

# INVESTMENT IN ASIA GOLDEN OPPORTUNITIES IN ASIAN BANKING

5-6 APRIL, 2016

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# Contents

|    |                                      |    |
|----|--------------------------------------|----|
| 1. | Introduction to Oliver Wyman         | 3  |
| 2. | Opportunities in Asia Banking Market | 9  |
| 3. | Operation model challenges           | 26 |
| 4. | Next steps                           | 32 |
| 5. | Appendix                             | 35 |

# Section 1 | Introduction to Oliver Wyman

# Oliver Wyman is by some distance the recognized market leader in providing strategy advisory services to wholesale banks

# 700+

Oliver Wyman executed projects in corporate and institutional banking practice since 2012...

## Key Areas of Insight

Widely recognized as influential thought-leaders, the Corporate and Institutional Banking Practice draws on a deep knowledge of our clients' businesses and our own in-depth industry research to develop sustainable strategies for our clients in Investment and Corporate and Commercial Banking.

Key areas of insight include:

- Banking, capital markets and transaction services
- Market infrastructure
- Sales coverage
- Business strategy and organization
- Treasury strategy and applied risk
- Pre and post-trade strategy
- Credit portfolio management and credit process analysis
- Performance measurement and compensation

# Corporate and Institutional Banking has strong relationships with all twelve leading global players, as well as regionals, market infrastructure and regulators

## CIB clients

### Globals

- Banks with global corporate and investment banking operations
  - Either standalone (MS, GS)
  - Or embedded within a universal bank



### Regionals

- (European) Banks with strong CIB operations throughout Europe, often with smaller operations in other regions e.g. SG and BNPP in North America, Santander or BBVA in LatAm



### Domestics “Plus”

- Banks with CIB operations focused largely in their home market
- Large captive mid-market client base
- Typically one foreign market (hence the “plus”)



### Market Infrastructure

- Exchanges (e.g. Dt. Börse, LSE, Eurex, CME)
- Clearinghouses (e.g. LCH, CME)
- Custodians (e.g. BNY Mellon, StateStreet)
- Market data providers (e.g. ThomsonReuters)



### Other

- Regulators (e.g. FSA, Finma) – together with PP
- Industry bodies (IIF, WEF, afme, sifma)
- Buy side clients (Blackrock) – together with WAM



# Overview of topics in the Corporate and Institutional Banking Practice

## Typical corporate and institutional banking topics

|   |  |  |
|---|--|--|
| 1 | <b>Corporate and Investment Banking Strategy</b> | <ul style="list-style-type: none"> <li>• Market sizing and competitive positioning</li> <li>• Productivity, profitability analysis</li> <li>• Business model profiling and market entry</li> </ul> |
| 2 | <b>Regulatory Response</b>                       | <ul style="list-style-type: none"> <li>• Impact analysis (e.g. Basel III, MiFID II)</li> <li>• Bank separation</li> <li>• Wholesale conduct and compliance</li> </ul>                              |
| 3 | <b>Sales Coverage and Incentives</b>             | <ul style="list-style-type: none"> <li>• Coverage teams set-ups</li> <li>• Cross-selling and cross-group convergence</li> <li>• Compensation and sales credit methodology</li> </ul>               |
| 4 | <b>Exchanges and Market Infrastructure</b>       | <ul style="list-style-type: none"> <li>• Pre and post-trade strategy and e-platforms</li> <li>• Collateral Management und CCP Clearing</li> <li>• Custody und Securities Services</li> </ul>       |
| 5 | <b>Process and Cost Optimisation</b>             | <ul style="list-style-type: none"> <li>• Front-to-Back efficiency</li> <li>• Zero-based cost optimisation</li> <li>• Smart sourcing and IT strategy</li> </ul>                                     |
| 6 | <b>Market Risk Management</b>                    | <ul style="list-style-type: none"> <li>• Market risk modelling</li> <li>• Credit portfolio management</li> <li>• CVA modelling</li> </ul>  |

**JVs with F&R and SITO**

## Industry-defining reports



July 2015  
**Corporate Banking Report**

Delivering Excellence In Corporate Banking



March 2016  
**Wholesale and Investment Banking Outlook**

The Liquidity Conundrum



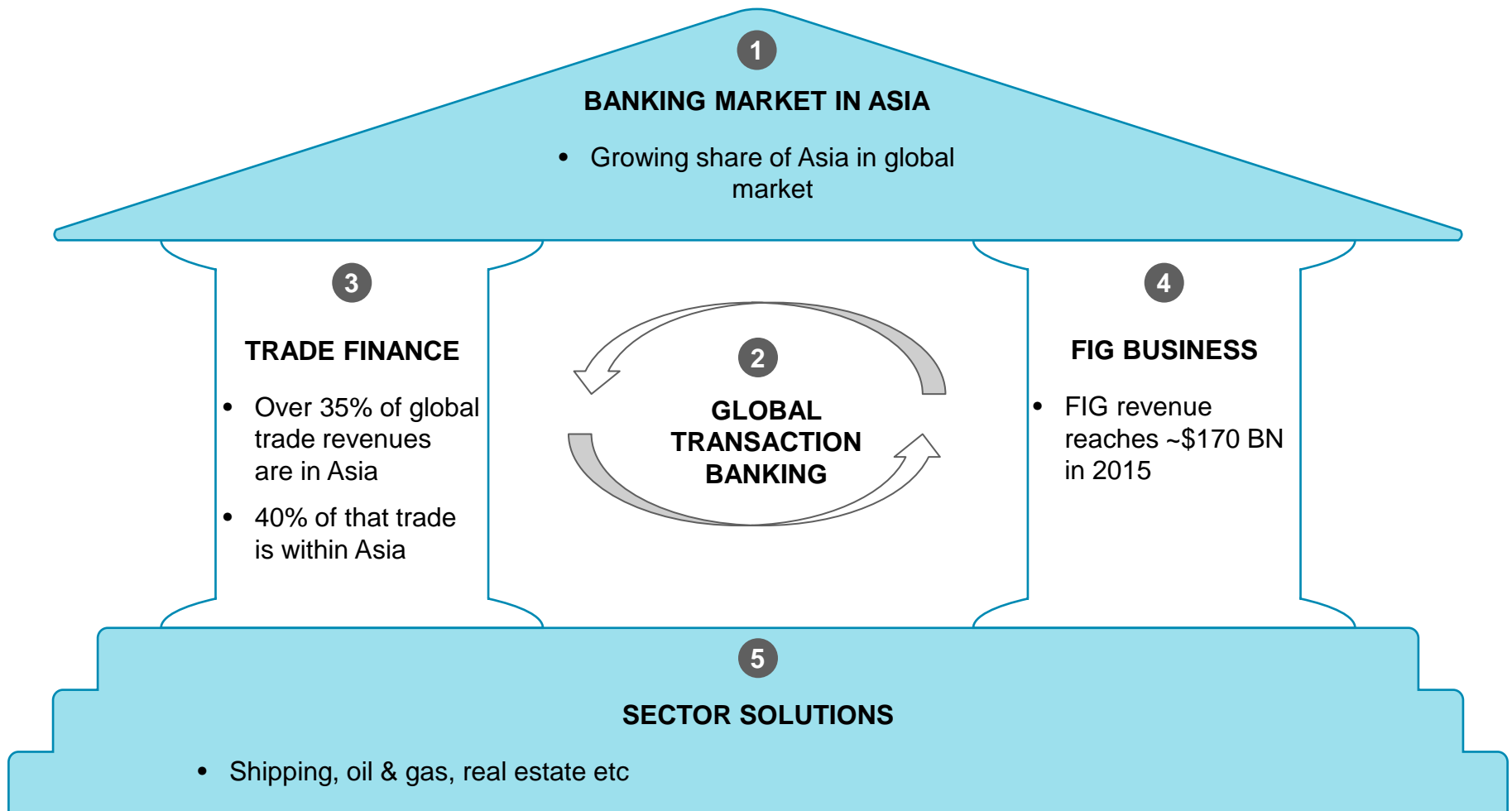
September 2015  
**The Capital Markets Industry**

The times they are a-changin'

## Section 2 | Opportunities in Asia Banking Market



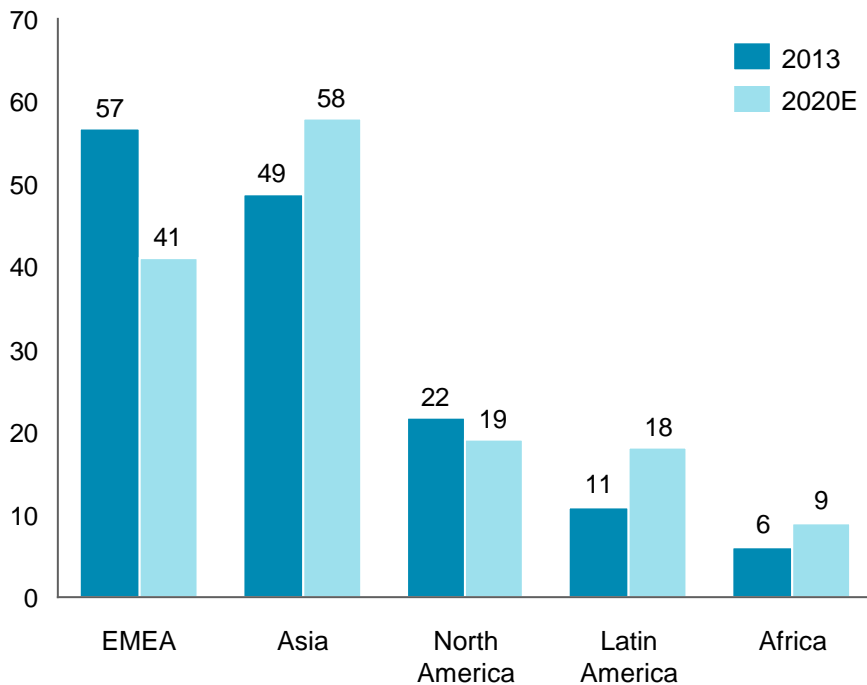
There are rising opportunities in Asia banking market especially in trade finance and FIG business, which could be realized by sector solutions



# 1 Asia will surpass EMEA to become the crossroad of global trade by 2020

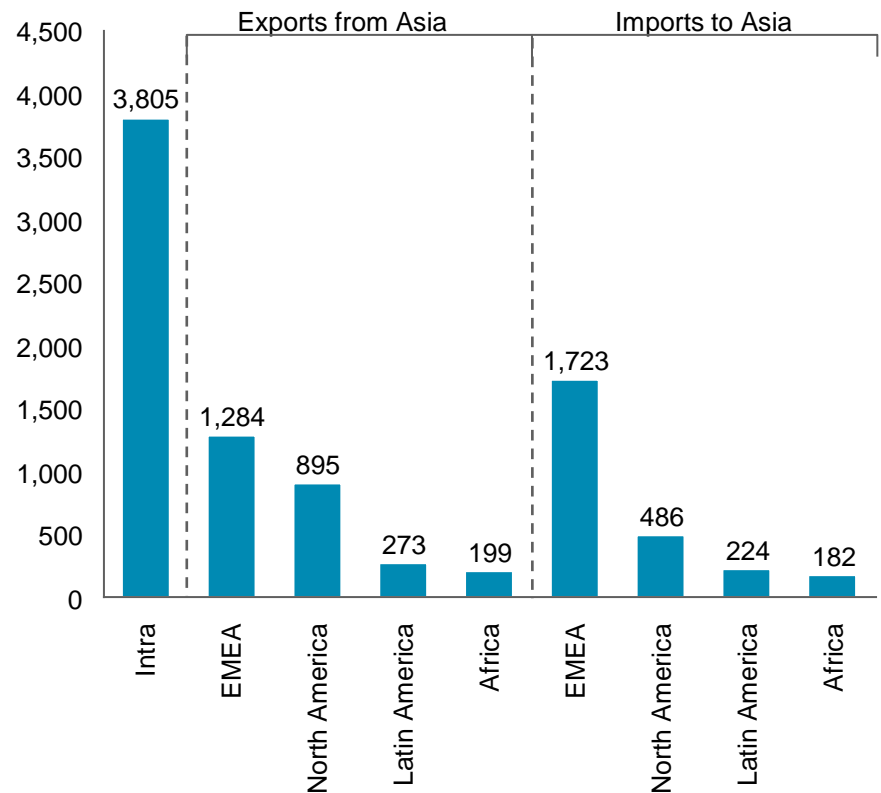
## Region's involvement in global trade

% of trade flow with region's involvement, 2015 vs. 2020E



## Asia-related trade flows

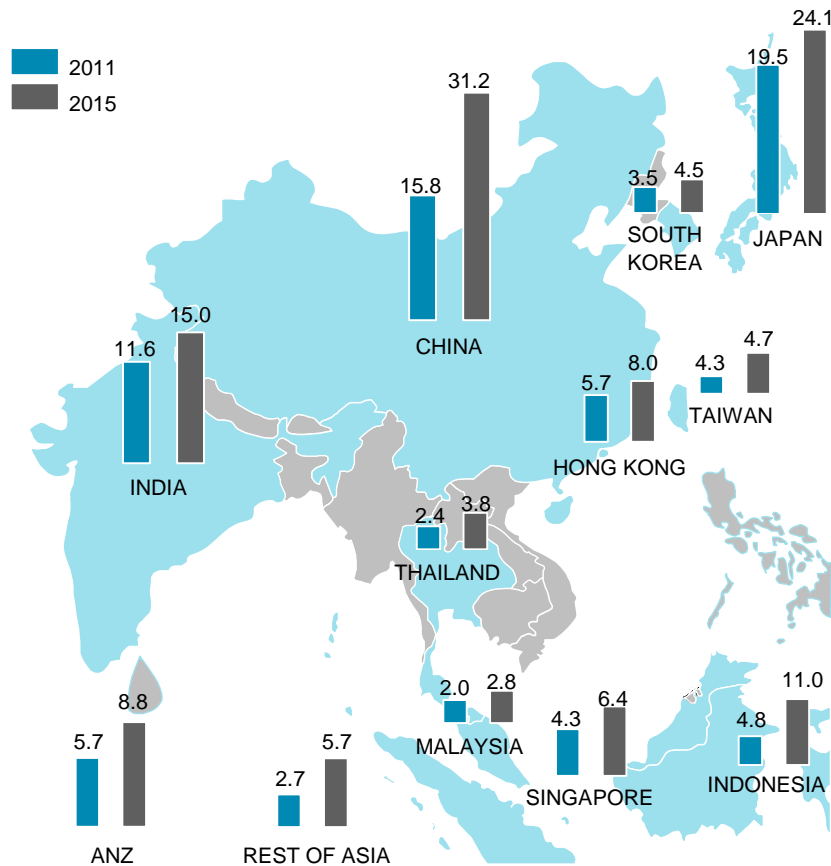
US\$ BN, 2015



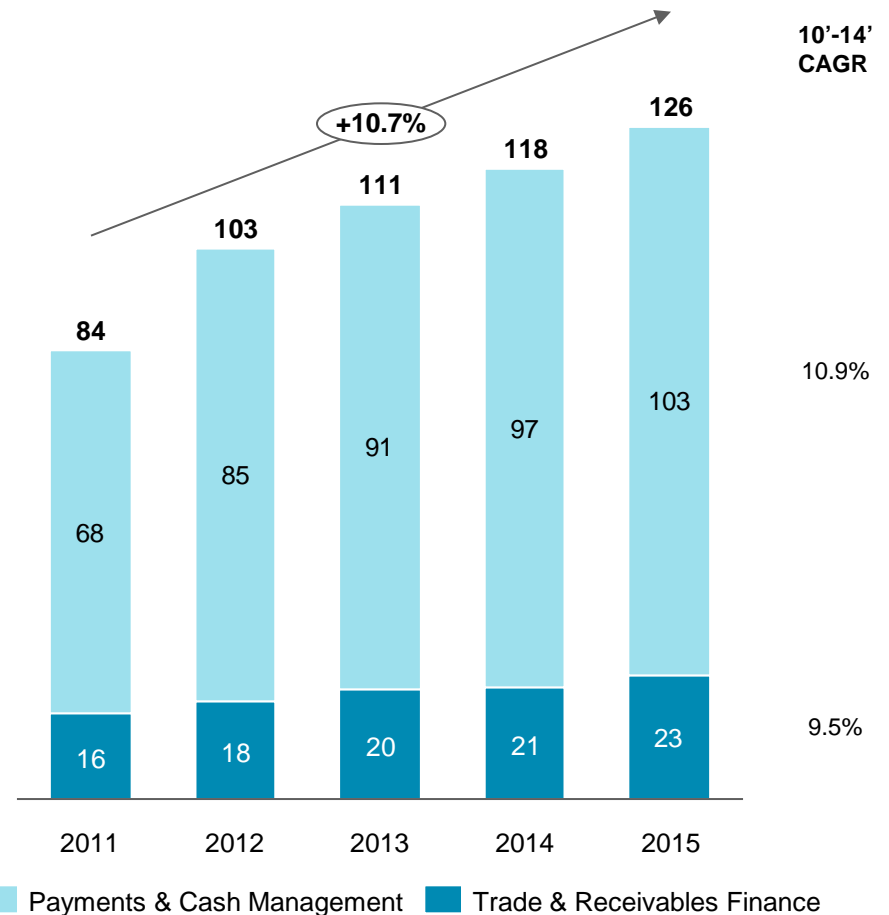
Source: UNCAD, WTO and Oliver Wyman analysis

## 2 In APAC, the TB revenue pool grew from \$84BN to \$126BN between 2011 and 2015, driven mainly by growth in China and ASEAN

Historical evolution of Asian TB revenues  
Split by country, US\$ BN



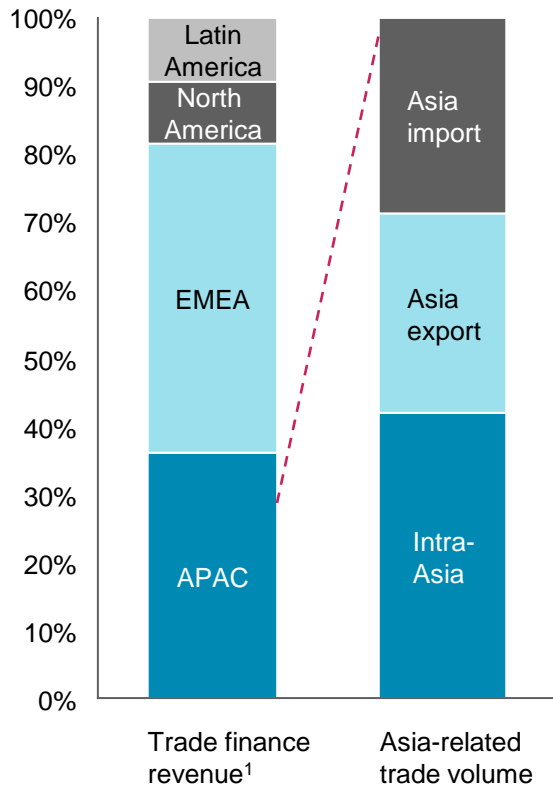
Historical evolution of Asian TB revenues  
Split by product type, US\$ BN



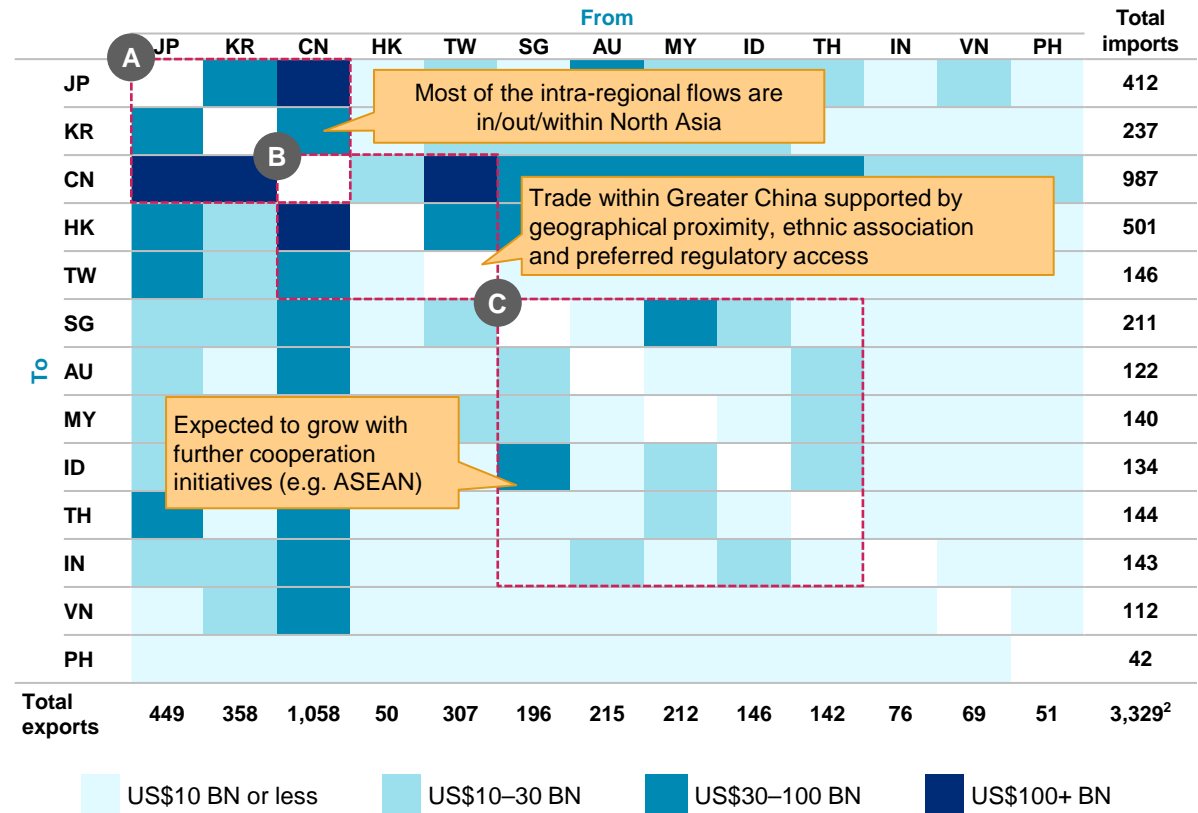
Source: Oliver Wyman proprietary data and analysis

### 3 More than 35% of global trade revenues are in Asia, with 40% of that trade being within Asia

Asia share in global trade percentage of world total, 2015



2015 Intra-APAC trade flow drill downs US\$ BN



1. Includes revenue from receivable finance

2. Total revenue of these 13 selected countries amounts to US\$3,329 BN. Total intra-APAC revenue amounts to US\$3,805 BN.

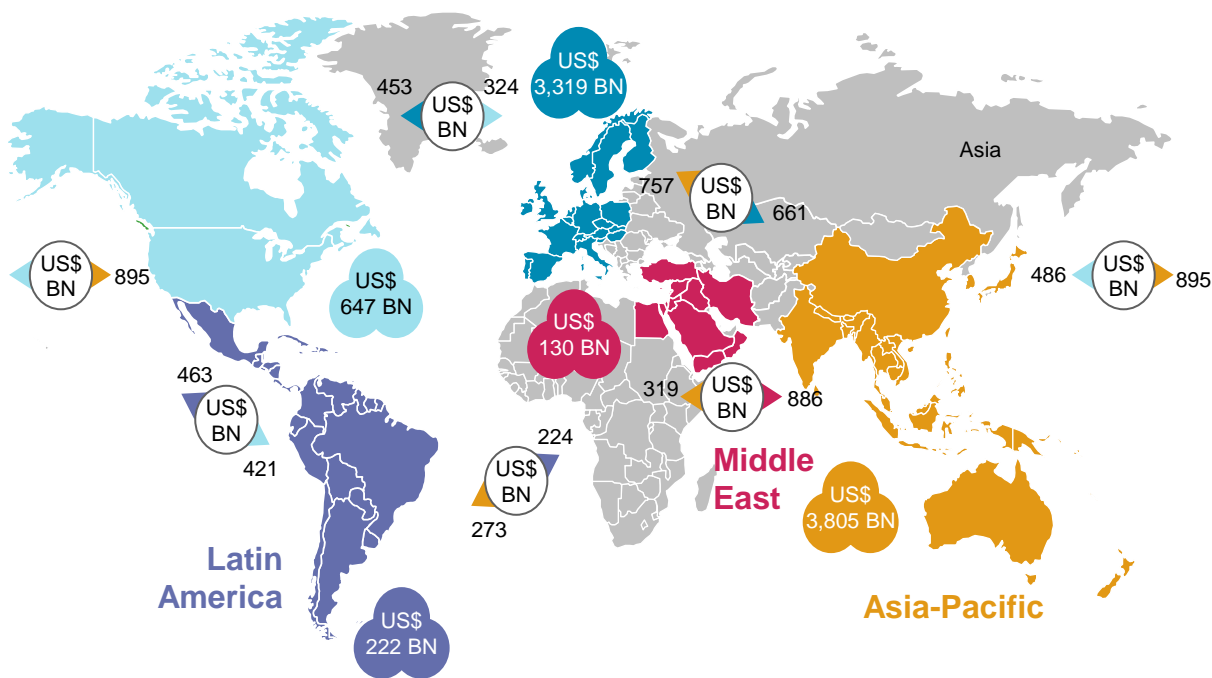
Source: UNCAD, Oxford Economics, Oliver Wyman analysis

### 3 In terms of trade corridors, Asia has turned into the leading global trade hub, more than 60% of trade has at least one leg in Asia

#### International trade in select corridors 2015

##### North America

##### Western Europe



☁ Intra-regional trade      ⦿ Size of goods trade

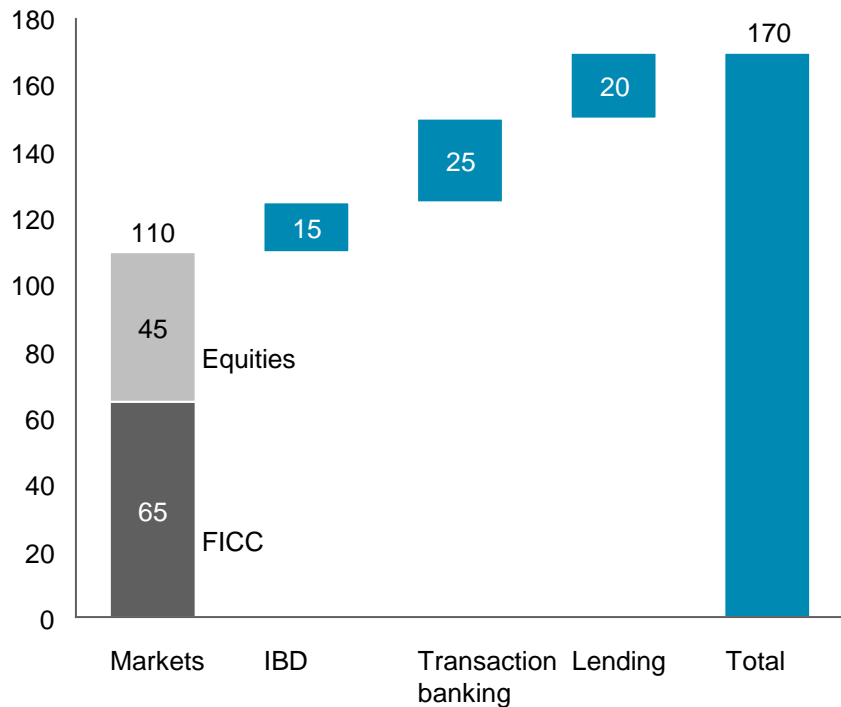
#### Comments

- Global trade flows have been materially reshaped, with intra-regional trade growing importance especially in Asia
  - Asia accounts for ~44% of the global intra-regional trade
  - South-south trade flow has continuously increased, attributing to the overall market growth of China-led Asia and Intra-ASEAN trade
- Both import and export are centering on Asia and intra-Asian trade is being the primary driver of this growth

Source: ITC, UNCTAD, WTO, UN COMTRADE, Oliver Wyman analysis

4 The total revenues available from FIG clients was ~\$170 BN in 2015 Being careful to apply a Shari’ah compliant lens.

**FIG revenues by product**  
In US\$ BN, FY 2015

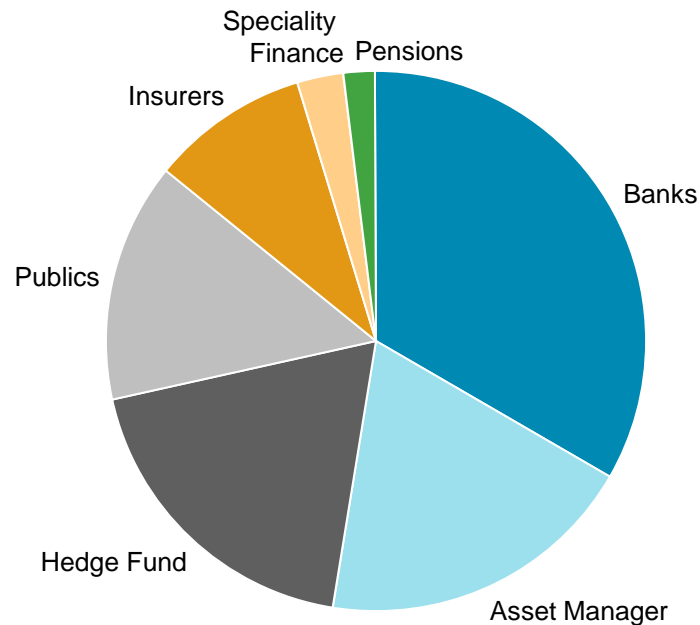


**Growth rate yoy**

|       |             |        |      |      |      |
|-------|-------------|--------|------|------|------|
| Eq:   | 5–10%       | 15–20% | 0–5% | 0–5% | 0–5% |
| FICC: | -5% to -10% |        |      |      |      |

Note: IBD excludes self-issuance

**FIG revenues by client**  
In US\$ BN, FY 2015

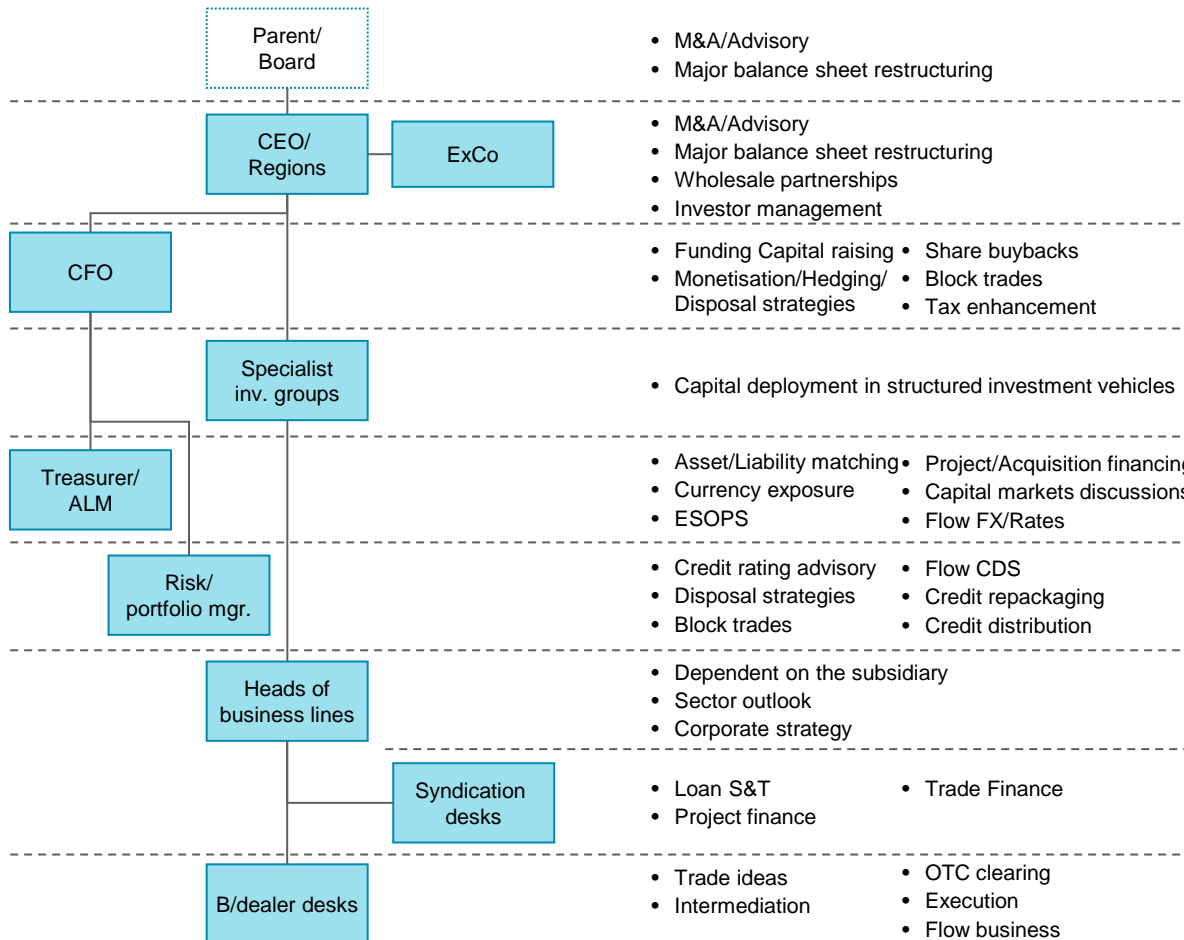


# 4 Tier 2 banks in particular represent a broad set of opportunities, but also present a range of coverage and execution challenges

## Client buying points

## Product needs

## Perspectives



- Tier 2 (i.e. regional banks) are one of the most attractive client sub-segments within the broader Financial Services segment
- They are complex accounts to serve
  - Several different buying points from CEO, through CFO and Treasurer to business lines
  - Spans many internal boundaries: asset side/liability, private side/public side, flow/structured, securities/IBD
  - Requires dynamic product development to react to new regulations and country specific issues facing the institution
- Yet many dealers lack the systematic coverage disciplines required to serve these accounts and fail to overcome internal hurdles
  - Failure to establish credit appetite and put in place approvals
  - Lack of overall relationship management and reciprocity
  - Poor prioritization across countries and individual names
  - Ineffective mechanisms for coordination, and unclear mandates/coverage responsibilities

## 5 Definitions and scoping (1/2)

We developed a definition of corridors and a description of the economic activities we can observe within these corridors

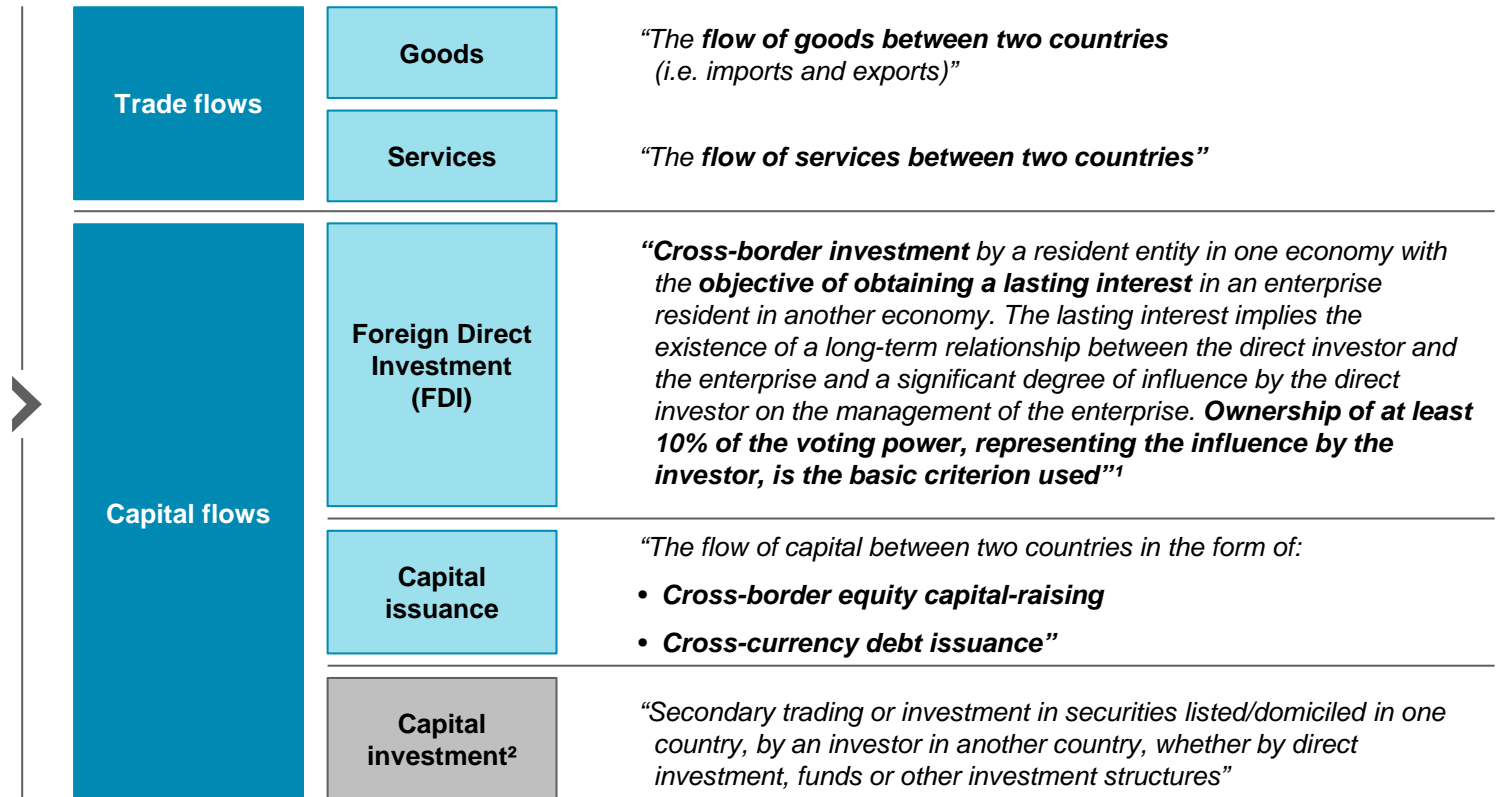
### Definition of corridor activity

### Corridor activity comprises two key flows...

### ...which can be specifically defined

### We define corridor activity as

*“The economic activity between two parties, in distinct countries, that lead to a revenue opportunity for banks at both ends of the corridor”*



1. Definition from OECD

2. Cross-border investments are deliberately excluded, as no local network advantage in providing advice to investors is required

Note: Retail activities are deliberately excluded from the scope of this initiative for the time being. The only exception is that cross-border retail payments will be included given this cannot be split out. This is not expected to materially impact the output/metrics



## 5 Definitions and scoping (2/2)

Against each of the corridor activities, key banking products have been mapped which are distinct, measurable and relevant to “network banking”

| Corridor activity |                           | Products               | Rationale for inclusion   |  |
|-------------------|---------------------------|------------------------|---|--|
| Trade flows       |                           | LCs and Collections    | <ul style="list-style-type: none"> <li>• Network adds value by providing a presence at one or both legs of the corridor, ensuring that financing activity remains within the bank</li> <li>• Trade Finance products can be directly linked to a trade flow</li> <li>• Some trade flows will be financed by non trade finance products, e.g. vanilla lending, but this cannot be isolated as a specific revenue opportunity from other proceeds of vanilla financing and the opportunity tends to be a domestic one</li> <li>• Non-financed trade may present a “second order” opportunity via payments</li> <li>• Guarantees can be linked to trade as well as FDI flows</li> </ul> |  |
|                   |                           | Receivables Financing  |   |  |
|                   |                           | Supply Chain Financing |   |  |
|                   |                           | Export Finance (ECA)   |   |  |
|                   |                           | Vanilla lending        |   |  |
|                   |                           | Non-financed trade     |   |  |
|                   |                           | Guarantees             |   |  |
| Capital flows     | Foreign direct investment | Project Finance        | <ul style="list-style-type: none"> <li>• Banks with a presence/local expertise in the country of the investor and the capital beneficiary location are likely to have an advantage in both covering the client, and an understanding of the local market (e.g. local targets or projects)</li> <li>• M&amp;A advisory and project finance can be clearly linked to an FDI flow</li> <li>• We consider LAF to be a “second order” effect of trade corridor activity (e.g. only partly related to cross-border M&amp;A), also challenges in isolating relevant volumes</li> <li>• Some FDI may be financed by vanilla lending, but is a “second order” opportunity</li> </ul>         |  |
|                   |                           | Cross-border M&A LAF   |   |  |
|                   |                           | Vanilla lending        |   |  |
|                   |                           | Non-financed FDI       |   |  |
|                   |                           |                        |   |  |
|                   | Capital issuance          | Cross-border ECM       |   | <ul style="list-style-type: none"> <li>• Capital flows within a corridor can be broken down to total equity and debt issuance volume and hence have a direct relation</li> <li>• For ECM, we see benefit of local expertise from an issuer perspective, less so from an investor perspective</li> <li>• For DCM, we see benefit of local expertise from an issuer perspective – however rather for wider currency regions than for specific local markets</li> </ul> |
|                   |                           | Cross-border DCM       |   |  |
|                   |                           |                        |   |  |
|                   |                           |                        |   |  |
|                   |                           |                        |   |  |

Included

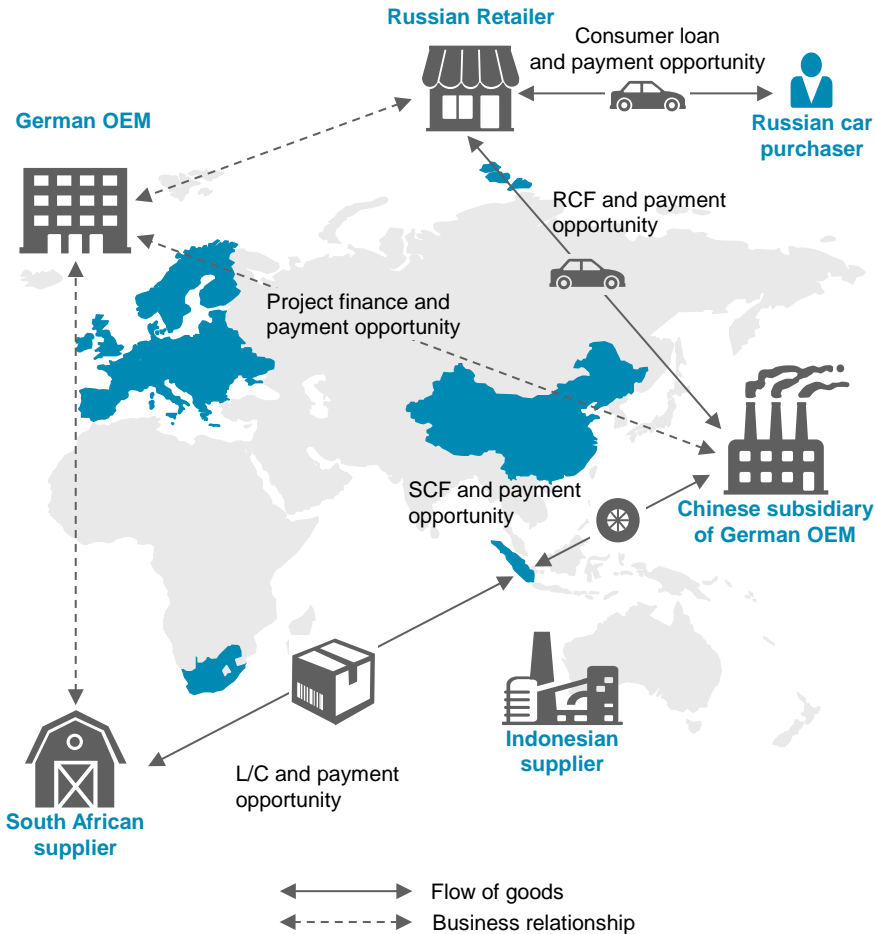
To be included/data not yet available

Excluded/cannot be directly tracked

## Section 3 | Operating model challenges

# Banks can serve clients throughout the value chain under the perspective of trade corridor

## Example client value chain and banking product opportunities across corridors



## Transparency on these relationships allows for multiple uses and much more targeted client service

- 1 **Investor Relations**
  - Communicate value of global network to the client's investors and analyst community
- 2 **Resource allocation**
  - Enable global footprint decisions (e.g. local network footprint vs. correspondent banking)
  - Drive capital allocation decisions (within markets and to clients)
- 3 **Client coverage and targeting**
  - Wallet-sizing and opportunity identification
  - Support client account planning processes
  - Monitor client-level performance vs. targets
  - Support macro coverage allocation decisions
- 4 **Organisational set-up**
  - Consider potential organisational models to incentivise corridor performance, e.g. shift from BU/country-led organisation to corridor-led
- 5 **Performance management**
  - Monitor strategic objectives Group & BU level
  - Potentially link performance vs. corridor objectives to individual performance management

## A solutions team for Islamic banks/takaful can increase share of wallet and the value of structured products sold, but must be implemented with care

| Theme                                      | Description  |
|--|--|
| <b>Positioning within the organisation</b> | <ul style="list-style-type: none"> <li>• Critical feature is that the structured derivatives team is placed together in one location in the business</li> <li>• Mixed position within peer organisations                             <ol style="list-style-type: none"> <li>1. FIG coverage</li> <li>2. Private (DCM) Shari'ah</li> <li>3. Public fixed income side (SUKUKs, IJARA etc)</li> </ol> </li> </ul> |
| <b>Role</b>                                | <ul style="list-style-type: none"> <li>• Participate in client discussions, but not responsible for client relationships</li> </ul>  |
| <b>Value proposition</b>                   | <ul style="list-style-type: none"> <li>• Cross product “solutions” products (ALM, liquidity solutions, balance sheet advisory, etc.)</li> <li>• Deep knowledge of regulatory/accounting/fiscal impact of transactions</li> </ul>   |
| <b>Revenue reporting</b>                   | <ul style="list-style-type: none"> <li>• Usually shadow P&amp;L</li> </ul>   |
| <b># FTEs</b>                              | <ul style="list-style-type: none"> <li>• 5–15</li> </ul>   |
| <b>Typical FTE profile</b>                 | <ul style="list-style-type: none"> <li>• Senior segment specialists: ALM background, experience across multiple products, with ability to carry out “solutions role”, rather than single product sales</li> <li>• Modelling team to support detailed impact analysis, e.g. regulatory, accounting, tax</li> </ul>  |

- Whilst a small team, executed well, a solutions team can leverage the rest of the organisation to
  - Bring opportunities for flow sales, across asset classes
  - Specialise in resolving complex balance sheet management issues
  - Increase high-value sales of structured products into bank client segment
- Care must be taken to avoid 3 common failures in setting up such a team
  - Lack of sufficient product specialism and commercial focus; in some cases too much like sector research
  - Insufficient quality of team
  - Duplication of activity with other teams that are closer to the points-of-sales; and insufficient client access as a results

## Section 4 | Next steps

# How would you choose the corporate coverage business model?

## 1 Product led

## 2 Sector led

## 3 Generalist

## 4 Hybrid

| Model                                 |  |  |  |  |
|---------------------------------------|--|--|--|--|
| <b>Description</b>                    | <ul style="list-style-type: none"> <li>• Primary dimension is product: Product specialist covers client, e.g. M&amp;A experts cover all sectors and products, drawing on other specialists as needed</li> <li>• Sectors or regions as secondary dimension</li> </ul> | <ul style="list-style-type: none"> <li>• Primary dimension is sector: Sector specialist covers client, e.g. Automotive experts cover automotive clients across all products, drawing on product specialists as needed</li> <li>• Product or regional expertise as secondary dimension</li> </ul> | <ul style="list-style-type: none"> <li>• Primary dimension is client: Generalist RM combining basic product and sector knowledge covers all types of clients</li> <li>• Often regional setup to reflect client location and cultural preferences</li> <li>• Product or sector specialists consulted when required</li> </ul> | <ul style="list-style-type: none"> <li>• Primary dimension is client: Generalist RM covers all types of clients, with some specific sector teams for a subset of client sectors</li> <li>• In case there is a sector team, sector specialists consulted as required</li> </ul> |
| <b>Rationale</b>                      | <ul style="list-style-type: none"> <li>• Global Universals and IBs with full product offering</li> <li>• Emphasis on products, one clear and central hub and cross-border business</li> </ul>  | <ul style="list-style-type: none"> <li>• Global Universals or large Regionals</li> <li>• Emphasis on sectors with cross-sell indication and cross-border business</li> </ul>   | <ul style="list-style-type: none"> <li>• Large Regionals with often less focus on capital markets</li> <li>• Emphasis on client relationship and cross-sell incentives</li> </ul>  | <ul style="list-style-type: none"> <li>• Large Regionals with less focus on capital markets</li> <li>• Emphasis on client relationship, key sectors and cross-sell incentives</li> </ul>   |
| <b>Avg. number of clients covered</b> | <ul style="list-style-type: none"> <li>• 1,000–2,000 clients overall</li> <li>• 150–250 per product unit</li> </ul>  | <ul style="list-style-type: none"> <li>• 1,000–2,000 clients overall</li> <li>• 35–70 per sector</li> </ul>  | <ul style="list-style-type: none"> <li>• 100–1,500 overall</li> <li>• 40–80 per coverage team</li> </ul>   | <ul style="list-style-type: none"> <li>• 100–1,500 overall</li> <li>• 40–150 per coverage team</li> </ul>  |
| <b>Avg. threshold to mid-cap bank</b> | <ul style="list-style-type: none"> <li>• &gt;US\$500 MM (client turnover, below covered in mid cap)</li> </ul>   | <ul style="list-style-type: none"> <li>• &gt;US\$500 MM</li> </ul>   | <ul style="list-style-type: none"> <li>• &gt;US\$250 MM</li> </ul>   | <ul style="list-style-type: none"> <li>• &gt;US\$250 MM (generalist)</li> <li>• &gt;US\$500 MM (product/sector)</li> </ul>   |

## Section 5 | Appendix

# Who don't we see here?
















Competitors have invested heavily on building out the business, placing strategic bets across the range of their client and product franchise

## Asian corporate GTB competitive landscape

- Full coverage and servicing of all client needs through APAC, EMEA and Americas

- Product/Coverage capabilities across several regional markets with close trading links

- Product/Coverage capabilities limited to home or near-home markets

|          |   |   |   |
|----------|---|---|---|
| Global   |  | <br>Deutsche Bank<br> RBS <br>The Royal Bank of Scotland J.P.Morgan<br><b>Global MNC Franchise</b>   |  <br>HSBC citi<br><b>"Global" Franchise</b>                   |
| Regional |  |  <br>MUFG DBS<br> <br>CIMB BANK CommonwealthBank<br><b>Regional MNC Franchise</b> |  <br>Standard Chartered ANZ<br><b>Deep Regional Franchise</b> |
| Domestic |   |   |   |

**Breadth of client servicing**

**Depth of market penetration**

**Domestic clients**

- Client coverage restricted to "home market" clients operating local

**MNCs**

- Coverage of large corporate/MNC clients (typically based on "home" trade linkages)

**SME/Mid market**

- Coverage of mid-market corporate clients outside of home markets

Source: Oliver Wyman analysis



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