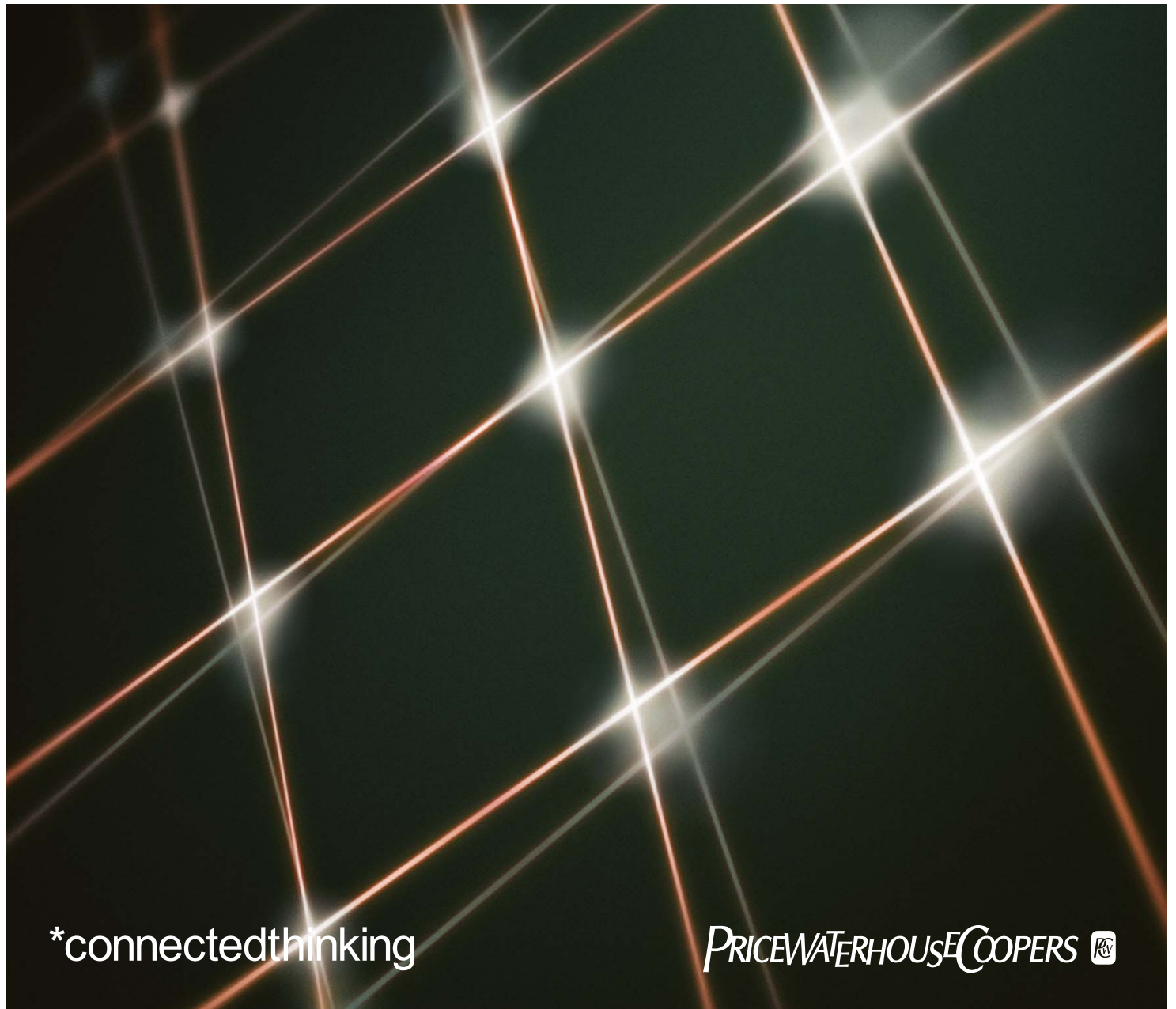


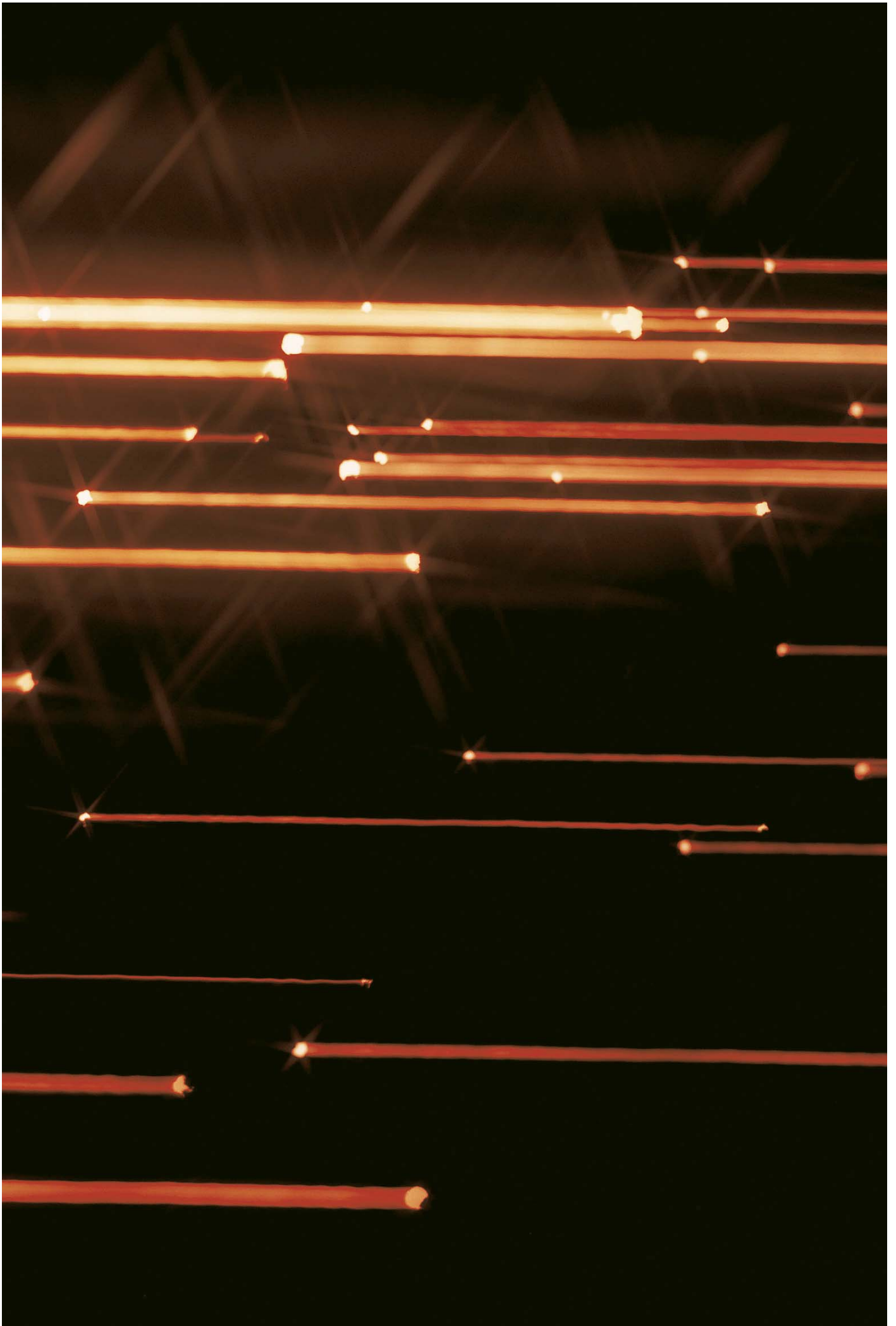
Going for growth*

The outlook for M&A in the financial services sector in Asia



*connectedthinking

PRICEWATERHOUSECOOPERS 



M&A activity among financial institutions in Asia is expected to gain momentum, spurred by the promise of market liberalisation – whether real or imagined.

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Executive Summary

Going for growth

M&A activity among financial institutions in Asia is expected to gain momentum, spurred by the promise of market liberalisation – whether real or imagined. While meaningful financial reform may remain a distant ideal for much of the region, a widening consensus about its inevitability has triggered unprecedented market manoeuvring. Financial institutions in the region – retail, commercial and investment banks, private equity firms, investment managers, and others – have turned their sights outward, with many hunting for deals in Asia, particularly in China and India. M&A in the financial services sector (including insurance) in Asia totalled US\$38.7bn in 2005 according to M&A Asia, a decline over the previous two years, which saw huge deals in Japan. The number of deals has remained high, at 194 in 2005, with China picking up momentum as activity in Japan has tapered off. Similarly, inbound M&A from the US and Europe replaced regional activity in 2005 as the larger source of M&A on a value basis. Inbound M&A was valued at more than US\$23bn in 2005 compared to US\$15bn for regional M&A.

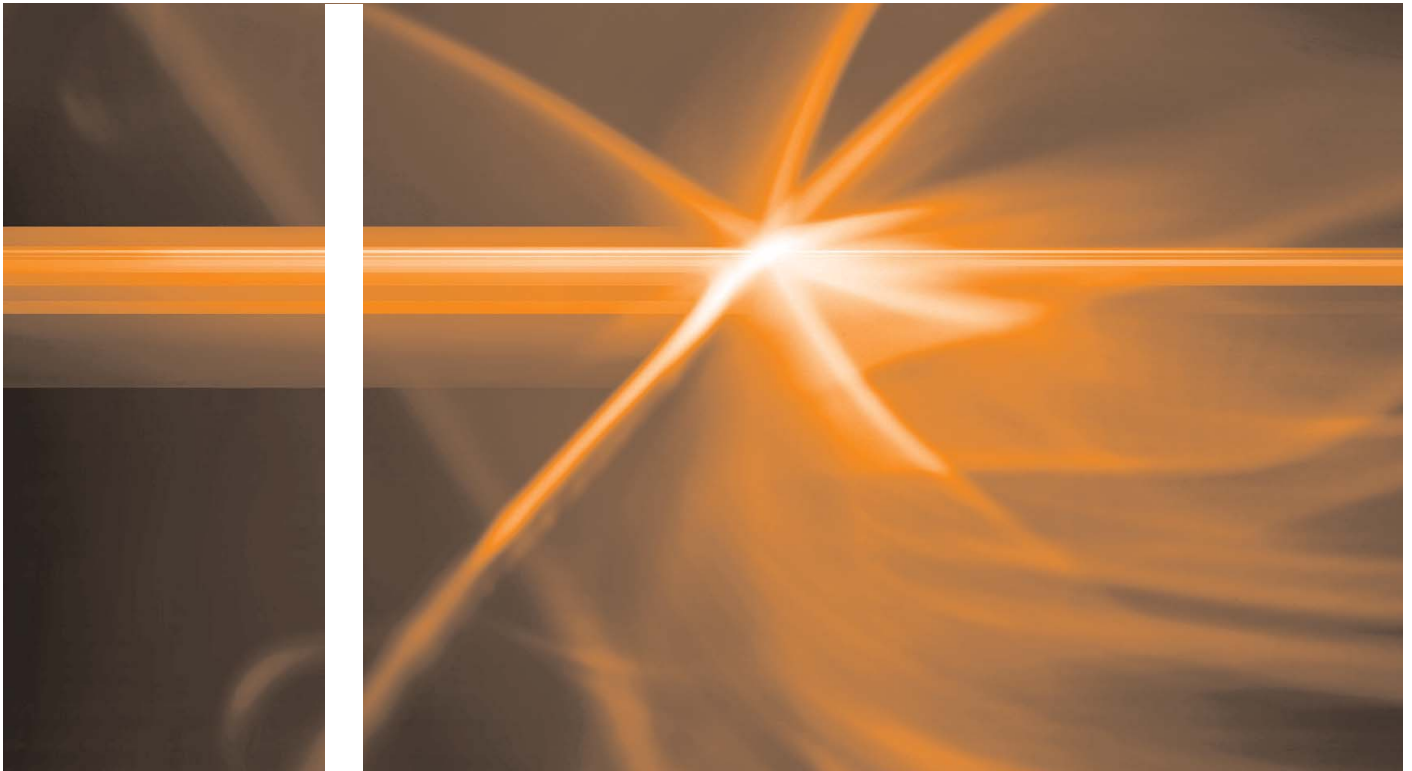
The results of a survey of 130 senior executives in Asia's financial services industry conducted exclusively for this briefing, prepared by the Economist Intelligence Unit for PricewaterhouseCoopers, suggest that the trend toward cross-border M&A will gather momentum in the coming five years, despite continuing obstacles posed by regulatory environments and corporate cultures. The survey respondents were a mix of Asia-headquartered institutions (48%) and regional subsidiaries of foreign institutions. Of the survey respondents, 68% predicted that their organisations would undergo significant M&A activity in the coming five years and an equal number felt that joint ventures and partnerships would be key to their expansion plans in Asia. In most areas of financial services the wave of expansion is powered by a strategic imperative to seek out new, under-served markets, and to meet a rising tide of competition from both domestic and foreign players. In other sectors which are already crowded, notably insurance, the opportunity for buyers lies in leveraging their skills to help acquisition targets improve their business models and boost growth.

The strongest evidence that market barriers are no longer defining the M&A landscape is the financial services industry's intense focus on China, the region's single most challenging

market from both regulatory and cultural perspectives. Indeed, inbound M&A in China's financial services sector (including insurance) skyrocketed to more than US\$15bn in 2005, up from US\$2.4bn in 2004. The number of deals rose to 35 in 2005 from 27 in 2004. This has come despite the fact that ownership rules prevent foreign investors from having more than a modest influence on their Chinese acquisitions. Moreover, while China has committed to a wider opening of its banking and insurance markets to foreign competition by the end of 2006, new regulations are slowing the pace of change. For example, the expansion of branch networks is hampered by regulatory approvals and the significant branch capitalisation requirements, and from 2007 there will be a need for foreign banks to incorporate branches involved in retail activity. Nonetheless the prospect of access to the Chinese market has given foreigners a keener sense of urgency to develop a 'China strategy'. It would seem that in their pursuit of growth, executives are regarding regulatory uncertainty as merely another cost of doing business. Foreign banks intent on making strategic investments in India may have to adopt a similar attitude. Though many have operated in the country for decades, regulatory restrictions have kept their market penetration very low compared with domestic banks. Though there are now plans for easing of restrictions on branch expansions and the establishment of subsidiaries, foreign investment in healthy, private domestic banks will remain largely limited to just 5% in the near term, rendering any M&A activity strategic and longer-term in outlook.

The depth of market liberalisation in Asia's banking and finance industry varies – sometimes markedly – from country to country. Recently, the most aggressive policy reform has taken place in East Asia. In China, reform of the larger state-owned banks saw several institutions introduce foreign capital. For smaller banks, the recent statements by Tang Shuangning, Vice Chairman of the banking regulator, point to potential relaxation of investment restrictions. Just across the strait, Taiwan has also been busy liberalising its financial services sector, though vested interests, political and otherwise, have tempered progress. The aim is to attract international banks and thereby consolidate an overcrowded banking sector burdened by too many loans gone sour in the wake of real estate speculation.

M&A in China's financial services sector (including insurance) skyrocketed to more than US\$15bn in 2005, up from US\$2.4bn in 2004.



By contrast, south-east Asia's financial services industry remained relatively quiet in 2005. Though Indonesia saw continued consolidation among the country's more than 130 banks, in accordance with the policy set forth by the central bank, Bank Indonesia, the Philippines remained in a state of political crisis, and Thailand showed little inclination to open its banking and finance industries to foreign players. Deregulation in these countries can often be a stop-go process. In the insurance sector, for example, regulators have announced policies to encourage consolidation, only to have progress stalled by vested interests.

Despite some bold moves, protectionism still abounds in the region and there is a danger of an escalation. While stringent state regulation and oversight aimed at protecting consumers is increasing and is to be supported, unfortunately regulation aimed simply at protecting local business is still common. For example, despite a number of laudable reforms, South Korea's financial services climate continues to favour homegrown

financial holding groups over foreign entities. In Malaysia, the underlying motivation behind recent liberalisation initiatives is primarily to facilitate overseas investing by the country's citizens and corporations, given the relative maturity and growing saturation of its own financial markets. In India, the government announced it would raise the ceiling on foreign direct investment (FDI) in private banking from 49% to 74% but the Reserve Bank of India (RBI), the central bank, soon followed with a rule that no bank or FI could acquire more than a 5% stake in another bank's equity without its permission, which would be granted on a case-by-case basis. Furthermore, no individual can exercise voting rights in excess of 10% of all voting rights in a banking company.

The responses garnered by our survey reveal some ambivalence about the role of regulatory policy in setting cross-border expansion plans and, at the same time, a dogged determination to expand. This theme permeates the responses to this year's survey, and signals an incipient frenzy of deal-making.

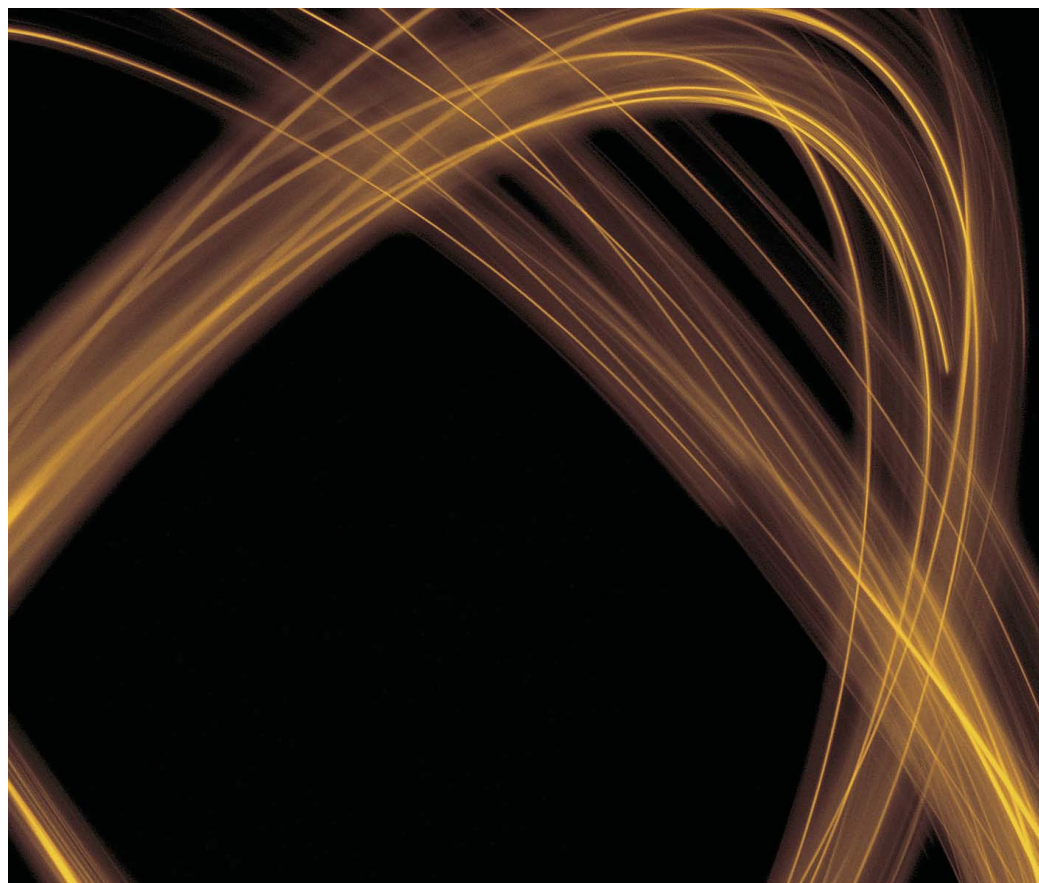
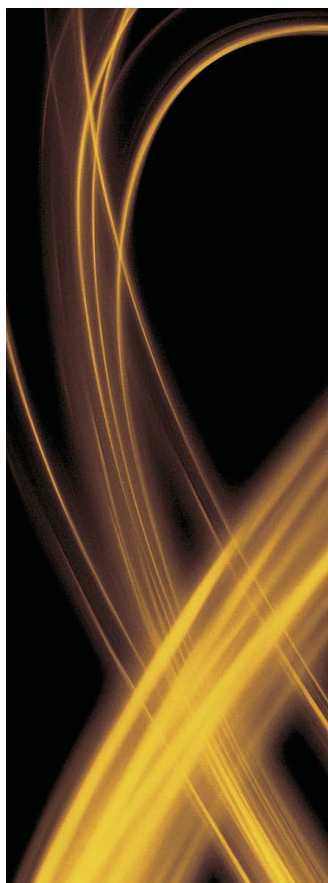
China is likely to remain the major target for M&A in the region. Almost 52% of senior executives responding to our survey thought they would conduct M&A in China in the coming five years. India was the next mostly likely target, cited by 36% of respondents, but no other country or region was chosen by more than 20% of respondents. Predictably, India ranked at the top of countries where financial services companies will most likely set up outsourcing arrangements; other potential outsourcing countries included China, Singapore, Malaysia and Hong Kong.

China story

Regional M&A in the finance and insurance sector in Asia, US\$m

Region	2003	2004	2005
South Asia	3,124	6,679	3,831
Japan	30,617	41,000	4,870
North Asia	6,738	4,135	6,110
China	99	354	263
Total	40,578	52,168	15,074

Source: M&A Asia.



Almost 52% of senior executives responding to our survey thought they would conduct M&A in China in the coming five years.

By the numbers

Total number of disclosed inbound* and regional M&A deals in the finance and insurance sector in Asia

	Inbound 2003	Regional 2003	Inbound 2004	Regional 2004	Inbound 2005	Regional 2005
China	14	8	15	12	26	9
Japan	5	30	1	35	2	28
North Asia:	14	29	25	25	7	21
Hong Kong	7	14	14	14	3	9
Macau	0	0	0	0	0	0
Mongolia	0	0	0	0	0	0
South Korea	6	5	7	6	2	6
Taiwan	1	10	4	5	2	8
South Asia:	38	44	48	65	36	67
Australia	8	21	4	24	5	20
Bangladesh	0	0	1	0	1	0
Cambodia	0	0	1	0	0	0
India	7	1	11	5	10	15
Indonesia	7	1	9	1	5	5
Malaysia	1	6	2	16	2	11
New Zealand	6	1	1	2	1	3
Pakistan	0	0	2	1	2	0
Philippines	0	0	1	2	3	9
Singapore	5	9	4	6	5	3
Sri Lanka	0	0	0	0	0	0
Thailand	4	4	12	8	2	1

* Inbound here refers to M&A involving buyers from the US and Europe.
Regional refers to M&A involving buyers from within Asia.

Source: M&A Asia.

Big spenders

A selection of the larger deals announced in 2005

	Acquirer	Target	Deal size (US\$ bn)	Stake
1	Goldman Sachs (US) and consortium	Industrial and Commercial Bank of China (PRC)	3.8	10%
2	Standard Chartered (UK)	Korea First Bank (Korea)	3.2	100%
3	Bank of America (US)	China Construction Bank (PRC)	3.0	9%
4	Royal Bank of Scotland (UK)	Bank of China (PRC)	1.6	5.16%
5	Sumitomo Trust & Banking (Japan)	First Credit Corp. (Japan)	1.1	100%
6	HSBC Insurance Holdings	Ping An Insurance (PRC)	1.0	9.91%
7.	Anil Ambani (India)	Reliance Capital (India)	0.6	n/d

Source: M&A Asia.



Competition for assets will only intensify; as each major deal is announced, the pressure increases on others in the region.

The results of our survey were striking in the way respondents' answers clustered strongly around **six primary themes**. As the survey results lay bare, financial services executives in Asia today face growing pressure to satisfy shareholders, please customers and capitalise on their successes. What are the issues, and how will success be determined?

1. Competitive pressures define today's financial services industry, and institutions must be prepared for larger, more aggressive M&A, joint venture and partnership deals.

A certain amount of consolidation is to be expected in a market as fragmented as that in Asia. But the trend today is given added impetus by the many financial market opportunities in the region that lie waiting to be tapped, both in terms of geography and products. The ongoing erosion of regulatory barriers has already emboldened larger financial institutions, who have made inroads into countries and market segments that until recently were considered impenetrable to outsiders. This, in turn, has led smaller, more specialised firms to court these giants in their quest for foreign direct investment, management talent, product and market expertise, and other resources. Of our survey respondents, 65% cited the need to expand geographical/regional coverage as the growth-related objective most likely to drive M&A and other restructuring, while 58% pointed to the need to expand product/service offerings.

Over 68% of survey respondents foresee their organisations undergoing significant M&A over the next three years, and over 67% say that joint ventures and partnerships will be key to their expansion plans in Asia.

The competitive landscape that has emerged is extraordinary. Indeed, 50% of our survey respondents said that increasing competition from domestic players would be a main external driver of their organisation's M&A and restructuring activity over the next five years, while 46% pointed to increasing competition from foreign players.

2. Organic growth offers advantages, but it is not enough – or even possible – in many markets.

While survey respondents believe (theoretically, at least) that organic growth is the best strategy to meet objectives such as maintaining a focus on core businesses, meeting evolving regulatory requirements and managing risk, it is clear that such growth alone is not enough to meet all needs. Of the options available for growth, the survey findings point to an increasing emphasis on M&A – 38% of respondents said that M&A would be the primary focus of their organisation's restructuring activities over the next five years, with 40% saying that M&A is the best strategy for increasing market share. In reality, the intense competition in Asia, combined with remaining regulatory barriers, means that financial institutions must use multiple channels of investment to achieve their objectives. For example, they may invest in their own branches while making equity investments in local institutions that allow them to enter a specific business line or meet regulatory requirements, while using M&A or a strategic investment to expand distribution or enter new markets. Allianz's investment in the Industrial and Commercial Bank of China (ICBC), China's largest wholesale and retail bank with approximately 18,000 outlets, is a good example. Together with Goldman Sachs and American Express, Allianz is investing US\$3.78bn in ICBC. According to a press release issued by the companies, as part of the deal Allianz will become one of ICBC's most important insurance and investment product providers.

3. Regulatory obstacles are transitory and should not dictate strategy.

While they still factor heavily into all expansion scenarios – indeed, 52% of respondents cited regulations and regulators' attitudes as a main obstacle to increased M&A – regulatory barriers elicit far less fear and loathing than they did as recently as five years ago. Intrepid and calculating, today's financial executive has learned to look beyond a target

country's regulatory environment, to consider long-term political opportunities, demographic and macroeconomic trends, and opportunities to leverage core strengths in new areas and markets. The smart institutions are anticipating situations where regulatory change will be to their advantage and indeed are attempting to drive regulatory thinking. In China, western banks such as HSBC, Royal Bank of Scotland, Bank of America and Goldman Sachs, as well as insurance and financial services groups such as Allianz, have paid billions for stakes in the country's largest banks, without securing operating control. As part of these equity deals, many banks are also negotiating joint ventures in savings, insurance and credit card products.

As market windows begin to open in earnest across Asia, to wait for all regulatory hurdles to be dismantled would be to miss opportunities. Competition for assets will only intensify; as each major deal is announced, the pressure increases on others in the region to make similar gambits. This being the case, it makes little sense to allow regulatory issues to dictate M&A strategy. Financial institutions would do better to identify areas of growth – in terms of service offerings, market segments, geographical specialities and so on – that will be critical to their company's long-term success, and use these as the foundation of a restructuring strategy.

Will regulatory constraints truly relax to the point where these firms can operate freely across borders? This is neither a bet anybody would willingly take, nor really the point. Investors have demonstrated a willingness to engage regulatory authorities over the long haul, either directly or through an influential local partner. Negotiating regulatory hurdles has become just another cost of doing business.

4. Focus must be maintained, and M&A applied to hone competitive edge.

The sheer size of the region's financial services market dictates that any player should possess a keen and objective understanding of its own peculiar strengths, and then capitalise upon them. However, the regulatory climate in some countries, combined with the expansion imperative, can mean that buyers will have to take on operations that do not strictly conform to

their core competencies in order to secure the assets they really want. In the end, a balance between adherence to core competencies and pragmatism must be struck.

Some 35% of respondents said that a main goal of restructuring activity would be to enter new product areas, while 58% cited the expansion of product/service offerings as a key growth-related objective. This probably reflects the fact that in some markets financial services firms cannot offer their complete product range without some form of local alliance.

What about efficiencies? A merger or acquisition can double or triple the size of an existing department or organisation. If this kind of growth brings more revenue into the coffers then celebration may be in order. All too often, however, such growth puts a drag on profits and – in many ways worse – on quality of service.

Survey respondents seem clear on what they would gain from M&A and what efficiencies are to be gained through other forms of restructuring. Forty percent of them specified M&A as the best strategy for increasing market share. At the same time, 67% of them stated that they plan to expand their outsourcing activities in IT infrastructure and applications.

Respondents to our survey showed an acute awareness of the opportunities to outsource IT, accounting and other operations that offer little to no customer-facing attributes. In addition to IT infrastructure and applications, the business functions most often listed as outsourcing candidates were finance and accounting, human resources and training and customer contact. When properly managed, operations such as these can benefit from the scale afforded by outsourcing specialists, improving both margins and service quality. Here again, a true understanding of core competencies is critical to identifying exactly which of these operations can be effectively outsourced.

5. Economies of scale are an important driver of deals but difficult to achieve in Asia.

Without scale and the efficiencies it brings, growth accomplishes little. Indeed, respondents to our survey indicated that maximising operational efficiencies (59%) and achieving economies of scale (58%) were the key cost-related objectives

Economies of scale should be the Holy Grail of M&A, or any form of restructuring.

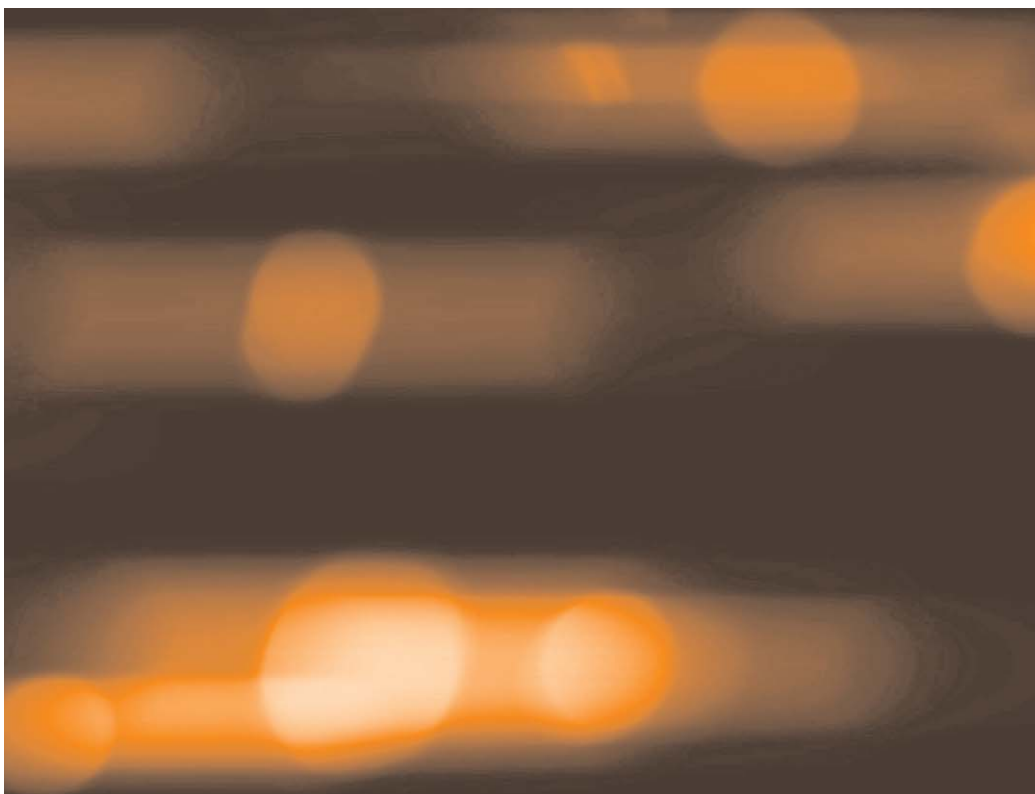
driving M&A and other restructuring. But such economies can be particularly difficult to achieve in Asia, where multi-channel strategies involving a combination of direct investments, equity stakes and joint ventures are often necessary.

Economies of scale require that processes be harmonised and streamlined, non-strategic operations pared back or eliminated completely, and all means of producing more for less be explored. Investors who are restricted from taking significant equity stakes are unlikely to form the type of true partnership that would enable such activities.

Regulations are not the only barriers to achieving economies of scale. Among the obstacles to increased M&A activity cited by respondents were the differences in corporate culture and defensiveness by owners or managers of the acquired company, and by politicians when jobs are threatened, suggesting that moves to consolidate with an eye to improving efficiency will likely meet with stiff resistance, if not outright hostility.

6. Opportunity abounds – but there are risks as well.

With regulatory hurdles still in place, financial institutions embarking on M&A in Asia are in many cases buying an interest in future high growth. But there are risks associated with this strategy. Many of the acquisitions of controlling interests in the region will result in increased revenues but few cost synergies – most acquisitions are into new markets and/or business lines and in practice integration may be difficult because of unforeseen factors such as cultural resistance to retrenchment. Moreover, expected economic growth may be blunted by any number of global shocks, such as spiking oil prices or Avian flu outbreaks. If financial institutions over-estimate growth prospects, they are at risk of overpaying for acquisitions.



Introduction

Falling barriers

In a major attitudinal shift, financial executives have come to view the regulatory challenges of Asia's most promising financial markets less as fortress walls, and more as the inevitable potholes and cobblestones on the road to expansion. The World Trade Organisation (WTO) has had a stabilising effect on national economic policies across the region, though the pace of entry by foreign firms into some markets has caused a degree of market disruption. For an increasingly aggressive community of senior decision-makers, new entry into such tempting markets as China and India is no longer a question of 'if', but of 'when'. Moreover, the 'when' at stake depends far more on factors other than policies or regulations, such as core competencies, corporate culture, and product and market expertise.

Not that such expansion has become any less challenging. On the contrary, financial executives in the region still face myriad obstacles in pursuing their expansion goals. Nonetheless, the

goal of expansion remains, nearly universally across the Asian financial services industry. The drivers – the pursuit of new markets and new customers, the constant drive to improve process efficiencies, and the realisation of economies of scale – are familiar. But the urgency is new. A sense of hunger pervades the industry, which now faces the most significant round of dealmaking ever in the region's history.

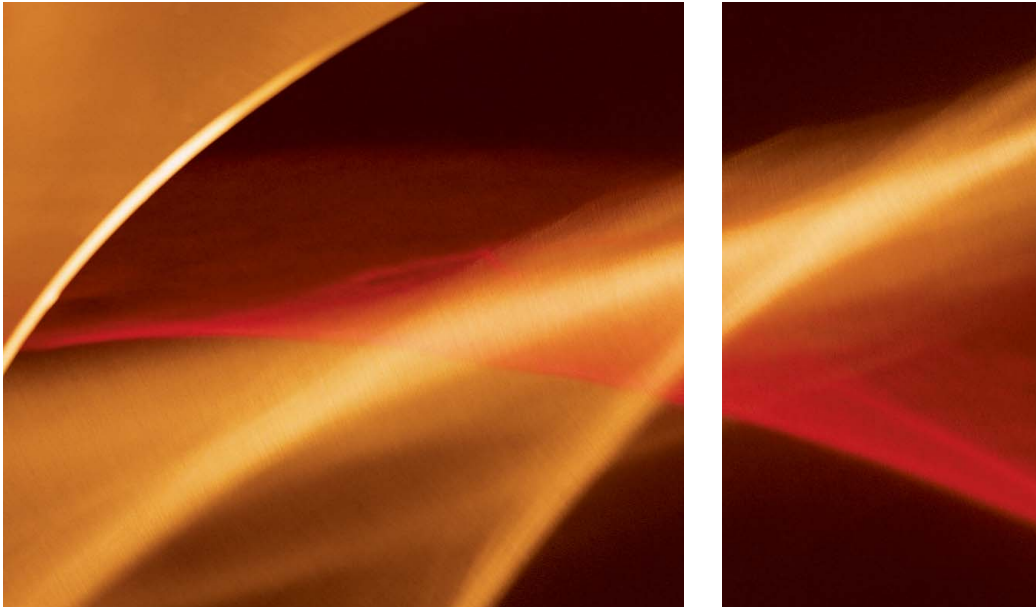
Over 68% of the respondents said that their organisations were poised for significant M&A activity in the next five years. More to the point, nearly 68% said that joint ventures and partnerships were central to their firms' expansion plans in Asia. The watchword among senior executives of financial service providers in Asia Pacific is growth. In today's financial services industry, the threat of competition mingles with a constant thirst for scale, making every player a potential acquisition target, strategic investor, or joint venture partner.

Which category of institutions represents the most significant competitive threat to your organisation over the next five years?

Established overseas financial institutions already competing in your market	37%
Established domestic financial institutions	32%
New foreign entrants	19%
Niche players	6%
New competitors moving from retailing into financial services	3%
Start-up institutions	2%
Other	1%

Source: PricewaterhouseCoopers/Economist Intelligence Unit survey, October/November 2005.

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Do you agree or disagree with the following statements?

	Agree	Disagree
Our organisation will undergo significant M&A over the next five years	68%	32%
Our organisation will seek a foreign strategic investor or a partner in a significant new venture in the next five years	65%	35%
Joint ventures and partnerships will be key to our expansion plans in Asia	67%	33%
Our organisation is already structured in the way we want	43%	57%
Our organisation has a track record of success in M&A and restructuring	60%	40%

Source: PricewaterhouseCoopers/Economist Intelligence Unit survey, October/November 2005.

The assumption of growth as a central tenet of success in the financial services industry deems in turn that all barriers to foreign entry – regulatory, cultural, competitive and so on – can eventually be overcome, whether through sheer resolve or through managerial finesse. Partnerships are clearly seen as one

solution to regulatory barriers. Nearly 65% of the respondents state that their organisations will seek foreign strategic investors or significant partners in the next five years, and an even larger majority – nearly 68% – cite joint ventures and partnerships as key stratagems for Asian regional expansion.

**What will be the main external drivers of your organisation's M&A and restructuring activity over the next five years?
Please choose up to three answers.**

Increasing competition from domestic players (e.g., non-financial services market entrants, horizontal expansion of existing financial services players, price cuts, threats to market share)	50%
Increasing competition from foreign players (e.g., new market entrants)	45%
Increasing customer demands (e.g., desire for higher yielding investments, branded product, open-architecture products)	37%
Regulatory liberalisation (e.g., relaxation of ownership restrictions, convergence opportunities, new competitors)	30%
Growing economy (e.g., better access to capital, more risk-taking)	26%
Mature home market	24%
Regulatory pressure to restructure or merge	11%
Access to leading-edge operating practices (e.g., better governance, technologies)	9%
Increasing shareholder demands (e.g., demand for transparent reporting and risk profile)	8%
None of the above – we do not expect to undergo significant M&A or restructuring in the next five years	6%
Sluggish state of economy (e.g., need to cut costs, cheap acquisition prices)	6%
Higher costs (e.g., cost of capital, property costs, IT costs)	5%
Other	3%
Take advantage of potential currency movements (e.g., renminbi revaluation)	2%

Source: PricewaterhouseCoopers/Economist Intelligence Unit survey, October/November 2005.

Nearly 65% of respondents list the need to expand geographical and regional coverage as a major driver for M&A.

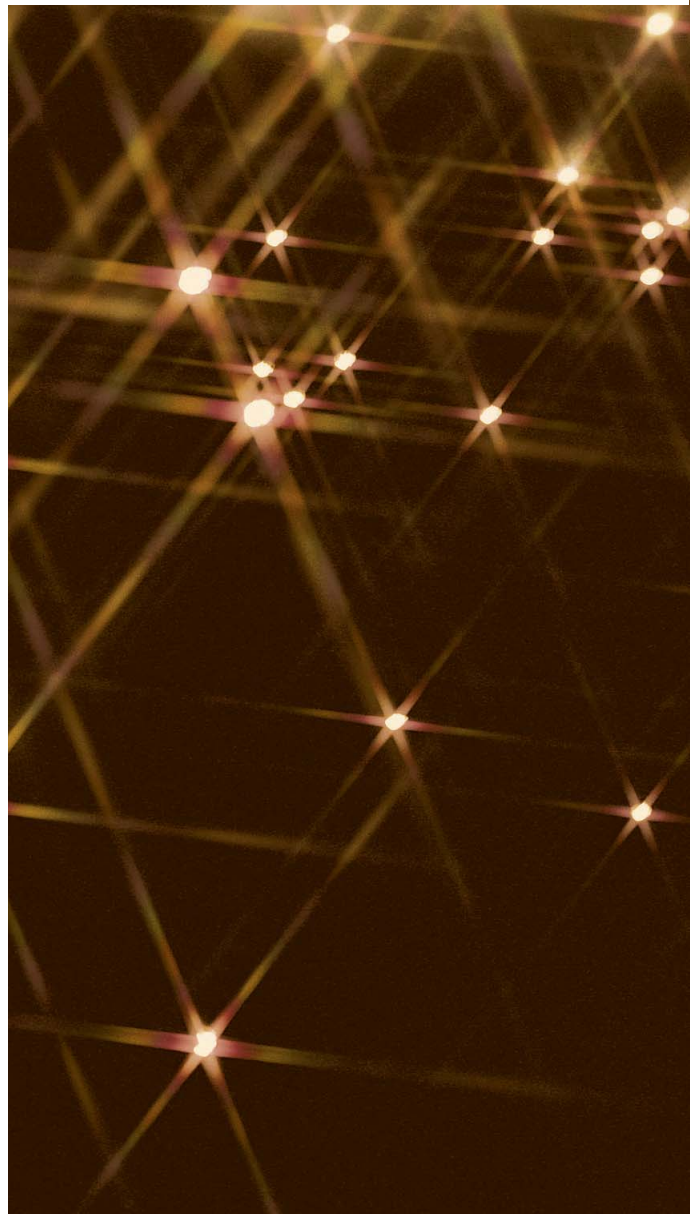
Uneven liberalisation

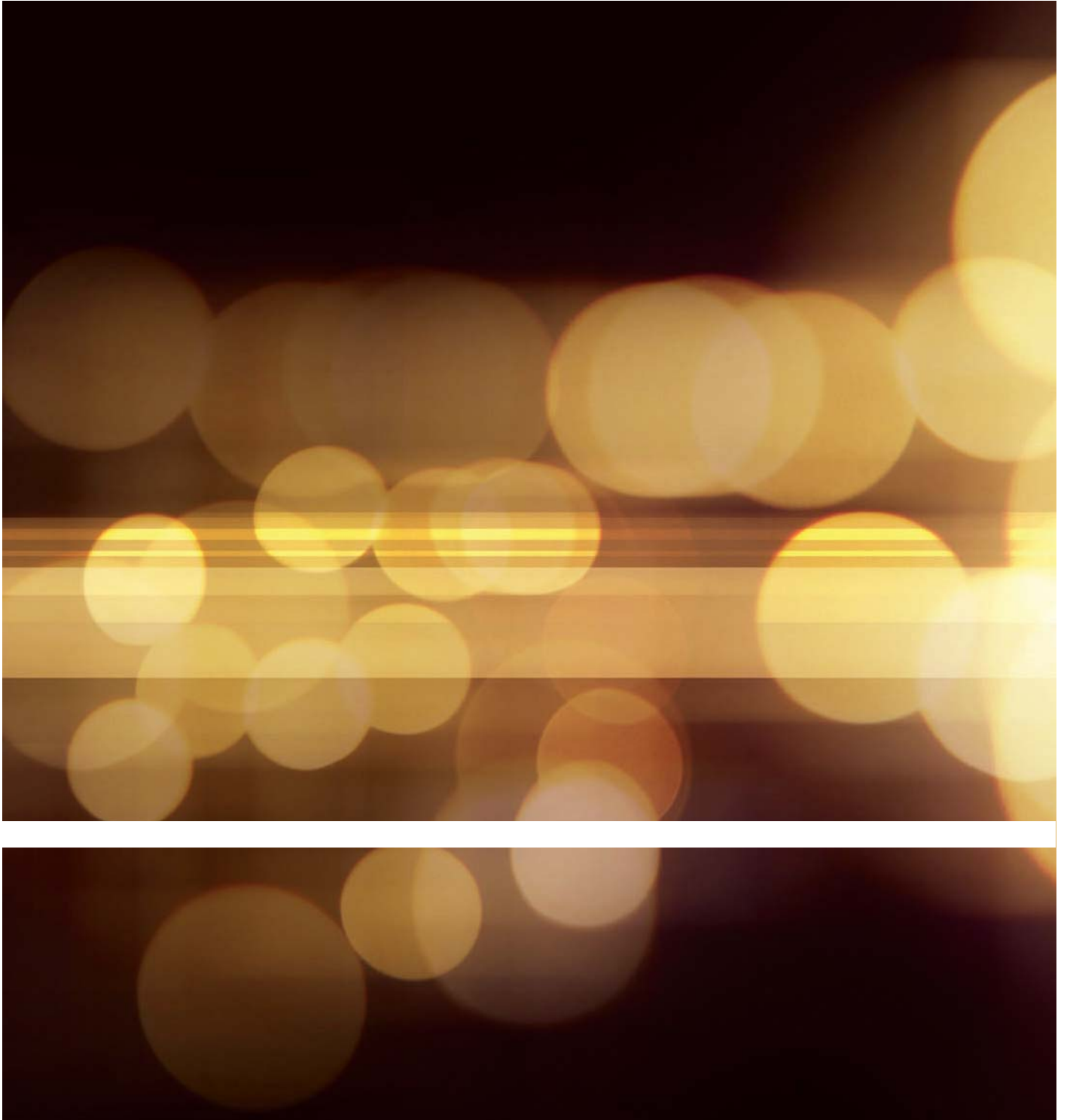
In contrast to years past, the importance of regulatory liberalisation as a driving force for restructuring pales in comparison with that of competition and customer demands.

This new paradigm, the understanding that regulatory regimes are transient and mutable, emboldens senior managers, who have broadened their horizons and now think in regional terms. Nearly 65% of respondents list the need to expand geographical and regional coverage as a major driver for M&A and other restructuring activities.

The depth of market liberalisation in Asia's banking and finance industry varies – sometimes markedly – from country to country. Recently, the most aggressive policy reform has taken place in East Asia. The biggest breakthrough occurred in Japan, where Prime Minister Junichiro Koizumi took the extraordinary gamble of calling a general election after the Upper House of the Diet blocked his plan to reform the country's postal service. In China, the State Administration of Foreign Exchange (SAFE) issued a new policy circular in October 2005, known as *Huifa (2005) No. 75*, clarifying rules and procedures for Chinese companies seeking to raise foreign capital through offshore subsidiaries (though only after ambiguities in earlier policy memos halted M&A activity). Across the strait, Taiwan has also been busy liberalising its financial services sector, although progress has been tempered by political and vested interests. A second round of reforms has set specific targets for consolidation, including a reduction in the number of state-run banks and the number of financial holding companies. The aim is to attract international banks and thereby consolidate an overcrowded banking sector burdened by too many loans gone sour in the wake of real estate speculation.

By contrast, south-east Asia's financial services industry remained relatively quiet in 2005. From an M&A perspective, Indonesia's market was perhaps the most active, with continued consolidation among the country's more than 130 banks, in accordance with the policy set forth by the central bank, Bank Indonesia. The process in Indonesia is massive and multilayered, involving M&A deals between foreign and





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local banks (e.g., OCBC's purchase of an additional 28% of Bank NISP for US\$115m¹), deals between Indonesian banks (e.g., Sari Dasa Karsa's acquisition of 270m shares and 47.9m warrants in Bina Danatama Finance TBK for US\$46m²), and government divestiture (e.g., government sales of shares in Bank Internasional Indonesia, Bank Niaga and Bank Danamon³). In the near term, Indonesia's 'Nusa Dua Declaration', a financial industry endorsement of the consolidation goals of its national bank, Bank Indonesia, is widely expected to lead to streamlining of procedures for entry into the market by foreign firms.

A similar drive to consolidate an over-serviced financial sector is under way in neighbouring Malaysia. Competition between banks, particularly in such retail segments as credit card services and home mortgages, is fierce and the Malaysian central bank, Bank Negara Malaysia, has shown a propensity for facilitating entry by foreign institutions. Bank Negara Malaysia has eased barriers to entry into its market by, among other things, allowing foreign banks to build ATM networks and expand their branch structures. By contrast, the Philippines remains in a state of political crisis, and though there has been domestic consolidation among institutions in Thailand under the government's Financial Sector Reform Master Plan, announced in 2004, the country shows little inclination to open its banking and finance industries to foreign players. Under the reform plan the Bank of Thailand announced that it would not grant any new banking licences to foreign companies for at least two years to give local banks the chance to consolidate their positions. Though liberalisation of the financial services sector is a key US demand in the current negotiations towards a free-trade agreement, under a free trade agreement with Australia Thailand has agreed to open talks on liberalisation of this sector only in three years' time, according to press reports.

There are some liberalisation moves afoot in South Asia as well, albeit less monumental ones. In March 2004, the Indian government had raised the ceiling on foreign direct investment (FDI) in private banking from 49% to 74%, but the Reserve

Bank of India (RBI), the central bank, subsequently limited the equity stake that any one bank can buy in another to 5%. The RBI has since announced that the limit is discretionary, and that it will consider applications to buy more than 5% of a private bank on a case-by-case basis, looking at the standing and reputation of the foreign buyer both in India and globally, as well as the bank's plans for India. Meanwhile, the RBI is moving to give foreign banks wider market access. In the first phase of a two-phase reform plan, to be completed by 2009, the RBI will grant more licences for bank branches in excess of its commitments made at the World Trade Organisation (WTO) and will allow higher levels of foreign investment in banks identified by the RBI for restructuring. It will also allow banks to convert existing branches into wholly-owned subsidiaries. In the second phase, foreign banks may be allowed to buy private Indian banks, subject to approvals and conditions. In either phase the maximum foreign equity envisaged is 74%. In the near term, M&A in this sector in India is expected to remain domestic and outbound only⁴. Such was the case in 2005, when the major deals included the takeover of AMP Sanmar Life Insurance by Reliance Capital⁵ and the merger of Centurion Bank with Bank of Punjab⁶. The only deal of note involving a foreign financial institution was Merrill Lynch's acquisition of an additional 50% holding in its financial services joint venture, DSP Merrill Lynch, taking its stake in the company to 90%⁷.

India has also taken further steps towards market opening in its revised offer under General Agreement on Trade in Services (GATS), made in August 2005. It has proposed allowing 26% foreign equity in areas including asset management and pension fund management, and opening the financial leasing market to foreign firms. Conspicuously gone from India's offer is a previous clause restricting foreign banks' share of all banking assets in India (both on-and off-balance sheet) to 15%. Successive governments have also talked of the possibility of raising the cap on foreign investment in the insurance sector from the current 26%. However, politics have prevented action in this area.

1 PricewaterhouseCoopers' Asia-Pacific M&A Bulletin, mid-year 2005.

2 PricewaterhouseCoopers' Asia-Pacific M&A Bulletin, mid-year 2005.

3 Consolidating Indonesia's Banks, FinanceAsia.com, 7 July 2005.

4 According to PwC's Asia-Pacific M&A Bulletin.

5 Press release from Reliance Cap.

6 Press release from Centurion Bank.

7 Merrill Lynch press release.

A level playing field?

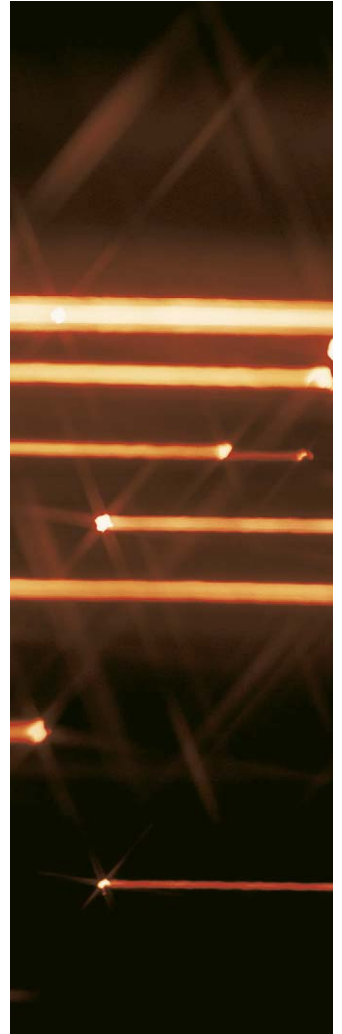
For all of its promise and good intentions, the WTO's framework for foreign direct investment (FDI) in the financial services sector remains largely conceptual, its codification into national law far from standardised. Not surprisingly, local politics have a way of defining (or undermining) the interpretation of WTO guidelines. Similarly, enforcement of the laws that end up on the books can be highly selective.

While China's regulatory authorities cite WTO principles regularly, the law of the land still presents risks and hazards, making deal-making there a matter of some faith, even to this day. Taiwan's M&A outlook is even more clouded, not so much due to regulatory uncertainties as to more deeply entrenched structural problems, and difficulties in making the transition from a system based on political patronage to a more open, market-based economy.

Nor are they likely to change. Like other multilateral agreements, WTO offers a basis for arbitration in case of disagreements, for example, in the arena of international trade. It is perfectly rational for a government administration to look after the cares and concerns of its own citizens – including government employees, labour unions, postal workers, even captains of business conglomerates and state-owned enterprises – before it takes on the ideals of an even playing field.

Indeed, there are some in Asia who see the WTO less as an agent of permanent liberalisation and more as a window of opportunity. 'We may be experiencing a limited window,' says Michael LaBrooy, a regional manager at ANZ Bank. 'I fully expect the impact of WTO accession and the Central Bank decrees to dissipate over time.' At this point, in Mr LaBrooy's view, larger structural issues, such as rationalisation of supply and demand, freer movements of capital and skills, greater harmonisation of regulatory and disclosure requirements, and a decrease in cronyism, take on greater importance in defining market openness throughout the Asia-Pacific region.

Clearly, the WTO means many things to many countries. Its principles are unlikely to take centre stage until more pressing domestic issues have been resolved. Hence it is best not to count on the WTO to drive true reform or restructuring in Asia, or any other region. Domestic goals, rather than multilateral ones, are a truer barometer of the M&A outlook in a target country.



Domestic goals, rather than multilateral ones, are a truer barometer of the M&A outlook in a target country.

What growth-related objectives are likeliest to drive M&A and other restructuring activity at your organisation?
Please choose up to three answers.

Need to expand geographical/regional coverage	64%
Need to expand product/service offerings	58%
Need to expand distribution channels	42%
Need to reposition organisation to exploit regulatory changes	18%
Need to access sources of funding	16%
Need for personnel to acquire certain skills	14%
Need to acquire certain technologies	11%
None of the above – we do not expect to undergo significant M&A or restructuring	6%
Other	2%

Source: PricewaterhouseCoopers/Economist Intelligence Unit survey, October/November 2005.

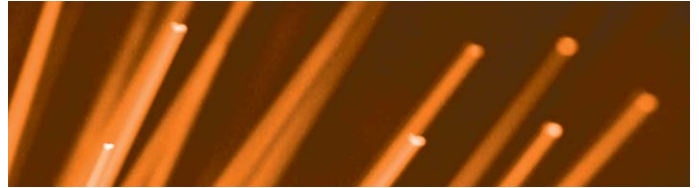
What cost-related objectives are likeliest to drive M&A and other restructuring activity at your organisation?
Please choose up to three answers.

Maximising operational efficiencies	58%
Achieving economies of scale	57%
Minimising cost of capital	32%
Exiting under-performing and non-core businesses	17%
Reducing headcount	15%
Exiting under-performing and non-core markets	11%
Reducing IT costs	7%
None of the above – we do not expect to undergo significant M&A or restructuring	7%
Other	2%

Source: PricewaterhouseCoopers/Economist Intelligence Unit survey, October/November 2005.

Financial executives are not careering blindly into M&A deals. On the contrary, respondents to our survey were remarkably consistent when it came to identifying the primary obstacles to success. Well over half of the respondents named regulations and regulators' attitudes as an obstacle. This finding, coupled with the relatively low ranking of regulatory environments as a driver for M&A, indicates that, while senior executives have a healthy respect for them, they refuse to let regulatory factors dictate their strategies.

While most commonly cited, regulatory impediments were not the only barrier. Corporate culture and defensiveness among owners or managers both ranked highly among financial executives asked to identify obstacles to increased M&A activities. Other obstacles selected by these executives include management goals, limited history of M&A deal-making, and cross-shareholdings, all of which add risk and cost to these already weighty transactions.



What are the main obstacles to increased M&A activity in the financial services sector in your country or target countries? Please choose up to three answers.

Regulations and regulators' attitudes	52%
Corporate culture – the potential for corporate culture clashes in merged organisations	45%
Defensiveness – owners or managers will resort to defence mechanisms to halt M&A activity	34%
Management goals – managers do not focus on increasing shareholder value	26%
Familiarity – limited history of M&A in my country	24%
Cross-shareholdings – friendly shareholders will protect managers	16%
Tax issues	16%
Shareholder opposition – protests from employees and business partners	16%
Public sentiment – the public opposes M&A	7%

Source: PricewaterhouseCoopers/Economist Intelligence Unit survey, October/November 2005.

While most commonly cited, regulatory impediments were not the only barrier.

Cut the deal, then deal with the cuts

While government administrations apply M&A to achieve such strategic goals as divesting public monies from commercial entities, consolidating fragmented industries and boosting national competitiveness, corporations by and large apply M&A as an agent of growth, and ultimately to maximise shareholder value. The trend towards easing barriers to entry has provided financial firms greater latitude to pursue growth commensurate with their avowed strengths and strategies, largely by leveraging their competitive advantages in new geographic markets. Such growth necessarily places a premium on operational efficiency, in order to realise a deal's return on investment and to justify the merger or acquisition in the first place. But the strategic nature of these deals, coupled with the narrow windows of opportunity in which they are often presented, compel companies to cut deals first, and to work through the painstaking organisational adjustments only later.

'I've had some business units grow their headcount threefold in the last year,' laments a Hong Kong-based vice president of a major European retail bank.

Examples of aggressive M&A strategies abound in Asia's financial services market. **Britain's Standard Chartered** invested US\$3.3bn for **Korea First Bank** in January 2005, and later in the year paid US\$123m for a 20% stake in **China's Bohai Bank**⁸. UK-based insurer **Aviva** announced in November 2005 that it plans to double its business in Asia in three years with an investment of US\$345m. Richard Harvey⁹ said that, the company will expand its operations in India, China, Hong Kong and Singapore. In China, Aviva runs an equally-owned life insurance venture with China National Cereals, Oils & Foodstuffs Import & Export Corp. It is considering offering fund management and pension products.

The value proposition in these cases is simple and straightforward: leverage strong capital assets and know how to enter countries where markets remain under-served.

While growth by acquisition can accelerate both time-to-market and the establishment of critical mass, the back-end process of integration can add significant costs, says Takamitsu Araki, head of the corporate advisory division of Shinsei Bank, itself the product of the acquisition of Long-Term Credit Bank of Japan by Ripplewood Holdings. Human resources integration is particularly important. Where the merged entities originate in different countries, cultural issues can further complicate integration. 'There are two aspects to culture: ethnic culture and corporate culture,' notes Mr Araki.

Given the risks involved, it is no accident that the players in this game tend to be the well-heeled giants. Without the most rigorous due diligence process investors run the risk of failing to uncover serious problems that may emerge well after a deal's consummation. A solid understanding of these risks is critical to the long-term success of an M&A deal. Unknowns lurk long after deals close. Such was the case, for example, when unions shut down the sale of the state-owned **Taiwan Business Bank** in mid-September 2005¹⁰, those that had shown interest included local financial groups (E. Sun Financial Holding, Mega Financial Holding and Fubon Financial Holding). At least suitors got a glimpse of the true nature of their intended partner before tying the knot. Others may not get off so easily.

⁸ Both according to press releases from Standard Chartered.

⁹ According to press interviews with Aviva's chief executive.

¹⁰ According to Asia Private Equity Review.

Opportunities and strategies

When it comes to market segments ripe with M&A opportunity, the field is wide open – another consequence of falling barriers. When asked in which domestic sectors financial buyers are likely to be most successful in making an acquisition, the most popular answer was retail banks, chosen by 19.23% of respondents, followed closely by outsourcing service providers (17.69%) and then by niche markets and securities companies. No particular growth segment stands out from any other.

Although respondents were split fairly evenly between those who believe their firms are likely to seek overseas strategic investors and those who believe their firms are unlikely to do so (with a larger group stating that such moves were ‘possible’), these same respondents coalesced around three advantages

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

Retail banks	20%
Outsourcing service providers	16%
Niche markets (e.g., distribution, intermediaries)	14%
Securities companies	13%
Wholesale banks	9%
Mutual fund managers	8%
Life insurers	6%
General insurers	5%
None of the above – I do not foresee opportunities for financial buyers in my country	9%

Source: PricewaterhouseCoopers/Economist Intelligence Unit survey, October/November 2005.

that such an investment might bestow: a regional network to help with international expansion (cited by 58%), new management expertise (51%) and an influx of new capital (44%). Of the three, the potential for international expansion is noteworthy. A foreign investor offering such an opportunity to a local partner from the outset would probably find the subsequent relationship more mutually fulfilling and long-lasting.

How likely is it that your organisation will seek an overseas strategic investor in your business or in a significant new venture over the next five years?

Possible	37%
Very likely	28%
Unlikely	28%
Definitely not	8%

Source: PricewaterhouseCoopers/Economist Intelligence Unit survey, October/November 2005.

If it is likely or possible that you will seek an overseas strategic investor, what do you hope to gain from such an investment? Please select all that apply.

Regional network to help you expand outside your country	58%
Management expertise	51%
New capital	43%
New products	36%
Brands	28%
Risk management practices	23%
IT and operational systems	20%

Source: PricewaterhouseCoopers/Economist Intelligence Unit survey, October/November 2005.

A foreign investor would probably find the subsequent relationship more mutually fulfilling and long-lasting.

Respondents also answered with great consistency when asked which strategies were most effective in achieving specific corporate goals. A significant majority of Asia-based financial services executives perceive M&A as the best means to increase market share, outsourcing as the best means to reduce costs, and organic growth as the best means of meeting targets. Not surprisingly, organic growth is also perceived as the best means to focus on core businesses.

In fact, organic growth is the strategy of choice when pursuing such goals as increasing shareholder value, meeting evolving regulatory requirements, accessing new talent, improving capital efficiency and managing risk profile. The consensus is striking.

Yet if organic growth constitutes the strategy of choice for achieving so many corporate goals, why the forecasts for rapid growth in M&A? There are three likely reasons. First, in certain

Which of your organisation's goals are best achieved through which of the following strategies? Please select one strategy only for each goal.

	Organic growth	M&A	Divestiture	Joint ventures	Alliances	Outsourcing
Meeting growth targets	49%	32%	2%	10%	8%	0%
Reducing costs	20%	10%	10%	6%	0%	54%
Increasing market share	34%	41%	3%	8%	14%	0%
Focusing on core businesses	63%	11%	15%	3%	2%	7%
Increasing shareholder value	39%	32%	6%	11%	10%	2%
Meeting evolving regulatory requirements	54%	11%	7%	9%	13%	6%
Accessing new talent	36%	29%	4%	10%	15%	6%
Improving capital efficiency	33%	30%	13%	11%	4%	9%
Managing risk profile	52%	14%	10%	15%	9%	1%
Improving customer service	47%	14%	4%	6%	19%	10%

Source: PricewaterhouseCoopers/Economist Intelligence Unit survey, October/November 2005.

markets (notable exceptions are China and India, where restrictions still prevent mass expansion), M&A is viewed as the most effective way to gain market share. Such market share is vital to the long-term viability of a financial services firm, as well as to the potential to increase customer and shareholder value. Second, in the feeding frenzy that characterises the current state of Asia's financial services industry, organic growth may, quite simply, not suffice to ward off potential takeovers, or even to ratchet up bargaining power. The industry's tumult is tangible, and financial executives now sustain serious pressure to perform. Under such conditions, M&A deals offer high visibility and the potential for accelerated growth. Third, and probably most importantly, is that remaining regulatory barriers such as restrictions on foreign equity make the use of a single strategy for growth impossible. Indeed, much of the M&A activity in China's financial services sector has been aimed at strategic positioning, learning about the market and leveraging skills across established distribution networks.

The fact that M&A is seen as important in accessing new talent is no surprise given the fierce competition for management talent in most markets in the region. However, the significance respondents attributed to improving capital efficiency is enlightening and reveals the relative capital inefficiency that Asia's fragmented and tightly regulated markets have created.

M&A deals do not, however, offer any guarantees for success.

Again, financial services executives cite an array of barriers to M&A dealmaking, including lack of attractive targets (52.71%), relatively high pricing of M&A deals (31.78%), and uncertain regulatory requirements (20.93%). But while today's financial services executives are risk-aware, they are hardly risk-averse.

The race to make deals in China is proof of the appetite for risk. Its regulatory authorities have sent mixed signals about their openness to foreign investment, but foreign investors

have recently rushed in. There remains great room for improvement – indeed, foreign banks worry that despite continuing relaxation of restrictions under the WTO agreement, new and varied regulations are slowing the opening up process. But all available signs point towards continued liberalisation in China's market. Regardless of when further market-opening measures might take place, there is obviously a window of opportunity open now.

From your organisation's point of view, what are the principal barriers to undertaking M&A deals? Please choose up to three options.

Lack of attractive targets	52%
Cost of M&A deals	32%
Uncertain regulatory requirements	21%
Resource constraints within management team	20%
Lack of capital	18%
Potential exposure to reputational risk	18%
Poor shareholder value	17%
Lack of information on target organisation	13%
Competition restrictions	10%
Organisation unable to accommodate further change	9%
Compliance issues	9%
Lack of market understanding of M&A deals	9%
Poor track record of M&A success	6%
Other	1%

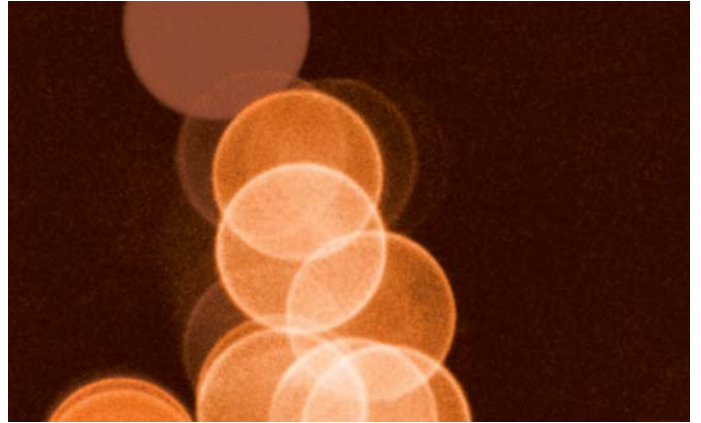
Source: PricewaterhouseCoopers/Economist Intelligence Unit survey, October/November 2005.

M&A deals offer high visibility and the potential for accelerated growth.

In which countries is your organisation likely to undertake M&A activity?

China	52%
India	37%
Japan	20%
Europe	18%
Hong Kong	16%
Australia	15%
North America	14%
Singapore	13%
Korea	13%
Indonesia	13%
Malaysia	12%
Taiwan	9%
Not applicable	8%
Vietnam	8%
Thailand	7%
New Zealand	7%
Philippines	3%
Other	2%

Source: PricewaterhouseCoopers/Economist Intelligence Unit survey, October/November 2005.



China: Regulatory stabilisation

2005 and early 2006 saw a flurry of M&A announcements involving China's financial services industry. These included **HSBC's** investment of US\$1.04bn for an additional 9.9% in Ping An, China's second largest life insurance company, taking its stake to 19.9%, as well as an investment of US\$430m to maintain its 19.9% stake in **Bank of Communications (BoCom)**, which launched an initial public offering in Hong Kong in June¹¹. In addition, **Standard Chartered** announced its plan to invest US\$123m in China's **Bohai Bank**, **ANZ** bought 19.9% of Tianjin City Commercial Bank for US\$120m and **Allianz, Goldman Sachs** and **American Express** announced they would invest US\$3.78bn in **Industrial and Commercial Bank of China**¹².

The announcements signal a resolution of the regulatory changes issued by China's State Administration of Foreign Exchange (SAFE) in January and April. These changes – intended to stem the practice among state-owned companies of forming foreign subsidiaries and then selling off shares in these subsidiaries – brought M&A activity in the sector to a standstill.

'These are quite technical areas, but the overriding effect (of the initial changes) was that potential investors were uncertain whether they could still use the deal structures they had been planning,' notes Graham Matthews, transactions partner at PricewaterhouseCoopers Shanghai.

SAFE has since made clear its plans to relax these restrictions. Though industry insiders debate the exact shape these amendments will take, high confidence levels have returned, and so has the deal-making. With this confidence in place, China's highly fragmented financial services industry sits poised for consolidation.

So where do the opportunities lie? 'Many of the deals we've seen recently fall into two categories,' observes Arthur Kroeber, Beijing-based managing editor of the China Economic Quarterly. 'The old hands – the ones who've already established a name for themselves in China – have been taking significant stakes in smaller, more specialised banks. The newcomers, by contrast, have been taking minority stakes in the larger Chinese institutions.' In a market as immense and complex as China, opportunities clearly abound, in both niche and mainstream markets.

¹¹ HSBC Interim results 2005.

¹² All sourced from corporate press releases.

Bigger is not always better. Many an empire has crumbled as a result of poor focus, foresight and communication.

Coming out on top

As the survey results lay bare, financial services executives in Asia today face growing pressure to satisfy shareholders, please customers, and capitalise on their successes. With falling barriers, the threat of new competition continues to escalate, and prudent executives have no choice but to maintain a constant surveillance of new market trends and growth opportunities, all the while trying to maintain a consistent corporate culture across disparate ethnic cultures and incorporating any acquisitions already made. **According to our survey, in order to succeed financial services executives will need to do the following:**

Be prepared for larger, more aggressive M&A, joint venture and partnership deals.

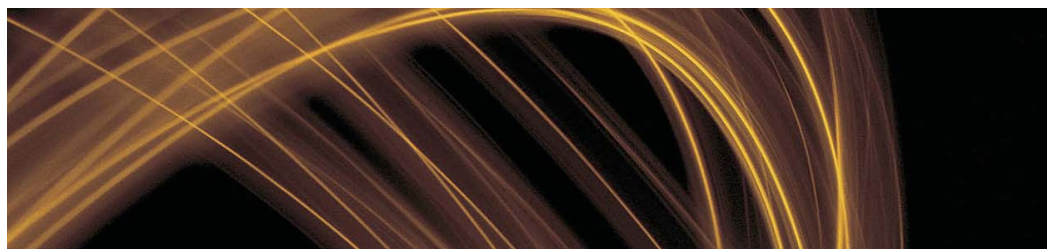
Consolidation and aggregation have become facts of life, and senior executives are bracing themselves for continued M&A, joint venture and partnership deals over the next five years. Over 68% of survey respondents foresee their organisations undergoing significant M&A over the next three years, and over 67% say that joint ventures and partnerships will be key to their expansion plans in Asia. To remain competitive (i.e., to maintain a high quality of service for customers, as well as to maximise shareholder value), financial services executives must place a high priority on knowing their fellow market players – the institution they compete against today could well become their strategic partner or even new owner tomorrow.

Now more than ever, financial service providers have an obligation to foresee the risks and opportunities associated with different restructuring scenarios. Those who succeed will be the ones that enumerate all feasible scenarios, identify the potential outcomes and quantify their financial impact, in an effort to serve all constituents.

Know their company's strengths, and apply M&A to hone competitive edge.

Bigger is not always better. Many an empire has crumbled as a result of poor focus, foresight and communication. With all of its intricacies and niche-market opportunities, it is imperative that financial service providers stick to their strengths. The firms whose leaders possess a profound understanding of their own strengths and weaknesses, and can thus build on these strengths using M&A and other forms of restructuring, will be those that thrive.

Over 40% of survey respondents specified M&A as the best strategy for increasing market share, whilst over 67% stated that their organisations expect to expand their outsourcing activities in IT infrastructure and applications. They understand that a company's core competencies are less about products, or even about market segments, and more about the complex amalgam of branding, goodwill and process that allows them to serve their customers at every stage of the business cycle.



Outsource back-office and other non-strategic operations.

Respondents to our survey showed an acute awareness of the opportunities to outsource IT, accounting and other operations that offer little to no customer-facing attributes. In addition to IT infrastructure and applications, the business functions most often listed as outsourcing candidates were finance and accounting, human resources and training, and customer contact. When properly managed, operations such as these can benefit from the scale afforded by outsourcing specialists, improving both margins and service quality. But here again, a true understanding of core competencies is critical to identifying exactly which of these operations can effectively be outsourced.

Pursue M&A strategies despite regulatory uncertainty, not because of it.

Now that globalisation has attained an aura of inevitability, it makes little sense to allow regulatory issues to dictate M&A strategy. Financial institutions would do better to identify areas of growth – in terms of service offerings, market segments, geographical specialties and so on – that will be critical to their company's long-term success, and use these as the foundation of a restructuring strategy.

As the survey makes clear, senior executives increasingly view regulatory and policy regimes as mutable, and therefore transitory. The question is no longer whether or not to enter, but how, and – albeit to a lesser and lesser extent – when. Regulatory barriers to entry persist, and can pose thorny obstacles. But they are only obstacles, not fortresses.

Stay vigilant for operational efficiencies and opportunities for scale.

To expand a business without regard for economies of scale is somewhat like lashing together a fleet of tugboats to serve as a steamship; the increase in drag will outweigh any advantages the greater mass might bestow. Through every stage of restructuring, from feasibility studies to negotiations and implementation, there is a certain virtue in ruthlessness wherever operations can be combined and consolidated. Indeed, not to seek out every opportunity would be to deny the full potential of restructuring.

As with so many of the findings of this survey, though the goal may be elementary, the pursuit of it, quite often, is not. Among the obstacles to increased M&A activity cited by respondents were differences in corporate culture and defensiveness by owners or managers of the acquired company. Indeed, any move to consolidate with an eye to improving efficiency will likely meet with stiff resistance, if not outright hostility. Nevertheless, where the ultimate goal is to maximise value for both customers and shareholders, the achievement of scale should be a central consideration in every business deliberation.

Ensure proper risk management is in place.

With regulatory hurdles still in place, financial institutions embarking on M&A in Asia are in many cases buying an interest in future high growth. But there are risks associated with this strategy. Many of the acquisitions of controlling interests in the region will result in increased revenues but few cost synergies – most acquisitions are into new markets and/or business lines and in practice integration may be difficult because of unforeseen factors such as cultural resistance to retrenchment. Moreover, expected economic growth may be blunted by any number of global shocks, such as spiking oil prices or Avian flu outbreaks. If financial institutions over-estimate growth prospects, they are at risk of overpaying for acquisitions.

Appendix

Survey results

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

1. In which country are you personally located?	Singapore	19%
	Hong Kong	14%
	Australia	13%
	China	13%
	India	10%
	Japan	9%
	Indonesia	5%
	Malaysia	3%
	Thailand	3%
	Korea	2%
	New Zealand	2%
	Philippines	1%
	Vietnam	1%
	Taiwan	0%
Other	1%	
2. In which region is your organisation headquartered?	Asia	49%
	Western Europe	20%
	North America	15%
	Australia/New Zealand	13%
	Middle East	2%
	Eastern Europe	1%
	Africa	0%
	Latin America	0%
3. What is your primary area of responsibility?	Senior management	26%
	Finance	18%
	M&A/business development	14%
	Strategy/planning	11%
	Marketing and communications	7%
	Treasury	5%
	Operations	4%
	Risk management	3%
	Compliance	2%
	Internal audit	2%
	Other	7%

4. What industry sector of financial services do you personally focus on?	Investment banking	30%	
	Investment management	26%	
	Corporate banking	21%	
	Retail banking	17%	
	Private equity	16%	
	Capital markets	15%	
	Outsourcing services provision	7%	
	Life insurance	6%	
	Reinsurance	6%	
	Private banking	6%	
	Non-life insurance	5%	
	Other	5%	
	5. What are your organisation's global annual revenues in US dollars?	\$500m or less	34%
\$500m to \$1bn		9%	
\$1bn to \$5bn		16%	
\$5bn to \$10bn		9%	
\$10bn or more		31%	
6. How many mergers and acquisitions has your company conducted in Asia Pacific over the last three years?	0	27%	
	1-2	39%	
	3-5	19%	
	6-9	4%	
	10-25	7%	
	More than 25	5%	
	7. Do you agree or disagree with the following statements?		Agree
Our organisation will undergo significant M&A over the next five years		68%	32%
Our organisation will seek a foreign strategic investor or a partner in a significant new venture in the next five years		65%	35%
Joint ventures and partnerships will be key to our expansion plans in Asia		67%	33%
Our organisation is already structured in the way we want		43%	57%
Our organisation has a track record of success in M&A and restructuring	60%	40%	

8. What will be the main external drivers of your organisation's M&A and restructuring activity over the next five years?	Increasing competition from domestic players (e.g., non-financial services market entrants, horizontal expansion of existing financial service players, price cuts, threats to market share)	50%
	Increasing competition from foreign players (e.g., new market entrants)	45%
	Increasing customer demands (e.g., desire for higher-yielding investments, branded product, open-architecture products)	37%
	Regulatory liberalisation (e.g., relaxation of ownership restrictions, convergence opportunities, new competitors)	30%
	Growing economy (e.g., better access to capital, more risk-taking)	26%
	Mature home market	24%
	Regulatory pressure to restructure or merge	11%
	Access to leading-edge operating practices (e.g., better governance, technologies)	9%
	Increasing shareholder demands (e.g., demand for transparent reporting and risk profile)	8%
	None of the above – we do not expect to undergo significant M&A or restructuring in the next five years	6%
	Sluggish state of economy (e.g., need to cut costs, cheap acquisition prices)	6%
	Higher costs (eg, cost of capital, property costs, IT costs)	5%
	Take advantage of potential currency movements (eg, renminbi revaluation)	2%
	Other	3%
9. What will be the main goals of your organisation's M&A restructuring activity over the next five years?	Entering new geographic markets	48%
	Increasing market share	45%
	Increasing shareholder value	39%
	Entering new product markets	36%
	Improving customer service	18%
	Securing distribution	17%
	Reducing costs	13%
	Improving capital efficiency	9%
	Managing the organisation's risk profile	9%
	Focusing on core businesses	8%
	None of the above – we do not expect to undergo significant M&A or restructuring in the next five years	6%
	Accessing new talent	5%
	Meeting evolving regulatory requirements	5%
	Other	2%

10. What growth-related objectives are likeliest to drive M&A and other restructuring activity at your organisation?	Need to expand geographic/regional coverage	64%
	Need to expand product/service offerings	58%
	Need to expand distribution channels	42%
	Need to reposition organisation to exploit regulatory changes	18%
	Need to access sources of funding	16%
	Need for personnel to acquire certain skills	14%
	Need to acquire certain technologies	11%
	None of the above – we do not expect to undergo significant M&A or restructuring	6%
Other	2%	
11. What cost-related objectives are likeliest to drive M&A and other restructuring activity at your organisation?	Maximising operational efficiencies (e.g., centralised back office)	58%
	Achieving economies of scale	57%
	Minimising cost of capital	32%
	Exiting under-performing and non-core businesses	17%
	Reducing headcount	15%
	Exiting under-performing and non-core markets	11%
	Reducing IT costs	7%
	None of the above – we do not expect to undergo significant M&A or restructuring	7%
Other	2%	
12. Please state whether you agree or disagree with the following statement:	‘The increasing compliance burden and prudential/capital requirements for financial institutions will encourage them to exit existing areas of business rather than enter new ones.’	
	Agree	49%
	Disagree	51%
13. What are the main obstacles to increased M&A activity in the financial services sector in your country or target countries.	Regulations and regulators attitudes	52%
	Corporate culture – the potential for corporate culture clashes in merged organisations	45%
	Defensiveness – owners or managers will resort to defence mechanisms to halt M&A activity	34%
	Management goals – managers do not focus on increasing shareholder value	26%
	Familiarity – limited history of M&A in my country	24%
	Cross-shareholdings – friendly shareholders will protect managers	16%
	Stakeholder opposition – protests from employees and business partners	16%
	Tax issues	16%
	Public sentiment – the public opposes M&A	7%

14. What is most important for a successful outcome of the merger process?	Financial strategy	40%
	Communication strategy	32%
	Human resources strategy	24%
	Other	4%
15. In which sectors is a financial buyer (i.e., a private equity buyer or investment fund) likely to be most successful in acquiring a domestic company in your country?	Retail banks	20%
	Outsourcing service providers	16%
	Niche markets (e.g., distribution, intermediaries)	14%
	Securities companies	13%
	None of the above – I do not foresee opportunities for financial buyers in my country	9%
	Wholesale banks	9%
	Mutual fund managers	8%
	Life insurers	6%
	General insurers	5%
	Reinsurers	0%
16. Which of the following strategies will be the primary focus of your organisation's restructuring activities over the next five years?	M&A	39%
	Alliances	24%
	Joint ventures	17%
	None of the above – we do not expect to undergo significant M&A or restructuring over the next five years	10%
	Outsourcing	8%
	Divestitures	2%
17. How likely is it that your organisation will seek an overseas strategic investor in your business or in a significant new venture over the next five years?	Very likely	28%
	Possible	37%
	Unlikely	28%
	Definitely not	8%

18. If it is likely or possible that you will seek an overseas strategic investor, what do you hope to gain from such investment?

Regional network to help you expand outside your country	58%
Management expertise	51%
New capital	43%
New products	36%
Brands	28%
Risk management practices	23%
IT and operational systems	20%

19. What would you expect a strategic investor to require in exchange for investment?

Significant equity stake (more than 20%)	70%
Board participation	65%
Senior management positions	40%
Membership on functional committees (e.g., audit committee)	36%
Veto rights over major decisions (e.g., capital raising, M&A by the joint venture)	33%
Operational control	23%

20. When considering potential investors or joint venture partners, what attributes do you consider to be most important?

	1	2	3	4	5
Collaborative nature	38%	35%	17%	6%	5%
Strong management	46%	31%	15%	5%	2%
Reputation for good corporate governance	40%	42%	10%	4%	5%
Performance-oriented culture	42%	30%	20%	4%	4%
Large size	7%	28%	34%	22%	9%
Knowledge of local market	31%	31%	21%	13%	4%
Respect for local culture	24%	37%	27%	12%	0%

21. Which of your organisation's goals are best achieved through which of the following strategies?

	Organic growth	M&A	Divestiture	Joint ventures	Alliances	Outsourcing
Meeting growth targets	49%	32%	2%	10%	8%	0%
Reducing costs	20%	10%	10%	6%	0%	54%
Increasing market share	34%	41%	3%	8%	14%	0%
Focusing on core businesses	63%	11%	15%	3%	2%	7%
Increasing shareholder value	39%	32%	6%	11%	10%	2%
Meeting evolving regulatory requirements	54%	11%	7%	9%	13%	6%
Accessing new talent	36%	29%	4%	10%	15%	6%
Improving capital efficiency	33%	30%	13%	11%	4%	9%
Managing risk profile	52%	14%	10%	15%	9%	1%
Improving customer service	47%	14%	4%	6%	19%	10%

22. Please indicate the geographic distribution of your organisation's deal-making and restructuring activity over the next five years. In which countries is your organisation likely to undertake M&A activity?

China	52%
India	37%
Japan	20%
Hong Kong	16%
Europe	18%
Australia	15%
North America	14%
Indonesia	13%
Singapore	13%
Korea	13%
Malaysia	12%
Taiwan	9%
Not applicable	8%
Vietnam	8%
New Zealand	7%
Thailand	7%
Philippines	3%
Other	2%

22a. In which countries is your organisation likely to undergo sale/divestiture?

Not applicable	49%
China	21%
India	10%
North America	10%
Australia	9%
Hong Kong	9%
Singapore	9%
Europe	8%
Indonesia	8%
Japan	6%
Korea	5%
Malaysia	5%
Taiwan	5%
New Zealand	3%
Philippines	2%
Thailand	2%
Vietnam	2%
Other	2%

22b In which countries is your organisation likely to set up outsourcing arrangements?

India	39%
China	32%
Not applicable	20%
Singapore	11%
Europe	9%
Hong Kong	9%
Japan	9%
Malaysia	9%
North America	8%
Australia	7%
Taiwan	7%
Indonesia	6%
New Zealand	5%
Philippines	3%
Korea	2%
Thailand	2%
Vietnam	1%
Other	1%

23. In which of the following business functions does your organisation expect to expand its outsourcing activities?

IT infrastructure and applications	68%
Finance and accounting functions	31%
Human resources and training	27%
Customer contact centres	24%
None of the above – we do not expect to expand outsourcing	13%
Procurement	12%
Supply-chain management	5%
Other	1%

24. Which category of institutions represents the most significant competitive threat to your organisation over the next five years?

Established overseas financial institutions already competing in your market	37%
Established domestic financial institutions	32%
New foreign entrants	19%
Niche players	6%
New competitors moving from retailing into financial services	3%
Start-up institutions	2%
Other	1%

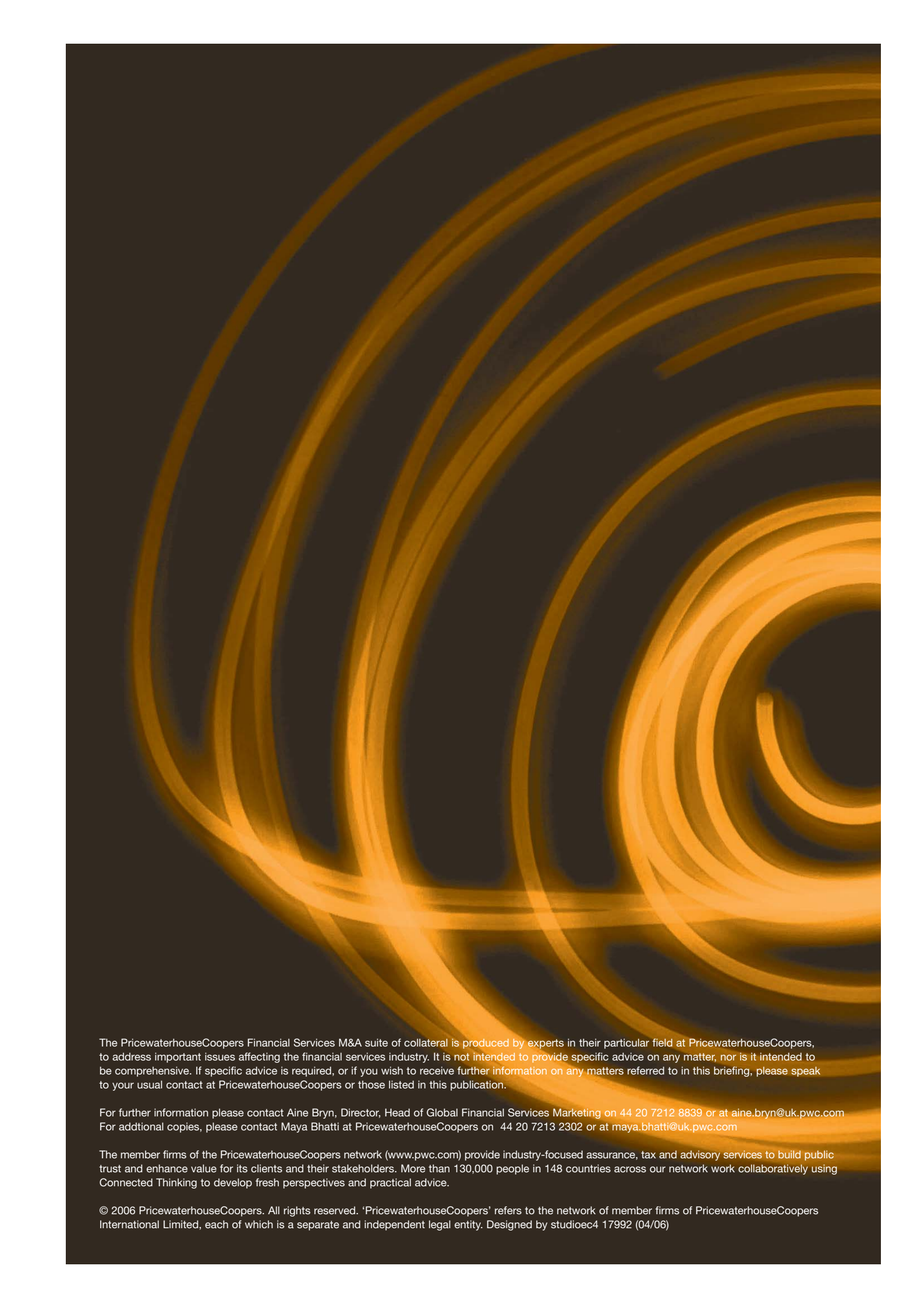
25. From your organisation's point of view, what are the principal barriers to undertaking M&A deals?

Lack of attractive targets	52%
Cost of M&A deals	32%
Uncertain regulatory requirements	21%
Resource constraints within management team	20%
Lack of capital	18%
Potential exposure to reputational risk	18%
Poor shareholder value	17%
Lack of information on target organisation	13%
Competition restrictions	10%
Compliance issues	9%
Lack of market understanding of M&A deals	9%
Organisation unable to accommodate further change	9%
Poor track record of M&A success	6%
Other	1%

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