

FINANCIAL SERVICES

Asia Pacific — LEADERSHIP PERSPECTIVES

What a difference 12 months make

Despite the turmoil in the U.S. and European markets, it was only a matter of months ago that market commentators were debating whether or not Asian markets were capable of continued growth independently of global markets. Would decoupling become a reality? As major global financial institutions announced billions in write-offs and there were a number of departures at the CEO and senior-executive level, Asia seemed to be relatively unaffected. Broadly speaking, Asian financial institutions and markets had stood up to the global credit crisis, and throughout the first half of the year investment banks continued to focus resources and attention on regional markets —Asia Pacific equity markets appeared to be offering unstoppable growth.

By the third quarter of the year and following unprecedented developments in global markets during the summer, the decoupling theory was discredited. As Asian equity markets were falling as far and as fast as their more mature peers, commentators were unanimous in their view that markets are more, not less, integrated than before. Given the downbeat prognosis for the global financial markets in 2009, a number of investment banks already have begun cutting their workforces, and we would expect to see further headcount reductions prior to year-end. In an Asia context, the expectation is that whilst

headcount reductions will occur, they will not be as deep as other markets given the continued focus on Asia Pacific and the opportunities for growth in emerging markets as a whole.

Senior executives and business leaders will face unique challenges in this region, including delivering growth with diminished resources, and facilitating and delivering on client needs within more stringent credit, risk and lending environments.

On the one hand, Asia Pacific continues to gain in strategic importance and the expectation is that global institutions will continue to focus attention and resources in this region. On the other hand, with the intervention of world governments to stabilize markets and the resulting changing nature of financial institutions, the financial services industry in Asia, as elsewhere, faces an uncertain future in the short to medium term. Coupled with an unsettled economic situation and the evolving regulatory and legislative environment, senior executives and business leaders will face unique challenges in this region, including delivering growth with diminished resources, and facilitating and delivering on client needs within more stringent credit, risk and lending environments.

Spencer Stuart has been serving the financial services community in Asia Pacific for more than a decade in a wide range of executive searches and talent studies. To deepen our knowledge of the talent implications facing the financial services community, we interviewed a broad range of business leaders and senior managers across the corporate and investment banking, asset and wealth management, securities and private equity sectors, to get their views and observations on the challenges that they face. Through the course of these discussions, we identified four consistent themes:

- > **Amid the slowdown, financial services firms are reevaluating existing business lines, repositioning and retooling resources.**
- > **Staff reductions are spurring an evolution in the profiles of financial services leaders, but also creating new opportunities for firms to hire on an opportunistic basis.**
- > **As a key source of long-term growth for global firms, the Asia Pacific region is increasingly attractive for global talent, which can help firms address their short- and medium-term talent needs. At the same time, forward-looking firms will continue to invest in the development of local and regional talent.**
- > **Uncertainty in global financial markets and within financial institutions is affecting the way financial professionals view their careers and their priorities when evaluating new career opportunities.**

Reevaluating & Repositioning

Deregulation, the internationalization of financial markets, strong GDP growth and increased household wealth since the Asian crisis all have contributed to a multitude of investment opportunities in this region. Although China and India have been at the forefront of this growth, investors have been drawn to investment opportunities in financial services across North and Southeast Asia:

- > The region has seen strong international investor flows, creating opportunities for securities and asset management firms alike.
- > Investment banking and corporate finance divisions have taken advantage of greater cross-boarder M&A activity as well as on-shore capital market opportunities.
- > Strong GDP growth has led to a rapidly growing private wealth management business.
- > A movement away from traditional bank deposit products to more active investment strategies coupled with increased household wealth has led to a surge in retail structured products activity spanning the spectrum of asset classes.

Furthermore, as local corporates have matured and required more sophisticated financing, there has been more demand for asset and liability management solutions and yield enhancement products. The region also has seen a significant increase in less traditional investors, with hedge funds, private equity and buyout funds all becoming more active in the region, particularly within the real estate and infrastructure sectors.

The challenge for managers locally is to satisfy global leadership's need to reduce costs whilst maintaining critical business resources.

After five years of strong growth, the financial services community has expanded as it looked to take advantage of the broad opportunities across markets and products throughout Asia Pacific. Headcount has increased across the board, fueled by a multitude of products and a variety of new market entrants. The focus of our discussions with financial services executives was not to accurately predict where headcount would be in 2009, although there are some clear trends that are becoming evident. Significant headcount reductions have been well-publicized in London and New York; in Asia, organizations are taking a more low-key approach. While broadly speaking Asia has

performed well in 2008, senior management is conscious that the forthcoming year will prove challenging. Furthermore, Asia needs to be seen as sharing the burden that is being shouldered elsewhere within global institutions. The challenge for managers locally is to satisfy global leadership's need to reduce costs whilst maintaining critical business resources. As a result (at the time of writing), Asia's ongoing headcount reductions, although not as extensive and deep as elsewhere (generally in the 5 percent to 15 percent range), are primarily focused at the more junior and intermediate seniority level. These numbers may well be revised and more senior professionals also may be lost depending on how markets perform in the run up to the New Year.

The overall consensus amongst senior professionals is that the market will become increasingly flow and vanilla in nature, will be more multi-asset in coverage and characterized by vastly diminished deal size.

Within those sectors and products where we have seen significant headcount increases during the course of the bull market run, there is a consensus that the knife may be wielded more deeply. Furthermore it has become evident through our discussions that there is a need to retool, reallocate and reposition resources in Asia. Most notably, this is occurring and required within securities, global markets, proprietary and banking divisions. During our discussions with executives, we specifically focused on three core business sectors, all of which have experienced significant growth in recent years —retail structured products, the hedge fund sector and investment banking.

Retail structured products. The impact and the public backlash that the Lehman Brothers mini bond has had on regional retail structured product markets has been immediate: a significant investor base over the course of the last few months, retail clients and private banking

investors have fled the market. There is some optimism, if only cautious at this time, that wealth management clients will return to the market in due course and insurance and more traditional asset management firms may become more active within the broader structured products market, the overall consensus amongst senior professionals is that the market will become increasingly flow and vanilla in nature, will be more multi-asset in coverage and characterized by vastly diminished deal size. In the short term and until the regional regulators report their findings and recommendations, retail structured products will remain restrictive. The expectation is that retail investors will return to more traditional risk-averse deposit products.

Those institutions that already have established flow derivative platforms, particularly in the foreign exchange and interest rate markets, will have a clear advantage over those houses that have emphasized product innovation and product sophistication and will benefit from the changing nature of the sector and investor appetite. The challenge for top executives of organizations that were market leaders in structured products is two-fold. First, given the backlash from investors, there is a very real reputation and perception issue that a number of institutions will need to overcome and which is impacting broader business lines. Secondly, there is the challenge of how structured product market professionals are refocused, retooled and repositioned to compete in the changing environment.

Hedge Funds. The hedge fund sector is another case in point. The broader hedge fund community will continue to play a critical role within global markets, and whilst this sector continues to seek opportunities within regional markets, consolidation and a changing regulatory environment will significantly alter the scope and nature of these businesses. The rapid growth in hedge funds since the Asian financial crisis can be seen using a variety of criteria. The number of dedicated Asian funds is estimated to have grown from some 200 in 2000 to more than a thousand in 2007; assets under management is estimated to

have increased from US\$20 billion in 2000 to almost US\$160 billion in 2007, and the average fund size is estimated to have almost doubled from US\$77 million in 2002 to US\$140 million in 2007. Staffing and headcount levels grew as hedge funds relocated their Asian-focused funds to the region; diversified their coverage and strategies across long/short, event-driven, volatility; and developed their capabilities to include special situations and distressed coverage. Given the limited number of dedicated hedge fund specialists in the region immediately post the Asian financial crisis, global funds were dependent on relocating experienced managers from their home market into the region. As the number of funds increased, we have seen considerable movement from competitors in the region as well as movement from sell-side to buy-side.

The impact of poor performance in 2008, the changing regulatory environment in home markets and a significant increase in redemption activity is clearly being felt by Asia-dedicated funds. Already this year, a number of funds have retrenched in Asia. There is clearly a trend amongst global funds of withdrawing to their main home market as they look to cut operating costs and reallocate money ahead of further anticipated redemptions. In many cases, these funds will continue to trade Asian markets but from London and New York. Under these circumstances, the option of retooling or repositioning talent in the local markets is limited. The expectation is that many within the hedge fund community will seek alternative positions, with more traditional asset management and long-only funds being the main beneficiaries. A number of these firms are expected to look to add additional resources to the region in early 2009. It is timely, therefore, that there is a greater focus on the part of long-only funds, mutual funds and pension funds on emerging Asian markets.

Investment Banking. Within broader investment banking groups, corporate finance, mergers and acquisitions and capital markets all contributed to significant revenue growth over the last few years. As regional markets have become increasingly international and deregulation has

increased opportunities for both onshore and offshore activity, demand has intensified for experienced investment bankers with origination capability within local markets and strong sector execution expertise. Given the emphasis on relationships within Asian investment banking markets, much of the movement of talent in recent years has been localized or focused on returnees who bring more developed execution expertise from mature markets whilst satisfying local language and cultural requirements. Events in the U.S. and Europe have slowed investment banking activity in the second half of 2008, although many of the participants in our discussions are confident that M&A activity in Asia will not fall away to the same degree as has been seen in those markets. Generally, pipelines in Asia across M&A as well as equity and debt issuance remain strong, although heavily dependent on market volatility subsiding and issuers regaining the confidence to bring deals to the market. As a result, most banks are currently retaining existing staff levels.

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As regional markets become more sophisticated and clients require more complex financing, so we have seen the need to develop more rounded bankers in the region. In terms of product and sector expertise, more often than not this can be imported from other markets, and in recent months there have been several high-profile relocations of star bankers from mature markets into the regional banking hubs of Hong Kong and Singapore. We expect to see institutions continue to upgrade their banking capabilities in the region via internal sources given the slowdown in other global markets and the continued emphasis on outbound M&A, particularly from India and China.

At the same time, we expect to see continued demand for local star bankers, and in recent weeks there has been a

spate of opportunistic hiring within the broader investment banking markets. Many of these hires have been made by less traditional investment banking players that are taking advantage of dislocation within more mainstream investment banking institutions to attract talent, although generally we would expect that investment banking divisions will be only modest net hirers during the course of 2009. As we start to see a movement away from bankers operating out of regional hubs and an increasing emphasis on localizing capabilities onshore, we can expect to see additional upgrading of existing capabilities.

Doing more with less: Staff reductions spur demand for leaders with broader skill-sets

In a broader context, regional management is facing the challenge of delivering continued revenue growth in a high-profile region in an uncertain environment, with reduced resources and with an alternative skill-set requirement. The repositioning and retooling need is a common theme across many sectors of the financial services industry. Another common trend that was evident from our discussions is the requirement that existing professionals will need to offer broader skills and expertise.

We are seeing an increasing focus on potential candidates in other global markets who bring broader product, transactional and management experience.

Traditionally in Asia, individuals have been sought after for a specific skill-set, expertise or experience. In this changing marketplace, management requires more versatile and less one-dimensional professionals. By way of example, we would expect individuals to become multi-asset in their approach as capital markets divisions combine and to see greater emphasis on producing managers. This need is unlikely to be filled in the short to medium term organically or from within the wider existing headcount.

Therefore, we are seeing an increasing focus on potential candidates in other global markets who bring broader product, transactional and management experience. Some of these hires can be explained by the number of internally displaced individuals within global financial institutions, although we expect to see this as a more common means of upgrading going into 2009. In a more local context, there is a focus on bringing in talent from competitors to retool existing resources, although given the immediate environment this has generally been sporadic and we would not expect to see much movement until the New Year. One notable exception has been the willingness from regional financial institutions to opportunistically bring in talent from other financial services firms that, in different times, may not have been so available.

Identifying future talent needs and addressing shortfalls in Asia

There is little doubt that the business mix in Asia has changed. As previously remarked, there is a priority to reallocate staff and resources to those businesses and product lines that continue to offer strong revenue growth opportunities within the region. In addition, forward-looking management teams are focused on identifying potential growth markets and ensuring that headcount is aligned to deliver when market conditions are right. Asian markets are much changed since the Asian financial crises, and the depth of talent in those markets is much improved. Given the speed with which markets have developed in this region, there has been a constant scramble for talent. Regional managers who participated in our discussion are agreed that the ‘talent war’ will continue. Again, there is an expectation that, increasingly, resources will be found in regional and global talent pools, as individuals are more willing to relocate and hiring managers are more willing to look across and outside the region for necessary talent. There is also an expectation that there will be a greater willingness on the part of hiring managers to seek individuals from alternative sectors from within the broader financial mar-

kets.

Although there is a continued desire to make lateral hires, we expect to see more creative solutions. In the simplest form this may be achieved with the movement of individuals from sell-side to buy-side, between differing asset classes, etc. There will be a greater requirement for hiring managers and those who support them to be more adaptable, open-minded and strategic in identifying hiring solutions.

Addressing Asia's leadership requirements through the global movement of talent

As noted, Asia Pacific has increasingly become a core focus for many global financial institutions. In recent months, we have seen a trend towards relocating senior talent into the Asia region, even before global markets began to falter. Much of this has been in response to the region becoming strategically more important, the year-on-year growth that local markets have delivered and the increasing percentage that Asia now represents in terms of global revenues. Recent examples have included individuals at the CEO Asia Pacific level to heads of securities to star investment bankers. In some instances, we also have seen global product heads relocating to Asia, reaffirming the view that Asian markets will continue to offer strong growth potential going forward. Given that global markets look unlikely to offer significant growth in the short to medium term, Asia will continue to be a driving force in global revenue terms. Therefore, we expect to see the trend of senior-level leaders moving to Asia continue or possibly intensify.

At a less senior level, we are seeing a number of individuals expressing an interest in moving to Asia, particularly as deal flow slows in other markets and there is an increasing school of thought that emerging markets experience will be beneficial for career advancement. Overall, the movement of talent between global markets is part of a broader reallocation of staff and resources to those businesses, product groups and markets that will contin-

ue to offer growth potential and opportunities going into 2009. Relocating internally displaced bankers not only solves skill-set shortages in local markets, but is becoming

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ing a valuable tool for staff retention.

In those markets where local market connections, access and language capability is often a prerequisite to success — specifically China, Korea and India — parachuting in star performers is often not an option. Therefore, we expect to see greater demand for returnees from other markets who can offer a combination of local-market expertise, international markets experience, and local network and language capability. For those institutions that have not historically had a significant presence in the region but are now forced to look beyond home markets, again there is an expectation that leading deal makers, managers and, in some cases, investors will relocate. As regional financial markets continue to mature, there will be continued emphasis on combining leading Asian and Western talent.

As previously noted, the movement of senior talent across regions has been seen broadly across financial services, although primarily this has been limited to line management and front office roles. One development that is expected to intensify during the course of the next 12 months is the upgrading and importing of senior risk management and compliance professionals. The events of recent months have highlighted that prior growth in lending, proprietary trading and principal investment activity has led to increased risk. This coupled with significant market volatility in recent weeks has reaffirmed the importance of having sophisticated and dedicated risk management systems in local markets. Similarly, there is an expectation as Asia continues to grow in strategic importance of greater emphasis on other functional specializations with-

in local markets.

Changing perceptions and career priorities

Although the impact of the global financial crisis has to date been less significant in Asia, the uncertainty both in markets and within global financial institutions has impacted how market professionals in this region view their careers. Increasingly, individuals are reevaluating their priorities when they consider joining a particular organization. An organization's commitment to the region, stability and continuity of both management and strategy, whilst always important, often took a back seat to factors such as global reach, brand and global standing. It is evident from our conversations with a broad section of market professionals—both displaced and employed—that there is a shift in these priorities. Regional and domestic financial institutions are becoming increasingly more attractive to international professionals. Similarly, more boutique and niche organizations that play to a particular core strength, either market or product, are increasingly in vogue. This presents further management challenges for global institutions as they seek to retain employees, but also an opportunity for other players to emerge or build on their existing platforms.

Conclusions

Global financial markets and those organizations that are intrinsically linked to them are going through a period of unprecedented change. Significant developments occur on an almost daily basis and, as such, it is impossible to predict the future landscape in what was already a rapidly changing and developing corner of the global markets. However, it is evident that although there is an expectation that Asia Pacific markets will continue to offer unique opportunities within financial services, there are also very real challenges ahead. Talent management always has been a key component to a business' success and, given that Asia Pacific markets currently hold much promise for financial services, successful talent management will be imperative for future success.

The impact of the global financial crisis in a human resources context can be broadly characterized in the following ways:

- > **The Asia Pacific region will see a greater allocation of resources as global markets slow.**
- > **Upgrading and retooling current resources will continue as management seeks to reposition existing business lines to take advantage of future growth potential in the region and as local markets continue to become more sophisticated.**
- > **In the short term, many regional managers will be expected to deliver more with less, again fueling the need to retool and reallocate headcount.**
- > **Many firms will look for opportunities to hire from the global talent pool, both through internal and external channels.**
- > **Given the importance of the region, firms taking a long-term view will continue to invest in developing local and regional talent, and find ways to combine Asian and Western talent solutions.**



About the author

James Lawrence-Brown is a member of the firm's Financial Services Practice, specializing in the area of global banking and markets. He brings to his role more than a decade of success in senior-level executive search across the financial services industry and has particular expertise in the derivatives and structured products markets.

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