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## Regional Performance of China's Banks: Evidence from Industrial and Commercial Bank of China

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This paper investigates regional performances of China's and the world's largest commercial bank: the Industrial and Commercial Bank of China (ICBC), by its spatial patterns and geographical distribution of deposits. Moran  $I$  of Geoda software and the Local Indicators of Spatial Association (LISA) are applied. Empirical evidence shows that overall performances of ICBC depended consistently on

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Yangtze River Delta and Bohai Sea region while performances of other regions were relatively lower-performed during this period. Interestingly, branches performances in coastal provinces were not necessarily better than those in interior provinces because branches in Pearl River Delta were constantly under-performed. Furthermore, we identified that spatial effects and workers population have large, statistically significant impacts on branches' performances by employing spatial econometric tools. However, workers population have reverse effects on deposits performances. Evidences indicate that the bank branches performances of deposits rely on transferring deposits from less worker-concentrated areas or acquiring deposits through other sources: corporate, governmental accounts. It is the competitive advantage that ICBC becomes the most profitable bank from economies of scales and scopes in procuring deposit through various sources and making loans in worker-populated areas where funds are highly demanded. These also illuminate the future improvement and direction for bank management and government policy.

*Keywords:* Geospatial analysis; LISA; spatial econometric model; Industrial and Commercial Bank of China.

## 1. Introduction

Industrial and Commercial Bank of China (ICBC) was established in 1984. The bank was restructured to a joint-stock company in 2005. Later in 2006, the bank was listed on both Stock Exchange in Shanghai and Hong Kong. The bank has developed into the largest publicly traded bank in the world in terms of market capitalization, customer deposits, and profitability according to the annual survey of *The Banker Magazine* in 2012 and 2013.<sup>1</sup>

The bank has 4.38 million corporate clients and 400 million or so personal customers by virtue of the distribution on network consisting of 17,125 domestic branches in the end of 2012 (ICBC Annual Report 2013). Banks in China, like in other developing markets, prefer employing branches even for routine transactions and financial services. Hence, branches are a bank's most important service and market channel. In fact, they are more effective than other channels for acquiring new customers. Therefore, a spatially efficient allocation of branches is necessary for acquiring new customers, increasing customer satisfaction, expanding market shares, reducing overall operation costs and improving management efficiency.

The location and performances of bank branches are critical to the success of the banking business. The major ingredients for the location decisions and

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<sup>1</sup>Note that on April 2, 2013, ICBC announced that a share subscription agreement has been concluded to acquire a 20% stake in Bank SinoPac, SinoPac Financial Holdings' banking unit. If approved, ICBC will be the first China's bank to invest in a Taiwanese bank through holding shares (Poon, 2013).