



## Oversea-Chinese Banking Corp (OCBC) Bank

OCBC Bank, founded and established on 1932, is a publicly listed Singaporean financial institution with estimated total assets of USD275.1Bn and a market capitalization of SGD36.85Bn [approx. USD27.07Bn] (Yahoo Finance, 2016). It is reportedly the 2<sup>nd</sup> largest local bank in Singapore in terms of assets, bagging several titles and awards—among these being: Best Managed Bank in Singapore and Asia Pacific (2016), Best Managed Board Gold Awards (2016), and Best Bank in Singapore (2016), from several renowned awarding institutions. It has also been labelled the World's Strongest Bank by Bloomberg Markets Magazine in years 2011 and 2012 (OCBC Bank, 2016). This report is intended to evaluate the company using several tools in business analysis such as the PESTEL Analysis, Porter's Five Forces, and the SWOT Analysis. The objective is to arrive at a more comprehensive understanding of OCBC Bank's core principles, strategies and competitive position—particularly in the Singaporean Market.

### PESTEL ANALYSIS

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To lay the foundation of this review, it is helpful to first establish the macro-economic situation of the subject company. Below is a discussion on three key PESTEL factors affecting OCBC Bank:

#### *Political*

For one, the local political scenario fosters a dynamic platform for the banking industry. Ever since Singapore had gained independence in 1965, the country basked in political stability under the one-party government system where the continuity in policy planning, strategy, and implementation had ultimately increased the efficiency and viability of public services.

The Monetary Board of Singapore (MAS), governing authority of all financial institutions in Singapore and regulatory body of monetary policies, exchange rates and inflation, had long since focused on the development of a "world-class financial centre". With this, MAS had liberalized the financial system and had allowed greater foreign participation, shifting strategy emphasis from regulation to risk-focused supervision. Several initiatives were pursued to allow greater access to domestic funds, develop the credit market and overhaul corporate governance (MAS, no date). These initiatives continually subject the Singaporean financial market to be intertwined with global trends and economies, succinct to local performance of individual institutions.

#### *Economic*

Closely intertwined with political factors, are economic considerations that directly impact the bank. Similarly, what we have is a capable economy backed by promising historical performance. What could be considered as Asia's success, stems from a well implemented open and outward-oriented development strategy— that effectively shifted the country's heavily labor-reliant export products to more high value-added products, such as electronics, chemicals and biomedical. In addition, the service sector maintains significant relevance to the Singapore economy evidenced by increasing share of the financial and business sectors of the economy (MAS, no date).

Most-recent financial performance reviews conducted by the MAS, reveals the local economy foreseen to grow at a modest pace in 2016, though with an unoptimistic held-back outlook for global economic growth. This is in reference to the slumped expansion of G3 economies and economic slowdown of China. Thus, regional factors would continue to take a toll on the economy, most especially for external-oriented sectors. Despite this, domestic-oriented sectors such as healthcare, education, and public infrastructure is expected to remain resiliency. Ultimately, the country's GDP growth is seen to come in at 1–2% in 2016, following the 2% growth registered in the previous year. Of this, 12% is contributed by the financial sector (MAS, 2016).

#### *Sociocultural*

Highly integral to the performance of the company is the profile of workers and customers of the service institution. Notably, this has become a big factor on why global financial institutions single out Singapore to house their global or regional office; this is due to the local availability of a sizeable pool of finance professionals. Singapore's workforce is considered highly-educated, with industrious work ethic and tech-



savvy. In addition, the multi-cultural based society with a multi-lingual workforce, easily allows for the service of diverse markets globally.

As a means to maintain its quality workforce that stays ahead of the curve, the local industry established the Institute of Banking and Finance (IBF) Standards, to benchmark and certify a certain level of competency, professionalism and ethical standards within its workforce. Notably, Singapore's work regulations and labor pool have consistently been given high regard by leading international organizations like the World Economic Forum (WEF) and Business Environment Risk Intelligence (BERI) (MAS, no date).

Given Singapore's political and macroeconomic stability with a skilled and well-educated workforce, financial institutions such as OCBC bank finds itself in a constructive and supportive position, which may have well contributed to its rapid development as a dynamic business model and financial institution of the world.

### **PORTER'S 5 FORCES**

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Integral to this discussion, is also the more immediate environment in which OCBC is a part of. As such, the analysis of the company's business situation in relation to PORTER's five forces is pursued as follows:

#### ***Threat of Substitutes***

As a sweeping generalization, there are relatively very low barriers for substitution within the Financial Industry. This is because banking products and services are, in retrospect, homogenous. Meaning, financial tools and services, such as loans, deposits, trade management services, derivatives and whatnot, could be offered by any bank—so as long as they have the resources and permits necessary to operate these. The only difference lies in the individual corporate strategy and marketing efforts extended by the institution in their pursuit of clients. As such, key differentiators would be the scope of the company's network, leveraging power, relationship with clients, brand equity and company resources. The same factors would also contribute to the company's performance amongst competitors.

#### ***Threat of New Entrants***

Because of the company's size, breadth of scope, and level of influence in both local and international markets, new players pose relatively little threat to it. Though should we define 'new players', as institutions that have only been newly introduced to the Singaporean Market, International Banks may pose considerable threat to the company. Notably, when Singapore liberalized the financial sector by opening up its markets to foreign banks in 2001, market share was eaten up and local banks eventually shrunk in number to half as of current. In effect, there are currently 121 foreign commercial banks in Singapore alongside the 5 remaining locally incorporated banks (MAS, 2016).

#### ***Bargaining Power of Suppliers and Buyers***

In the banking industry, a unique case is presented where the suppliers and buyers come from the same pool—the clients. As such, bargaining power is much stronger on the client side versus the institution—most-especially given the low barriers to substitution and highly competitive nature of the industry. With this, it is integral that players remain innovative and aggressive in terms of harnessing market share. As the bank increases its deposits and client base, its leveraging and bargaining power increases.

#### ***Industry Rivalry***

OCBC bank's strategy is to "Deepen Presence in Core Markets", of which it considers to be North and Southeast Asia—especially in Singapore, Malaysia, Indonesia, and Greater China. What differentiates OCBC from smaller competitors is its breadth of coverage and the leverage it is able to acquire with its global presence. On the flip-side, OCBC's competitive advantage over larger international banks is its ethnicity to Singapore, making it among the more preferred and dominant banks within domestic market. Its closest competitors could be considered to be Development Bank of Singapore (DBS) and United Overseas Bank (UOB) who garners the 1<sup>st</sup> and 3<sup>rd</sup> spots respectively, in terms of bank asset size.

### SWOT ANALYSIS

Finally, the company is placed under the looking glass to put together and evaluate both internal and external factors underlying the company's performance. To aid the analysis is a SWOT diagram as follows:

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Disciplined Risk Management, backed up by a professional workforce with sophisticated financial know-how.</li> <li>• Diversified funding base spread across several countries in Asia.</li> <li>• Technological aptitude and investments in innovative initiatives.</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Not as aggressive as local bank counter-part DBS—notably the current top-performer bank in SG especially in terms of trade volumes.</li> <li>• Highly dependent on financial performance of insurance arm, Great Eastern Holdings, which contributes 16% of the group's 2015 earnings (OCBC, no date).</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• Increasing Intra-Asia Trade &amp; Cross-border Capital Flows.</li> <li>• Rising Asian Wealth.</li> <li>• Urbanization and continuing SME Rise in Asian markets.</li> <li>• Formation of Economic Blocs and New Policy Banks.</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>• Globalization—effectively opening up the local market to external competition.</li> <li>• Increasing risk exposure to global trends as local operations are hinged to int'l. markets.</li> <li>• Higher regulatory expectations demanding for stronger capital, liquidity and regulatory compliance.</li> </ul>

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