



International Expansion of Regional Commercial Banks in Korea: The Case of BNK Busan Bank

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국내 지역은행의 해외 진출: 부산은행을 중심으로

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Abstract

On March 11, 2011, BNK Financial Group was established by the merger between Busan Bank and Kyongnam Bank. Currently, BNK Financial Group has eight affiliates in Korea and three grandchild companies in foreign countries, namely, Cambodia, Myanmar and Laos. As the major affiliate of BNK Financial Group and the leading regional commercial bank, BNK Busan Bank is operating one foreign branch and two representative offices. However, the international banking operation of BNK Busan Bank is far below than those of nationwide commercial banks in terms of number of branches and revenues. In this paper, we attempt to conduct a preliminary survey over the perception on international expansion by BNK Busan Bank employees. We collect sample data from 300 employees of BNK Busan Bank. Nearly four in five workers overwhelmingly said international expansion is necessary. In addition, almost half of them (147 out of 300) answered that profit seeking is the most important motivation of international expansion.

Key words : BNK financial group, BNK pusan bank, International expansion, Nationwide commercial bank, Regional commercial bank

I. Introduction

The issue of overseas expansion of banking industry has drawn a lot of attention from the academic circle and media (Bang, 2018; Chae, 2017; Hong, 2017; Joo, 2015; Lee, 2012; Lee, 2015; Lim, 2015; Son, 2018; Yang, 2018). This might be due to the benefits of international banking such as high dividends for parent companies (Son, 2018), diversification effect (Suh

& Kang, 2011), high growth rate (Yang, 2018) among the many. Amid the fourth industrial revolution, internet-banking has also drawn a significant amount of attention across the globe (DBS, 2018; Lee, 2017; Jun & Yeo, 2015).

Since its launch in March 2011, BNK Financial Group (hereafter, 'BNK FG') has successfully demonstrated itself as the representative regional financial group in Korea. The management motto of BNK FG is 'To the world with the region, to a

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better future with the customers,' aiming to reach Asia's top 40 and global best regional financial group by 2020. BNK FG operates 384 branches and 93 offices in Korea, while only 8 overseas branches and 2 representative offices (BNK Financial Group, 2016).

As the major affiliate of BNK FG and the leading regional commercial bank, BNK Busan Bank is operating one foreign branch and two representative offices (BNK Financial Group, 2016). BNK Busan Bank also makes a credit sharing agreement with Chinese Chingdao Agricultural and Commercial Bank (Kim, 2018). However, this is far below than those of nationwide commercial banks in Korea. For example, as of May 2018, Woori Bank operates as many as 303 branches in 25 countries (Kim, 2018). To make it worse, BNK Busan Bank recently reported first quarter's poor profit (Kim, 2018a, 2018b). In order to escape from the saturated domestic market, BNK Busan Bank needs to step up international expansion, following Choi (2018), Lee & Choi (2017) and Lee et al. (2015) in education industry.

In this paper, we seek to perform a survey on the workforce's perception of international expansion of BNK Busan Bank. We collect sample data from the 300 employees of BNK Busan Bank. We hope that this study can help BNK Busan Bank not only create new income streams but also obtain market share in international banking sector, especially in Southeast Asia.

This paper is organized as follows. In chapter II, banking delivery channel in Korea will be examined. In chapter III, the status quo of BNK Busan Bank will be investigated. In chapter IV, survey on international expansion of BNK Busan

Bank will be conducted. Finally in chapter V, conclusions and limitations for this paper will be provided.

II . Banking Delivery Channel of BNK Busan Bank

1. Overall Banking Delivery Channel in Korea

<Table 1> presents the overall banking delivery channel in Korea. The Korea Federation of Banks (KFB) are entitled to act on behalf of twenty-two full members and forty associated members. The full members incorporate six nationwide commercial banks (NCB), six regional commercial banks (RCB), five specialized banks (SB), two credit guarantee funds, one specialized financial institution, and two internet-primary banks. The branches of forty foreign banks take part in as associate members (for details, see Korea Federation of Banks, 2018b).

2. Banking Delivery Channel of BNK Busan Bank

<Table 2> documents the banking delivery channel of BNK Busan Bank by regions in Korea. BNK Busan Bank has a total of 184 branches and 78 offices in Korea. As the leading regional bank with headquarter in Busan, BNK Busan Bank operates the most number of branches (138) and offices (75) in Busan, totaling 213 across the regions. BNK Busan Bank maintains two mobile offices (for details, see Korea Federation of Banks, 2018b). BNK Busan Bank is driving "Beyond No. 1 in Korea" initiative.

<Table 1> Overall Banking Delivery Channel in Korea

Type	Bank Name	Branches	Offices	RO	Total
NCB	Shinhan Bank	738	127	0	865
	Woori Bank	764	112	0	876
	KEB Hana Bank	696	79	0	775
	KB Kookmin Bank	924	138	0	1,062
	Citibank Korea Inc.	39	5	0	44
	SC Korea Bank	204	35	0	239
SB	Korea Development Bank	77	0	0	77
	Nonghyup	849	301	0	1,150
	Suhyup	120	6	0	126
	Industrial Bank of Korea	571	38	0	609
	Korea Export and Import Bank	10	3	0	13
RCB	Daegu Bank	185	67	0	252
	Busan Bank	184	78	0	262
	Kwangju Bank	130	11	0	141
	Jeju Bank	32	5	0	37
	Jeonbuk Bank	91	4	0	95
	Kyongnam Bank	154	0	11	165
Total		5,768	1,009	11	6,788

Abbreviations: RO=Representative Offices; NCB=Nationwide Commercial Bank; SB=Specialized Banks; RCB=Regional Commercial Bank.

Source: Compiled from the excel data provided by Korea Federation of Banks (2018b).

<Table 2> Banking Delivery Channel of BNK Busan Bank by Region

Region	Branches	Offices	Total
Busan	138	75	213
Kyongsangnam Province	23	1	24
Seoul	7	0	7
Ulsan	7	0	7
Daegu	1	0	1
Incheon	1	0	1
Daejeon	1	0	1
Kyonggi Province	3	0	3
Kyongsangbuk Province	2	0	2
Gwangju	1	0	1
Mobile	0	2	2
Total	184	78	262

Source: Compiled from the excel data provided by Korea Federation of Banks (2018b).

III. Overseas Banking Operations of BNK Busan Bank

1. Reasons for International Banking

According to Eun & Resnick (2014, p. 266),

there are ten reasons for international banking.

1) Low marginal cost: Managerial and marketing knowledge originated at home can be used abroad with low marginal costs.

2) Knowledge advantage: The foreign bank subsidiary can rely on the parent bank's knowledge

of personnel and credit investigations.

3) Home country information services: Local clients may be able to acquire more complete trade and financial market information from a foreign subsidiary bank operating in their country.

4) Prestige: Very large multinational banks possess high perceived prestige, liquidity, and deposit safety that can be employed to attract customers abroad.

5) Regulation advantage: Multinational banks are often not subject to the same regulations as local banks.

6) Wholesale defensive strategy: Banks go after their multinational clients abroad to prevent the erosion of their clientele to foreign banks.

7) Retail defensive strategy: Multinational banking operations assist a bank avert the erosion of its traveler's check, tourist, and foreign business markets from foreign bank competition.

8) Transaction costs: By maintaining foreign branches and local currency balances, banks may

lessen transaction costs and foreign exchange risk on currency conversion.

9) Growth: Growth prospects in a home country may be restricted by a market largely saturated with the services provided by domestic banks.

10) Risk reduction: Greater stability of earnings is plausible with international diversification.

2. Overseas Banking Operations of BNK Busan Bank

<Table 3> shows the networks of BNK Financial Group, having eight affiliates and three grandchild companies. As one of the affiliates of BNK Financial Group, BNK Busan Bank has one foreign branch bank and two representative offices in foreign countries. An affiliate bank is one that is only partially held but not controlled by its parent company. A foreign branch bank operates like a local bank, but legally it is a part of the parent bank. Thus, a branch bank is subject to both the banking regulations of its home country and the country in which it operates.

<Table 3> Networks of BNK Financial Group

Classification		Domestic			Overseas			Total
		B	O	RO	<i>B</i>	<i>O</i>	<i>RO</i>	
FHC	BNK Financial Group	1	-	-	-	-	-	1
	BNK Busan Bank	202	67	-	1	-	2	272
Affiliate	BNK Kyongnam Bank	157	12	-	-	-	-	169
	BNK Securities	5	-	-	-	-	-	5
	BNK Capital	13	10	-	-	-	-	23
	BNK Savings Bank	3	4	-	-	-	-	7
	BNK Asset Management	1	-	-	-	-	-	1
	BNK Credit Information	1	-	-	-	-	-	1
	BNK System	1	-	-	-	-	-	1
Grandchild Company	BNKC Cambodia Microfinance Institution Plc.	-	-	-	1	-	-	1
	BNK Capital Myanmar Co. Ltd.	-	-	-	5	-	-	5
	BNK Capital Lao Leasing Co. Ltd.	-	-	-	1	-	-	1
Total		384	93	-	8	-	2	487

Abbreviations: FHC=Financial Holding Company; B=Branches; O=Offices; RO=Representative Offices.

Source: BNK Financial Group (2016), Substantiality Report 2015, p. 7.

A representative office is a small service facility run by parent bank personnel. The parent bank may commence a representative office in a country in which it has many multinational corporation (MNC) clients or at least an important client.

IV. Survey on Overseas Expansion of BNK Busan Bank

1. Data Collection

To conduct a preliminary survey on overseas expansion of BNK Busan Bank, we obtained data from 300 employees affiliated with BNK Busan Bank. The sample data was collected during February 1-25, 2017. The survey consists of two parts: the first part with 13 questions on international expansion by a regional bank, and the second part with 5 questions on socio-demographics of subjects. Although the questionnaire is not included in this paper due to

space constraint, but it can be available on request.

2. Sample Characteristics

<Table 4> reports the sample characteristics classified by gender, age, headquarters or branches, location of offices and marriage. In gender classification, 157 employees are male, representing 52.3% of sample. In terms of age, the workers are divided by four groups, namely, 20-29, 30-39, 40-49 and over 50. The weights for the groups are 15.0%, 34.0%, 35.0%, and 16.0%, respectively. Among the 300 respondents, 66 work at the headquarter (22.0%) and the remaining 234 at the branches (78%). Based on the location of offices, 247 work in Busan (82.3%), 21 in Kyongnam and Ulsan (7.0%), 30 in seoul (10%), and 2 in other locations (0.7%). Finally, in terms of marriage status, 82 employees are not-married (27.3%), and the majority 218 are married (72.7%).

<Table 4> Sample Characteristics

Classification	Item	Frequency	Ratio (%)
Gender	Male	157	52.3
	Female	143	47.7
	Sub Total	300	100.0
Age	20-29	45	15.0
	30-39	102	34.0
	40-49	105	35.0
	Over 50	48	16.0
	Sub Total	300	100.0
HQ / Branches	HQ	66	22.0
	Branches	234	78.0
	Sub Total	300	100.0
Location of Office	Busan	247	82.3
	Kyongnam / Ulsan	21	7.0
	Seoul	30	10.0
	Others	2	0.7
	Sub Total	300	100.0
Marital Status	Not-married	82	27.3
	Married	218	72.7
	Sub Total	300	100.0

Source: Derived from Table 4-1 in Park (2017).

3. Perception on International Expansion

<Table 5> reveals the survey result on international expansion perceived by the BNK Busan Bank workers. They were asked to choose one answer among five choices, namely, 'extremely unnecessary,' 'unnecessary,' 'indifferent,' 'necessary,' and 'extremely necessary.' Nearly four

in five employees overwhelmingly supported for the international expansion of BNK Busan Bank. As much as 257 workers answered that the overseas expansion is necessary or extremely necessary. Only 15 employees replied that the international expansion is extremely unnecessary or unnecessary.

<Table 5> Perception on International Expansion

Classification		Extremely unnecessary	Unnecessary	Indifferent	Necessary	Extremely necessary	Total
Gender	Male	2	5	12	93	45	157
	Female	1	7	16	96	23	143
Sub Total		3	12	28	189	68	300
Age	20-29	0	0	7	25	13	45
	30-39	0	6	10	65	21	102
	40-49	3	4	7	68	23	105
	Over 50	0	2	4	31	11	48
Sub Total		3	12	28	189	68	300
HQ / Br.	HQ	0	0	3	46	17	66
	Branches	3	12	25	143	51	234
Sub Total		3	12	28	189	68	300

Abbreviation: HQ=Head Quarter; Br.=Branches.

Source: Derived from Table 4-2 in Park (2017).

<Table 6> discloses the survey result on the strategic motivation of foreign expansion by BNK Busan Bank employees. They were asked to choose one answer among six choices, namely, 'profit seeking,' 'superior service,' 'manager's passion,' 'tax benefit,' 'scale of economy,' and 'others.' Almost half of them (147 out of 300) answered that profit seeking is the most important motivation of international expansion. Among the 147, more male employees respond that profit seeking is the most important strategic motivation than female workers (97:50). Scale of economy is the second most important motivation (88 out of 300), followed by superior service (35 out of 300), manager's passion (20 out of 300), others (9 out of 300), and tax benefit (1 out of 300).

V. Conclusions

On March 11, 2011, BNK Financial Group was born by the merger between Busan Bank and Kyongnam Bank. Although BNK Busan Bank is the largest affiliate of BNK Financial Group, it is currently operating only one foreign branch and two representative offices. The poor international presence of BNK Busan Bank leads to the necessity of overseas expansion.

In this paper, we aim to conduct a preliminary survey on the prospect of international expansion perceived by BNK Busan Bank employees. We collect sample data from 300 workers at BNK Busan Bank.

<Table 6> Strategic Motivation of Foreign Expansion

Classification		Profit Seeking	Superior Service	Manager's Passion	Tax Benefit	Scale of Economy	Others	Total
Gender	Male	97	13	7	0	34	6	157
	Female	50	22	13	1	54	3	143
Sub Total		147	35	20	1	88	9	300
Age	20-29	14	9	1	0	21	0	45
	30-39	43	13	9	1	34	2	102
	40-49	58	10	8	0	25	4	105
	Over 50	32	3	2	0	8	3	48
Sub Total		147	35	20	1	88	9	300
HQ / Br.	HQ	36	4	3	0	20	3	66
	Branches	111	31	17	1	68	6	234
Sub Total		147	35	20	1	88	9	300
Location of Office	Busan	125	24	13	1	77	7	247
	Kyungnam / Ulsan	9	5	1	0	5	1	21
	Seoul	12	6	5	0	6	1	30
	Others	1	0	1	0	0	0	2
Sub Total		147	35	20	1	88	9	300

Abbreviations: HQ=Head Quarter; Br.=Branches.

Source: Derived from Table 4-3 in Park (2017).

The result shows that 86% of employees overwhelmingly agrees with the necessity of international expansion of BNK Busan Bank. Among them, 46% is male and 40% female. In addition, nearly three in four employees supported for the overseas expansion of BNK Busan Bank.

We would like to suggest the Development Bank of Singapore (DBS) as a role model for BNK Busan Bank in the pursuit of international expansion. DBS is a commercial bank headquartered and listed in Singapore. Since its establishment in 1968, DBS played an important role in financing the industrialization of a newly independent nation, namely, Singapore. Currently, DBS is not only Southeast Asia's largest bank, but also Asia's best digital bank. DBS is the first bank to invent methodology to evaluate digital value creation. The digital segment of DBS has been consistently enjoying superior returns over time.

DBS reaped an ROE of 27% in 2017 from digital segment, nine percent higher than that of the traditional segment. DBS is presented in 18 markets globally including six priority markets in Asia, namely, mainland China, Hong Kong, Taiwan, Singapore, Indonesia, and India (for details, see DBS, 2018).

This paper has at least two limitations. First, the subjects for the sample data is restricted to the workforce of BNK Busan Bank. Second, only qualitative research method is used for the analysis of survey results. In the future study, we hope to overcome these shortcomings by extending the sample and employing quantitative method.

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