

Competing for Dominance in Global Banking

Sorin-George Toma

Faculty of Business and Administration, University of Bucharest, Romania
tomagsorin62@yahoo.com

Andra Modreanu

The Bucharest University of Economic Studies, Doctoral School of Business Administration, Romania
andra.modreanu@yahoo.com

Abstract

In the last decades, banking has become an impressive global affair. This changing orientation of the big banks' activities has led to the expansion of their operations at a global scale but raised difficult issues related to their capacity to manage their liquidity and to face various financial shocks worldwide. The competition among global banks has become much more severe in recent years as customers expect higher confidence from them. This is why more and more banks should design and implement customer-centric business models, ensure a higher cybersecurity, and drive digitization across their whole organizations. The goal of the paper is to briefly analyze the competition among the largest banks of the world within the global banking system in the period 2020-2021 by taking into account their Tier 1 capital, assets and market capitalization. The paper concludes that the Chinese banks were the main actors in the global banking system in the period 2020-2021.

Key words: global banking, global banks, China, United States of America

J.E.L. classification: F3, F65, G21

1. Introduction

In the last decades, banking has become an impressive global affair. This changing orientation of the big banks' activities has led to the expansion of their operations at a global scale but raised difficult issues related to their capacity to manage their liquidity and to face various financial shocks worldwide (Siegel, 2022).

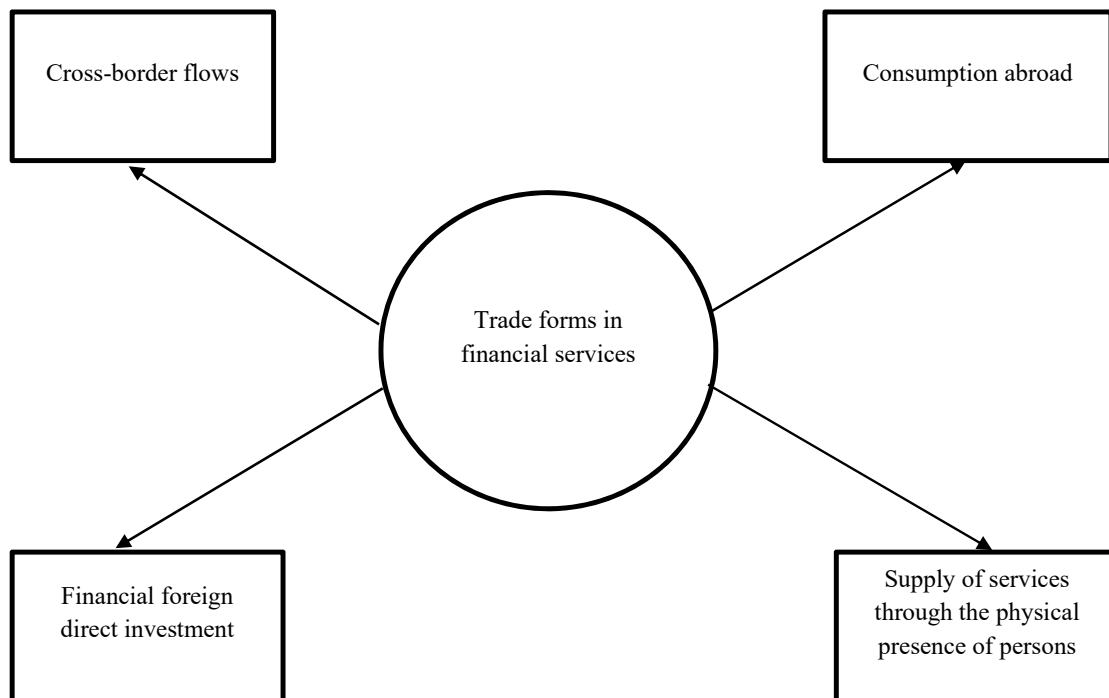
The COVID-19 pandemic intensely tested the resilience of the global banking industry. A plethora of factors, such as digital transformations (Tohănean *et al.*, 2018; Adams, 2022), the fusion of technologies, and the convergence of industries (Deloitte, 2021), is challenging this industry. In this respect, the competition among banks has become much more severe in recent years as customers expect higher confidence from them (Boston Consulting Group, 2022). This is why more and more banks should design and implement customer-centric business models, ensure a higher cybersecurity, and drive digitization across their whole organizations (KPMG, 2022; IBM, 2022).

The goal of the paper is to briefly analyze the competition among the largest banks of the world within the global banking system in the period 2020-2021 by taking into account their Tier 1 capital, assets and market capitalization. The structure of the paper is as follows: the next chapter illustrates the theoretical background. The third chapter displays the research methodology. The findings are presented in the fourth chapter. The paper ends with conclusions.

2. Theoretical background

In the past decades, the increasing financial globalization has led to the development of global banking. It is indispensable for the function of world economy as it facilitates money transfer across national borders. Global banking is highly connected with the way trade in financial services can

appear and happen (Figure no. 1).



Source: authors' adaptation after Claessens, 2017

Acting in multiple countries, global banks are defined in the literature as “financial firms owned by developed-market households, which engage in financial intermediation and trading in the world economy” (Morelli *et al*, 2019, p. 13). They are huge and complex financial organizations (Toma *et al*, 2019a), incorporate numerous subsidiaries worldwide, develop strong networks of affiliates in foreign countries (Cetorelli *et al*, 2012), and are, most of them, too-big-to-fail banks (Toma *et al*, 2018a).

The Tier 1 capital represents the “the core capital held in a bank's reserves and is used to fund business activities for the bank's clients” (Grant, 2022, p. 1) whereas the market capitalization shows the total market value of all shares of a company. The bank's assets encompass loans, reserves, and treasury securities.

The global banking is dominated by global banks that offer a broad range of financial services all over the world. Most of them are Chinese and American banks as the People's Republic of China has proved to constitute a redoubtable competitor for the United States of America (USA) in the past decade (Ding *et al*, 2017; Toma *et al*, 2017a; Toma *et al*, 2017b; Toma *et al*, 2018b).

3. Research methodology

In order to attain the aim of the paper the authors used a qualitative method. In this respect, they searched for several sources of secondary data (e.g., articles, books, reports) from the domains of international banking and economics in order to obtain the needed information for deploying the literature review. The data were collected through desk research.

4. Findings

The global banking witnessed significant changes in the period 2020-2021. The hierarchy of the world's biggest banks after Tier 1 capital was clearly dominated by the Chinese banks in that period of time (Tables no. 1 and 2). The headquarters of the first ten largest banks are located in:

- China- five banks: Industrial & Commercial Bank of China, China Construction Bank, Agricultural Bank of China, Bank of China, Bank of Communications;
- USA- four banks: JPMorgan Chase, Bank of America, Wells Fargo, Citigroup;
- United Kingdom (UK)- one bank: HSBC Holdings;
- Japan- one bank: Mitsubishi UFC Financial Group.

Table no. 1. The world's largest banks after Tier 1 capital at the end of 2020

Rank	Name	Tier 1 capital (US\$ bn)
1	Industrial & Commercial Bank of China	380
2	China Construction Bank	316
3	Agricultural Bank of China	278
4	Bank of China	258
5	JPMorgan Chase	214
6	Bank of America	188
7	Wells Fargo	159
8	Citigroup	156
9	HSBC Holdings (UK)	148
10	Mitsubishi UFC Financial Group (Japan)	144

Source: (The Banker, 2020)

Table no. 2. The world's largest banks after Tier 1 capital at the end of 2021

Rank	Name	Tier 1 capital (US\$ bn)
1	Industrial & Commercial Bank of China (China)	508,848
2	China Construction Bank (China)	404,322
3	Agricultural Bank of China (China)	377,137
4	Bank of China (China)	341,245
5	JPMorgan Chase (USA)	246,162
6	Bank of America (USA)	196,465
7	Citigroup (USA)	169,568
8	Wells Fargo (USA)	159,671
9	HSBC Holdings (UK)	156,292
10	Bank of Communications (China)	150,742

Source: (The Banker, 2022)

In the period 2020-2021, the top of the world's largest banks after assets was also dominated by the Chinese banks (Tables no. 3 and 4). The headquarters of the first ten biggest banks are located in:

- China- four banks: Industrial & Commercial Bank of China, China Construction Bank, Agricultural Bank of China, Bank of China;
- USA- four banks: JPMorgan Chase, Bank of America, Wells Fargo, Citigroup;
- France- two banks: BNP Paribas, Crédit Agricole Group;
- United Kingdom (UK)- one bank: HSBC Holdings;
- Japan- one bank: Mitsubishi UFC Financial Group.

Table no. 3. The world's largest banks after assets at the end of 2020

Rank	Name	Assets (US\$ bn)
1	Industrial & Commercial Bank of China	4,913
2	China Construction Bank	4,008
3	Agricultural Bank of China	3,652
4	Bank of China	3,627
5	JPMorgan Chase	3,386
6	Mitsubishi UFC Financial Group	3,354
7	HSBC Holdings	2,956
8	BNP Paribas	2,946
9	Bank of America	2,820
10	Crédit Agricole Group	2,386

Source: (BanksDaily.com, 2020)

Table no. 4. The world's largest banks after assets at the end of 2021

Rank	Name	Assets (US\$ bn)
1	Industrial & Commercial Bank of China	5,521.410
2	China Construction Bank	4,749.447
3	Agricultural Bank of China	4,563.447
4	Bank of China	4,195.041
5	JPMorgan Chase	3,743.567
6	Bank of America	3,169.495
7	Mitsubishi UFC Financial Group	3,053.365
8	HSBC Holdings	2,957.939
9	Citigroup	2,291.413
10	Wells Fargo	1,948.068

Source: (The Banker, 2022)

Finally, the hierarchy of the world's biggest banks by market capitalization was slightly dominated by the American banks in the period 2020-2021 (Tables no. 5 and 6). The headquarters of the first ten largest banks are located in:

- USA- five banks: JPMorgan Chase, Bank of America, Wells Fargo, Morgan Stanley, Charles Schwab;
- China- five banks: Industrial & Commercial Bank of China, China Construction Bank, Agricultural Bank of China, Bank of China, China Merchants Bank;
- Canada- one bank: Royal Bank of Canada;
- India- one bank: HDFC Bank.

Table no. 5. The world's largest banks by market capitalization at the end of 2020

Rank	Name	Market capitalization (US\$ bn)
1	JPMorgan Chase	305.6
2	Industrial & Commercial Bank of China	249.9
3	Bank of America	208.3
4	China Construction Bank	180.8
5	Agricultural Bank of China	162.4
6	China Merchants Bank	149.1
7	Bank of China	127.8
8	Royal Bank of Canada	100.1
9	Wells Fargo	90.5
10	HDFC Bank	89.8

Source: (The Fifth Person, 2020)

Table no. 6. The world's largest banks by market capitalization at the end of 2021

Rank	Name	Market capitalization (US\$ bn)
1	JPMorgan Chase	468
2	Bank of America	359.4
3	Industrial & Commercial Bank of China	245.5
4	China Merchants Bank	193.8
5	Wells Fargo	191.3
6	Morgan Stanley	176.1
7	China Construction Bank	175.4
8	Charles Schwab	159
9	Agricultural Bank of China	158.3
10	Royal Bank of Canada	151.3

Source: (Statista, 2022)

Starting from the above-mentioned criteria (Tier 1 capital, assets, market capitalization), the evolution of the global banking system revealed several main features in the period 2020-2021 as follows:

- The Chinese and American banks were the key players and strongly competed for dominance at a global scale.
- All the world's biggest banks are located in Asia, North America and Europe.
- The Industrial & Commercial Bank of China, a Chinese colossus, was the world's largest bank after Tier 1 capital and assets.
- The total assets owned by the four largest Chinese banks surpassed \$18,000 billion. They were also the world's largest banks after assets.
- JPMorgan Chase, an old American bank, was the most valuable bank in the world.

The increasing business success and high performances obtained by these banks were based on designing and implementing competitive strategies (Toma *et al*, 2016a; Toma *et al*, 2016b) and viable business models (Cornescu *et al*, 2004; Toma *et al*, 2019b), applying modern managerial methods and techniques such as Six Sigma (Toma, 2008) and total quality management (Toma *et al*, 2009; Toma, 2013). However, the period 2020-2021 was a pandemic period that imposed banks to embrace change in their activities (McIntyre, 2022).

5. Conclusions

The global banking system has undergone significant transformations in the last decades. This is why banks worldwide has made numerous efforts to adapt to the new realities. Moreover, the competition among the biggest banks of the world has become tougher as globalization has covered the entire planet.

The paper attempts to broaden the scientific literature related to global banking. Firstly, it shows that global banks dominate the global banking system. Secondly, the paper analyzes the rivalry between the Chinese and American banks all over the world by taking into account specific criteria (Tier 1 capital, assets, market capitalization). Thirdly, it concludes that the Chinese banks were the main actors in the global banking system in the period 2020-2021.

Further studies might expand this research by taking into account other criteria, such as the profit and the number of subsidiaries.

6. References

- Adams, J., 2022. *Latest global banking news*. American Banker, 16.11.2022, [online]. Available at: <<https://www.americanbanker.com/payments/list/latest-global-banking-news-november-16-2022>> [Accessed 16 November 2022].
- Aré, L., Brackert, L., Chen, C., Colado, J., Dupas, M., Keith, A., Sachse, H., Stewart, S., Uribe, J. and Wegner, M., 2022. *Sense and Sustainability*. Boston Consulting Group, [online]. Available at: <<https://web-assets.bcg.com/47/b0/0591daa24bf5a407385779fa374e/bcg-global-retail-banking-2022-sense-and-sustainability-sep-2022.pdf>> [Accessed 19 November 2022].
- BanksDaily.com, 2020. *The World's largest banks and banking groups by total assets* (December, 2020). [online]. Available at: <<https://banksdaily.com/topbanks/World/total-assets-2020.html>> [Accessed 17 November 2022].
- Cetorelli, N. and Goldberg, L. S., 2012. Banking globalization and monetary transmission. *The Journal of Finance*, 67(5), pp. 1811-1843. <https://doi.org/10.1111/j.1540-6261.2012.01773.x>
- Claessens, S., 2017. Global banking: Recent developments and insights from research. *Review of Finance*, 21(4), pp. 1513-1555. <https://doi.org/10.1093/rof/rfw045>
- Cornescu, V., Curteanu, D., Marinescu, P. and Toma, S.-G., 2004, *Management from Theory to Practice*. Bucharest: University of Bucharest Publishing House.
- Deloitte, 2021. *2022 banking and capital markets outlook*. [online]. Available at: <<https://www2.deloitte.com/content/dam/Deloitte/cn/Documents/financial-services/deloitte-cn-fs-banking-and-capital-markets-outlook-en-220121.pdf>> [Accessed 12 November 2022].
- Ding, N., Fung, H.-G. and Jia, J., 2017. Comparison of bank profitability in China and the USA. *China & World Economy*, 25(1), pp. 90-108. <https://doi.org/10.1111/cwe.12188>
- Grant, M., 2022. *Tier 1 Capital: Definition, Components, Ratio, and How It's Used*. Investopedia, 22.03.2022, [online]. Available at: <<https://www.investopedia.com/terms/t/tier1capital.asp>> [Accessed 12 November 2022].

- KPMG, 2022. *Recovery in the midst of uncertainty*. KPMG, September 2022, [online]. Available at: <<https://assets.kpmg/content/dam/kpmg/xx/pdf/2022/09/global-banking-trends-2022.pdf>> [Accessed 19 November 2022].
- McIntyre, A., 2022. *The 10 trends that will shape banking in 2022- beyond the watershed*. Forbes, 20.01.2022, [online]. Available at: <<https://www.forbes.com/sites/alanmcintyre/2022/01/20/the-10-trends-that-will-shape-banking-in-2022beyond-the-watershed/?sh=2384966c73d6>> [Accessed 28 October 2022].
- Morelli, J. M., Ottonello, P. and Perez, D. J., 2019. *Global banks and systemic debt crises*. Meeting Papers, 644, pp. 1-59, [online]. Available at: <https://economics.stanford.edu/sites/g/files/sbiybj9386/f/mop_global_banks.pdf> [Accessed 29 October 2022].
- Siegel, R., 2022. *Global financial system under pressure from all sides, Fed report says*. The Washington Post, 04.11.2022, [online]. Available at: <<https://www.washingtonpost.com/business/2022/11/04/fed-financial-stability/>> [Accessed 10 November 2022].
- Statista, 2022. *Largest banks worldwide as of December 2021, by market capitalization*. [online]. Available at: <<https://www.statista.com/statistics/264905/top-10-banks-by-market-capitalization/>> [Accessed 09 November 2022].
- The Banker, 2020. *Top 1000 World Banks 2020: Top 10 banks by Tier 1 Capital*. [online]. Available at: < Sursa: <https://www.thebanker.com/Top-1000/2020/Top-1000-2020-ic>> [Accessed 10 November 2022].
- The Banker, 2022. *Top 1000 World Banks 2022*. [online]. Available at: <<https://www.thebanker.com/Top-1000-World-Banks/Top-1000-World-Banks-2022>> [Accessed 11 November 2022].
- The Fifth Person, 2020. *Top 10 Largest Banks In The World By Market Cap 1990 – 2020*. YouTube, [online]. Available at: <<https://www.youtube.com/watch?v=J1n737o3beo>> [Accessed 29 October 2022].
- Tohănean, D., Toma, S.-G. and Dumitru, I., 2018. Organizational performance and digitalization in Industry 4.0. *Journal of Emerging Trends in Marketing and Management*, 1(1), pp. 282-293, [online]. Available at: <http://www.etimm.ase.ro/RePEc/aes/jetimm/2018/ETIMM_V01_2018_87.pdf> [Accessed 23 October 2022].
- Toma, S.-G., 2008. What is Six Sigma? *Manager*, 8, pp. 152–155.
- Toma, S.-G. and Naruo, S., 2009. Quality assurance in the Japanese universities. *Amfiteatru Economic*, 11(26), pp. 574-584.
- Toma, S.-G., 2013. *Economia Întreprinderii*. București: Editura Universității din București.
- Toma, S.-G., and Grădinaru, C., 2016a. From military strategy to business strategy. *Strategii Manageriale*, 31(1), pp. 227-233.
- Toma, S.-G., Marinescu, P. and Constantin, I., 2016b. *Approaches to strategic thinking in business organizations*. Proceedings of the 10th International Conference on Business Excellence, Academy of Economic Studies, Bucharest, Romania, pp. 184-191, [online]. Available at: <https://accord.edu.ro/course/material/energy-and-climate-change-289/pdf_content> [Accessed 13 November 2022].
- Toma, S.-G., Marinescu, P. and Grădinaru, C., 2017a. In search of the global economic supremacy: China versus USA. *Annals of the „Constantin Brâncuși” University of Târgu Jiu, Economy Series, Special Issue, I*, pp. 227-233, [online]. Available at: <http://www.utgjiu.ro/revista/ec/pdf/2017-01.Volumul_1_Special/32_TOMAMARINESCU.pdf> [Accessed 27 October 2022].
- Toma, S.-G. and Grădinaru, C., 2017b. Chinese or American banks? *Strategii Manageriale*, 10(4), pp. 525-532, [online]. Available at: <http://www.strategiimaneriale.ro/images/images_site/articole/article_46a0f52ba858f48f18adad26a2647b2f.pdf> [Accessed 26 October 2022].
- Toma, S.-G. and Grădinaru, C., 2018a. Too big to fail banks in the age of globalization. *Annals of the „Constantin Brâncuși” University of Târgu Jiu- Economy Series, Special Issue, I*, pp. 131-136, [online]. Available at: <http://www.utgjiu.ro/revista/ec/pdf/2018-SPECIAL/17_Toma.pdf> [Accessed 25 October 2022].
- Toma, S.-G. and Tohănean, D., 2018b. China’s “Go Global” strategy: An overview. *Strategii Manageriale*, 4(42), pp. 138-145, [online]. Available at: <http://www.strategiimaneriale.ro/images/images_site/articole/article_b74e4fb51ef0b77b44122a1ddf9e4ca6.pdf> [Accessed 20 October 2022].

- Toma, S.-G., Zainea, L. N. and Tohănean, D., 2019a. Global banks: The race for supremacy in 2018. *Ovidius University Annals- Series Economic Sciences*, 19(2), pp. 64-69.
- Toma, S.-G. and Tohănean, D., 2019b. Green business models: The case of a German automaker. *Quality-Access to Success*, 20(S2), pp. 635-640.