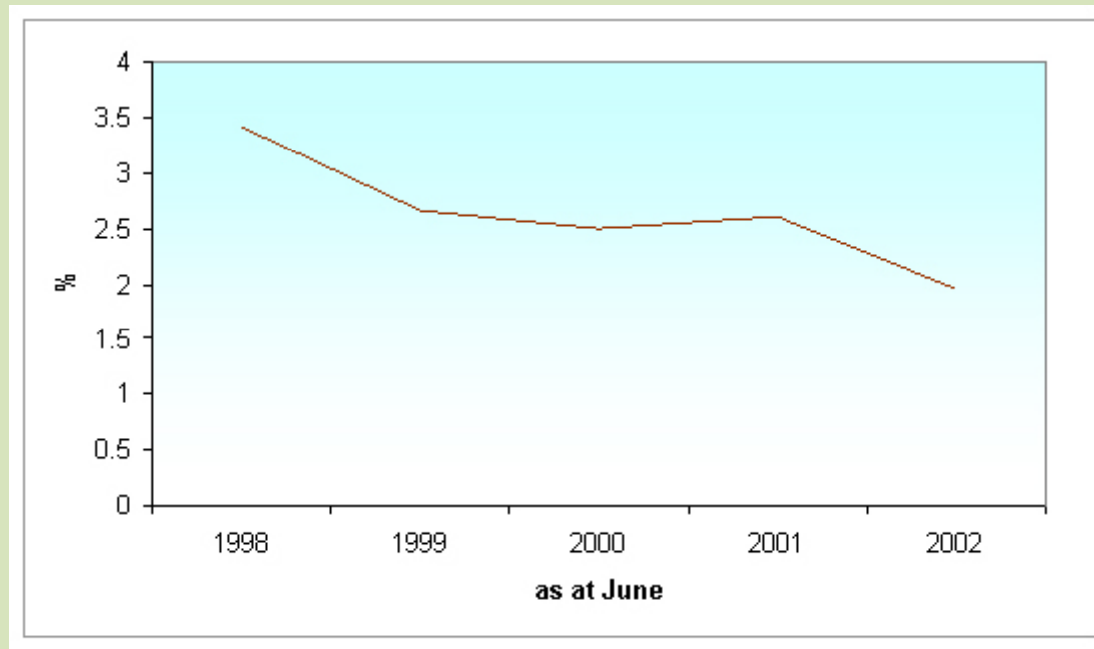
Figure 5: Bank profitability by country

Source: OECD, *Bank Profitability: Financial Statements of Banks*, 2003. Figures are for 2001 reporting year. Figures show percentage Return on Assets (ROA).

Higher profit margin	Switzerland	8.8 (% ROA)
	Finland	2.13
	USA	1.78
	New Zealand	1.50
Medium profit margin	Australia	1.3
	UK	1.19
	Norway	1.17
	Italy	1.13
	Sweden	1.09
	Denmark	1.07
	Canada	1.00
Lower profit margin	Spain	0.91
	France	0.69
	Netherlands	0.68
	Belgium	0.63
	Germany	0.26

One of the safest banking systems

Figure 4: Credit card default rate



Source: Visa International, *The Credit Card Report, November 2002*

Reserve Bank of
Australia

Australian Prudential
Regulation Authority

Australian-owned Banks
(commercial banks, big four)

14 authorized

Foreign bank

44 authorized

financial intermediaries
(Building society
Credit union)

The big four share +90%
of total secured loans in Australia

"four pillars" policy
prevents mergers (兼并) between
the four major banks.

Australian-owned
Banks
(commercial banks,
big four)



Australia and New Zealand
Banking Group Limited

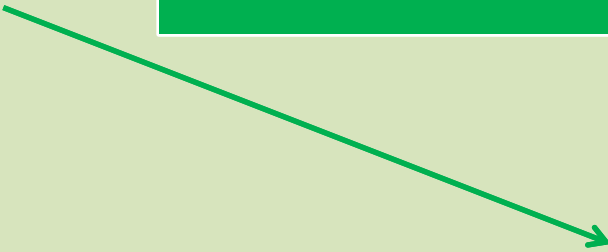
Commonwealth Bank of Australia

National Australia Bank Limited

Westpac Banking Corporation

Australian Prudential
Regulation Authority

Foreign bank



Foreign Subsidiary Banks

Branches of Foreign Banks

Retail
bank

Merchant banks

Chinese banking system

China & Australia

- Both have big 4 banks
- Restriction of foreign banks
- All banks are state owned
except foreign banks

BIG FOUR

Bank of China

Advantage: overseas network and international experiences

Industrial and Commercial Bank of China

Advantage: the largest scale of financial assets and domestic RMB business

Agricultural Bank of China

Advantage: the most extensive rural network

China Construction Bank

Advantage: the first “Big Four” bank publicly listed overseas

Structure of China's Financial System (end of 2010) RMB Billion

	Total Assets	Market Share	Total Loans	Market Share
State-Owned Commercial Banks(4)	45,033	49.68%	42,373	49.71%
Joint Stock Commercial Banks(15)	14,205	15.67%	13,447	15.78%
City commercial banks(190)	7,023	7.75%	6,581	7.72%
Others	24,378	26.90%	22,842	26.80%
TOTAL	90,640	100.00%	85,243	100.00%

Source: The PBOC 2010 Annual Report: China Economic Information Network

People's Bank of China - China Banking Regulatory Commission

Commercial banks

Joint-stock commercial banks(15)

Foreign-owned banks(191)

Rural commercial banks(40000)

State policy banks(3)

State-owned commercial banks(4)

City commercial banks(190)

Credit cooperatives(36000)

Rural credit Cooperatives(35000)

Urban credit Cooperatives(1000)

Other financial institutions

Postal savings

Non-bank financial institutions

The structure of the Chinese banking system

Three policy banks

- The State Development Bank of China
- The Export-Import Bank of China
- The Agriculture Development Bank of China

Four state-owned commercial Banks - the BIG FOUR

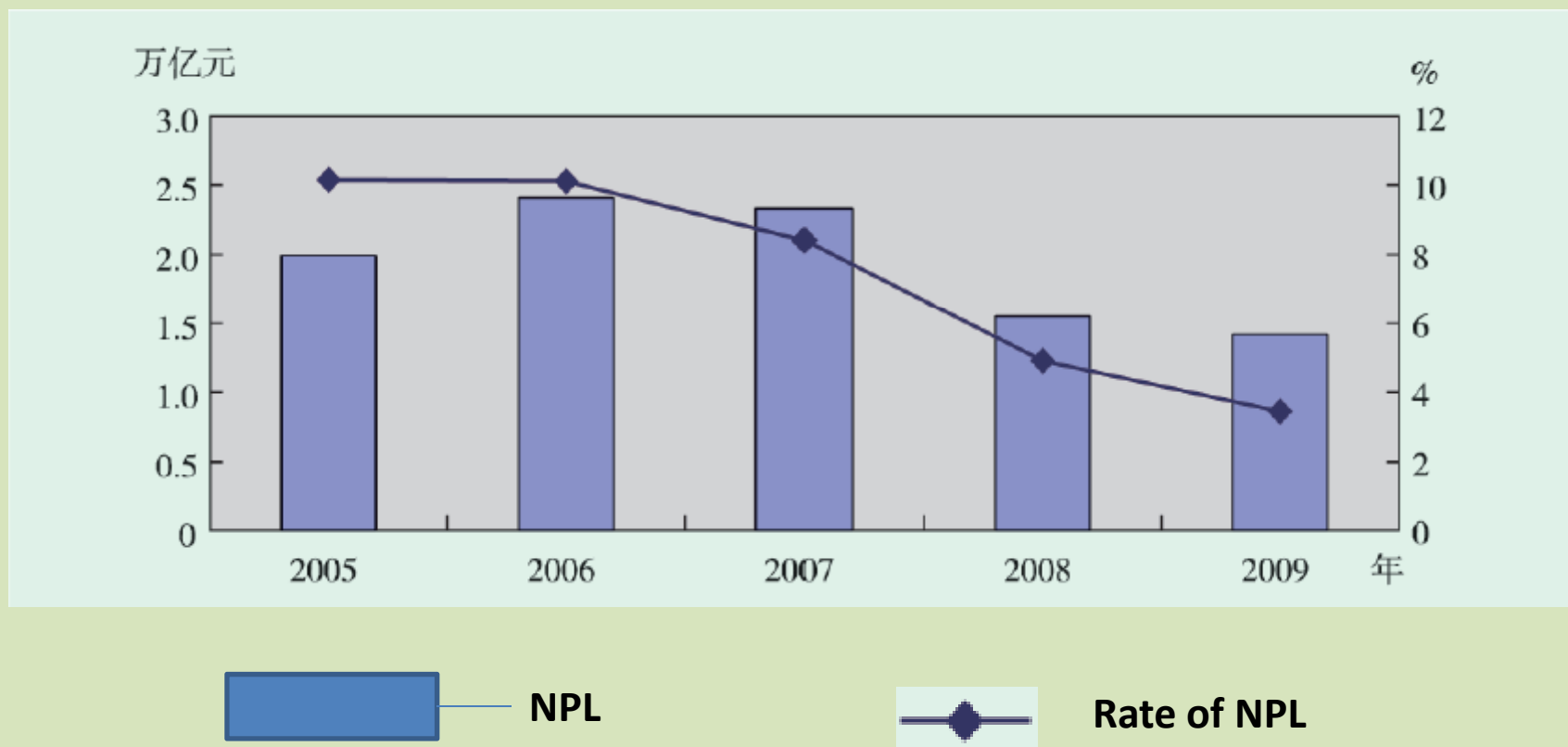
- The Industrial and Commercial Bank of China (ICBC)
- The Bank of China (BOC)
- China Construction Bank (CCB)
- Agricultural Bank of China (ABC)

The structure of the Chinese banking system

- The People's Bank of China (PBOC) Central Bank
- Three policy banks
- Four state-owned commercial Banks - the BIG FOUR
- 15 Shareholding Commercial Banks also called Joint Stock Commercial Banks
- 190 City commercial banks
- SAFE- watchdog
- Foreign Banks

A Hybrid System becoming
healthier

Non-performing loan (NPL) of the banking institutions (RMB1000 trillion) 2005-2010



Source: PBOC, CBRC

1. The system

- **Clean up the SOE's**
- **Stop inappropriate interference in management of the Banks**
- **Continue to develop an efficient banking supervision system**

2. The State-owned commercial banks

- **Improve corporate governance**
- **Face Competition of other domestic banks**
- **Improve financial transparency:**
 - Disclosure problem loans and loss reserves**
 - Off balance sheet transactions**

3. The Joint stock commercial banks and the city commercial banks?

- **How to grow without making mistakes**
- **As their funding relies less on savings deposits from individuals they are more vulnerable**
- **Face competition of the foreign banks**

4. All Chinese Banks

- **Develop the market:**
 - Bank card business**
 - Online banking**
 - Consumer credit**
 - Car financing**
 - Mortgage loans**

Korean banking system

Korean Banking System

Banks

Non-Bank Finance Institution

The Bank of Korea

Banking investment firm
Securities company
Insurance company

Commercial Bank

KB Bank
Hana Bank
Woo-Ri Bank
Shin-Han Bank

Specialized Bank

Korea City Bank
Industrial Bank of Korea

The Bank of Korea

1. Issuing money,

2. Performing monetary policy.

3. Processing supervision of banks,

Commercial banks

KB Bank
Hana Bank
Woo-Ri Bank
Shin-Han Bank

Specialized Banks

Korea City Bank
Industrial Bank of Korea

Korean Banks Assets Ranking Top 4.

Name of Bank	Return on assets	Operating Profits	Net Profits	ROE	ROA	NPL
Kook-Min	232. 1000	4. 2300	2.7500	18.05%	1.32%	0.74%
Shin-Han	218. 5000	2 .3376	1.7774	15.37%	1.0%	0.6%
Woo-Ri	208. 3150	2. 9112	2. 5130	18.90%	1.17%	0.73%
Ha-na	129. 4400	1. 5995	1. 3240	14.73%	1.02%	0.77%

Monetary Unit :
Trillion Korean Won

The Bank of Korea

1. Issuing money,

2. Performing monetary policy.

3. Processing supervision of banks,

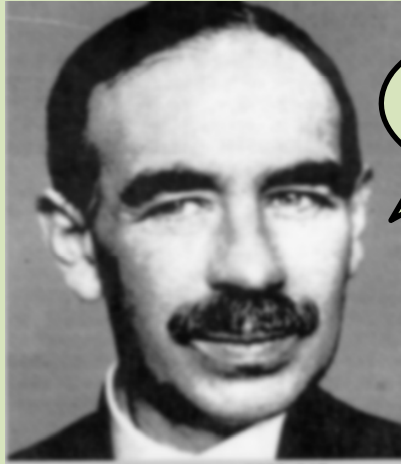
Korean Financial Supervisory System

1. The Ministry of Finance and Economy :
Taking charge of accessing public funds

2. The Financial Supervisory Service :
Processing supervision of financial institution

3. The Bank of Korea :
1. Promoting bank's credit policy
2. Processing supervision of banks

Economic Crisis Study



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Bank failures

debt

ranking

Bank failure in history

1974

Germany

Herstatt – bank failure following foreign exchange trading losses

1984

USA

Continental Illinois Bank – failure following loan losses

1985

Canada

Regional banks – failures following loan losses

1993

France

Credit Lyonnais Bank – crisis

1995

UK

Barings Bank – collapse due to trading losses

1995

USA

Daiwa Bank – record trading losses

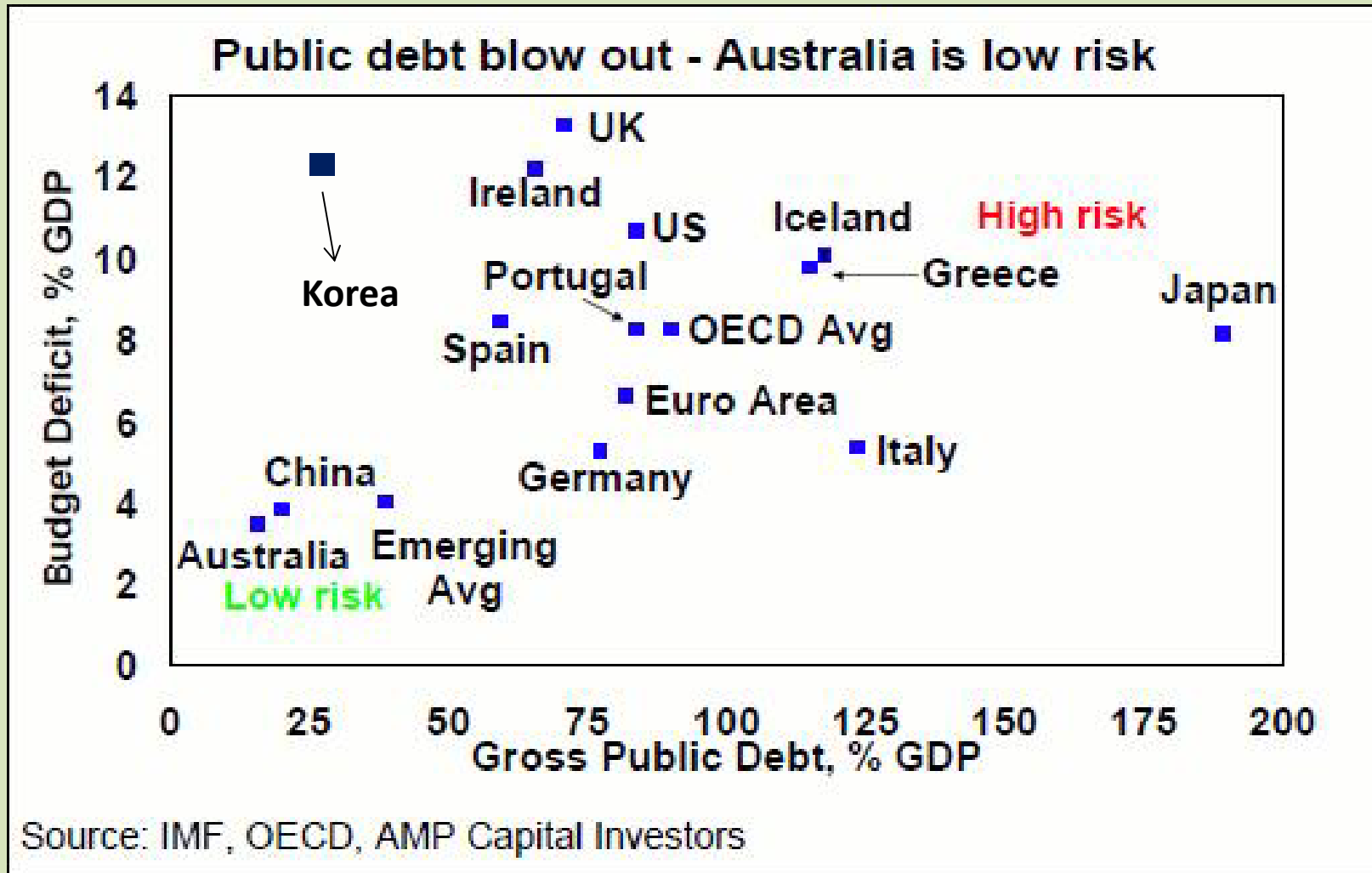
1996

Japan

Banking system – crisis following loan losses

In a number of these cases, depositors lost their savings or the taxpayer had to subsidise the loss.

Safe or not ?



Current Rank	Previous Rank	BANK	Assets US\$m	+ or - (local curr)	Capital US\$m
1	(1)	BNP Paribas SA , Paris , France	*2,952,221	-0.86%	35,955.52
2	(2)	The Royal Bank of Scotland Group plc , Edinburgh , UK	*2,739,361	-29.36%	23,623.45
3	(3)	Crédit Agricole SA , Paris , France	*2,234,350	-5.80%	40,648.49
4	(4)	Barclays PLC , London , UK	*2,226,593	-32.83%	4,606.81
5	(5)	Deutsche Bank AG , Frankfurt am Main , Germany	*2,153,033	-31.86%	2,279.77
6	(-)	Industrial & Commercial Bank of China Limited , Beijing , China	*1,726,242	-	48,926.18
7	(6)	Lloyds Banking Group plc , London , UK	*1,658,736	-	16,909.41
8	(7)	JPMorgan Chase Bank National Association , New York , USA	*1,627,684	-6.79%	1,785.00
9	(8)	Banco Santander SA , Boadilla del Monte , Spain	*1,593,298	+5.80%	5,902.44

JPMorgan VS ICBC

Source: Shanghai Daily

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News: ICBC leads global rankings for profit

BANK of America has leap-frogged United States rival JPMorgan to rank as the world's **top bank in terms of capital strength** while the Industrial and Commercial Bank of China **tops the profit league**, according to a new study.

Current Rank	Previous Rank	BANK	Assets US\$m	+ or - (local curr)	Capital US\$m
10	(9)	The Bank of Tokyo-Mitsubishi UFJ Ltd , Tokyo , Japan	1,494,350	+6.67%	12,000.15
11	(10)	Société Générale , Paris La Défense , France	*1,468,725	-9.41%	1,327.12
12	(11)	Bank of America NA , Charlotte , USA	*1,465,221	-0.44%	3,020.04
13	(22)	China Construction Bank Corporation , Beijing , China	*1,409,602	+27.37%	34,230.12
14	(14)	UniCredit SpA , Milan , Italy	*1,332,510	-11.18%	12,037.12
15	(24)	Agricultural Bank of China Limited , Beijing , China	*1,301,097	+26.63%	38,084.08
16	(15)	UBS AG , Zürich , Switzerland	*1,296,709	-33.47%	344.36
17	(16)	Bank of China Limited , Beijing , China	*1,281,409	+25.84%	37,181.63
18	(-)	ING Bank NV , Amsterdam , Netherlands	*1,265,594	-14.75%	753.23

Big four in china

42	(41)	Danske Bank A/S , Copenhagen , Denmark	*572,753	-12.57%	1,291.73
43	(42)	National Australia Bank Ltd , Melbourne , Australia	*566,927	-0.41%	19,744.32
44	(43)	National Westminster Bank Plc , London , UK	*566,330	+9.19%	2,709.51
45	(44)	The Hongkong and Shanghai Banking Corporation Limited , Hong Kong , Hong Kong	*559,924	+1.91%	2,900.92

* Figures are consolidated



Current Rank	Previous Rank	BANK	Assets US\$m	+ or - (local curr)	Capital US\$m
46	(49)	Commonwealth Bank of Australia , Sydney , Australia	*558,674	+4.18%	20,762.38
47	(45)	DZ BANK AG Deutsche Zentral-Genossenschaftsbank , Frankfurt am Main , Germany	*557,425	-9.04%	4,533.72
48	(47)	The Toronto-Dominion Bank , Toronto , Canada	*517,285	-1.06%	17,408.10
49	(48)	Westpac Banking Corporation , Sydney , Australia	*510,996	+34.10%	20,364.01
50	(50)	Bayerische Landesbank , Munich , Germany	*486,109	-19.61%	8,484.94

Big four in Australia



Thank you!