

Financial Services

Financial Services M&A Going for growth in Asia*

Report and survey results – June 2007



*connectedthinking

PRICEWATERHOUSECOOPERS 

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Foreword

Welcome to the second annual Asia FS M&A Survey. This survey, part of the PricewaterhouseCoopers¹ global FS M&A Programme, examines the outlook for M&A deals in the financial services sector for the coming years, in terms of target countries as well as the goals of M&A activity. The development of this report was supported by a survey of 230 FS executives across Asia, conducted during March and April 2007. To assess potential trends we compared the 2007 results with those of the inaugural survey, conducted in 2005 and then published in 2006.

As this report highlights, the surge of M&A activity seen in 2006 will continue over the next five years with 74% of FS executives in Asia today predicting that their organisations will undergo further significant M&A activity over this period. This compares with only 66% in our previous survey. While many of the drivers behind the trend remain the same as in our inaugural survey, there are some notable changes such as concerns over rising deal prices, emerging target markets and increased activity in the insurance sector. These are discussed in more detail in the report.

Although growth might be shifting in terms of key markets, this survey has confirmed that Asia is still the 'home of growth'. The current record activity levels we are seeing in our financial services M&A practice right across the region adds further weight to our conviction that activity levels will remain strong for the foreseeable future.

I am confident that you will find this report thought provoking and insightful. If you would like to discuss any of the issues raised in more detail, specific to your organisation, please speak with your usual contact at PricewaterhouseCoopers or one of the editorial board members listed on page 36.



Matthew Phillips

Partner, PricewaterhouseCoopers (China)

86 21 6123 2303

matthew.phillips@cn.pwc.com

¹ 'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Executive summary

The surge of M&A activity seen in Asia's financial services industry in 2006 is likely to gather force over the next five years as firms both within the region and from the West continue to look to Asia as the 'home of growth'. The impact of this focus on Asia is already being felt in the form of intense competition for a limited supply of quality assets, higher prices and the spread of activity to more countries across the region – and indeed to more sub-sectors of financial services. Based on data from M&A Asia, M&A in the sector (including insurance) skyrocketed by 66% to US\$64.5bn in 2006 from US\$38.8bn in 2005.² According to a survey of 230 financial services executives in Asia conducted for this report by the Economist Intelligence Unit, nearly three-quarters (74%) of respondents predict that their organisations will undergo significant M&A activity in the coming five years compared to just over two-thirds (68%) when this survey was first conducted in 2005.

While many of the drivers behind the trend remain the same as in our previous survey, there are some notable changes:

Price has become a concern

When asked to identify the principal barrier to undertaking M&A activity from a company point of view, half of all survey respondents cited high pricing, a significant rise when compared to almost one-third (32%) in 2005 and a clear sign that competition for deals is intensifying. Rising prices have, however, brought more deals on to the market – the number of respondents citing lack of attractive targets as a barrier to M&A dropped from 52% in our 2005 survey to 34% in 2007. Concerns about value for money will undoubtedly lead some organisations to put more emphasis on organic growth plans. HSBC, for example, has already stated that it plans to rely on organic growth in the region,³ partly because of high prices, and Standard Chartered has given similar indications. 'We are going to focus a lot more on organic growth because the opportunity of growing organically in most of our footprint is much more attractive', according to Jaspal Singh Bindra, Standard Chartered's regional CEO for South-East Asia and South Asia.⁴

Financial services institutions are casting the net wider

While China dominated our previous survey, players are now looking more broadly for opportunities across the region. Interest in M&A activity in China was slightly down on last year (47% now versus 52%), however, it remains an important, strategic market. Activity within China is broadening from its focus on banking as new sectors such as insurance and trust companies begin to open up to dealmaking. China and India still remain the top two targets for M&A in the region, due to underlying economic growth conditions, and interest in India has increased slightly from 36% in 2005 to 39% in 2007. However, other markets are beginning to compete for capital and attention: Taiwan and Malaysia are considered ripe for consolidation, while others such as Vietnam, Indonesia and Pakistan are attracting those interested in emerging economies.

Activity in the insurance sector is increasing

Asia's insurance sector has been particularly active and a key driver in terms of M&A overall with deal value tripling over the last year, from US\$4.4bn to US\$13.5bn. One deal in Australia, Suncorp Metway's purchase of Promina Group,⁵ accounted for a large proportion of the increase at just under US\$6bn. But, excluding this deal, activity was up by 72% across the region. The trend is being driven by the desire of Western insurers to catch up with the market leaders and by Japanese insurers moving abroad.

Liberalisation is less of a driver

Our survey respondents now consider regulatory liberalisation less of a driver of M&A than in 2005 (24% compared to 30% in 2005), no doubt in part because there are signs of regulations easing across the region, particularly in smaller markets. Indeed, regulatory pressure to restructure or merge in some markets, such as Thailand, is acting as a positive influence and is considered a more significant driver than in previous years (14% in 2007, up from 11% in 2005). These results imply that Asia's

² Data for announced transactions in banking, capital markets, insurance and asset management, but excluding property-related deals and deals involving professional services companies.

³ HSBC sees no big Asia deals, The Wall Street Journal (Asia) – May 4-6, 2007.

⁴ Standard Chartered aims big despite market uncertainties, The Jakarta Post – May 28, 2007.

⁵ Suncorp press release – October 23, 2006.

financial services industry is learning to live with the underlying implications of the current regulatory environment, or at the very least putting more emphasis on growth. 'We wouldn't enter a market that is not growing, no matter how deregulated it was', says a senior executive at an American investment bank. 'At the end of the day our perception is people will enter growth markets – deregulation facilitates doing something but if the fundamentals aren't there it doesn't make it attractive.' In some cases activity is clearly driven more by growth. In Indonesia, for example, there has been little substantive regulatory reform in recent years, but in our 2007 survey 20% of respondents expect their company to conduct M&A in that country, up from 13% in 2005.

Capital efficiency is now an internal driver

Almost a quarter (24%) of the financial services executives surveyed have cited the improvement of capital efficiency as a principal goal and therefore an internal driver of M&A activity in Asia's financial services sector over the next five years. This is up from just 9% in 2005. This could be a reflection of the increasing presence in Asia of large private equity funds, which has undoubtedly led many financial services firms to consider whether or not their balance sheets are appropriately leveraged. In terms of the means of achieving capital efficiency, our survey respondents now put M&A on a par with organic growth.



Coming out on top

As our survey results suggest, competition for deals in the financial services sector in Asia is expected to intensify and prices are likely to be driven ever-higher as a result. How can companies navigate this environment and come out on top?

Examine prices carefully in the context of strategic goals

As prices rise and previously unavailable targets suddenly show interest in selling, the temptation to pay more than normal circumstances would warrant will be ever greater. While early movers into emerging markets have consistently achieved a pricing advantage, with today's relatively high prices it is more important than ever for buyers to weigh deals carefully in the context of strategic goals and to fully price synergies. For example, China and India, for all their imperfections and still unfolding regulatory regimes, are simply too large an opportunity to ignore and conventional methods of pricing will often need to be tailored to fully reflect the overriding strategic objectives and the opportunity cost of deferring an investment decision. In most cases, however, growth assumptions should be critically analysed – any number of global shocks, from a global economic slowdown to political turmoil to a major natural disaster could throw growth prospects off track, further increasing the risk of overpaying.

Find a balance between organic growth and M&A

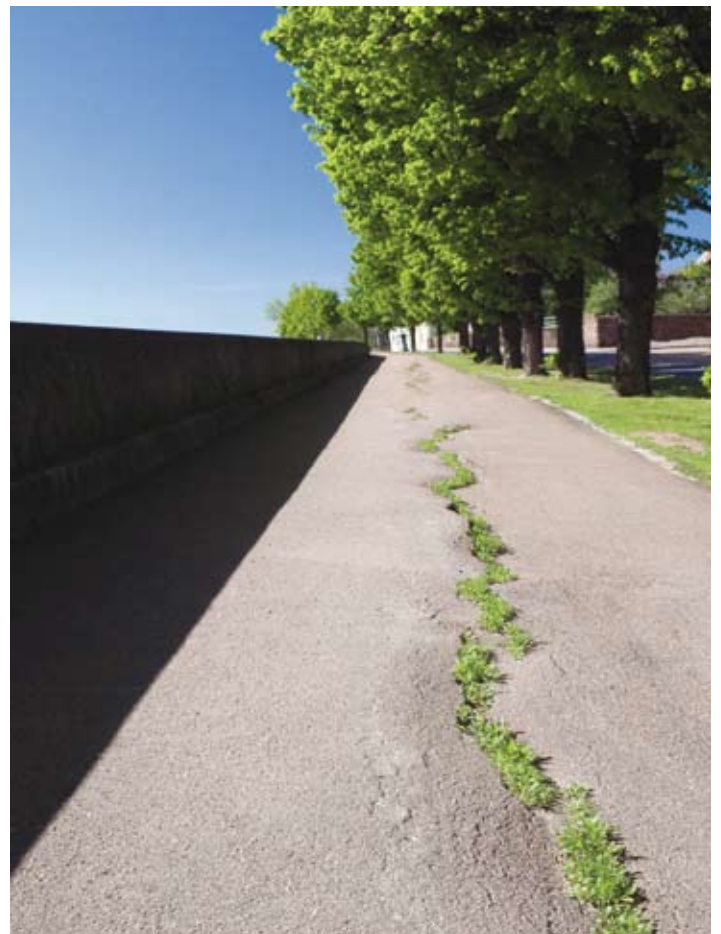
Our survey respondents believe that organic growth is an extremely important strategy for achieving most corporate goals, and it is likely to increase in importance as prices rise. HSBC, for example, having made acquisitions in China, is now emphasising organic growth elsewhere in the region. In the past year in Indonesia, for example, it has opened 45 Pinjaman HSBC branches, which provide small cash loans for low-income consumers, and has also entered the field of Islamic banking. While it would not rule out an acquisition in Indonesia, this seems unlikely. 'An acquisition might help us to gain a franchise in some of the more remote geographical areas', says Richard McHowat, CEO of HSBC Indonesia. 'But we are not very interested in paying high prices for smallish franchises.' HSBC is also considering the launch of retail operations in Japan.

Be prepared for competition from regional players

While the largest Western financial services companies have provided the most competition for Asian assets in the past, regional companies, notably from Japan and China, are expected to take a very active role in the market in the coming years. This is already beginning to happen in the insurance sector and the trend has implications for the nature of competition. Japanese companies, for example, take a different approach to valuing assets and are generally willing to wait longer than their Western counterparts for a deal to pay off.

Build capability and capacity

Among our survey respondents who expected to seek a strategic investor in the next five years, 58% said one of the main reasons for doing so was to gain access to management expertise. Indeed, the enormous shortage of human capital in Asia's financial services sector is a major inhibitor of growth – both organic and inorganic. According to a report on China's banking industry,⁶ for example, reliance on expatriate staff in that country is increasing – the 40 banks surveyed for the report employed 2,872 expatriates in 2007, a significant jump from 2005 when the 35 banks surveyed employed 475 expatriates. According to Mark Gilbraith, a partner with the performance improvement practice of PricewaterhouseCoopers (China), requests for assistance from foreign banks in China usually involve one of three issues. First is improving the effectiveness and capacity of their recruitment of experienced staff to ensure that their operation can achieve scale without reducing quality. Second is the localisation of global standard approaches and methods. Third is improving specific technical skills and/or the capability of management. 'There is a need for improvement of capabilities at all levels, from experienced management to supervisors of teams at the front line', says Mr Gilbraith. 'Critically, this training must be done in the local language rather than by trying to leverage global courses.' Clearly, strong management will become an increasingly important source of competitive advantage and those companies that have prioritised the development of their management team will be best placed to capitalise on growth opportunities.



⁶ Foreign banks in China, PricewaterhouseCoopers 2007.

Introduction

As is the case with multinationals in many other sectors, financial services firms are viewing Asia as their best chance for significant expansion. M&A, considered a key strategy for growth, is consequently expected to continue at the frenetic pace set in recent years. The impact of this focus on Asia is already being felt in the form of intense competition, higher prices and the spread of activity to more countries across the region – and indeed to more sub-sectors of financial services.

The results of a survey of 230 senior executives across Asia conducted exclusively for this PricewaterhouseCoopers briefing by the Economist Intelligence Unit suggest that M&A activity in the region will continue, at the very least at its current pace and very likely at an even faster one. Approximately three-quarters (74%) of survey respondents predict that their organisations will undergo significant M&A activity in the coming five years. This is up slightly from the two-thirds of respondents to our 2005 survey, who said the same thing. Meanwhile, 69% of the respondents to the latest survey agree that joint ventures and partnerships will be key to their expansion plans in Asia.

Our organisation will undergo significant M&A in the next five years

Agree	141	74%
Disagree	49	26%
Total*	190	100%

* In making percentage calculations in the above table we have excluded 'don't know' responses.

Please note that the totals within the tables in this report do not always add up to 100 because of rounding, or because respondents can choose more than one answer.



M&A in the financial services sector skyrocketed by 66% to US\$64.5bn in 2006, compared to US\$38.8bn in 2005, according to M&A Asia.⁷ Of this US\$25.7bn in growth in value terms, Australia accounted for US\$12bn (and half of this from a single merger in the insurance sector). But other notable centres of M&A growth were South Korea, where the sale of the last banks following the Asian financial crisis were completed, as well as Japan, Hong Kong, Malaysia and Singapore. Regional players were the drivers of growth in 2006, accounting for 217 deals compared to 157 in 2005. Inbound deals by non-Asian acquirers were also up, but by a smaller degree to 60 from 47 in 2005.

Financial Services M&A Announced Deal Value by Country/Region 2006

US\$'000,000

Country/ region	Banking 2006	Banking 2005	Securities and capital markets 2006	Securities and capital markets 2005	Mutual funds and asset management 2006	Mutual funds and asset management 2005	Insurance 2006	Insurance 2005	Total announced deal amount 2006	Total announced deal amount 2005
Australia	2,837.5	191.8	1,696.7	564.9	1,139.1	39.9	6,729.2	16.1	12,402.6	812.6
China (PRC)	8,464.3	14,020.3	872.7	251.2	1,034.6	130.3	355.9	1,501.7	10,727.5	15,903.5
Hong Kong	2,635.3	–	557.3	44.8	406.2	259.3	892.6	502.5	4,491.4	806.6
India	1,585.5	741.7	369.2	627.4	5.6	869.6	–	46.7	1,960.3	2,285.4
Indonesia	253.5	605.7	–	217.9	–	60.6	4.7	8.2	258.2	892.3
Japan	4,685.7	2,521.9	2,180.7	423.0	452.4	1,841.6	2,955.7	90.8	10,274.5	4,877.3
Macau	36.6	227.0	–	–	–	19.3	–	–	36.6	246.3
Malaysia	3,057.5	132.4	83.4	171.1	145.1	85.0	–	386.1	3,286.0	774.6
New Zealand	98.6	–	–	–	48.8	176.3	167.1	–	314.4	176.3
Pakistan	612.9	57.0	48.6	–	–	–	–	–	661.5	57.0
Philippines	1,549.4	697.7	–	1.4	–	30.3	10.2	–	1,559.7	729.4
Singapore	–	–	385.0	152.7	–	26.6	1,871.4	633.3	2,256.4	812.6
South Korea	8,957.3	4,424.7	65.3	624.8	219.2	–	211.5	815.6	9,453.3	5,865.1
Sri Lanka	–	–	–	–	–	–	26.7	–	26.7	–
Taiwan	3,239.4	3,899.4	2,389.9	22.7	86.9	–	180.0	306.9	5,896.2	4,228.9
Thailand	718.4	176.4	56.0	–	7.8	–	105.5	50.0	887.7	226.4
Vietnam	–	66.3	–	–	–	15.9	–	–	–	82.2
	38,731.8	27,762.3	8,704.8	3,101.7	3,545.7	3,554.6	13,510.7	4,357.8	64,493.1	38,776.3

⁷ Data for announced transactions in banking, capital markets, insurance and asset management, but excluding property-related deals and deals involving professional services companies.

Drivers

There is no doubt that increasing competition from both domestic and foreign players is the main driver of M&A activity in the financial services sector – 47% of survey respondents cited increasing competition from domestic players as a main driver of restructuring over the next five years, while 44% cited increasing competition from foreign players. All are seeking the same goal – a strong local market presence. Indeed, 47% of respondents cited increasing market share as a main goal of

their organisation's M&A or restructuring activity over the next five years, while 46% said they would use this route to enter new geographic markets.

Over the medium term, foreign financial institutions already established in Asia are expected to pose the biggest competitive threat. Citigroup, for example, has announced that it will place increasing emphasis on its international business, including Asia.⁸

What will be the main external drivers of your organisation's M&A or restructuring activity over the next five years?
Select up to three.

	Total	
Increasing competition from domestic players (e.g. non-financial service market entrants, horizontal expansion of existing financial service players, price cuts, threats to market share)	109	47%
Increasing competition from foreign players (e.g. new market entrants)	101	44%
Increasing customer demands (e.g. desire for higher yielding investments, branded product, open-architecture products)	81	35%
Regulatory liberalisation (e.g. relaxation of ownership restrictions, convergence opportunities, new competitors)	55	24%
Regulatory pressure to restructure or merge	32	14%
Sluggish state of economy (e.g. need to cut costs, cheap acquisition prices)	11	5%
Growing economy (e.g. better access to capital, more risk-taking)	63	27%
Mature home market	43	19%
Increasing shareholder demands (e.g. demand for transparent reporting and risk profile)	26	11%
Take advantage of potential currency movements (e.g. Renminbi revaluation)	4	2%
Access to leading edge operating practices (e.g. better governance, technologies)	32	14%
Higher costs (e.g. staff costs, cost of capital, property costs, IT costs)	22	10%
Other, please specify	3	1%
None of the above – we do not expect to undergo M&A restructuring	20	9%
Don't know	0	0%
Total	230	100%

⁸ Presentation by Charles Prince, Chairman and CEO of Citigroup, to UBS 2007 Global Financial Services Conference – May 15, 2007

What will be the main goals of your organisation's M&A or restructuring activity over the next five years?
Select up to three.

	Total	
Entering new geographic markets	106	46%
Entering new product markets	78	34%
Securing distribution	35	15%
Increasing market share	108	47%
Increasing shareholder value	82	36%
Reducing costs	25	11%
Improving customer service	36	16%
Focusing on core businesses	25	11%
Improving capital efficiency	55	24%
Managing the organisation's risk profile	13	6%
Meeting evolving regulatory requirements	18	8%
Accessing new talent	14	6%
Other, please specify	2	1%
None of the above – we do not expect to undergo M&A restructuring	19	8%
Don't know	1	0%
Total	230	100%

While market expansion remains the most important internal driver of M&A among financial services firms in Asia, our survey showed a marked increase in concern for capital efficiency. In our 2007 survey, 24% of respondents said they would use M&A to improve this measure, up from just 9% in 2005. This could be a reflection of the increasing presence in Asia of large private equity funds, which has undoubtedly led many financial services firms to ask themselves whether or not their balance sheets are appropriately leveraged.

Indeed, compared to our survey in 2005, financial services executives are remarkably more bullish about the chances of financial buyers finding targets and gaining approval for deals. Only 3% of respondents to the 2007 survey felt that financial

buyers would be unlikely to acquire a domestic company in their country, down from 9% in 2005. Over the medium term, survey respondents expect financial buyers to have the most chance of success in acquiring retail banks, followed by mutual fund or asset managers, private banks and securities companies. In reality, opportunities are likely to remain uneven across the region. China's regulator, for example, has already sent clear signals that it does not want the country's financial services sector to become dominated by financial buyers. 'Asset management is likely to be the most attractive sector for private equity players given the risk-return characteristics Asian economies are currently displaying and the growth opportunities that abound in the region', says a senior executive at the private equity arm of a large American investment bank.

In which sectors is a financial buyer (i.e. a private equity buyer or investment fund) most likely to be successful in acquiring a domestic company in your country today? Select up to three.

	2007		2005	
	Count	Percentage	Count	Percentage
Retail banks	70	30%	25	20%
Wholesale banks	42	18%	12	9%
Private banks	57	25%	Response not in 2005 survey	
Securities companies	81	35%	17	13%
Mutual fund or asset managers	78	34%	10	8%
General insurers	22	10%	6	5%
Life insurers	33	14%	8	6%
Reinsurers	6	3%	0	0%
Outsourcing service providers	77	33%	21	16%
Niche markets (e.g. in distribution, intermediaries)	61	27%	18	14%
Islamic banking	18	8%	Response not in 2005 survey	
None of the above – financial buyers are unlikely to be successful in acquiring a domestic company	8	3%	11	9%
Don't know	13	6%	Response not in 2005 survey	
Total	230	100%	128	100%



Casting the net wider

Both China and India remain crucial markets for financial services companies looking for growth and, barring radical shocks, are likely to remain so for years to come. But interest and activity are also emerging in Taiwan, Vietnam (see box on page 16, The new China?) and Pakistan, where Standard Chartered last year acquired an 95.37% stake in Union Bank for US\$487m, making it the sixth largest bank in the country.⁹

‘It seems that many firms feel they have exhausted their options in China and India, or things are too expensive, and so they are looking for smaller markets, different kinds of deals, structures or alliances’, says Karen Loon, partner, PricewaterhouseCoopers (Singapore). Ian Hargreaves, fund manager in the Asian investment team of Invesco Perpetual, points out that much of South-East Asia is only now emerging from the Asian crisis and presents good value. ‘Outside China, banking offers a lot of value for investors and from an acquirer’s perspective’, he says. ‘The main reason is that credit growth has remained very modest despite nine years passing since the Asian crisis. But there are signs that this cycle is turning. In the Philippines, for example, the economy has taken eight years to deal with nonperforming loans with the result that leverage has fallen sharply. The ratio of loans to deposits is less than 50% now compared to between 90% and 100% before the Asian crisis. Similar trends are seen in Hong Kong, Singapore, Malaysia, Thailand and Indonesia.’

Nonetheless, China remains number one in terms of target countries – indeed, a separate survey of 40 overseas banks actively engaged in the China market showed that only one-third

of respondents consider the market to be overcrowded.¹⁰ But the nature of M&A in that market is changing. While a slightly smaller percentage of respondents said they were likely to conduct M&A activity in China in the coming five years (47% in 2007 vs 52% in 2005) the number of deals conducted in 2006 actually exceeded the number in 2005 (42 vs 35). There was a notable drop in the number of deals involving foreign investors (8 vs 17 in 2005), indicating a swing towards domestic consolidation. With liberalisation of the country’s banking sector in December last year, the stock market listing of bigger banks and aggressive entry of foreign players in recent years, many of the larger opportunities in banking seem to have come to fruition while others have yet to emerge. The experience of HSBC provides a good illustration of how the China market is still very much evolving. In March, the Bank of Communications announced that it would launch an IPO in Shanghai, which would result in the dilution of HSBC’s 19.9% stake in the mainland institution. Only a few weeks later, HSBC announced that HSBC Bank (China) Company Limited, the locally incorporated unit of HSBC, had started operations. HSBC Group’s total investment in the mainland now exceeds US\$5bn, including its organic operations and its investments in Chinese financial institutions (which include 19.9% stake in Bank of Communications, 9.9% in Ping An Insurance and 8% in Bank of Shanghai Question).¹¹ Citigroup is following much the same tack. It has stakes in two Chinese institutions, but has also incorporated locally and has announced its intention to increase its branch network.¹²

⁹ Standard Chartered press release – September 6, 2006.

¹⁰ Foreign Banks in China, PricewaterhouseCoopers 2007.

¹¹ IMF Working Paper 06/292, The Rise of Foreign Investment in China’s Banks: Taking Stock; M&A Asia; HSBC News Archive 2007.

¹² Citibank China press release – April 23, 2007.

In which countries or regions do you expect your company to conduct M&A activities over the next five years?
Select all that apply.

	2007		2005	
Australia	31	13%	19	15%
Bangladesh	8	3%	Response not in 2005 survey	
New Zealand	4	2%	9	7%
China	109	47%	66	52%
Hong Kong	64	28%	20	16%
India	90	39%	47	37%
Indonesia	46	20%	16	13%
Japan	24	10%	25	20%
Korea	16	7%	17	13%
Malaysia	37	16%	15	12%
Pakistan	18	8%	Response not in 2005 survey	
Philippines	22	10%	4	3%
Singapore	48	21%	17	13%
Taiwan	22	10%	11	9%
Thailand	35	15%	9	7%
Vietnam	41	18%	10	8%
Europe	40	17%	23	18%
Middle East	42	18%	Response not in 2005 survey	
North America	35	15%	18	14%
Other, please specify	2	1%	2	2%
None of the above	16	7%	Response not in 2005 survey	
Don't know	18	8%		
Total	230	100%	128	100%

As for the next phase of M&A in China, market observers see two trends. First, activity in the banking sector is shifting towards city commercial banks. In the early months of 2007 there were a number of such deals. In March, for example, Bank of Nova Scotia announced that it had signed a strategic cooperation memorandum with Bank of Dalian, formerly Dalian City Commercial Bank, to explore a minority stake in the bank¹³ and in June, two banks who had earlier received foreign investment announced listing plans. City commercial banks are seeking partners as a means of countering competition as foreign banks incorporate in China and expand their branch networks (as of April 2007, four banks had incorporated, eight more were awaiting approvals and five had announced intentions to do so), but also as a precursor to an eventual public listing. For foreign banks, city banks could present a greater opportunity as, unlike their national cousins, they are more in need of technology and management expertise and can benefit more from the association with a bank with an international brand.

The second trend beginning to emerge is the spread of smaller M&A deals across a broader range of sectors. The trust sector in particular is expected to see strong activity, given recent regulatory changes that have clarified the scope of operation for these companies and enabled investment in an array of financial services, including wealth management, nonperforming loans and mortgages. For example, Barclays is reported to be exploring a 19.9% stake in New China Trust & Investment.¹⁴

‘China has maintained its attractiveness’, says the head of investment banking for Asia at a large American bank. ‘We see hypergrowth opportunities in all core banking products – corporate banking, investment banking, SME servicing, transaction processing – they’re all very attractive’.

What of further market opening? The US has put financial services on the agenda in its discussions with China under the so-called strategic economic dialogue between the two

countries. In the latest round held in May, China promised to lift a 12-month ban on new joint ventures in the securities industry and to widen the range of activities in which such firms can participate. But so far financial industry executives remain skeptical that much will come from the talks. Calls for the lifting of caps on foreign ownership in the financial sector were dismissed.¹⁵

Behind China, India is the next most likely target for M&A, with 39% of our survey respondents indicating they are likely to buy into that country, up slightly from 36% in our 2005 survey. Private equity has been a particularly active player in the India market, taking stakes in regional banks and consumer finance companies. Among other investors, India’s booming capital markets have attracted the attention of foreign investment bankers to the brokerage sector. In late 2005, Merrill Lynch paid US\$500m to increase its stake in its partnership with DSP¹⁶ to 90% from 40%. Other foreign brokers, such as Morgan Stanley, are starting from scratch, exiting partnerships with domestic players to start up 100% owned Indian subsidiaries.¹⁷ At the same time there is strong interest in India’s exchange market, with NYSE Group and other investors, including Goldman Sachs, agreeing to buy 20% of India’s National Stock Exchange, the country’s biggest market, in January this year¹⁸ and Deutsche Börse agreeing to purchase a 5% stake in the Bombay Stock Exchange for US\$43m in February.¹⁹

The regulated nature of the Indian banking industry limits the ability of foreign banks to grow through branch expansion. Meanwhile, the Reserve Bank of India’s road map for the development of the industry is encouraging domestic players to consolidate, prior to market opening, likely after 2009. The country’s banks are highly fragmented and many will need to build their capital bases in preparation for compliance with Basle II, which will be required by 2008 for larger banks and by 2009 for the rest. The process of consolidation is already well under way in the private sector, with over 30 transactions taking

¹³ Bank of Nova Scotia press release – March 19, 2007.

¹⁴ UK Bank Barclays said trying to buy China trust company stake, Marketwatch, Dow Jones – May 14, 2007.

¹⁵ Overseas investment banks eye open door with caution, Financial Times – May 25, 2007.

¹⁶ Merrill Lynch press release – December 7, 2005.

¹⁷ Morgan Stanley press release – February 22, 2007.

¹⁸ Bloomberg, NYSE, Goldman Invest in India’s National Market – January 10, 2007.

¹⁹ Deutsche Borse press release – February 14, 2007.

place in 2006, with a value of over US\$1.5bn (and private equity players taking a number of small stakes in private banks). Public sector banks, however, have shown reticence, despite official encouragement from the central bank and government. This could perhaps be based on the anticipation of both political and labour opposition to consolidation.

In the run up to 2009, there is likely to be accelerated M&A activity among smaller domestic private banks trying to acquire peers or nonbanking financial companies to expand geographical reach, branch penetration or asset size. Lower restrictions on nonbank financial companies will prompt many foreign banks to explore that route to expansion, rather than more complex organic growth – branch approvals and local bank acquisition are troublesome in India, although conditions under India's WTO agreement require the country to grant at least 12 new branch licences a year, and indeed it has been granting up to 20 in recent years. Some foreign players, such as Barclays, have announced plans to use internet platforms and other technology to leverage their limited branch networks.²⁰ Recent taxation changes have removed impediments to the merger of co-op banks, which had dampened M&A activity in this sector.

Aside from China and India, financial services executives in our 2007 survey indicated an interest in establishing strategies and footholds in a broader array of countries or regions in Asia, compared to 2005. Among the countries in which respondents showed an increased interest are Hong Kong, Singapore, Indonesia, Vietnam, Malaysia, Thailand, the Philippines and Taiwan.

There are a variety of reasons for this expanding interest (see box, *Regulatory relief?*, on page 15), but the results of our 2007 survey indicate that regulatory liberalisation is now considered less of a driver of M&A activity than in 2005 (24% compared to 30% in 2005), and indeed, our interviews suggest that liberalisation is more of an enabler than a driver. While South-East Asia has moved up the league tables in terms of investor interest, sentiment towards Japan and South Korea has cooled

noticeably, Citigroup's high-profile acquisition of a stake in Nikko Cordial (see below) notwithstanding. Only 10% of our survey respondents said they would consider M&A in Japan over the next five years, while a mere 7% were looking at South Korea. According to Antony Eldridge, banking partner, PricewaterhouseCoopers (Japan), many foreign financial services firms have come to Japan only recently in search of acquisition possibilities. However, they have not found the value they had hoped for. Moreover, at the provincial and regional level, foreign investors have found it politically difficult to gain access to deals. Many are considering joint ventures instead – of our small pool of Japan-based respondents, 92% said they were very likely or somewhat likely to consider a strategic investment or joint venture over the next five years. For example, Citigroup, an old hand in Japan, has completed a tender offer to acquire more than 60% of Nikko Cordial, a local securities broker in which it had previously held a small stake. But at the same time it has announced plans to grow organically through an expansion of its branch network and to unify oversight of its Japan businesses in a new local holding company.²¹

Observers expect that Japanese financial institutions, which have been the major players in M&A in Japan's financial services sector, will also begin to look elsewhere, notably to the rest of Asia (see box, *M&A in Insurance – on the rise*, on page 17).

In South Korea, the biggest deal of 2006, the US\$7.3bn sale of Korea Exchange Bank (KEB) by private equity player Lone Star Funds to Kookmin Bank, collapsed in November under the weight of legal investigations into Lone Star's original US\$1.2bn purchase of KEB in 2003.²² Some observers have interpreted the investigations as a sign of continued wariness towards foreign investors. According to Iwan Griffiths, partner, PricewaterhouseCoopers (South Korea), a test of this theory could come in the insurance sector, which seems set for restructuring following the resolution of a legal case that has cleared the way for possible flotation or sale of the country's largest insurers, including Samsung Life, Korea Life and Kyobo

²⁰ Barclays press release – May 17, 2007.

²¹ Citigroup press release – April 26, 2007.

²² Lone Star confirms termination of agreement to sell Korea Exchange Bank, AltAssets – November 27, 2006.

Life. Lone Star's troubles have not stopped players such as Goldman Sachs Asset Management, UBS Global Asset Management²³ and JPMorgan Chase & Co²⁴ from planning entry into South Korea, and more deals are believed to be forthcoming. Goldman Sachs recently announced that it would acquire an

asset management firm majority-owned by Australia's Macquarie Bank.²⁵ UBS, by contrast, has chosen the joint venture route, acquiring 51% of Daehan Investment Trust Management, one of Korea's largest asset management companies.

Regulatory relief?

The pace of liberalisation across Asia remains uneven, but where it is taking place – whether officially or not – it is having fairly immediate results.

- In Malaysia, the scheduled opening of the banking sector in 2010 is stimulating the first stages of a wave of foreign investment. ANZ's purchase of 24.9% of AMMB for A\$833m²⁶ (US\$694m) is the first real manifestation of this. There is also increased attention from the private equity sector. Malaysia's relatively high rates of return on banking products, lending margins of up to 5%, against its relatively low level of country risk, in addition to its attractiveness as a base for Islamic banking, are likely to prove additional draws for foreign players in the near future.
- In Thailand the fallout from the Bank of Thailand's master plan for the industry, which encouraged restructuring of the country's somewhat sprawling and over-banked environment, is moving into its next stage – mid-tier banks are looking to focus their strategies, and many have openly invited discussions with foreign players. GE Capital's US\$609.8m purchase of 29% of Bank of Ayudhya²⁷ is notable, given the nominal limit on foreign ownership of local banks (5% per individual investor or 25% total foreign ownership), demonstrating that the Bank of Thailand is not inflexible towards special approvals if the deal is considered good for the country.
- Indonesia's population and economic growth rates are drawing attention from investors across all sectors of financial services. More of this interest is now coming from the private equity sector. Until recently, interest was tempered by the pace of regulatory reform, high levels of non-performing loans and high interest rates. But with the economy stabilising, interest rates declining, loans growing and banks' balance sheets improving, interest in the banking sector has shown a marked increase.
- Taiwan, in the words of Kenneth Liu, partner, PricewaterhouseCoopers (Taiwan) is 'red hot'. It is attracting strong attention from foreign players, including the private equity industry, for three reasons: the turnaround of the island's nonperforming loan situation, involving a huge restructuring and asset cleanup; Taiwan's position as an entry point for the greater China market; and, a welcoming attitude from the Taiwan government towards foreign capital.
- Vietnam, in terms of opportunities, is being touted as the new China (see box, The new China?, on page 16).

²³ UBS press release – May 11, 2007.

²⁴ UBS, JPMorgan enter S.Korea asset manager market, Reuters – May 11, 2007.

²⁵ Washington Post, Goldman to buy S.Korea asset manager from Macquarie – May 7, 2007.

²⁶ ANZ press release – November 30, 2006.

²⁷ Press release from White & Case LLP (representing GE Capital) – January 19, 2007.

The new China?

Since the run-up to its accession to the World Trade Organisation in January this year, Vietnam has rapidly become one of the most talked about emerging markets around the world. Financial services firms, among the first to set up offices in the country more than a decade ago, are now among the most bullish.

'If I was ranking Asia in terms of banking opportunities today, I would have to say China first – it is a goliath – but my second rank would be Vietnam', says Owen Wilson, managing director, international partnerships at ANZ.

The Australian bank was the first foreign bank to buy into Vietnam, purchasing a 10% stake in Sacombank in September 2005 for an initial investment of A\$27m (US\$23m).²⁸ With subsequent rights issues included, its holding is now valued at A\$220m since Sacombank became the first bank to list on the Vietnamese stock exchange in July last year. In April this year, ANZ signed a contract for a joint venture credit-card operation with its Vietnamese banking partner, according to Mr Wilson.

Sacombank's profits shot up by 79% in 2006 and it has announced expectations of a 120% increase this year.

The Vietnamese government, under Decree 69 issued in April this year, has raised the ownership limit for any one foreign bank in a Vietnamese institution, from 10% to 15%, or 20% with prime ministerial approval. The limit on total foreign ownership remains at 30%.

'We've made no secret of the fact that 10% is not the end game for us', says Mr Wilson, pointing out that investors can use equity accounting when ownership hits 20%, rather than relying on dividend streams.

ANZ operates in its own name in Vietnam. It was one of the first foreign banks from any country to be granted a branch licence in Hanoi in 1994. ANZ opened its second branch in Ho Chi Minh City soon after.

Other big foreign names in Asian banking, such as HSBC²⁹ and Standard Chartered³⁰, have made similar 10% investments in Vietnamese joint stock banks, and many have

side agreements that will allow them to increase ownership levels as and when they are allowed. Given the limited number of sizeable domestic banks, they are likely to be the lucky few. At the same time, however, Vietnamese rules on local operations by foreign banks have been changed. Until the middle of last year, foreign banks could only operate within the country as branch offices, but the new rules enable the creation of 100% owned Vietnamese subsidiaries. Branch capitalisation rules have also changed – the new rules stipulate initial capitalisation of \$62.5m, with each branch thereafter requiring just US\$1.5m. The old rules required each branch to have a capital base of US\$15m, making a network of branches prohibitively expensive. Although no foreign investor has yet tested the rules (details are still unclear), the next few years are likely to see the first fully foreign-owned banks in Vietnam.

Vietnam's five state banks (and at least one insurer), meanwhile, are moving towards equitisation. As has been the case in China, foreign banks are keen to get strategic partnership status in these institutions, and will be looking for a 10-20% share, should they become available.

The market is not without its risks, however. The Ho Chi Minh Securities Trading Centre, the country's largest stock exchange, rose 265% between the beginning of 2006 and mid-March 2007, suggesting volatile times ahead. Transparency remains an issue in the country and financial services institutions still have much to do in terms of improving operations, reporting, management information systems, risk management and the other foundations of a modern financial system.

But international bankers are weighing these risks against a future that looks full of promise.

'It is difficult to say what is going to happen here over the next 12 to 24 months because things are changing so quickly. There is a lot of money waiting to find a home', says Ian Lydall, territory senior partner at PricewaterhouseCoopers (Vietnam). 'The authorities are starting to tighten up on the regulatory environment, but there are a lot of opportunities and there is a lot of excitement around.'

²⁸ ANZ press release – March 24, 2007.

²⁹ HSBC Vietnam website, About Us section.

³⁰ Standard Chartered press release – June 17, 2005.

M&A in insurance – on the rise

M&A in the insurance sector in Asia skyrocketed to US\$13.5bn last year, up from US\$4.4bn in 2005. While US\$6bn of this increase came from a single takeover in Australia, even when excluding this deal, insurance M&A was up by 72% in 12 months. According to David Campbell, PricewaterhouseCoopers Asia insurance practice leader, activity in the sector is likely to continue to see strong growth.

There are a number of factors driving activity, including:

- The perception among European and North American insurers that they are underweight in Asia. Companies such as Prudential UK³¹ and AIG³² report a high proportion of their profit coming from Asia, and their competitors in the West are looking for opportunities to emulate these successes.
- A push by Japanese insurers into Asia. In March this year, Tokio Marine & Nichido Fire Insurance completed the purchase of the Singapore-based Asia General Holdings (of which Asia Insurance Company is a subsidiary³³), following the 2005 purchase of Taiwan's Mingtai Fire & Marine Insurance by Mitsui Sumitomo Insurance.³⁴ 'Japanese insurers are beginning to regionalise beyond the level needed simply to service their Japanese clients' needs overseas,' says Mr Campbell, 'and they are very aggressive when they buy companies in the sense that they are willing to pay top dollar for acquisitions they like.'
- The need to consolidate in markets such as Thailand, Malaysia and Taiwan, where there are too many insurers and markets are too fragmented. This need has been apparent for some time, but change has been slow. Perhaps the log jam will be broken in the near future by major insurers increasingly willing to look beyond India and China.
- In South Korea, where the insurance industry has been relatively sheltered from competition, a recent court decision has opened the way for the equitisation of the large mutuals. If their listing ambitions are not fulfilled, then mergers both cross-border and domestic, are highly likely.

Many of the top global insurers are closely watching the Asian market for acquisition opportunities, with particular focus on South Korea, Taiwan and Malaysia.

³¹ Prudential UK Annual Report – 2006.

³² AIG Needs a New Tiger in Asia, Businessweek – April 18, 2005.

³³ Tokio Marine & Nichido Fire Insurance press release – April 19, 2006.

³⁴ Mitsui Sumitomo press release – April 22, 2005.

Barriers

There is no doubt that competition is having an effect on pricing in the region – indeed, 50% of financial services' executives point to high prices as the biggest barrier for their company's M&A activity, up from 32% in 2005. Prices look especially high when considering the potential for synergies in Asia, compared to those in the US or Europe. With regulatory barriers still firmly in place in many countries, at best, deals in Asia offer the opportunity to cross-sell. Many financial institutions will be looking at prices in relation to risk in each market. 'Western investors may be more risk averse to acquiring in these markets but many Asian institutions and funds have done a lot of work in this area and

accept these risks as part of the price of entering into a potentially very large market', says Mr McHowat of HSBC Indonesia.

While acting as a barrier for individual firms, higher pricing is having a more positive effect – it is bringing more targets on to the market. Only 32% of our survey respondents pointed to a lack of attractive targets as a barrier, down from 52% in 2005. Concern regarding regulatory uncertainty has also increased slightly, cited as a barrier by 23% of respondents compared to 21% in 2005.

From your company's point of view, what are the principal barriers to undertaking M&A deals? Select up to three.

	2007		2005	
	Count	Percentage	Count	Percentage
Lack of attractive targets	79	34%	66	52%
High pricing of M&A deals	114	50%	41	32%
Lack of capital	38	17%	23	18%
Potential exposure to reputational risk	30	13%	23	18%
Poor shareholder value	29	13%	21	17%
Resource constraints within management team/inability to recruit senior managers for new operations	35	15%	25	20%
Competition restrictions	24	10%	13	10%
Uncertain regulatory requirements	53	23%	27	21%
Lack of information on target organisation	22	10%	17	13%
Poor track record of M&A success	14	6%	8	6%
Compliance issues	25	11%	11	9%
Lack of market understanding of M&A deals	20	9%	11	9%
Organisation unable to accommodate further change	20	9%	12	9%
Concerns over language difficulties/potential cultural issues at target	13	6%	Response not in 2005 survey	
Other, please specify	1	0%	1	1%
None of the above – there are no significant barriers	11	5%	Response not in 2005 survey	
Don't know	13	6%		
Total	230	100%	127	100%

Partnering to compete

What of other forms of market access via local companies?

Our survey makes clear that financial services firms are counting heavily on local partnerships to help them exploit market opportunities in Asia to the fullest. According to Wangha Cho, vice-chairman of Daehan Investment & Securities, UBS's new partner in South Korea, 'I am confident that having UBS as a partner will allow us to ensure that the company operates in accordance with international best practices but also enhances our ability to meet the needs of the growing client base in Korea.'³⁵ Of our survey respondents, 61% think it is very likely or somewhat likely that they will seek an overseas investor, either in their main business or in a significant new venture over the next five years. Respondents in emerging markets are particularly

keen on such ventures. For those seeking new investors or ventures, the main goals are gaining management expertise, assistance to expand outside the home country and new capital.

The hunt for management expertise – or indeed, expertise of any kind – comes as little surprise, given that it is in perennially short supply in the region and is likely to prove a major constraint on growth strategies, either organic or inorganic. According to a briefing on China's banking sector, conducted by PricewaterhouseCoopers earlier this year, the 40 banks interviewed for the survey employed 16,752 people and this total is forecast to expand by 113% to 35,685 people by 2010.³⁶

Staffing China – importing expertise

Perhaps nowhere is the war for talent felt more keenly than in China. According to *Foreign banks in China 2007*, published by PricewaterhouseCoopers, institutions are supporting their expansion in China by bringing in more expatriates to fill the talent gap. The 40 foreign banks surveyed for the report employ 2,872 expatriates, a significant jump from 2005, when 35 banks surveyed employed 475 expatriates. Over the next three years these banks plan to add another 639 expatriates to produce a total of 3,511. The overall employment growth will, however, reduce the expatriate percentage from 17% in 2007 to 9.8% in 2010. There is a significant variation among the banks in terms of the level of expatriate staff. For example, ten banks have more than 10% expatriate staff and seven of these are Asian banks. Twenty-one banks have less than 5%. Two smaller banks have no expatriate staff.

Needless to say, staff turnover is also a great challenge. The banks surveyed are finding it difficult both to recruit and retain staff. Over two-thirds of the banks are experiencing turnover above 15% and 35% recorded turnover levels of 15% to 20%. A small group of the leading international banks appear to be the most effective in holding staff and have managed to suppress turnover rates to below 5%. At the other extreme, some banks have experienced acute staffing problems. One Asian bank said that two years ago it had 80% turnover; last year it dropped to 50% and in 2007 it predicted turnover would be 20%.

Another Asian bank indicated it had lost a key member of its wealth management team as a result of a competitive offer of triple the employee's salary.

A European bank voiced concern that employees had returned from head office training programmes and immediately resigned.

Several participants pointed out that although the banking industry was growing rapidly, there was a chronic shortage of experienced, senior management. As foreign banks move towards local incorporation and continued expansion, staffing problems can only increase.

³⁵ UBS press release – May 11, 2007.

³⁶ *Foreign banks in China*, PricewaterhouseCoopers 2007.

When considering potential investors or partners, financial services executives have shown a marked increase in the concern for collaboration – 63% of our survey respondents in 2007 ranked ‘collaborative nature’ as a very important attribute in a partner, up from 38% in 2005. This could be recognition of the fact that in many cases collaborations are based more on regulatory requirements than market logic, and hence the wish for a ‘win-win’ approach to such ventures. It may also reflect the rising price of acquisitions in Asia, and an intention to seek deals

where cash is not the only measure under consideration. Indeed, those seeking investors or joint ventures are also placing higher value on local market knowledge.

Royal Bank of Scotland (RBS) and other foreign banks have used a mixture of equity stakes and collaboration in China. RBS led a consortium that took a 10% stake in Bank of China in 2005, and the two have since launched joint ventures in credit cards and private banking.³⁷

When considering potential investors or joint-venture partners, how important do you think the following attributes are?
Rate on a scale of 1 to 5, where 5 = Very important and 1 = Not important.

Collaborative nature (1)	2007		2005	
	Very important 1	88	63%	32
2	37	26%	29	35%
3	11	8%	14	17%
4	3	2%	5	6%
Not important 5	1	1%	4	5%
Don't know	0	0%	Response not in 2005 survey	
Total	140	100%	84	100%



³⁷ Banking Newslink – March 23, 2007

Outsourcing

Though not quite a definite trend, the results of our 2007 survey suggest that financial services executives may be rethinking the benefits they can achieve from outsourcing. While 48% chose outsourcing as the best strategy for reducing costs, this figure is down from 54% in 2005. Alliances, meanwhile, were chosen as the best strategy for cost reduction by 7% of respondents, up from zero in 2005. However, only 8% of respondents said they did not expect to expand their outsourcing activities. It is notable that the number of respondents citing outsourcing as the best way to access new talent rose from 6% to 14%. While IT infrastructure and applications continue to be the main focus of outsourcing activity, there is a noticeable increase in the share

of respondents expecting to expand activities in human resources and training, customer contact and supply-chain management.

So where do companies expect to outsource? India remains the favoured destination, chosen by 39% of respondents in both 2005 and 2007. But other countries are gaining favour, notably Singapore. The former is most likely a result of the Monetary Authority of Singapore's active promotion of Singapore as a financial centre. A number of financial services companies, including Barclays and Credit Suisse³⁸ have expanded their support operations in the country.

**In which of the following business functions does your organisation expect to expand its outsourcing activities?
Select all that apply.**

	2007		2005	
	Count	Percentage	Count	Percentage
IT infrastructure and applications	153	67%	87	68%
Human resources and training	86	37%	34	27%
Customer contact centres	82	36%	31	24%
Finance and accounting functions	67	29%	40	31%
Procurement	26	11%	15	12%
Supply-chain management	32	14%	7	5%
Other, please specify	4	2%	1	1%
None of the above – we do not expect to expand outsourcing	19	8%	16	13%
Don't know	11	5%	Response not in 2005 survey	
Total	230	100%	128	100%

³⁸ Credit Suisse is set to hire over 900 new people by 2007 to support its investment banking, asset management and wealth management businesses in Singapore, FinanceAsia.com – May 12, 2006.

Outlook

Interest in Asia's financial services sector will only increase, going forward. Asian institutions, having grown rapidly in recent years, are now seeking to expand beyond their borders, posing a new form of competition for traditional players, namely Western institutions. 'Foreign groups looking at the region face competition from within it', notes Julian Mayo, investment director of Charlemagne Capital, a specialist emerging markets fund management firm based in London. 'This undoubtedly raises the price at which acquisitions can be made.' For example, Japanese institutions are beginning to expand their footprint to a size that is commensurate with their asset and customer bases. The strategies of Chinese institutions for the rest of Asia have yet to become clear, but they too have the scale to become regional, and perhaps one day, international, players. Singaporean banks are already active in the region and there is the prospect of more players emerging. According to Kenneth Liu, partner, PricewaterhouseCoopers (Taiwan), Taiwan has been encouraging large financial holding companies to actively engage in acquisitions, partly to solve the 'over-banking' issue, but also to create much larger banking conglomerates that are better positioned to cope with fierce competition in the Asia Pacific region.

Adding to the frenzied environment is the prospect of further opportunities opening up – as barriers to foreign investment in the financial services sectors of India and Malaysia are lowered after 2009 and 2010, respectively.

What does the near-term hold in store? As prices continue to rise and the already scarce supply of quality targets begins to look overpriced, more institutions will opt to put emphasis on organic growth and collaboration. But organic growth alone is unlikely to be enough to bring the kind of rapid expansion many are looking for, or to offer an effective reply to the aggressive plans of the world's financial services giants.



Survey findings

1. How many mergers and acquisitions has your company made on its own account over the last three years?

0	39%
1–2	31%
3–5	19%
6–9	6%
10–25	4%
More than 25	1%
Total	100%

2. Do you agree or disagree with the following statements?

2a. Our organisation will undergo significant M&A over the next five years

Agree	61%
Disagree	21%
Don't know	17%
Total	100%

2b. Our organisation will seek a foreign strategic investor or a partner in a significant new venture in the next five years

Agree	62%
Disagree	23%
Don't know	15%
Total	100%

2c. Joint ventures and partnerships will be key to our expansion plans in Asia

Agree	69%
Disagree	21%
Don't know	10%
Total	100%

2d. Our organisation will undergo a significant business disposal over the next five years

Disagree	42%
Agree	34%
Don't know	24%
Total	100%

2e. Our organisation is already structured in the way we want

Disagree	44%
Agree	41%
Don't know	15%
Total	100%

2f. Our organisation has a track record of success in M&A and restructuring

Agree	50%
Disagree	32%
Don't know	18%
Total	100%

* Please note that the totals do not always add up to 100 because of rounding, or because respondents could choose more than one answer.

3. What will be the main external drivers of your organisation's M&A or restructuring activity over the next five years? Select up to three.

Increasing competition from domestic players (e.g. nonfinancial service market entrants, horizontal expansion of existing financial service players, price cuts, threats to market share)	47%
Increasing competition from foreign players (e.g. new market entrants)	44%
Increasing customer demands (e.g. desire for higher yielding investments, branded product, open-architecture products)	35%
Growing economy (e.g. better access to capital, more risk-taking)	27%
Regulatory liberalisation (e.g. relaxation of ownership restrictions, convergence opportunities, new competitors)	24%
Mature home market	19%
Regulatory pressure to restructure or merge	14%
Access to leading edge operating practices (e.g. better governance, technologies)	14%
Increasing shareholder demands (e.g. demand for transparent reporting and risk profile)	11%
Higher costs (e.g. staff costs, cost of capital, property costs, IT costs)	10%
None of the above – we do not expect to undergo M&A restructuring	9%
Sluggish state of economy (e.g. need to cut costs, cheap acquisition prices)	5%
Take advantage of potential currency movements (e.g. Renminbi revaluation)	2%
Other, please specify	1%
Don't know	0%
Total	100%

4. What will be the main goals of your organisation's M&A or restructuring activity over the next five years? Select up to three.

Increasing market share	47%
Entering new geographic markets	46%
Increasing shareholder value	36%
Entering new product markets	34%
Improving capital efficiency	24%
Improving customer service	16%
Securing distribution	15%
Reducing costs	11%
Focusing on core businesses	11%
None of the above – we do not expect to undergo M&A restructuring	8%
Meeting evolving regulatory requirements	8%
Accessing new talent	6%
Managing the organisation's risk profile	6%
Other, please specify	1%
Don't know	0%
Total	100%

5. What are the main obstacles to increased M&A activity in the financial services sector in your country or region? Select up to three.

Regulations and regulators' attitudes	47%
Corporate culture – the potential for corporate culture clashes in merged organisations	39%
High pricing of M&A deals	34%
Familiarity – limited history of M&A in our chosen market	23%
Management goals – managers do not focus on increasing shareholder value	23%
Defensiveness – owners or managers resort to defence mechanisms to halt M&A activity	22%
Cross-shareholdings – friendly shareholders protect managers	16%
Stakeholder opposition – protests from employees and business partners	14%
Public sentiment – fear of the public reaction to M&A	11%
Tax issues	9%
Don't know	5%
Other, please specify	3%
Total	100%

6. In which sectors is a financial buyer (i.e. a private equity buyer or investment fund) most likely to be successful in acquiring a domestic company in your country or region today? Select up to three.

Securities companies	35%
Mutual fund or asset managers	34%
Outsourcing service providers	33%
Retail banks	30%
Niche markets (e.g. in distribution, intermediaries)	27%
Private banks	25%
Wholesale banks	18%
Life insurers	14%
General insurers	10%
Islamic banking	8%
Don't know	6%
None of the above – financial buyers are unlikely to be successful in acquiring a domestic company	3%
Reinsurers	3%
Total	100%

7. Five years from today, in which sectors do you think a financial buyer is most likely to be successful in acquiring a domestic company in your country or region? Select up to three.

Retail banks	42%
Mutual fund or asset managers	34%
Private banks	32%
Securities companies	31%
Wholesale banks	24%
Outsourcing service providers	23%
Niche markets (e.g. in distribution, intermediaries)	23%
Life insurers	20%
General insurers	12%
Don't know	6%
Reinsurers	4%
None of the above – financial buyers are unlikely to be successful in acquiring a domestic company	2%
Total	100%

8. How likely do you think it is that your company will seek an overseas strategic investor in your business or in a significant new venture over the next five years?

Very likely	28%
Somewhat likely	33%
Neither likely nor unlikely	10%
Somewhat unlikely	8%
Very unlikely	17%
Don't know	4%
Total	100%

8a. What does your company hope to gain from a strategic investor? Select all that apply (for those who answered that they are very likely or somewhat likely to seek a strategic investor over the next five years).

Management expertise	58%
Regional network to help you expand outside our country	58%
New capital	47%
New products	42%
Access to an otherwise restricted market	39%
Risk management practices	34%
Brands	32%
IT and operational systems	%
Other, please specify	1%
Don't know	1%
Total	100%

8b. When considering potential investors or joint-venture partners, how important do you think the following attributes are? Rate on a scale of 1 to 5, where 1 = Very important and 5 = Not important.

8b1. Collaborative nature

1 – Very important	63%
2	26%
3	8%
4	2%
5 – Not important	1%
Don't know	0%
Total	100%

8b2. Competitive threat

1 – Very important	20%
2	38%
3	27%
4	9%
5 – Not important	5%
Don't know	1%
Total	100%

8b. When considering potential investors or joint-venture partners, how important do you think the following attributes are? Rate on a scale of 1 to 5, where 1 = Very important and 5 = Not important. *continued*

8b3. Strong management

1 – Very important	46%
2	35%
3	15%
4	4%
5 – Not important	1%
Don't know	0%
Total	100%

8b6. Large size

1 – Very important	16%
2	21%
3	34%
4	20%
5 – Not important	9%
Don't know	1%
Total	100%

8b4. Reputation for good corporate governance

1 – Very important	52%
2	32%
3	11%
4	4%
5 – Not important	1%
Don't know	0%
Total	100%

8b7. Knowledge of local market

1 – Very important	39%
2	34%
3	16%
4	5%
5 – Not important	7%
Don't know	0%
Total	100%

8b5. Performance-oriented culture

1 – Very important	44%
2	35%
3	16%
4	4%
5 – Not important	1%
Don't know	0%
Total	100%

8b8. Respect for local culture

1 – Very important	34%
2	38%
3	19%
4	6%
5 – Not important	1%
Don't know	1%
Total	100%

9. What do you think is the best strategy for your company to meet each of the following goals?
Choose a strategy for each of the following goals.

9a. Meeting growth targets

Organic growth	44%
M&A	31%
Alliances	11%
Joint venture	7%
Don't know	3%
Divestiture	2%
Outsourcing	1%
Total	100%

9b. Reducing costs

Outsourcing	48%
Organic growth	20%
Divestiture	10%
M&A	7%
Alliances	7%
Don't know	5%
Joint venture	3%
Total	100%

9c. Increasing market share

M&A	43%
Organic growth	21%
Alliances	20%
Joint venture	11%
Divestiture	3%
Don't know	2%
Outsourcing	0%
Total	100%

9d. Focusing on core businesses

Organic growth	55%
Outsourcing	10%
M&A	10%
Divestiture	9%
Alliances	8%
Don't know	6%
Joint venture	2%
Total	100%

9e. Increasing shareholder value

Organic growth	39%
M&A	29%
Alliances	9%
Don't know	7%
Joint venture	7%
Divestiture	4%
Outsourcing	4%
Total	100%

9f. Meeting evolving regulatory requirements

Organic growth	36%
Don't know	22%
Outsourcing	10%
M&A	10%
Alliances	9%
Joint venture	8%
Divestiture	4%
Total	100%

9. What do you think is the best strategy for your company to meet each of the following goals?
Choose a strategy for each of the following goals. *continued*

9g. Accessing new talent

Organic growth	27%
M&A	21%
Alliances	18%
Outsourcing	14%
Don't know	9%
Joint venture	9%
Divestiture	2%
Total	100%

9i. Managing risk profile

Organic growth	42%
Don't know	13%
M&A	13%
Alliances	10%
Outsourcing	10%
Joint venture	7%
Divestiture	5%
Total	100%

9h. Improving capital efficiency

Organic growth	25%
M&A	25%
Joint venture	12%
Divestiture	11%
Outsourcing	10%
Alliances	8%
Don't know	8%
Total	100%

9j. Improving customer service

Organic growth	39%
Alliances	16%
Don't know	14%
Outsourcing	13%
M&A	8%
Joint venture	6%
Divestiture	3%
Total	100%

10. In which countries or regions do you expect your company to conduct M&A activities over the next five years? Select all that apply.

China	47%
India	39%
Hong Kong	28%
Singapore	21%
Indonesia	20%
Middle East	18%
Vietnam	18%
Europe	17%
Malaysia	16%
Thailand	15%
North America	15%
Australia	13%
Japan	10%
Philippines	10%
Taiwan	10%
Pakistan	8%
Don't know	8%
Korea	7%
None of the above	7%
Bangladesh	3%
New Zealand	2%
Other, please specify	1%
Total	100%

11. In which countries or regions do you expect your company to conduct divestitures/sales over the next five years? Select all that apply.

None of the above	27%
China	19%
Don't know	18%
India	17%
Hong Kong	12%
Singapore	10%
North America	10%
Europe	10%
Japan	8%
Middle East	8%
Indonesia	7%
Malaysia	7%
Thailand	7%
Vietnam	7%
Korea	6%
Australia	6%
Taiwan	6%
Philippines	5%
Pakistan	3%
Bangladesh	3%
New Zealand	3%
Other, please specify	0%
Total	100%

12. In which countries or regions do you expect your company to set up outsourcing arrangements over the next five years? Select all that apply.

India	39%
China	25%
Singapore	16%
None of the above	13%
Hong Kong	13%
Malaysia	10%
Europe	10%
Don't know	9%
Indonesia	8%
Philippines	8%
Thailand	8%
Vietnam	7%
Middle East	6%
Australia	5%
Japan	5%
North America	5%
Korea	3%
Taiwan	3%
Pakistan	3%
Bangladesh	1%
Other, please specify	1%
New Zealand	0%
Total	100%

13. In which of the following business functions does your organisation expect to expand its outsourcing activities? Select all that apply.

IT infrastructure and applications	67%
Human resources and training	37%
Customer contact centres	36%
Finance and accounting functions	29%
Supply-chain management	14%
Procurement	11%
None of the above – we do not expect to expand outsourcing	8%
Don't know	5%
Other, please specify	2%
Total	100%

14. Which category of institutions do you think represents the biggest competitive threat to your organisation over the next five years?

Established overseas financial institutions already competing in your market	32%
Established domestic financial institutions	24%
New foreign entrants	13%
Foreign entrants introducing niche products/service offerings	13%
Niche players	8%
New competitors moving from retailing into financial services	4%
Don't know	4%
Start-up institutions	1%
Other, please specify	0%
Total	100%

15. From your company's point of view, what are the principal barriers to undertaking M&A deals? Select up to three.

High pricing of M&A deals	50%
Lack of attractive targets	34%
Uncertain regulatory requirements	23%
Lack of capital	17%
Resource constraints within management team/inability to recruit senior managers for new operations	15%
Potential exposure to reputational risk	13%
Poor shareholder value	13%
Compliance issues	11%
Competition restrictions	10%
Lack of information on target organisation	10%
Lack of market understanding of M&A deals	9%
Organisation unable to accommodate further change	9%
Poor track record of M&A success	6%
Concerns over language difficulties/potential cultural issues at target	6%
Don't know	6%
None of the above – there are no significant barriers	5%
Other, please specify	0%
Total	100%

In which country or region are you personally located?

India	25%
Hong Kong	17%
Singapore	15%
China	8%
Malaysia	7%
Indonesia	7%
Japan	6%
Pakistan	3%
Thailand	3%
South Korea	3%
Philippines	3%
Taiwan	3%
Vietnam	1%
Bangladesh	0%
Other, please specify	0%
Total	100%

In which country or region is your organisation headquartered?

Europe	20%
Other South-East Asia	18%
India	17%
North America	11%
Hong Kong	8%
Singapore	7%
China	6%
Japan	3%
Korea	3%
Australia/New Zealand	3%
Taiwan	2%
Africa or the Middle East	2%
Latin America	0%
Other North Asia	0%
Total	100%

What is your primary area of responsibility?

Senior management	26%
Risk management	17%
Strategy/planning	13%
Finance	10%
M&A/business development	8%
Marketing and communications	7%
Other, please specify	6%
Operations	5%
Treasury	4%
Compliance	3%
Internal audit	2%
Total	100%

What industry sector of financial services do you personally focus on?

Retail banking	19%
Corporate banking	18%
Investment management	17%
Investment banking	13%
Capital markets	12%
Private equity	8%
Private banking	4%
Non-life insurance	3%
Life insurance	2%
Reinsurance	2%
Outsourcing services provision	2%
Others, please specify	0%
Total	100%

What is your organisations global annual revenue in US dollars?

\$500m or less	37%
\$500m to \$1bn	12%
\$1bn to \$5bn	20%
\$5bn to \$10bn	9%
\$10bn or more	23%
Total	100%

Which of the following best describes your title?

SVP/VP/Director	24%
Manager	21%
CEO/President/Managing Director	13%
Head of Department	10%
Head of Business Unit	8%
Other	8%
CFO/Treasurer/Comptroller	7%
Other C-level executive	5%
Board member	3%
CIO/Technology Director	1%
Total	100%

Contacts

If you would like to discuss any aspect of these findings in more detail, please speak with your usual contact at PricewaterhouseCoopers or one of the editorial board members below:

Matthew Phillips

PricewaterhouseCoopers (China)
86 21 6123 2303
matthew.phillips@cn.pwc.com

Nelson Lou

PricewaterhouseCoopers (China)
86 10 6533 2003
nelson.ip.lou@cn.pwc.com

David Campbell

PricewaterhouseCoopers (China)
86 21 6123 3228
david.campbell@cn.pwc.com

Mirza Diran

PricewaterhouseCoopers (Indonesia)
62 2152 12901
mirza.diran@id.pwc.com

Antony Eldridge

PricewaterhouseCoopers (Japan)
81 3 5532 2519
antony.m.eldridge@jp.pwc.com

Mark Gilbraith

PricewaterhouseCoopers (China)
86 21 6123 2898
mark.gilbraith@cn.pwc.com

Michael Goenawan

PricewaterhouseCoopers (Indonesia)
62 21 5212901
michael.goenawan@id.pwc.com

Iwan Griffiths

PricewaterhouseCoopers (Korea)
82 2 709 0950
i.griffiths@kr.pwc.com

Rick Heathcote

PricewaterhouseCoopers (Hong Kong)
852 2289 1155
rick.heathcote@hk.pwc.com

Salman Hussain

PricewaterhouseCoopers (Pakistan)
92 21 2429261
salman.hussain@pk.pwc.com

Timmy S. Kandhari

PricewaterhouseCoopers (India)
91 22 6669 1580
timmy.s.kandhari@in.pwc.com

Kenneth Liu

PricewaterhouseCoopers (Taiwan)
886 2 2799 6332
kenneth.liu@tw.pwc.com

Karen Loon

PricewaterhouseCoopers (Singapore)
65 6236 3021
karen.loon@sg.pwc.com

Ian Lydall

PricewaterhouseCoopers (Vietnam)
84 8 8230 796
ian.lydall@vn.pwc.com

Sridharan Nair

PricewaterhouseCoopers (Malaysia)
60 3 2694 5908
sridharan.nair@my.pwc.com

Dominic Nixon

PricewaterhouseCoopers (Singapore)
65 6236 3188
dominic.nixon@sg.pwc.com

Dae-Joon Park

PricewaterhouseCoopers (Korea)
82 2 709 8938
dae-joon.park@kr.pwc.com

Blesilda Pestano

PricewaterhouseCoopers (Philippines)
63 8452728
blesilda.pestano@ph.pwc.com

Jairaj Purandare

PricewaterhouseCoopers (India)
91 22 66691400
jairaj.purandare@in.pwc.com

Ashwani Puri

PricewaterhouseCoopers (India)
91 124 462 0501
ashwani.puri@in.pwc.com

Chanita Saicheua

PricewaterhouseCoopers (Thailand)
66 2 344 1179
chanita.saicheua@th.pwc.com

Kok Weng Sam

PricewaterhouseCoopers (Singapore)
65 6236 3268
kok.weng.sam@sg.pwc.com

Stuart Scoular

PricewaterhouseCoopers (Indonesia)
62 21 5289 1213
stuart.a.scoular@id.pwc.com

Amrish Shah

PricewaterhouseCoopers (India)
91 22 6669 1390
amrish.shah@in.pwc.com

Khoon Yean Soo Hoo

PricewaterhouseCoopers (Malaysia)
603 2693 0996
khoon.yean.soo.hoo@my.pwc.com

Lily Wong

PricewaterhouseCoopers (Taiwan)
886 2 972235116
lily.wong@tw.pwc.com

Peter Yu

PricewaterhouseCoopers (Taiwan)
886 2 2729 6157
peter.yu@tw.pwc.com

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For further information please contact Áine Bryn, Marketing Director, Global Financial Services, PricewaterhouseCoopers LLP on +44 20 7212 8839 or at aine.bryn@uk.pwc.com

For additional copies please contact Maya Bhatti at PricewaterhouseCoopers LLP on +44 20 7213 2302 or at maya.bhatti@uk.pwc.com

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