

# FINANCIAL SERVICES

## *Asia Pacific* — LEADERSHIP PERSPECTIVES

### Positioning for future growth in Asia Pacific

Concerns over the global economy have increased in recent months in response to continuing economic, banking and fiscal problems in the eurozone and the United States. Continuing uncertainty and financial market volatility have already led to a number of international financial institutions announcing measures aimed at reducing costs and improving efficiencies. And yet, despite some concerns over rising inflation, Asia remains the world's fastest-growing emerging market region. Consequently, senior executives in the region face a dilemma as they "share the pain" as members of a global organization whilst maintaining growth and investment agendas and pursuing long-term strategic initiatives. As part of our *Leadership Perspectives* series, based on conversations with executives about timely issues impacting the Asia Pacific financial services sector, Spencer Stuart has held a number of discussions with a range of business leaders across the wholesale banking, asset and wealth management, securities and insurance sectors to get their views and observations on the challenges that they face.

### Commitment to Asia Pacific remains strong

There has been much commentary about the continuing rise of the Asia Pacific region, so it was unsurprising that, when taking the region as a whole, executives remain broadly optimistic about long-term growth prospects for their businesses. Solid domestic consumption, strong inter-regional trade, a growing and increasingly affluent middle and high net-worth class, to name but a few reasons, are all contributing to growth opportunities for the broader financial services sector. In comparison to Western developed markets, Asia Pacific's emerging markets rebounded relatively quickly from the global financial crisis and performed well through 2010 and the first half of 2011. To highlight just a few sectors:

- > Regional investment banking revenues set a new high in 2010 and continued to perform well into this year.
- > Both life and non-life premiums continue to grow in real terms year on year.
- > The population of high net worth individuals in the region is now the second-largest in the world behind North America, leading to strong growth prospects for the wealth management sector.

It is important to note that optimism goes beyond the obvious growth markets of China and India, with increasing management time and investment being devoted to the region's other emerging markets, including Vietnam, Indonesia and Malaysia.

## Challenges to Growth Agendas

Although the region's future economic growth prospects, particularly at a time when other regions continue to experience economic challenges, are expected to lead to additional investment and commitment by international financial services organizations, executives in the region are mindful that they will be expected to deliver growth while responding to a number of wider challenges. Through the course of our discussions three challenges to growth were consistently cited:

### Cutting Costs While Maximizing Resources

Top of mind for executives, regardless of business line or market, are the measures aimed at reducing costs and improving efficiencies that have been announced in recent weeks. As in 2008, the region will not be immune to headcount reductions and once again regional leadership will need to consider how they retool, refocus and reposition existing resources. Most importantly, they will be tasked with making short-term cost reductions without impacting long-term strategic initiatives. Although the region's long-term growth prospects remain robust, concerns over a regional slowdown in certain markets and segments of the regional financial services sector are complicating these decisions. In a region where there are very few quick wins and at a time when investment dollars are scarce, regional businesses are coming under increasing pressure not only to justify additional investment but also to deliver growth. China's banking sector is a noteworthy case in point. There are now over 100 foreign banks operating on the mainland and whilst their collective assets grew in 2010, they only represent 1.83% of the total banking assets in China. Despite the dominance of domestic financial institutions and a challenging regulato-

ry environment, there remains a strong commitment by many foreign banks to maintain their organic growth strategies as well as to pursue joint venture partnerships (particularly within securities and trust platforms) and consider possible acquisitions. This is not necessarily driven by short-term prospects but longer-term opportunities as China's market continues to internationalize, coupled with the prospects of RMB convertibility.

### Withstanding New Regulations

The global financial crisis has led to a raft of regulatory reform, particularly within the banking sector, much of which will have implications for the Asia-based subsidiaries of global organizations at a time when those subsidiaries are already responding to regulatory changes specific to individual local markets. The extent to which

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subsidiaries will be impacted will vary from institution to institution, although almost universally executives within the banking community are conscious of the potential constraints to their growth plans as a result of the new rules on core capital requirements. Another recurring theme from our discussions, particularly for European-headquartered organizations, revolved around the implications of compensation guidelines for attracting and retaining leadership talent in those sectors and markets where demand remains high.

### Serving Domestic Markets

As global financial institutions have been reacting to the implications of the global financial crisis, domestic institutions have found themselves in a position of relative strength. Generally well-capitalized and less financially

constrained, naturally positioned to take advantage of regional trade flows and with brands that have not been tarnished, domestic firms have become increasingly competitive as they pursue more expansive strategies. Consequently these institutions have begun to diversify away from their core retail and commercial banking offerings, developing wholesale banking, asset & wealth management and insurance capabilities in their home markets. Furthermore, domestic institutions have increasing Pan-Asian and global aspirations. Whilst the increasing competitiveness of domestic institutions was highlighted in a number of markets, Japan stands out as a market where domestic institutions continue to have well-established long-term relationships with clients who position themselves as solution coordinators rather than single-product providers. The focus for many global institutions in Japan has shifted to differentiating through excelling in specific niches, such as providing global M&A advisory services, cash management for corporations conducting businesses in emerging markets and investment products in alternative investments and emerging markets. The ability and, given increasing competition and declining margins, the profitability to be a one-stop shop has decreased, whilst the importance of developing strategic alliances with domestic institutions to assist them in providing customized and sophisticated solutions to their Japanese clientele has become a more critical value proposition in this market.

## Addressing challenges

The means and the extent to which regional leadership can and will address these challenges will obviously vary from institution to institution. Broadly speaking, our discussions highlighted three core areas for consideration.

### Thinking long-term

In repositioning existing businesses to take advantage of the region's long-term growth potential, as well as ensuring that they are well positioned to deliver on today's client

needs, leadership need to reevaluate the organization's value propositions and core strengths. In determining the configuration of their businesses, it may be appropriate to take a more strategic approach to individual markets. Based on such factors as core competencies, market positioning and market opportunity, it may be advisable to have different operating models as well as varied product and business offerings for individual markets. It is also important when making decisions around head-count that leadership are not just focused on today's business volumes but mindful of future revenue streams, particularly as cycles in Asia continue to shorten.

### Reassessing core businesses

Furthermore, to fully capture future growth opportunities, organizations need to review their client coverage and distribution models. By way of example, within the insurance sector, whilst many markets continue to be dominated by agency distribution models, insurers need to continue

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efforts to create multi-channel distribution platforms inclusive of telemarketing, direct marketing, virtual marketing and banc assurance as alternative channels that offer potential growth. Similarly, within corporate and investment banking, given the growth of the mid-sized corporate and local private enterprise community traditionally covered by domestic banks, multinationals need to consider how best to serve this future client base. Organizations need to consider how best to develop strategic cross-selling initiatives to take advantage of integrated business opportunities whilst being conscious of

local market nuances, and bear in mind that one distribution strategy does not fit all markets. In addition, as organizations move away from a centralized model and increase autonomy onshore, there will be a need to strengthen in-country leadership teams. As onshore businesses become increasingly complex and reach critical mass, it is essential that the country leadership teams are comprised of individuals who can positively contribute to business and franchise optimization. As such, we would expect to see a continuing enhancement of functional roles including treasury and capital management, risk, operations and legal.

### Remembering the human element

Given the importance of satisfying global leadership's need to reduce costs whilst maintaining critical business resources in the region, 'people strategies' need to be top of mind. Regional leadership must continue their efforts to develop a strong culture, value proposition, brand and vision that are relevant to the region. Clearly defined expansion plans, resources and funding have always been important as individuals consider the merits of one organization over the other. Increasingly, talent is also seeking a demonstrable level of commitment, awareness and support for an Asia Pacific focused strategy, which includes active participation by global executives, genuine investment in infrastructure and technology and well-aligned strategic initiatives, which are increasingly being driven from this region.

### Conclusion

There are many reasons for executives to remain optimistic about the long-term growth prospects for their respective businesses in this region. In the short-term, relative to other markets, growth prospects also remain.

In responding to today's environment, executives need to consider how they position their organizations for future growth. In balancing short and long-term strategic initiative, executives need to clearly define and articulate the organizations' individual business value proposition and core strengths. Not only does this need to be done as a collective region, but by taking a more strategic approach to individual markets as well as individual business lines. In being more strategic and focused, organizations will be better positioned to be competitive, to capture individual market / business potential and to attract and retain key talent. Furthermore, by emphasizing the core initiatives that have the highest growth potential, organizations have the potential to exploit existing resources and specialized roles that are not being utilized to their utmost efficiency.

### About the authors

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