Financial Services

THE FUTURE OF ASIAN BANKING – VOLUME 2

CROUCHING TIGERS – THE RISE OF ASIAN REGIONAL BANKS

CONTENTS

EXECUTIVE SUMMARY

The banking industry in Asia is at an inflection point. Asian corporates are increasingly internationalizing, both following and fueling the growth of intra-regional trade. Local financial markets are deregulating and onshore wealth also continues to grow.

These trends have driven up the valuations of banks in many Asian markets – especially those in emerging Asia – well beyond those in the mature Western markets. However, the success of pan-Asian banks has been mixed. Cross-border banking deals have struggled to generate as much value as domestic consolidation, and internationally active Asian banks have struggled to generate shareholder returns that exceed their domestically-focused peers.

There are three broad strategies that Asian banks can apply to internationalization.

- *Customer based:* Following customers and customer flows – focusing on providing cross-border trade and transaction banking, treasury solutions and capital raising, developing targeted wholesale markets capabilities as needed, debt capital markets and building out interest rate swap capabilities
- *Liquidity based:* Exporting or importing liquidity either by using domestic treasury capabilities to support offshore lending, such as Japanese "ninja loans", and building up the requisite risk management capabilities to manage an international credit portfolio, or by raising deposits offshore for banks with rapid asset growth
- *Capabilities based:* Using cross-border acquisitions and partnerships to import or export capabilities into other markets, typically focusing on specific niches such as project finance, consumer finance, credit cards or wealth management

Successfully executing these strategies typically requires banks to solve a number of problems in parallel over a period of many years:

- "Right-sizing" the local business model in each market, determining the role and strategy for local retail businesses if (as is often the case) the international strategy is focused on corporate and wholesale banking, and deciding how any non-core parts of the business should be managed to maximize value while minimizing complexity and distraction from the core business
- "Right-shaping" the regional operating model to ensure regional scale benefits and synergies are achieved and risks managed without disempowering local management
- "Right-culturing" to ensure that the approach to attracting, developing and retaining talent is appropriate to an organization that has an increasingly diverse international footprint

Regionalization is not the right strategy for every Asian bank. For some, the returns on investing in their domestic franchise and pursuing a strategy based on local differentiation or scale will be higher than the returns available overseas. For others, the opportunities to create value through regional expansion will be apparent, but they may find it hard to develop the capabilities they need to take advantage of these opportunities.

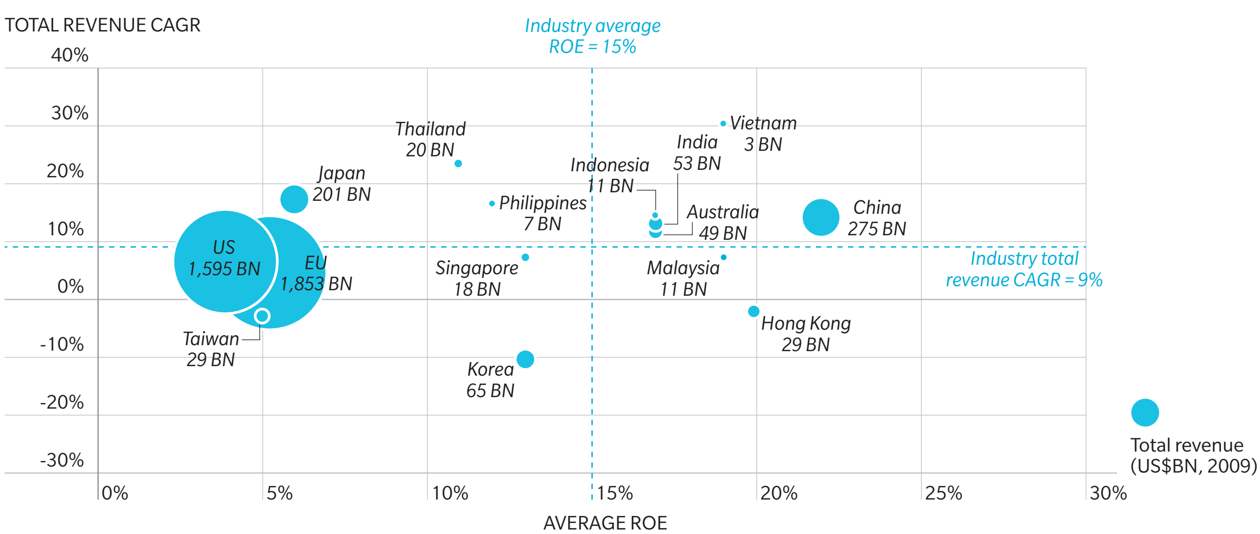
Those Asian banks that do pursue regionalization need to prepare for a multi-year journey. This will test management's commitment and execution discipline. At the same time, even the best-laid plans will need to be adapted as the environment evolves and new challenges appear along the journey. The rewards, though, in terms of both growth and profitability, can be substantial for those Asian banks that get regionalization right.

ASIAN ASPIRATIONS …

Asian banking revenues have grown at an annual average rate of 9% across Asia over the last three years, at a time when revenues have been flat or shrinking in Western markets. This growth has been achieved while maintaining strong profitability. Average ROEs in emerging Asia are especially high, ranging from 15% to 25% in markets such as India, China and Indonesia, and above 15% in more developed markets such as Malaysia and Hong Kong (Exhibit 1).

Asian financial centers have also become much more significant. Hong Kong and Singapore have largely closed the gap on London and New York, with Hong Kong becoming the leading market globally for IPOs, an increasingly important global center for sales and trading, and the hub for the rapidly growing offshore RMB market. Singapore has become a global wealth management hub, a major Asian insurance and reinsurance center, and a key talent location for international banks' presence in SE Asia and India.

EXHIBIT 1: ASIAN MARKETS ARE LESS AFFECTED DURING THE CRISIS WITH ABOVE-INDUSTRY GROWTH
ASIAN BANKING ROE VS. REVENUE SIZE/TREND, 2007-2009



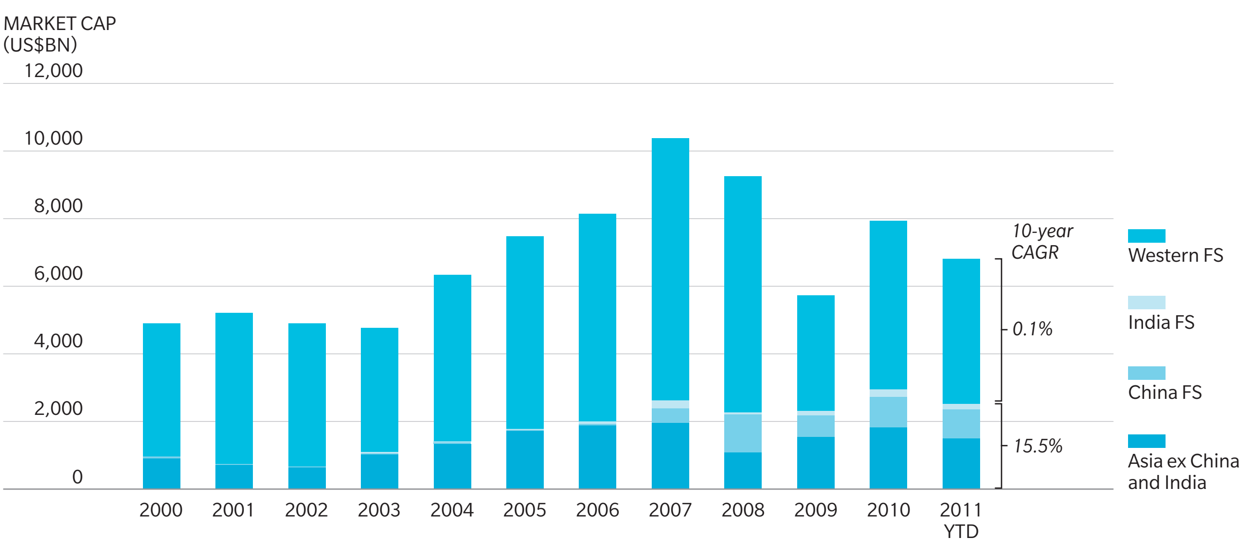
Source: Bankscope, Oliver Wyman proprietary data and analysis

Shanghai, while still principally a financial center for mainland China, has also become more significant, in line with the growing size and global importance of the Chinese economy and Chinese companies. It is expected to become the world's largest equity market by market capitalization in the coming years. At the same time, other Chinese and Asian cities have developed strong niches, be it Shenzhen for MME Chinese IPOs (it has the highest IPO volumes globally in 2011), Dalian for commodities (especially steel and concrete), Hong Kong for FX, and Singapore for project finance.

Asian banks are increasingly becoming publicly listed, and the market capitalization of Asian financial institutions has grown substantially (see Exhibit 2), fuelled by IPOs in China and India and by the rapid growth in market valuations of banks elsewhere in Asia, such as those in the ASEAN countries.

EXHIBIT 2: FINANCIAL SERVICES INDUSTRY IN ASIA HAS GROWN MUCH QUICKER THAN THE WEST

FS MARKET CAPITALIZATION OF ASIAN* AND WESTERN† MARKETS (2000-2011 YEAR-TO-DATE)



Source: Datastream

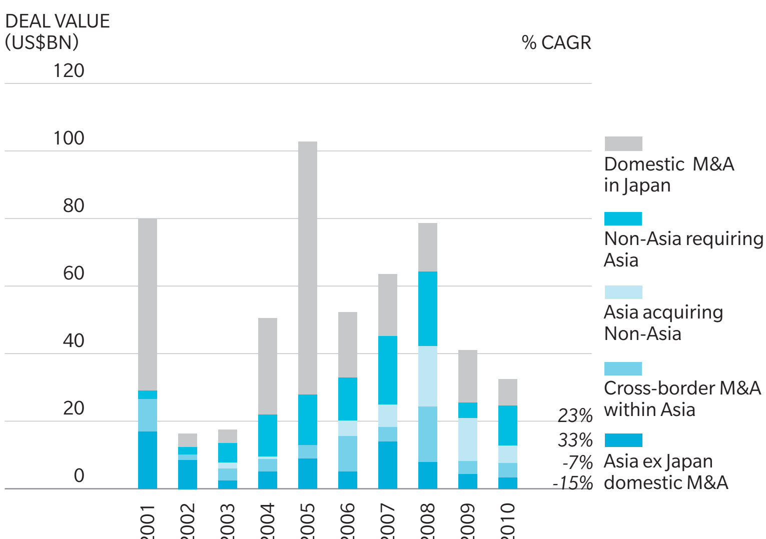
* Asian countries include: China, Hong Kong, Japan, India, Indonesia, Malaysia, Philippines, Thailand, Singapore, Taiwan, South Korea

† Western countries include: United States, Canada, United Kingdom, Germany, France, Spain, Italy, Switzerland, Australia

This has major implications for the financial industry globally. Not only are Asian banks increasingly important components in investors' portfolios, increasing the competition for capital that Western banks face, but they now have their own stock currency to finance acquisitions, new-found financial strength that they have started to deploy overseas. While banking M&A volumes, even in Asia, have dipped during the last three years of financial crisis, the growth in banking M&A across the region has been dramatic over the last decade. The value of cross-border deals done in 2006-2010 was more than double the value of such deals from 2001-2005 (Exhibit 3)

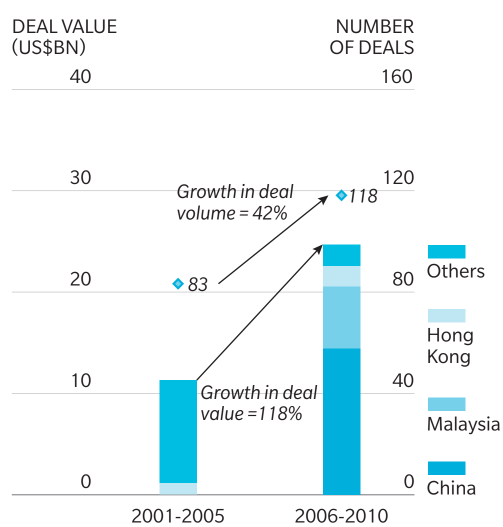
We expect this trend to continue. As we mentioned in a previous report[1], more robust capital markets, cross-border deregulation that opens financial sectors to competition and the increasing use of Asian currencies in cross-border trade transactions are likely to provide additional impetus for the regionalization of Asian banks.

EXHIBIT 3
ASIA BANKING M&A DEAL VALUE



Source: Dealogic
Note: This analysis includes buy-back of shares between parent and subsidiary companies
Analysis considers Australia as "Non-Asia"

CROSS-BORDER M&A WITHIN ASIAN BANKING (2001-2010)
CUMULATIVE DEAL VALUE AND NUMBER OF DEALS (BY ACQUIRER)



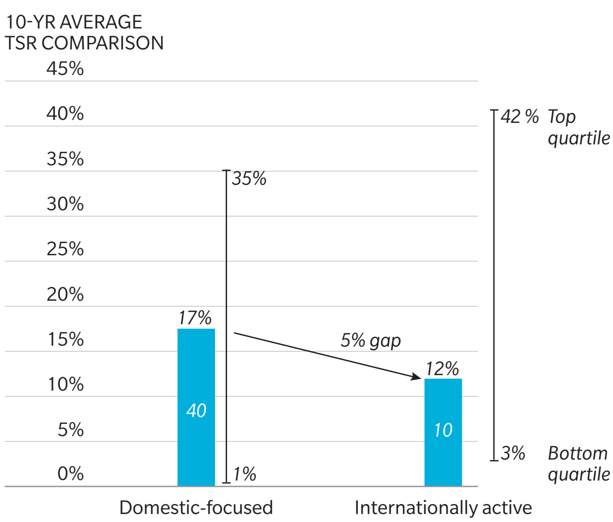
Source: Dealogic, Oliver Wyman analysis
Note: Australia and Japan are excluded

1 "The Future of Asian Banking: Volume 1", Oliver Wyman, November 2010

… AND ASIAN SETBACKS

Despite the attractive fundamentals of the pan-Asian banking opportunity, and the explosion in cross-border activity, it has yet to be demonstrated that the majority of Asian banks are able to generate superior shareholder returns from tapping into this opportunity. The majority of cross-border Asian banking deals have subsequently underperformed against the market, in contrast to Asian banks acquiring outside Asia and non-Asian banks acquiring in Asia.

EXHIBIT 4: DOMESTIC VS. INTERNATIONALLY ACTIVE ASIAN BANKS
10-YR AVERAGE TSR COMPARISON*



Source: Dealogic, Bloomberg, Datastream, Oliver Wyman analysis
* Of top 50 banks (by asset size) in Asia, compare 10 years of TSR between those with >20% revenues from abroad and those with <20% revenues from abroad "Abroad" means only "international" income, as opposed to national or regional income

Moreover, internationally active banks in Asia – and indeed in the West – have underperformed on average against banks that are predominantly domestic in their business, by about 5% per annum for the industry as a whole (Exhibit 4). That translates into $25 BN per annum additional value that Asian banks could potentially be creating through their internationalization strategies.

This is not surprising. The path of international growth has many pitfalls:

- *Managing the complexity of local markets.* Asian banking markets vary significantly in terms of customer behavior and preferences, use of products and channels, regulation, the role of the public sector and the types of competition faced. This need for local customization of banking business models makes it harder to generate cross-border synergies than in industries that are less regulated, or ones where product and service needs are largely uniform across markets. This is exacerbated by the importance of trusted brands in the banking industry, particularly when one considers that the local brands have had many years to establish their reputation in the market, while the global bank brands have invested heavily in recent years in building their brands among the local customer segments that they target in Asia
- *Governance structures.* Being a highly-leveraged and risk-intensive sector, governance and direct line-of-sight on key risks is critical for an international bank. However, the combination of local company law, listing requirements, financial supervisor and central bank requirements makes governance and risk management of international banks in Asia substantially more matrixed, and adds complexity to what might otherwise be standardized products and processes

- *Attracting and retaining talent*. As banks expand internationally, they need to recruit more international talent to lead their operations. While some Asian banks have made progress in internationalizing their management teams and adopting international compensation standards, many have not yet done enough
- *Maintaining commitment*. The international networks of the major global banks active in Asia – Citibank, HSBC and Standard Chartered in particular – took many decades to become established. Replicating the footprint, culture, talent pool, client relationships and brand positioning that these banks requires maintaining a multi-year commitment, probably spanning many generations of management and leadership. Given the volatility of less-developed banking markets, this is a tough ask

On the other hand, the top performing internationally active Asian banks perform as well or better than their domestic counterparts, suggesting that while these challenges are great, the opportunities are also significant, and attainable for those banks that get both the strategy and execution right.

SHOULD YOU REGIONALIZE?

The first question that an Asian domestic bank needs to answer is whether it should regionalize and try to expand outside of its home market. Several considerations must be taken into account:

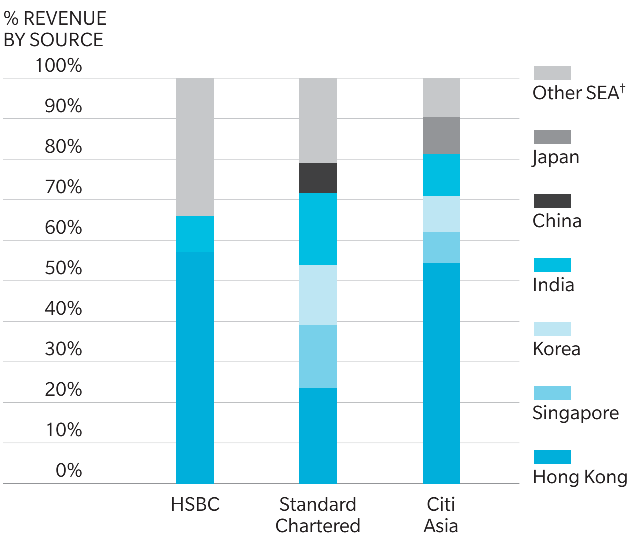
- Does the domestic financial services sector offer sufficient growth opportunities? How quickly is it growing and what share does the bank currently have?
- How rapidly are the bank's existing customers internationalizing?
- To what extent is the bank facing competition in its domestic market from international banks? How important will it be to develop internationally-competitive capabilities to maintain its current position domestically?
- What capabilities does it have that could be transferred to other international banking markets?
- What is the bank's liquidity position? Are there sufficient local lending opportunities for it to effectively deploy its domestic liquidity or does it need to look at lending opportunities abroad? Conversely, is it structurally short of liquidity? Does it need to look overseas to secure additional funding?
- What regulatory, organizational or cultural constraints are there on growing internationally?
- Does the bank have the right base of talent to grow internationally?

Once these preliminary questions have been answered, it is possible to form an initial view on whether internationalization is something that should be on the strategic agenda at all and, if so, where the major opportunities and challenges lie.

GETTING REGIONALIZATION RIGHT

Regionalization in Asia does not require a presence in all the major Asian markets. The share of Asia in their global revenues of the three "Glocal" banks varies substantially, and each has a very different footprint within Asia, as shown in Exhibit 5.

EXHIBIT 5: GLOCALS PURSUE DIFFERENT ASIA STRATEGIES
REVENUE BREAKDOWN BY ASIAN GEOGRAPHY* (2009)



	HSBC	Standard Chartered	Citi Asia
ASIA SHARE OF GLOBAL REVENUE	35%	70%	17%

Source: 2009 annual reports, Oliver Wyman analysis
* Differences in geographic breakdown among banks is due to differences in reporting conventions/preferences
† Other SEA includes Indonesia, Malaysia and Thailand

The right regionalization strategy for each bank therefore depends on a number of factors, including its level of ambition, its strengths and capabilities, its customer base and their needs, and the evolution of the markets that it operates in. Moreover, regionalization requires significant investment – in talent, capabilities and infrastructure, especially in the early stages – and so therefore requires banks to prioritize carefully and manage the trade-offs between short-term earnings and long-term growth.

We see three main types of strategic approach that Asian banks can adopt in building out their international franchises.

1. FOLLOW YOUR CUSTOMER

Growth in Asian trade and foreign direct investment (FDI) – both intra-Asian and between Asia and the rest of the world – is growing at an annual rate of more than 10%, which is more than twice the rate of growth in trade and FDI within the G7 countries. As Asian corporates and wealthy individuals increasingly pursue business abroad, local banks have an opportunity to expand alongside their clients, providing financing, cash management, trade finance services and wealth management services. Asian banks have historically ceded a large part of this business to international banks or have relied on partnerships or correspondent banking relationships. However, as Asian banks expand overseas they have the opportunity to increasingly capture both ends of cross-border transactions, reducing transaction costs and potentially providing further customer services.

The opportunities for Asian banks are perhaps greatest in the middle-market corporate segment, where the rapid current pace of internationalization and the privileged relationship access that they enjoy among their domestic corporate clients creates a sweet spot (Exhibit 6).

This segment is likely to continue to be a significant growth opportunity for Asian banks for the medium term, as trade liberalization and policy measures provide further impetus to support the expansion and internationalization of the Asian middle-market corporate sector. Indeed, as of January 2011, more than 90 FTAs involving Asian countries have come into force, with ASEAN emerging as the hub of intra-Asian FTAs, having signed FTAs with China (CAFTA), India, Japan, Korea and Australia/New Zealand. Policy measures, both national ones such as credit guarantee programs, trade finance and shipment credit schemes, and export-related tax breaks and rebates, as well as regional measures such as the ADB/ASEAN+3 Credit Guarantee Investment Facility and the ADB's ASEAN-China Investment Fund, are further likely to stimulate the internationalization of the Asian middle-market corporate sector. And given that shortage of financing is highlighted, both by Asian SMEs and policymakers, as one of the key barriers to internationalization, local banks are very well-placed to follow their corporate customers in supporting this growth.

EXHIBIT 6

PRODUCTS AND SERVICES	TRADE, PAYMENTS, AND FX	M&A AND ACQUISITION FINANCE	ASSET/ PROJECT FINANCE	OFFSHORE CAPITAL RAISING	WEALTH MANAGEMENT
	• Trade finance • Payments and cash management • Supply chain finance, structured trade, and export/ import finance • Commodity finance • FX products	• M&A advisory and due diligence • Market research and intelligence • Acquisition finance	• Project finance • Asset finance • Leveraged buy-outs • Etc.	• Offshore bond issuance allow borrowers hedging opportunity and access to more complete markets • Associated derivatives, risk management, and hedging products	• Tailored investment advice • Broad range of offerings • Access to international wealth products
INTER-NATIONALLY ACTIVE CUSTOMER TYPES					
Local MNCs	✓	✓	✓	✓✓	
Local mid-size/ SME exporters and importers	✓✓✓	✓✓	✓✓	✓	Particular area of opportunity
HNWIs	✓	(The opportunities are similar to the above if the HNWIs are also entrepreneurs/owners of internationally active SMEs)			✓✓
Mass affluent non-residents	✓✓				✓

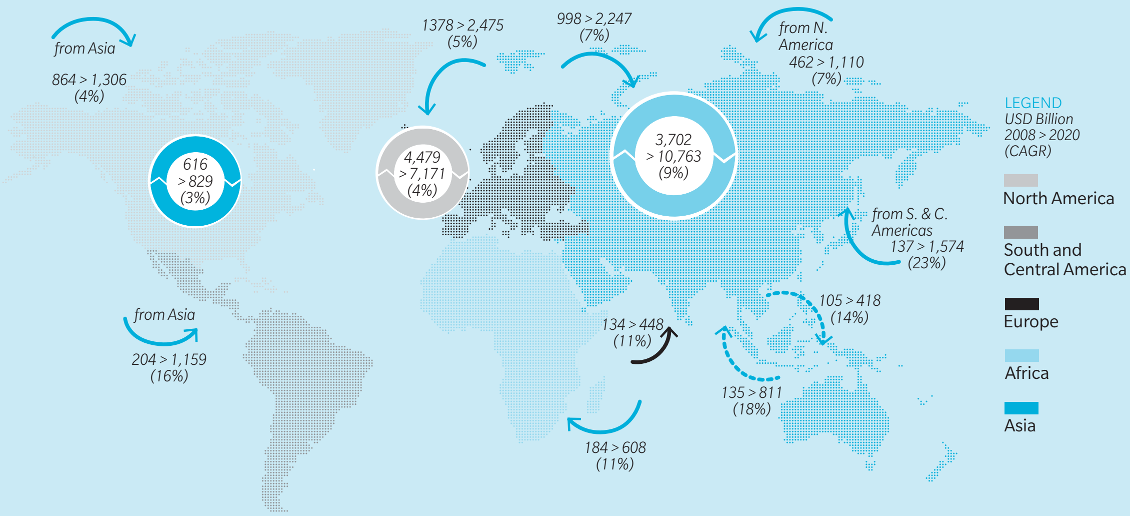
✓✓✓	✓	(grey)
High-potential opportunity: Growing segment and regional aspirants have either the capability and/or client franchise to succeed	**Low-potential opportunity:** Segments are dominated by globals or locals and regional aspirants must acquire capability to compete	**Opportunity not exist:** Products and services do not match with customer types

CASE STUDY – ROLE OF TRANSACTION BANKING TO SUPPORT CUSTOMER FLOWS

Transaction banking provides a strong platform for a bank's regional ambitions because it helps local corporates to achieve their regional growth objectives. Domestic banks have entrenched relationships with their corporate client base, typically grounded in credit and an onshore cash management and trade offering. This gives them a natural starting point to build a cross-border relationship.

Given the rapid rise in intra-regional trade, trade finance is expected to be a particularly important part of the transaction banking opportunity for internationalizing Asian banks. Trade finance in Asia has been growing at more than 15% per annum over the last four years, with annual growth of 20+% in emerging Asia, much of this centered on China. Indeed, trade finance revenues in Asia now exceed those in both Europe and North America.

EXHIBIT 7: ASIA IS EMERGING AS THE HUB FOR GLOBAL TRADE



However, as domestic corporate clients internationalize, their needs also start to change. Transaction banking strategies must anticipate and evolve in line with these changing needs. For example, if domestic corporates are involved only in export/ import activities and have no overseas operations, the bank's primary need will be to build a strong correspondent banking franchise. However, as local corporates start to set up sizeable onshore businesses overseas in other regional markets, the domestic bank's client franchise starts to become more exposed to competition from leading regional and international banks, which are well-placed to offer cash, liquidity, and risk solutions for the clients that span the different geographies. This challenge becomes particularly acute with the increasing use of supply chain financing, whereby the trade and transaction services units of global banks are able to use their MNC relationships to obtain preferential access to Asian suppliers and distributors.

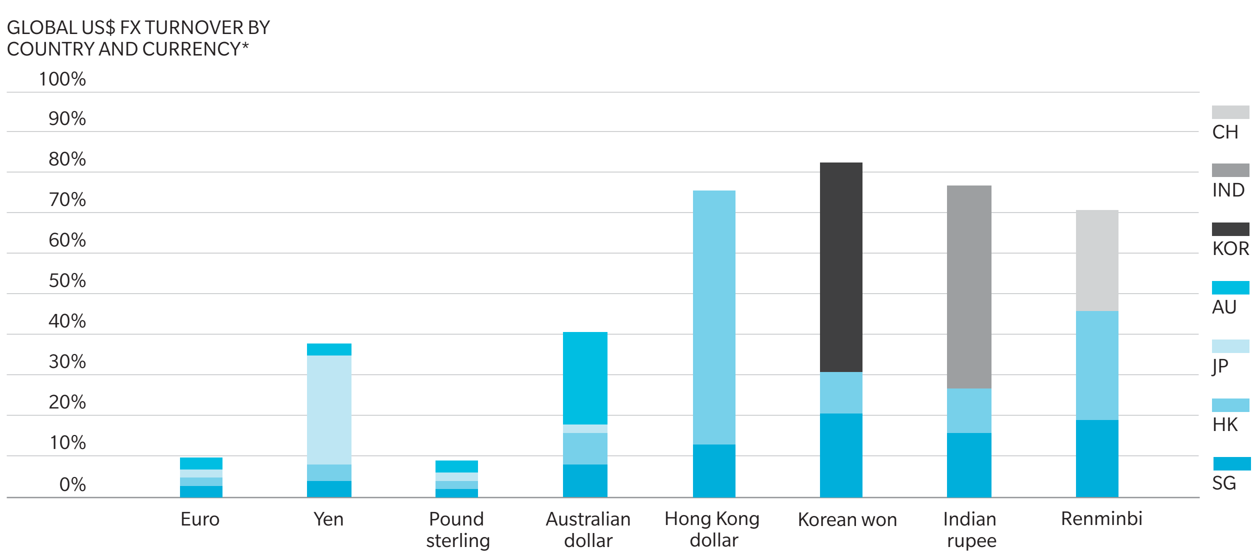
Asian banks may therefore need to develop a sufficient international network of their own to address the multi-country cash management needs of such corporate clients. This will enable them to streamline processes, reduce costs, reduce risk and enhance revenues by being able to cover both legs of export/import and other cross-border client flows. From the outset, they will need a clear understanding of what type of transaction banking franchise they need to build to support their customer base.

For some banks, this will require significant investments in technology and in risk management, particularly in counterparty credit information and assessment. It will also require a step up in innovation, particularly in solutions for sectors that are significant in Asia and that have specific needs (such as commodity trade companies). Some of the larger aspiring regional Asian banks may be able to make these investments themselves but many will need to partner with banks in other markets or with technology and logistics companies. Without such a strategy in place, banks jeopardize not only opportunities to grow internationally, but also their domestic corporate "crown jewels".

With their strong local currency liquidity and dominant current position in trading US$ / local currency cross-rates, Asian banks are well-placed to dominate the FX business arising from growing cross-border trade and capital flows. However, the needs of Asian mid-cap companies and investors, which are currently relatively simple and narrow by international standards, are becoming more complex. Asian banks will need to invest in technology, product innovation and research capabilities if they are to retain or expand their share of Asian currency business (Exhibit 8).

The progress that leading international banks are making in Mainland China is partly due to their fast-growing Renminbi trade finance business, albeit from a relatively low starting point. Revenues for leading international lenders in China surpassed their 2010 full year results half way through 2011 according to regulators. CBRC reported that the total assets of non-Chinese banks in Shanghai grew by 27% year-on-year to RMB 946 BN in the first six months of 2011. Total bank loans also grew by 8% to RMB 447 BN and deposits grew 32% to RMB 456 BN. This jump in deposits is being fueled by the strong growth of Renminbi cross-border trade finance business, which international banks are well positioned to capture on account of their broader regional and international networks.

EXHIBIT 8: MOST US$/LCY TRANSACTIONS ARE TRADED ONSHORE
GLOBAL US$/TRANSACTIONS ARE TRADED ONSHORE



Source: BIS Triennial Central Bank Survey of FX and Derivatives Market Activity in 2010 Table E.6
* Daily averages in April 2010

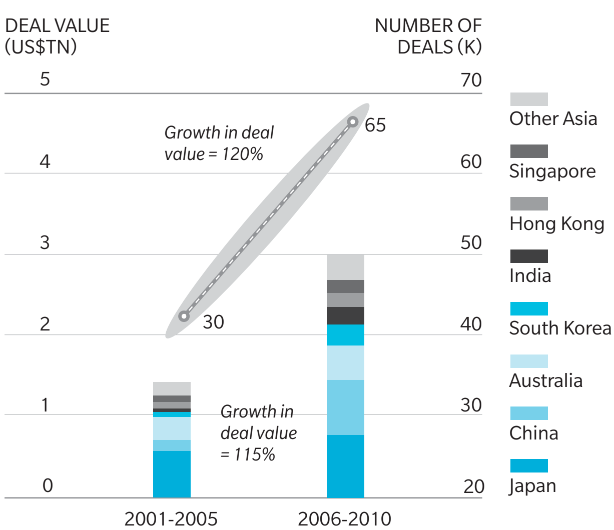
As mid-sized Asian corporates internationalize, capital-raising and M&A activity is also increasing substantially. Total Asian M&A volumes have more than doubled in the last decade, with especially rapid growth in mid-caps in China and South-East Asia. This creates opportunities for local banks with sector or niche expertise in M&A and the related financing. And local and regional Asian banks have indeed benefited from this growth in M&A. Their local relationships, expanding cross-border reach and increasingly strong balance sheets have enabled them to grow their share of acquisition finance among mid-market Asian corporates by 25% per annum over the last decade, compared to the less than 10% growth achieved by global banks (Exhibit 9).

Yet as these mid-cap corporates internationalize over time their needs will become more sophisticated. Even to retain their existing domestic relationships that may historically have been viewed as 'captive', Asian banks will need to develop internationally competitive levels of sector expertise and strengthen DCM and markets capabilities. And they must integrate these with corporate finance to ensure that higher margin structuring business is retained.

Asian banks that can achieve this will be well positioned not just to maximize share of *existing* client wallet, but will also be well placed to compete with leading inter- national banks and incumbents in other markets. The timing could not be more opportune for Asian aspirants. Many leading Western banks are retrenching in their domestic market and reassessing their regional Asia footprint, leaving a large gap to be filled by regional Asia aspirants.

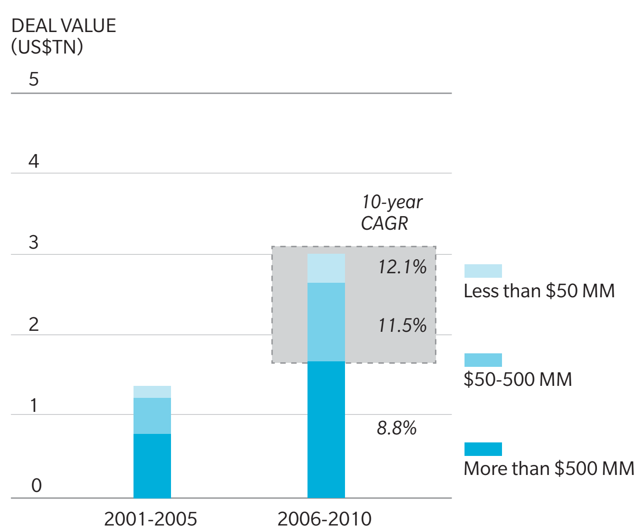
EXHIBIT 9

M&A DEAL VOLUMES AND VALUES (2001-2010)
ASIA OUTBOUND M&A BY ACQUIRER LOCATION
ALL INDUSTRIES



Source: Dealogic, Oliver Wyman analysis

M&A DEAL VALUE BREAKDOWN (2001-2010)
ASIA OUTBOUND M&A DEALS BY SIZE
ALL INDUSTRIES



Source: Dealogic, Oliver Wyman analysis

2. EXPORT/IMPORT LIQUIDITY

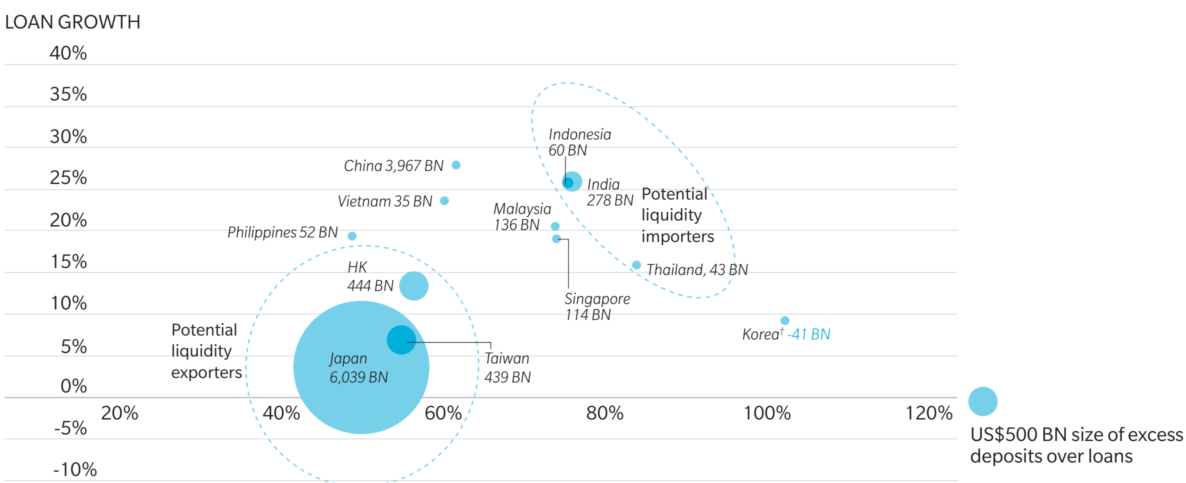
The second strategy involves transferring liquidity between different banking markets, taking advantage of differences in the balance between loan demand and deposit supply in each market. Given the relatively immaturity of the fixed income markets in Asia, banks play a more significant role in intermediating the transfer of liquidity across borders. This potentially benefits those banks with the ability to originate assets and liabilities in different markets, and the credit, ALM and risk management capabilities to take advantage of the opportunity.

This liquidity transfer can work in both directions. In markets such as Japan or Singapore where liquidity is strong, the opportunity lies in deploying excess liquidity generated from a strong local deposit-gathering franchise and strong capital position to buy or finance attractive overseas assets. For banks in markets like Korea or Australia, where loan-to-deposit ratios are very high, the opportunity lies in developing stronger sources of offshore funding.

The potential for the former is particularly strong in Asia, as while many Asian markets have strong liquidity and relatively low loan-to-deposit ratios, there is a liquidity gap between mature markets, where lower loan growth rates and high savings rates create excess liquidity, and rapidly-growing markets in emerging Asia, where growth in lending volumes in excess of GDP growth combined with lower savings ratios create major funding mismatches. As infrastructure investment continues to expand in emerging Asia, together with consumption growth and a stronger consumer credit culture, this funding mismatch is likely to persist and increase.

As Exhibit 10 demonstrates, banks in mature markets such as Japan, Hong Kong, and Taiwan, where LDRs and domestic loan growth are lowest, are likely to be best-placed to export their domestic liquidity, with Indonesia, Thailand, Vietnam and India being key markets where they are likely to find profitable opportunities to deploy that liquidity. At a global level, the opportunities for Asian banks are also substantial. Asia *as a whole* is long liquidity, while Europe and North America are increasingly liquidity-constrained, especially given the impact of Basel III on the liquidity ratios that supervisors will require.

EXHIBIT 10: LOAN GROWTH VS. LOAN-TO-DEPOSIT RATIO (LDR)
LOAN BOOK* 2005-2010 CAGR, LDR 2010



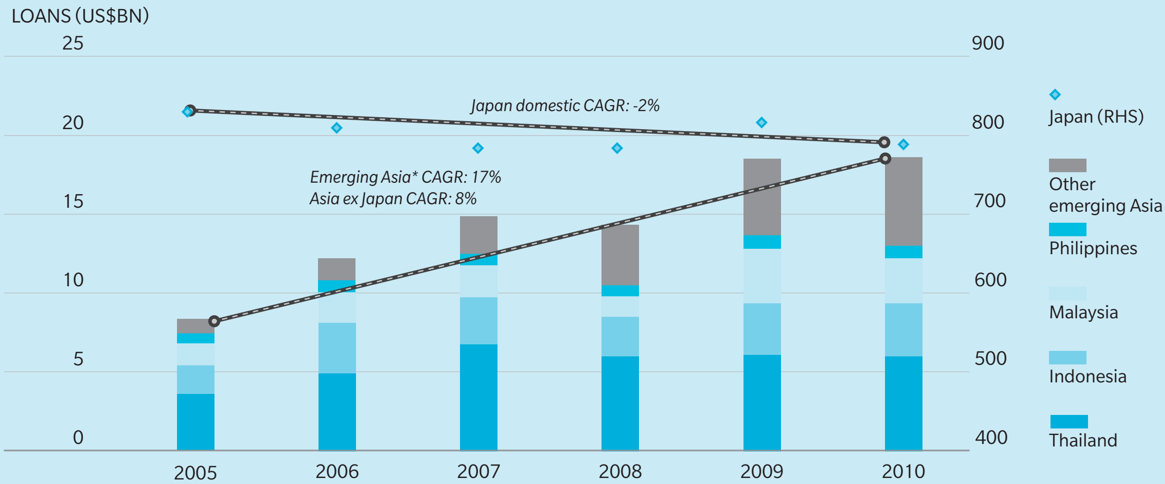
Source: BankScope
* Gross loan size
† Korea has higher loans than deposits

CASE STUDY – MITSUBISHI UFJ FINANCIAL GROUP (MUFG)

MUFG, in common with many Japanese banks, has been faced with consistently strong domestic deposits, and a declining volume of new lending opportunities in its domestic market. Its outstanding loans in Japan have fallen by 2% per annum from 2005 to 2009. During this period, it has exported its domestic liquidity by originating and funding loans directly, especially in specialist lending areas such as infrastructure, project and asset finance. This culminated in the acquisition of RBS's European project finance portfolio and associated team in 2010.

In Asia, it has grown its loan book rapidly, through both direct lending and cooperating with local institutions in other markets to improve its origination capacity: for example, through its ties with CIMB Group in South-East Asia.

EXHIBIT 11: MUFG EMERGING ASIA* LOAN PORTFOLIO



Source: MUFG annual reports

* Emerging Asia includes Thailand, Indonesia, Malaysia, Philippines, others

Of course, the profitability of deploying liquidity overseas depends on the way it is deployed. Passive investment in relatively liquid forms of credit such as vanilla syndicated lending to high-grade multinational corporates will generate returns on capital that are at best close to hurdle returns. Deploying liquidity in more complex and less liquid asset classes such as specialized lending, local SMEs, unsecured consumer lending, and using the balance sheet to also enter origination and structuring activities all create the opportunity to potentially earn significantly higher returns, although with greater risk. Risk-adjusted returns on capital on overseas lending also vary dramatically depending on the business model employed – from less than 5% for passive investment to 20% or more for whole value-chain business models in structured finance, or top-quartile actively-managed credit portfolios.

Of course, these returns are not guaranteed, and in order to avoid below-hurdle or even negative returns, banks need to make parallel changes to the way that treasury / liquidity positions are managed, and credit risk is managed. Most local Asian banks have credit portfolio risk management functions that focus on monitoring credit watch-lists and major concentrations, with a limited role in advising on portfolio decisions. They are typically viewed as a cost-center, whose performance is measured using process milestones and KPIs for target activities.

To maximize the risk-adjusted returns of exporting liquidity, in what are likely to remain volatile market conditions, a more integrated approach is needed. This will involve at least two developments:

- *Transfer pricing.* The starting point is having a full funds transfer pricing methodology across the whole bank, covering all relevant currencies and tenors, taking into account tax as well as pure liquidity costs, and reflecting the restrictions on cross-border currency movements embedded in Basel III. Charges need to be clear and implemented at all levels of management. This requires MIS that pools liquidity and funding information across all legal entities and sets market-specific targets on loans and deposits
- *Active credit portfolio management*. Given the increased volatility that comes from investing overseas, credit portfolio management must become more forward-looking, with rigorous stress-testing of aggregate macroeconomic impacts, a deep understanding of changeable credit correlations and linkages to capital allocation and charging. It also means developing the ability to manage risk-weighted assets actively through secondary market transactions. Finally, it may need to upgrade credit rating and forecasting models to capture the more diverse set of assets and countries that make up the portfolio

These two developments will allow banks to manage the combined balance sheet across capital, liquidity and ALM issues. This will involve organizational and governance changes, such as a more powerful ALCO function or balance sheet management unit. Such a function will be involved in strategic planning and will monitor balance sheet usage, ensuring that profit growth ambitions are balanced against balance sheet capacity, earnings volatility and evolving regulatory constraints at both the consolidated group level.

3. EXPORT/IMPORT CAPABILITIES

As Asian financial services markets mature, the financial needs of Asian clients become more sophisticated, so more is demanded of banks. As with liquidity, capabilities can be transferred between markets. A small number of Asian banks will be able to use existing capabilities (often developed in more sophisticated markets) as a way to enter new markets where those capabilities are applicable to local needs but rare among local players. More often, however, internationalization will allow many Asian banks to acquire new capabilities.

CASE STUDY – CBA AND HANGZHOU BANK

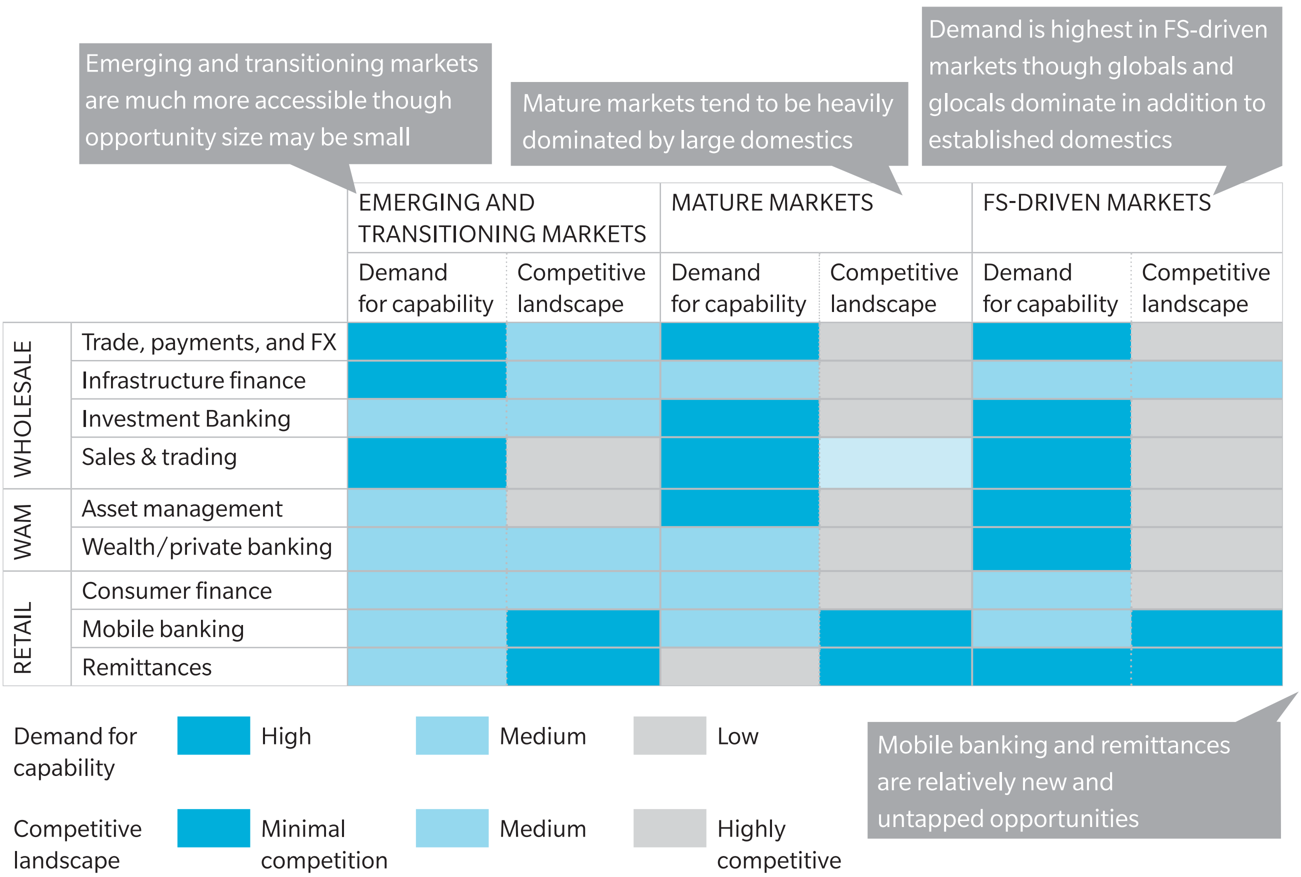
Hangzhou Bank is recognized as a leading SME bank in China, especially in technology and financial services, two key areas of growth for the city of Hangzhou and the broader Shanghai province. In China upwards of 80% of GDP growth comes from this SME client segment, making it a key area within the Chinese economy. Hangzhou Bank recognized that Chinese SME companies were increasingly internationalizing either through ongoing growth in imports / exports or through regional FDI. So the bank sought to upgrade its capabilities and build a broader regional network through its partnership strategy, looking to CBA as a strategic partner.

CBA is a leading Australian universal bank, recognized as a market leader in SME banking. As China is among the top export markets for Australian corporates, CBA was keen to improve its ability to serve their domestic clients' onshore needs.

The partnership has been mutually beneficial for Hangzhou Bank and CBA. Hangzhou Bank can leveraging CBA's know-how to upgrade its onshore capabilities – including management talent via secondment and risk management capabilities – while also providing a regional network for its domestic clients. CBA can provide a deeper onshore platform for its domestic clients and gain access to a strategic client segment in the Chinese market, which they hope to develop into regional clients outside of China.

The scope for leveraging capabilities across borders depends on the line of business and the markets in question.

EXHIBIT 12: CAPABILITY DEMAND AND COMPETITIVE LANDSCAPE BY MARKET TYPE



Note: Demand is absolute measure within country groupings, relative measure within products, and only includes accessible revenues due to regulation, market access to client segments, etc.
Demand is based on the scale of existing revenues in relation to potential review growth, which would include market liberalization measures, i.e., increase accessible revenue pool for non-domestic.
Competition is based on the strength of domestic players as well as presence of international players in the domestic market and their relative competitive positioning.

We see four areas where there are particularly strong opportunities for developing truly regional capabilities across borders in Asia:

INVESTMENT BANKING, SALES & TRADING

As mentioned above, Asia is experiencing a steady increase in cross-border investment and M&A. These transactions are becoming not only more numerous but also larger and more lucrative. Banks are being asked to address increasingly complex issues, including multi-currency hedging, offshore financing, governance structure legacies, and political risk management and so on. Asian banks that wish to remain competitive in corporate finance must develop the capabilities and positioning needed to serve these more evolved needs.

This is not an easy task. First, Asian banks need to secure a "multi-local" positioning across key Asian markets, mainly to avoid being perceived as a smaller and less sophisticated version of foreign banks. This implies deepening relationships with a wide universe of local corporate clients, either by building potentially bigger coverage teams in each key market (an expensive prospect which in itself may undermine the economics of the business) or by building partnerships with local peer institutions.

Second, Asian banks will need to build and export the capabilities to provide end-to-end solutions for cross-border deals. Rather than focusing on the core transactions alone, the M&A division should be treated as a platform that delivers a wide range of lucrative financial solutions to clients.

In sales and trading, the equities and fixed income markets across Asia are both expected to grow rapidly in the coming years. However, they pose different opportunities and challenges for internationalizing Asian banks. In fixed income, Asia is much more fragmented and diverse than Europe and North America. Investment behavior is largely polarized between local currency and G5 or G10 currencies, and local bond markets tend to be illiquid and dominated by local players (both investors and intermediaries). A strong positioning as an Asian fixed income business will therefore require a local presence in several markets, each of which may be currently quite small by international standards, together with strong offshore capabilities in USD, EUR and, to a lesser extent, JPY and GBP. Building a minimum critical mass platform in these currencies, along with operations in cities such as New York and London, will be a necessary table-stakes to be considered by clients as a credible alternative to dealing with one of the leading local banks. While this does not necessarily entail becoming a leading player in any of these developed markets, it does entail some degree of balance sheet commitment, effective sourcing and distribution capabilities, whether achieved organically or through partnerships with existing players.

When building a regional equities platform, by contrast, Asian banks can take advantage of much greater intra-regional portfolio flows and demand from Asian investors for Asian offshore product. This allows them to build a pan-Asian equities business without hubs in Europe or North America. Securing an early advantage in this market will require investments in building the regional onshore footprint and regional governance structure to coordinate the discrete market franchises.

The prize for building out market capabilities is big and attractive for those that succeed, but pursuing a position as a leading Asian investment banking and sales and trading franchise is not for the faint-hearted. In most cases should be looked over a 4-5 year planning horizon depending on the opportunity in play.

INFRASTRUCTURE FINANCE

Infrastructure finance is expected to be one of the major growth areas in Asian wholesale banking over the next decade. According to Asian Development Bank Institute estimates, there is $7.6 TN of investment expected in Asian infrastructure from 2010 to 2020, mainly in China and India (90% of the total) and in energy and transportation (85% of the total). Asian banks have already started to tap into this opportunity, with Asian arrangers capturing 40% of the global project finance market in 2010, up from 20% in 2005.

Financing infrastructure projects is a complicated and risky business, requiring industry expertise, a strong balance sheet "critical mass" in the region. The ability to build relationships with public and private sector bodies is essential to winning such mandates, especially as Public-Private Partnerships (PPPs) and public sector support schemes (such as Indonesia's recently established IIGF) become the norm for mitigating some of the risks associated with infrastructure projects.

Foreign banks must be selective about where they compete in infrastructure and project finance. Local banks often have privileged access to the most attractive transactions, and because many leading local banks in Asia are state-owned, some infrastructure deals may be underpriced and deliver returns below the target of foreign banks. However, leading globals may be advantaged in pursuing large USD deals that leverage their sector expertise.

Regional aspirants will need to find profitable sub-segments to focus on. This could mean using home market clients bidding for project finance deals (e.g. Australian mineral and mining companies doing project finance deals in Indonesia, Japanese industrial contractors working on transportation projects in India), targeting higher-margin activities within the project finance value chain or targeting complex or cross-border projects where extensive advice and structuring is needed: e.g. project advisory, risk management solutions, debt advisory and cross-border structuring that draw on regional expertise (or leverage a domestic one). Many of these activities can generate ROEs of 20%+ and provide an entry point for regional aspirants in building their infrastructure business. Regional players should also consider the role of sector-led strategies to carve out key niches and competitive advantage vis-à-vis their international peers, especially where such niches can leverage expertise developed in their home market, such as minerals and mining, renewables and green technology, natural resources, agriculture and surface transportation.

ASSET MANAGEMENT

The Asian asset management industry is still underdeveloped and provides a substantial opportunity for Asian aspirants. One or two Asian asset managers that have taken steps to develop a broad regional presence – principally Nikko, especially after their acquisition of DBS's asset management business, and Mirae, the Korean asset manager. However the market is still polarized, with a few large global players such as PIMCO or Blackrock covering the entire region and then a large number of domestic competitors focusing on their respective home markets.

Both for the institutional and the retail business this is driven by a combination of demand and supply factors. Asian institutional investors have historically had a lower propensity to outsource. This is due to cultural and regulatory factors and, in many EM countries, the relatively brief histories of the industry which have not yet allowed them to build the capabilities required to outsource assets. From a supply side point of view, most global players have focused their coverage efforts on the largest clients across the region, leaving the next layer of Asian clients under-penetrated.

Asian retail clients prefer brand players. This has restricted the platforms of the fund distributors to in-house products and a small set of the leading retail brands, such as Fidelity or Templeton.

Hence, while any Asian asset manager with a regional ambition will have to build out their production footprint (e.g. research and portfolio management capabilities, connectivity to the local market infrastructure), getting distribution right will be even more challenging. Success will require brand building with the target client base as well as multiple regulatory institutions. In some markets products and servicing models will need to be customized to local regulatory requirements – for example, Asia still lacks a generally accepted Asian fund domicile).

WEALTH MANAGEMENT

Given the rising affluence in Asia, wealth management has become a strategic focus for both global players and Asian banks with domestic franchises and regional aspirations. Asian banks already typically have many affluent and HNW customers within their customer bases, especially in the entrepreneur and commercial banking businesses, whose wealth management needs are underserved, or who obtain these services from other providers.

Importing sophisticated capabilities into a local market can provide competitive advantage in wealth management. However, local knowledge is crucially important. There are disparities in the regulatory regimes for wealth management products and services across different Asian markets, and significant differences in investor sophistication and mindset across Asia, and between Asia and more mature wealth management markets. For example, the desired level of involvement amongst Asian clients tends to be relatively high, especially among first and second generation wealthy entrepreneurs. And their willingness to pay for advice tends to be lower than in Europe and North America. Wealth managers in Asia also need to bear in mind that they compete for client assets not just with other financial institutions but with alternative investment opportunities such as real estate and, for UHNW clients, their own private equity investments. The ability to win this "war for assets" will hinge on having a deep local understanding of client needs and developing trust between clients, advisors and the parent institution.

Developing this takes considerable time, if only because it can take a decade to groom a competent relationship manager for HNW customers. Aspiring Asian regional banks may therefore require some form of global-local combination. They might, for example, acquire the capabilities Europe-based global wealth manager retreating from Asia in response to the Eurozone crisis. OCBC's acquisition of ING Asia Private Bank in 2009, subsequently rebranding the combined business to launch Bank of Singapore, is a good example of this. The Bank of Singapore is already a well-recognized Private Banking player in the region. Similarly, Standard Chartered Private Bank acquired American Express Bank in 2007 to jump-start its growth, in private banking.

There are fewer examples of successful strategic partnerships. One notable exception is MUFG's private banking joint venture in Japan with Bank of America Merrill Lynch, which combines the global capabilities of the latter with the local know-how and extensive client network of the former.

As with all partnerships, the sustainability of such a global-local partnership in wealth management depends on both parties recognizing each other's strengths and limitations (particularly with regard to AML, KYC and sales practices), and on having the organizational commitment to overcome differences in culture and mindset.

EXECUTION

There are three execution challenges that we see in internationalization for Asian banks:

- Ensuring local business models are aligned with the strategy
- Establishing the right regional business model
- Transforming culture and mindset

ALIGNMENT OF LOCAL BUSINESS MODEL

Once a bank has decided that it needs to have a presence in a market, there are a variety of business models it can adopt, ranging from a representative office combined with heavy off-shore presence, a minimal on-shore branch presence serving almost exclusively 'home-country' clients, or a full local subsidiary, which in itself could range from a niche or multi-niche presence serving local customers on a very selective basis through to a full-service model.

Many attempts at internationalization have suffered from having local business models that are poorly aligned with the bank's strategic ambitions, with either subscale businesses with weak local funding and client relationships or over-sized businesses with underperforming legacy portfolios and "stuck-in-the-middle" retail bank economics.

However, achieving alignment of the local business model with the bank's strategy is easier said than done. Acquisition targets rarely provide a perfect match for the buyer's internationalization strategy. And even when the divisions that are surplus to requirements have been identified, selling them may not be straightforward. Funding linkages may make it hard for local buyers to purchase and earn an adequate return; there may be regulatory constraints on selling the division; or the frictional costs of a separation may be too high. Moreover, non-core divisions may be profitable in their own right, even if they do not offer the same level of profit or growth potential as core divisions.

When considering potential overseas banking acquisitions or expansions, and in subsequently managing them, it is important to separate their activities into three categories:

- *Critical to the internationalization strategy* (For example, wholesale markets, transaction banking and trade, wealth and retail deposit-raising). These businesses should form the main focus of the post-merger integration strategy. Local management must share the group strategy. These local management roles should be filled by top talent rotated in from other countries and from whatever international management development program may be in place. It is also important to recognize these businesses will absorb a disproportionate amount of discretionary investment and allocated capital, as they will be key growth engines and will need to be able to compete with other multinational banks. Furthermore, financial metrics for these businesses need to be complemented with additional metrics that reflect progress towards achieving broader strategic ambitions

- *Profitable and offering growth opportunities, but not an integral part of the internationalization strategy* (for example, mortgages, consumer credit and credit cards). A challenge for these businesses will be competing with well positioned local incumbents. Typically, this will require an experienced and empowered local management team, something that may not sit well with the matrix structure that is often needed to manage international businesses. Successful differentiation from local incumbents may also require access to capabilities found elsewhere in the group, such as technology, mobile media or customer analytics. The size and profitability of these businesses, coupled with the local autonomy they require to be run successfully, can make them sources of unanticipated risks. The tension between autonomy and oversight is a common source of disharmony within the management teams of internationalizing banks
- *Non-core, marginally profitable or low growth* (For example, mass-market retail customers that transact heavily but have neither significant deposits nor significant borrowing needs and SMEs that do not have significant international linkages). These businesses need to run on a tough "fix or exit" regime, with hard financial targets based on cash generation. This will often require fresh management with a clear mandate to extract capital, pare costs to the survival minimum and de-risk portfolios as rapidly as possible. Such operational improvement programs must sometimes be run in parallel with selling parts of the business

CASE STUDY – STANDARD CHARTERED CONSUMER BANK

Standard Chartered has stratified its consumer banking operations into three categories:

- Core markets such as Hong Kong, Singapore, Korea, Pakistan and the UAE, where it seeks to provide a full-service operation
- A second category of targeted "city-focused" markets, including China, India, Nigeria and Thailand where it provides a premium-service operation to affluent customers and those with sophisticated needs in large metropolitan areas
- A third "lean premium" bucket for smaller countries ranging from Bahrain to Brunei, where it provides a stripped-back service

In addition to this macro-segmentation of markets and business models, Standard Chartered has introduced a number of customer-focused micro-innovations in businesses, such as mortgages and cards that, while not integral to its overall international strategy, offer attractive economics and strong growth and allow differentiation from local competitors through service.

> *"In Hong Kong we have a fleet of people in cars that will come to you for a mortgage. They'll give you approval in principle in 15 minutes."*
>
> Steve Bertamini, CEO of Consumer Banking, Standard Chartered

THE REGIONAL BUSINESS MODEL

Managing a portfolio of businesses across a region creates unique challenges in striking the right balance between the "One Bank" vision and the need for local autonomy. Three trade-offs must be managed:

- Governance: managing scarce talent and ensuring effective client coverage while at the same time empowering local business management
- Centers of excellence: acting as a competence center to ensure that expertise developed in one business is shared by all without imposing a "center knows best" philosophy
- Shared services: leveraging scale in certain functions, especially technology, while maximizing business agility and responsiveness to local needs

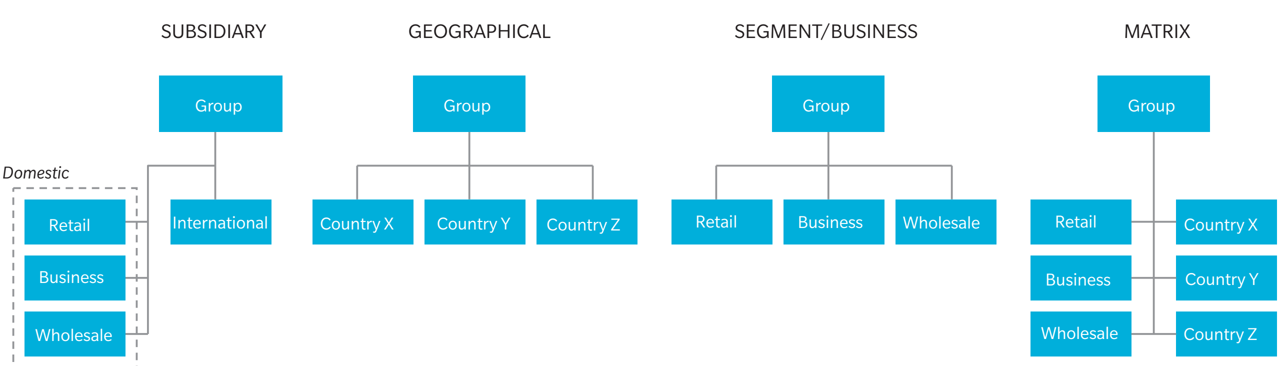
GOVERNANCE

As an Asian bank's international footprint grows, it must design and organizational structure that finds the right balance between empowering local management and keeping control of the brand and controlling risk. There are four main models for how such international footprints are organized (Exhibit 13).

In the early stages of internationalization, banks usually adopt a simple "subsidiary" organizational structure, whereby the international businesses are managed as a portfolio, relatively separately from the "home" business which still dominates the senior management of the group. Often a single executive is appointed to have oversight over all international businesses. While this minimizes organizational complexity, it also limits cross-border synergies.

Banks that have built their international portfolio through acquisitions typically adopt a geography-centric model, where the main organizational units are countries. This model is consistent with the way that regulators often look at the business and ensures clear P&L accountability. However, it can lead to geographical silos that make it difficult to manage cross-border customer relationships and deploy capabilities across countries.

EXHIBIT 13



Many banks that have internationalized have therefore adopted either business-centric or matrix models for governance, with global lines of business dominating or existing on an equal basis with geographical units. These models capture customer, capability and cost synergies. However, they also introduce complexity. They require a deeper pool of management talent, clear roles and accountabilities for business lines and country units, and protocols for allocating resources between them and resolving disputes.

Whatever the organizational structure, a key challenge will be ensuring that the coverage of clients with international needs is integrated across borders. Since most clients will still be mainly local, globally integrated servicing must be built on a foundation of strong local client coverage within each market. Most regional banks create a "strategic client" group on top of existing country-level coverage, and assign these clients a single point of contact. These strategic relationship managers must have the seniority, expertise and breadth of knowledge to deal with client Group CFOs and Treasurers, and have the network and credibility within the bank to be able to mobilize the right resources to deliver satisfy to the client's demands. This is difficult for many Asian banks because most of their RMs' experience is restricted to corporate lending. They, often feel uncomfortable orchestrating a team of experts from many markets and products.

Regionalizing Asian banks must also decide the extent to which risk management should be decentralized. In the 'subsidiary' model, central risk management is run from the home country. This model can work when supporting domestic corporates seeking overseas financing elsewhere in Asia, but will be challenged when the bank's foreign operations develop local relationships. Regionalizing banks should aim to develop local credit capabilities that give a more accurate view of local counterparty risk while ensuring that all locations adhere to common standards and that regional risk oversight is maintained.

CENTERS OF EXCELLENCE

Whatever the organizational model, some capabilities should be "hot-housed". For example, consider retail financial products. Manufacture, marketing and sales will always be local, but innovations in product design and best practices (e.g. in pricing, or in collections) can be shared across markets. Equally, there may be cross-border capability synergies in a segment, such as SME, where the challenges of credit process design are common to most markets. CRM and customer analytics is another area where capabilities are typically in scarce supply and will benefit from being located centrally, even though the users will always reside in the businesses.

In deciding how a particular capability should be developed and deployed, regionalizing Asian banks can choose from a range of different models, ranging from informal networks to dedicated organizational units:

- Instituting a peer-to-peer network
- Appointing a "tsar" from an existing business to wear two hats, one running their existing business and the other taking responsibility for driving expertise sharing
- Establishing a central leader with a small "project office", that advises local businesses
- Establishing a central function with a full team that can take on some of the activities of the businesses
- Establishing a formal profit center

In general, the greater the cross-border synergies associated with a capability, and the more central it is to the international strategy of the bank, the greater the need to create a formal organizational unit to foster that capability, with clear accountability for realizing the relevant cross-border synergies.

SHARED SERVICES AND INFRASTRUCTURE

For Asian banks thinking about the shared services opportunity it is important to distinguish between shared "operations" and shared "infrastructure." The former refers to establishing a common operating platform for processes across markets (e.g. centralized letter of credit processing, regional payments factories), the latter to establishing common IT systems (e.g. common OMS/EMS or payments systems, shared servers and network connectivity). While benefits to sharing exist in both areas, each has unique challenges.

Shared services models are typically adopted as a way of cutting cost. In Asia, however such savings are often small because there is little opportunity for labor cost arbitrage between countries when execution costs and investment requirements are taken into account. And in some markets, such as Korea, local regulations severely restrict offshoring. Shared services in Asian banks are therefore as much about improving business agility, e.g., responding to market or client demands, and hiring and retaining talent in support functions as about reducing costs.

When deciding on which services to share, regionalizing Asian banks should consider where they have critical mass in markets with a common language or culture. For example, developing a payment or corporate actions hub for Sino-markets, uses common language as a starting point. They must also identify cross-market processes that are not client facing, common across the region and therefore candidates for standardization. Examples include middle and back office tasks such as product control for markets businesses and client reporting for wealth management.

Shared infrastructure also represents a significant opportunity for Asian banks, which have so far taken a decentralized approach to managing IT regionally, with standalone systems and support onshore, leading to duplication across the region. This has often been justified by the lack of regional IT solutions, though, in fact, it is usually due to the lack of a regional governance structure to manage the Asian IT investment and infrastructure portfolio.

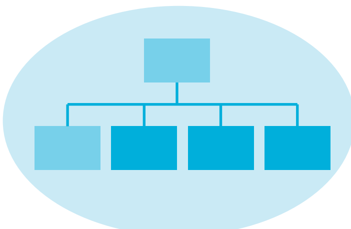
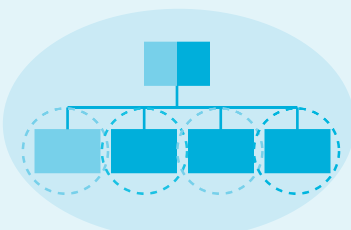
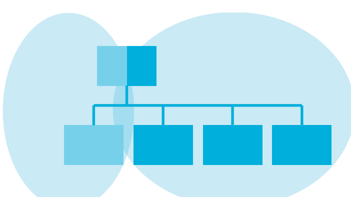
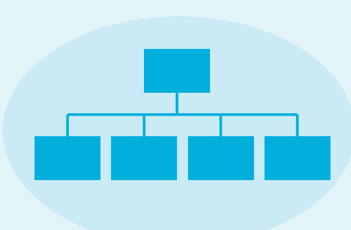
Regional solutions do work in most markets. Leading IT vendors have invested heavily to develop their Asian product suites, and technology standards, such as SOA and SaaS, enable increased usability. The time is ripe for Asian players to pursue shared infrastructure services. Aside from savings of up to 40% in IT costs alone, establishing regional standards for operations and technology allows the banks' ability to make systems upgrades rapidly across the region, reduces the cycle time for new products by reusing IT functionality from other markets and enables a hub-and-spoke product deployment strategy.

Making shared services work is a substantial challenge and Asian banks should learn from the experience of their Western peers when implementing shared services and infrastructure:

- Ensure strong support from senior management with a clear view on the vision and value of shared services
- Institute a common language policy to help cross-border communication
- Institute governance model that ensures effective service delivery (in-line with the bank's value proposition), including driving standards, managing costs and mitigating issues, etc.
- Use incentive strategies and KPIs to measure performance and drive desired outcomes
- Improve processes before migrating to shared services: that is, improve then migrate rather than migrate then improve
- Apply a test and learn approach, avoiding big bangs, in order to fine-tune the operating model

TRANSFORM THE CULTURE

Regionalizing Asian banks will also need to evolve their culture to reflect the increasingly diverse nature of their business. There are a number of different cultural models that we have observed in banks as they internationalize their business.

CULTURE	DESCRIPTION	EXAMPLES
HOME CULTURE 	• Culture of home market dominates the organization with culture in all international operations largely based on home country culture • Senior management roles – both Group and International – largely filled by executives from home country	• Domestically-focused universal banks e.g. Korean banks, Japanese megabanks
'COMMONWEALTH' CULTURE 	• Multiple cultures exist within the organization • Little common culture, but some shared underlying values (e.g. shared commitment to decentralization) • Very limited rotation of executives across businesses • Group executive team international, but perhaps with some 'home country' bias	• Some of the multinational insurance groups e.g. Prudential UK • Banks that have expanded internationally heavily by acquisition
HYBRID CULTURE 	• Two cultures co-exist within the organization – a 'home country' culture and an 'international business' culture • Group Management team comprises mixture of home country domestic management and international management • Extensive rotation among executives of international local entities, but relatively little mingling of home country and international management teams	• Global universal banks with strong domestic franchises e.g. Citibank, Deutsche Bank, Barclays, BNPP, SocGen
'ROMAN EMPIRE' CULTURE 	• Single corporate culture developed and enforced in all businesses • International management team in the Group Center • Extensive international management rotation among executives of local entities • Formal development programs for international management	• Standard Chartered, HSBC • Global investment banks e.g. Goldman Sachs

The best cultural model depends on the international business model and the level of international ambition. For example, while a home culture may be adequate if the international network is primarily developed to service the international needs of domestic corporate clients. However, it is unlikely to be effective if ambitions stretch to developing strong local businesses in other markets.

For international bank with a 'Commonwealth' culture, the linkages between the different geographical units are primarily financial, rather than strategic or operational. This type of culture is appropriate when the main strategic focus of international growth is to support the export and import of liquidity across borders.

A hybrid culture is common in banks with a strong home market presence and whose international operations are concentrated in tightly-related businesses, such as universal banks with large global investment banking businesses.

Finally, banks that have built such strong international franchises that they no longer have an obvious home market, it is possible to develop a 'Roman Empire' culture. As with Roman citizenship, any member of staff is first and foremost a member of a global bankwide culture, independently of which country they happen to reside or work in. Such a strong culture takes many years to develop, requires a heavy investment in international management development and rotation, and can happen only if there is a shared commitment at the top of the organization to the development of leaders in the organization who come from diverse geographical backgrounds.

As Asian banks expand overseas they increasingly compete with other regional and global banks for talented staff. Asian banks will need to re-think their approach to recruiting, retaining and developing talent in line with their regional ambitions. This is particularly a challenge for those pursuing international strategies based on global capabilities or clients with international needs and the international cultures to match them. According to Fabrice Desmarescaux of Spencer Stuart, the leading executive search firm, "The key for Asian banks is to recognize that they compete globally for the best talent and must pay global compensation levels. Banks operating outside of Hong Kong and Singapore will find it challenging to identify and recruit top local talent, and then they must recruit, train, and retain local talent by creating opportunities for them, including international opportunities."

Compensation models will need to be revised, with regard to both the mix of base versus bonus and the link between performance and compensation. This is especially true for domestic banks competing with foreign banks, many of whom pay two or three times the level of their domestic counterparts. At the same time, domestic banks need to avoid the pitfalls that many Western banks fell into and ensure that their incentive strategies balance short-term performance with long-term objectives, via deferred payments.

Internationalizing Asian banks will also need to upgrade their internal talent development models, to foster internal cultural cohesion and to avoid the costs and risks associated with high levels of external hiring. This will require:

- *Management training programs*. Dedicated management track programs, such as those of GE or HSBC, that focus on management rotation and training to equip future leaders with the skills to succeed
- *Innovation programs*. Training programs around a theme or challenge designed with universities, such as IBM's innovation training program with Harvard
- *Cross-cultural training*. Programs typically involve management rotation along with educational supplements to increase cross-cultural awareness and know-how
- *Mentorship development programs*. Focuses on partnering talented junior staff with senior managers to help them develop their knowledge and skills and provide guidance about advancing within the organization

Lastly, Asian banks will need to reconsider the role of branding, not just in the context of marketing to customers but in creating "résumé prestige" among sought-after recruitment candidates, especially those with strong academic backgrounds, international experience or professional affiliations.

CONCLUSIONS

The growth and internationalization of Asian banking will be a defining trend in global financial services for at least the next 20 years. However, experience to date, from both Asia and the rest of the world, is that getting the strategy and execution right is a challenge that only a minority of institutions will meet.

Successfully internationalizing requires a clear vision of where one achieves competitive advantage over local banks – in which markets, client segments and products. It also requires a disciplined approach to delivering such differentiation, getting the local and regional operating models right, and instilling the right talent model and culture.

For those that do not have the capabilities to manage this transition, internationalization may not be the optimal strategy, and a strategy of focusing on the domestic market may better. Many successful Asian banks are doing precisely this, and this will be the focus of the next report in this series. However, for those "crouching tigers" that have the capabilities, organizational flexibility and leadership to successfully internationalize, the opportunities are substantial.

Oliver Wyman is a global leader in management consulting that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, organizational transformation, and leadership development.

For more information please contact the marketing department by email at info-FS@oliverwyman.com or by phone at one of the following locations:

ASIA PACIFIC
+65 6510 9700

EMEA
+44 20 7333 8333

AMERICAS
+1 212 541 8100

AUTHORS:

Anthony Stevens, Partner
Jason Ekberg, Principal
Taekyung Kim, Manager

www.oliverwyman.com

OLIVER WYMAN