Financial Services

# A new playing field*

## Report and survey results: The outlook for FS M&A in Asia

June 2009

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# Executive summary

*How times change. One year ago, when we conducted our 2008 survey of M&A activity in Asia's financial services industry, respondents were relatively bullish. "Asian economies appear to be driven by a different dynamic," we stated, drawing comparisons with dire data from Europe and North America.*

Much has happened since then, and respondents to this year's survey are markedly more cautious. The financial crisis and resulting economic downturn are forcing institutions across Asia to adapt their business models to a slower-growth, lower-margin future, with the more prudent institutions preparing for a long wait before growth resumes to the heady days of recent years. The hope is that patience will be rewarded. As one executive puts it, "financial institutions that have emerged with some degree of grace [from the financial crisis] are taking a larger slice of available market share". In other words, while markets are shrinking in size, so is the competition.

In as much as deal-flow is a proxy for growth and dynamism, there has been a significant downturn – the number of M&A announced transactions in financial services in Asia-Pacific in 2008 totalled 366, down from 547 in 2007. The value of deals fell from US$120bn to $100bn.

The decline was sharpest in the securities and capital markets sector, where deal value fell from US$40.3bn to US$8.8bn. In contrast, the value of banking deals increased from US$69.7bn to US$74bn, boosted by a few large transactions. There was a significant increase in transaction values in Australia and Indonesia in particular. In contrast, the value of transactions in Japan, South Korea and Malaysia declined markedly.

The sectoral contrast in deal activity reflects the fact that underlying fundamentals remain strong. Just under half (48%) of our survey respondents said they are actively looking for expansion opportunities. But more institutions (51%) plan to invest in their existing businesses than expect to conduct M&A (42%). There seems to be no sense of urgency to do deals – indeed, the lesson drawn from the crisis to date is that haste leads to waste. Unlike in the West, where rapid action has been required to save systemically important institutions from collapse, Asia has not come under the same kind of pressure. Likewise, the number of assets on the market – or likely to come on the market – means that there is little perceived need for buyers to rush in.

This report is based on a survey of 215 senior executives conducted on behalf of PricewaterhouseCoopers[1] by the Economist Intelligence Unit in January and February 2009, the results of which were released in March 2009. In addition to the quantitative survey results, this report adds analysis based on qualitative research, including extensive one-on-one interviews. The report sheds light on the factors

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

driving M&A in Asia's financial services sector and how the environment is likely to change in the coming years. Among the key findings of the research:

**Despite a sharp fall-off in the number of M&A transactions, Asian financial institutions are actively exploring opportunities to expand.**
In contrast to the US and Europe, where firms have shifted from strategic expansion to rapid contraction, financial institutions in Asia remain intent on expanding, with only 2% of survey respondents considering divestment a key factor in their strategy.

Almost half (48%) of respondents overall are actively seeking to take advantage of opportunities to expand, with 42% anticipating making an acquisition this year. There is a great deal of diversity across the region with regard to M&A intentions, with respondents based in rapidly developing emerging markets such as China, Vietnam and Indonesia generally adopting a more optimistic outlook about doing deals than those based in more mature markets. (See Figure 1).

**Firms are adopting a cautious approach, focusing on strengthening existing capabilities rather than transformative deals.**
In recent years, intense competition for assets has meant that deal-makers have sometimes considered acquisitions that have been less than a perfect fit. This situation has changed, with the financial crisis leaving the stronger players spoilt for choice.

Among survey respondents actively seeking expansion opportunities, 51% intend to increase investment in existing business lines. In markets where foreign financial institutions are relatively well established, a retraction in lending by these institutions has been felt relatively more strongly, giving rise to opportunities for others to fill the vacuum. A greater than average share of institutions in Indonesia, Japan, Malaysia, Singapore and Taiwan are looking to organic growth to expand. A greater share of respondents based in large emerging markets, such as India and China, are relatively more bullish about entering new markets, suggesting a willingness to leverage the size of their balance sheets and seize opportunities.

**Domestic competition is increasingly important as a motivating factor in M&A in Asia's financial services market.**
When we first conducted this survey in 2005 foreign institutions were considered the main competitive threat in the region. Now, increased competition from domestic players is viewed as the biggest challenge and the main driver of M&A activity. In the short term, consolidation is being driven by the retreat of the more expansive foreign players. Over the longer term, the underlying trend towards consolidation among domestic players might emerge as a more compelling driver. Last year, the largest transactions across the region were conducted between financial institutions based in Asia. (See Figure 2).

In many parts of the region, regulators are beginning to more forcefully encourage consolidation in order to build stronger players that are capable of withstanding a sustained downturn. Two-thirds of respondents believe that regulatory tightening related to liquidity management, in addition to further and more timely disclosure of market, credit and/or liquidity exposures will be the most effective measures in preventing future crises.

**Figure 1: Is your company likely to make an acquisition in the coming year?**
% answering yes, respondents based in country/territory concerned

| | |
|---|---|
| Taiwan | 70 |
| China | 68 |
| Vietnam | 63 |
| Indonesia | 55 |
| Australia | 50 |
| India | 39 |
| Malaysia | 38 |
| Singapore | 32 |
| Japan | 25 |
| Pakistan | 25 |
| Hong Kong | 22 |

**Source: PricewaterhouseCoopers/Economist Intelligence Unit survey, January – February 2009**

**Figure 2: Largest transactions announced by value, 2008**

| Country/territory | Acquirer | Target |
|---|---|---|
| Australia | Westpac | St. George |
| China | Central Huijin Investment | Agricultural Bank of China |
| Hong Kong | China Merchants Bank | Wing Lung Bank |
| India | HDFC Bank | Centurion Bank of Punjab |
| Indonesia | Maybank | Bank Internasional Indonesia (BII) |
| Kazakhstan | Kookmin Bank | Bank CenterCredit OJSC |
| Pakistan | Maybank | MCB Bank |
| Phillipines | Allied Banking | Phillippine National Bank |
| Singapore | Mitsubishi UFJ | Kim Eng Holdings |
| Taiwan | DBS | Bowa Commercial Bank |
| Vietnam | Maybank | An Binh Rural Joint Stock Commercial Bank |

**Source: Asian Venture Capital Journal**

**M&A is likely to be aimed at improving offerings to Asia's growing middle class.**
The financial crisis has thrown Asian exporters into disarray, forcing them to seek out new customers in place of consumers in the West. Changes to the pattern of trade – with the share of Asia's exports bound for other emerging markets rising – will see financial service providers following their customers into new markets. More immediately, those households and governments (in the form of Sovereign Wealth Funds) that have amassed wealth based on export success in the past are increasingly important customers for the financial services industry, which is seeking to reduce its reliance on interest income and increase fee incomes.

More fundamentally, the underlying trends – such as urbanisation and rapid population growth – remain in place across Asia, increasing demand for products from mortgages to household insurance, and driving competition over time. The Asian financial crisis of 1997 witnessed the consolidation of the banking industry across the region. The present crisis is spurring on a shake-up in the banking, insurance and – to a lesser degree – wealth management sectors, as confidence in institutions' ability to protect assets and increase wealth is shaken. Attractive acquisition opportunities for banks seeking to combine with insurers are arising, initially in South Korea and Malaysia.

**Difficulty in valuing assets will remain a major obstacle to deals.**
Nearly half of the financial institutions surveyed said that difficulty in valuing assets would be a principal barrier to undertaking M&A deals in the short term. While 55% are confident their organisation has the capabilities to come up with a fair valuation, lack of clarity on the financial position of potential targets (42%) and continued market volatility (40%) were cited as major obstacles to fair valuation.

Obstacles differ across the region. Relatively strong balance sheets in Asia, and the likelihood of a prolonged economic downturn, increase the chances that buyers and sellers will be able to sit on the sidelines until an agreeable consensus can be reached. Indeed, 29% of respondents felt that sellers are still unrealistic in their price expectations.

Overall, almost half of respondents (48%) believe that asset prices are attractive now or will be within six months, although the most popular response to the question "At what point do you expect pricing of assets to become attractive to your company?" was "in one year". The picture is complicated by exchange rate uncertainties, with the relative strength of the US dollar discouraging outbound transactions into territories with dollar-linked currencies.

Uncertainty surrounding future potential is also commonly viewed as a barrier to deals (26%) – just as rapid growth makes it easy to conceal a multitude of sins, slower growth can be equally brutal in revealing managerial failings.

**While expansion is on the cards, restructuring will continue apace.** The survey reveals that companies are looking to restructure internally, the priorities of which are indicated in the survey data. Among solutions mooted are overhauling risk management systems (84%), changing reward structures to reflect longer term performance (78%), bringing customer relations in house in order to improve service functions (75%) and retrenching staff (67%).

Inevitably, as fears for the future are heightened, risk management comes to the fore. As one interviewee notes, "even the regulator is focused on risk management systems, encouraging stress testing". One concern is that many territories face a shortage of skilled professionals in this area since risk management was not a priority during the recent boom. In general, risk management professionals are difficult to find. The obstacles involved in the post-deal integration of another firm's risk management systems during times of uncertainty might present even greater challenges.

## Fortune favours the brave

The present environment is one of unprecedented opportunities to acquire additional expertise and strengthen capabilities. Those institutions that have patiently built solid foundations for success will be able to move ahead of their competitors and come out on top. To do so they will need to:

**Avoid unnecessary complexity.** Executives are being challenged to manage multiple demands: to shore up the balance sheet, resume organic growth and capitalise on acquisition opportunities. As the economic crisis grinds on, successful leaders have divided up responsibilities, allowing them to step back and re-assess strategy. One aspect of strategy that has been highlighted during the crisis is the difficulty of managing and unwinding complex institutions. Undoubtedly, complexity is a byproduct of innovation and success, as an institution grows beyond the size that can be easily managed from one headquarters.

Now, successful institutions will be those that avoid needless complexity, including acquisitions that do not add sufficient value to justify the increased management attention required. At the same time, divestment strategies should not be short-sighted: maintaining a presence in Asia might reduce the cost and effort of re-entering the region in the future.

**Remember the fundamentals.**
Executives should not forget that, while the crisis might give rise to a new playing field, the fundamental rules of finance still apply. The benefits of diversification are clear, although the potential costs of diverting management attention have also been highlighted in the recent past.

One path to diversification that has reaped dividends is regionalisation – for some institutions this might entail pursuing an Asean strategy, for others it might involve expanding beyond the Asia-Pacific region.

Reduced demand from the West is changing the pattern of trade and in time-honoured fashion, banks are following natural trade routes.

In contrast to past centuries – when the rarity of silk, spices and semiconductors underwrote trade – the need to find and finance the extraction of natural resources is an increasingly important factor spurring Asian institutions to expand. History suggests that those institutions that pursue solely local strategies will find their markets penetrated by competitors with stronger brands and balance sheets.

**Sharpen their consumer strategy.**
Many domestic Asian financial services firms have built their foundations on servicing corporates, with interest-paying borrowers viewed as customers and depositors often regarded merely as a source of capital. The prospect of customers withdrawing cash and depositing it under their mattresses has served notice that institutions that take depositors for granted do so at their own risk. Domestic institutions can no longer afford not to leverage their key strength – the size of their customer base.

In terms of M&A, many Asian institutions need to acquire products and expertise in order to develop more retail-oriented franchises. Western institutions, meanwhile, often have the products and expertise but lack the client base to deploy them. The right deal will successfully ally an experienced partner seeking larger markets for its products with domestic institutions that have in-depth knowledge of the local client base, suggesting that joint ventures are a key way forward. An alternative approach might be to look further afield and hire skilled professionals or acquire successful businesses run by talented managers, whose skills can be leveraged within the organisation.

**Reap rewards from tighter integration.**
The current environment has highlighted how a host of unpredictable factors come into play when choosing the right partner, with slower economic growth entailing a greater focus on reaping synergies from acquisitions and ensuring thorough integration. Successful firms will be those able to plan and identify the right teams for integration. External recruitment, if required, should be dealt with at the outset.

M&A activity often calls for organisational changes, in consideration of a multitude of factors including the level of market development. The survey results reveal markedly different responses across the region, broadly split into three groups: mature markets (such as Hong Kong and Japan), mass markets (China and India) and emerging markets (including Indonesia and Vietnam).

In mature markets, results suggest a need to restructure operations in order to increase flexibility to respond to opportunities to enter new business lines as they arise. In contrast, the expansion of existing business lines presents the greatest opportunity in emerging markets, as stronger players seek to gain market share and growth remains a powerful driving force. The size of Asia's markets allows a greater range of strategic options, with a growing middle class presenting a host of niche and mass market opportunities.

Across the region, the financial crisis has changed the playing field. Survey responses reveal an awareness of the evolving market environment. Established domestic financial institutions are viewed as posing an increased competitive threat across the region, for example. In Indonesia and Taiwan, by contrast, government-backed institutions – such as state-owned banks, sovereign wealth funds and Western institutions that have received capital infusions – are regarded as having a greater impact on the competitive landscape. In these markets in particular, there is a strong awareness that the future will not be like the past. As executives across the region take decisions today that will impact where their business will be in two to three years' time, they should be aware of the degree to which they are insulated from the forces driving change.

The financial crisis has forced many institutions to focus on survival. As executives shift their focus to the longer term, they should be careful to incorporate the powerful underlying trends that are driving change in the financial services sector into their sustainable strategies, including: the rising power of the East and resulting change in the pattern of trade, markedly faster growth in emerging markets than in developed ones, ageing populations in the developed world as well as north Asia, in contrast to youthful markets such as India, Indonesia and Vietnam, and the impact of technological advances on financial services.

Section | 2

# Introduction

*The impact of the global financial crisis and resulting economic downturn are now being felt in earnest in Asia. While many of the region's economies will continue to grow, they will do so at a much slower pace than in recent years. Stock markets around the region have crashed far from their peaks and while many observers expect Asian economies to recover more quickly than other regions, confidence – both consumer and business – has taken a blow.*

Overall, financial services M&A activity in Asia slowed to 366 deals in 2008 from 547 deals in 2007, with the value of deals down to US$100bn from just under US$120bn. China remained the largest market in terms of deal value, with the value of deals declining slightly from US$36.2bn to US$34.6bn in 2008. In both years, capital injections by Central Huijin Investment[2] have accounted for more than half of the total, reflecting a reallocation of government funds as part of a marketisation process.

In total, the number of deals in China fell by more than half, from 95 to 45. Japan saw a substantial drop-off in both deal numbers and value, with the latter falling from more than US$36bn in 2007 to just over US$12bn. Nearly half of that amount (US$5.5bn) was accounted for by Shinsei Bank's acquisition of General Electric's consumer finance business in Japan.[3] In contrast, Australia witnessed a rise in activity – from US$7bn to US$27bn – with Westpac's US$17.4bn acquisition of St. George Bank accounting for the relatively large increase.[4]

During the course of research for this year's report, several interviewees referred to the state of "paralysis" in the M&A market. But this does not mean that financial services firms are not considering the opportunities presented by the current environment – many are actively investigating opportunities to expand their business. While many will look to organic growth, a fair number are considering acquisitions. But timing will remain a delicate issue. The travails of high-profile deals announced at the outset of the crisis will serve as a cautionary tale for those considering potential targets. Valuations will also present more challenges than usual, not least because there is little consensus on how long the crisis will continue and what its lasting effects will be.

This report, based on a survey of 215 senior executives conducted on behalf of PricewaterhouseCoopers by the Economist Intelligence Unit in January and February 2009, examines what is driving M&A in Asia's financial services sector. It also reveals the future intentions of players in Asia's financial services arena and sheds light on the M&A environment and how that environment is likely to change in the coming years.

2 Central Huijin Investment, owned by the China Investment Corporation and controlled by the State Council, China's cabinet, acquired a 50% stake in the Agricultural Bank of China with a US$19bn capital injection in 2008. Source: 'Agricultural Bank of China becomes shareholding company', www.xinhuanet.com, 02.01.09; Press release, www.cdb.com.cn, 02.01.08.

3 Source: Asia Venture Capital Journal data.

4 Source: Press release, www.westpac.com.au, 01.12.08.

**Summary of 2008 financial services M&A transactions**

| Target Country | Number of Deals | Banking | Securities and capital markets | Mutual funds and asset management | Insurance | Value(US$m) |
|---|---|---|---|---|---|---|
| China | 45 | 33,011 | 788 | 360 | 400 | 34,559 |
| Australia | 76 | 19,085 | 1,756 | 2,439 | 3,946 | 27,226 |
| Japan | 44 | 3,475 | 1,790 | 6,825 | 34 | 12,124 |
| Hong Kong | 16 | 4,867 | 51 | 103 | - | 5,021 |
| India | 70 | 2,393 | 2,249 | 299 | 60 | 5,001 |
| Taiwan | 12 | 2,007 | 713 | 47 | 846 | 3,613 |
| Indonesia | 9 | 3,600 | - | - | 8 | 3,608 |
| South Korea | 28 | 491 | 1,184 | 215 | 766 | 2,656 |
| Malaysia | 15 | 2,259 | 34 | 2 | 240 | 2,535 |
| Pakistan | 4 | 1,064 | - | - | - | 1,064 |
| Thailand | 16 | 324 | 54 | 521 | 102 | 1,001 |
| Philippines | 6 | 702 | 15 | - | - | 717 |
| Kazakhstan | 1 | 634 | - | - | - | 634 |
| Vietnam | 11 | 131 | 65 | 14 | 88 | 298 |
| Singapore | 7 | - | 133 | 80 | - | 213 |
| New Zealand | 5 | - | 4 | 39 | 56 | 99 |
| Sri Lanka | 1 | - | - | 5 | - | 5 |
| **Total** | **366** | **74,043** | **8,836** | **10,949** | **6,546** | **100,374** |

**Source: Asian Venture Capital Journal**

Section | 3

# Opportunities

*Financial services institutions are actively eyeing opportunities to expand, but they are adopting a cautious approach, focusing on strengthening existing capabilities rather than transformative M&A deals.*

In contrast to the US and Europe, where financial services institutions have shifted from strategic expansion to rapid contraction, those in Asia remain intent on expanding, albeit cautiously. While 48% of this year's survey respondents say their strategy is based on actively looking at expansion opportunities, only 2% of survey respondents see divestment as a key factor in their overall strategy.

Certainly there have been high-profile pull-backs from the region, as iconic institutions such as Citi and Royal Bank of Scotland (RBS) have come under pressure to raise capital.

## Pullbacks

| |
|---|
| Royal Bank of Scotland sells all of its 4.26% stake in the Bank of China[5] |
| UBS sells all of its 1.33% stake in Bank of China[6] |
| Bank of America pares back its stake in China Construction Bank[7] |
| AIG seeks buyers for assets[8] |
| Royal Bank of Scotland plans sale of Asian retail assets[9] |
| Citi scales back operations in Japan[10] |

Smaller deals have also taken place. In February 2009, for example, the UK's Prudential transferred its business in Taiwan to China Life Insurance of Taiwan[11] for a nominal sum, increasing surplus capital and positioning it to take advantage of opportunities as they arise.

5 Source: Press release, www.investors.rbs.com, 14.01.09.

6 UBS press release, 31.12.08.

7 Source: Press release, www.newsroom.bankofamerica.com, 27.05.09; SEC filing, www.corporate-ir.net , 26.11.08.

8 Source: 'AIG Nears Sale of HQ in Japan', Wall Street Journal, 05.05.09.

9 Source: Press release, www.investors.rbs.com 16.03. 09.

10 Source: Press release, www.citigroup.com, 16.02.09.

11 Source: Press release, www.prudential.co.uk, 20.02.09.

## Contrary to the newspaper headlines in the last quarter of 2008 and first two months of 2009, however, the survey results reveal that almost all institutions plan to retain a presence in the region, although some are selectively pulling back from certain markets.

Even those that have been in the headlines do not plan to quit completely. In March 2009, RBS's chairman visited the region and, countering the perception that the bank is withdrawing from Asia, announced that its Asia-Pacific development strategy focuses on cutting back commercial and retail operations and providing wholesale and investment banking services in six 'core' markets.[12]

While caution might be the watchword of the day, the fact is that as markets have been contracting, so too has the number of competitors, thus creating opportunity – though not evenly across sectors. According to one executive, "corporations who've weathered the storm financially will be more able to break through and make acquisitions but there are challenges across sectors, with lower revenue and high loan impairment in corporate banking and lower profits in wealth management as customers switch back to fixed deposits and other more traditional products".

In such a volatile environment, acting on opportunities requires more courage than usual. As the crunch has turned to crisis, the balance has shifted from an emphasis on opportunities to highlighting risks and back to a cautious consideration of strategic opportunities. As one executive in the banking sector puts it, "there is a prevailing viewpoint that acquisitions made in the last 12 months have not turned out to be a success" in terms of creating shareholder value, with executives across sectors and markets echoing this viewpoint. The greater risk is perceived to be that of acting too quickly rather than too slowly.

Announcements of smaller, opportunistic deals have increased as the first quarter of 2009 has gone on, markedly in contrast to some of the larger deals sealed last year. Sookeun Pak, partner of PricewaterhouseCoopers (Korea), says, "we expect to see more small transactions this year…with the main stumbling block in making acquisitions being the weakness of the Won".

Undoubtedly there are opportunities to grow inorganically with the right purchase. At the same time, there is a "sense of fear and de facto paralysis" as the risks of making a bad acquisition appear to outweigh those of not making one at all. The survey results indicate that the balance between risk and opportunity is gradually shifting back: overall 42% of respondents stated that their company is likely to make an acquisition in the coming year.

12 Source: 'RBS Strategy Puts Focus on HK, Mainland', South China Morning Post, 17.03.09.

Nevertheless, none of the executives interviewed for this report believed that there is any urgency to make acquisitions despite being inundated with opportunities. All interviewees regarded balance sheet strength as a key competitive advantage in the present environment, to be defended at all costs.

At the same time, at the time of writing regulators were beginning to ease emergency measures introduced in response to the crisis, relieving one source of pressure against undertaking deals.

Markets are split between those where a clear majority responded that their company is likely to make an acquisition in the coming year (Taiwan, China, Indonesia, and Vietnam) and those where a clear majority responded no (including Hong Kong, Japan, India, Pakistan, Malaysia and Singapore).

Even in territories – such as Malaysia and Pakistan – where only a minority of respondents stated that their company is likely to make an acquisition over the coming year, the majority (52% and 50% respectively) state that they are actively seeking to take advantage of opportunities to expand. In Australia, 63% plan to take advantage of opportunities to expand – the same percentage as for China – with half of the total planning to do so through M&A. The past 12 months have already seen far-reaching change to the country's financial system, with one of the Big Four banks (Westpac) acquiring the fifth largest (St.George)[13] and the March 2009 bankruptcy of Babcock & Brown,[14] Australia's highest-profile casualty from the crisis.

Interviews suggest a general trend, with multinational players, which benefit from diverse enough operations to manage the currency volatility inherent in operating in emerging markets such as Vietnam and Indonesia remaining interested in such markets. In contrast, domestic institutions from larger markets such as South Korea are interested in expanding abroad but are more exposed to currency risks, given less diverse overseas operations, further encouraging delays.

Among the more cautious, a large percentage of respondents in Japan (53%) and India (33%) stated that they have frozen investment and expansion plans as they wait for the market to stabilise. Access to capital was of greater concern in markets such as Singapore, Vietnam and Malaysia, where 47%, 42% and 38% of respondents stated that they are restructuring to reduce capital expenditure in anticipation of prolonged difficulty in accessing capital.

Nevertheless, deepening integration within the Association of South-east Asian Nations (ASEAN) has spurred banks to look beyond their borders in recent years, and those that have taken the plunge and expanded outside their home territories show few signs of looking back. Despite "constraints in terms of their ability to raise capital, financial institutions in Malaysia still have an appetite to expand regionally", notes Sridharan Nair, Partner of PricewaterhouseCoopers (Malaysia).

The inauguration of the China-Asean Free Trade Association (CAFTA) in 2010 is also encouraging action, with competition from Chinese banks to acquire assets within ASEAN emerging as a key factor in recent years. Last year, Malaysia's CIMB took over BankThai,[15] for example, after losing out to ICBC in its bid to buy Thailand's ACL a year earlier.[16] In contrast, Malaysia's Maybank outbid Bank of China in its move to acquire Indonesia's BII in March 2008.[17] HSBC, which had also

13 Source: Press release, www.westpac.com.au, 01.12.08.

14 Source: Press release, www.www.babcockbrown.com.au, 13.03.09

15 Source: Press releases, www.cimb.com, 20.06.08, 13.01.09.

16 Source: 'ICBC confident of buying into Thailand's ACL bank', China Daily, 19.12.07. 'CIMB shops in Thailand', Euromoney, 07.08.

17 Source: Press releases, www.maybank.com, 26.03.2008, 29.07, 2008. 'Maybank price tag for BII 'reasonable', The Jakarta Post, 28.03.08.

considered a bid,[18] followed up with its acquisition of Bank Ekonomi in October 2008.

The prospect of a substantial deepening of financial integration between mainland China and Taiwan is one factor driving expectations of increased levels of M&A activity in Greater China. Deeper financial ties naturally follow the implementation of direct transport links (beyond the 'three mini-links') in 2008 and the election of the Kuomintang's candidate, Ma Ying-jeou, as Taiwan's president. "The government is pushing state-owned financial services firms to prepare for consolidation…with opportunities in Greater China opening up," notes Peter Yu, Partner of PricewaterhouseCoopers (Taiwan).

A more efficient financial sector is key to helping corporate Taiwan respond to competitive challenges while Taiwanese corporates are alluring target customers for mainland Chinese financial institutions. Taiwanese banks have begun to make inroads into mainland China's market, with Fubon Bank's Hong Kong subsidiary acquiring a 19.9% stake in Xiamen City Commercial Bank in November 2008.[19] The likelihood of a major acquisition by a Chinese bank in the Taiwanese market is also rising. Mainland China and Taiwan are expected to sign a memorandum of understanding on financial co-operation in the second quarter of 2009, after which it has been reported that ICBC, China Merchants Bank, Industrial Bank and Shanghai Pudong Development Bank will be allowed to enter the Taiwanese market.[20] Mainland banks have been actively exploring opportunities – in June 2008, the president of Taishin Financial stated that several Chinese banks had approached the company.[21] Taishin is one of four financial firms in Taiwan owned by private equity funds.[22]

Both mainland China and Taiwan are, however, relatively crowded markets, with bank loans representing a far higher percentage of GDP than in markets such as India and Indonesia. One executive notes that it is "tougher to grow by taking market share than by growing with the market", contributing to the greater attractiveness of emerging markets in Asia.

Unsurprisingly, survey respondents ranked Indonesia and Vietnam as the leading markets for acquisitions, followed by China and India. An executive with a large Indian institution based in Mumbai said that his firm is more likely to pursue acquisition opportunities in the US and Europe since, "financial services firms in Asia have relatively better balance sheets and asset prices aren't going to be as attractive".

Instead, the firm is concentrating on organic growth to expand its presence in the Middle East and South-east Asia. In contrast, HSBC has stated that it will use the part of the proceeds of its $17.7bn rights issue to buy competitor assets in Asia and the Middle East.[23]

Given the need to conserve cash in order to shore up capital ratios – and also, no doubt, to save for the right acquisition – it is understandable that the M&A market has been in a state of paralysis. In the opinion of Hugh Young, managing director of Aberdeen Asset Management (Asia),

"it is quite good news that financial institutions are adopting longer-term thinking" and a more focused approach. He notes that, institutions in Asia "can afford to wait [out the crisis] since they are not geared up to the eyeballs".

The impact of market volatility on recent path-breaking deals is likely to discourage many large transactions in the near term. Where deals have taken place, the imperative to make them work is greater than ever. Institutions which have yet to make a large acquisition are instead seeking to hoard cash, so as not to be caught out should a truly unmissable opportunity arise or regulatory tightening require further capital raising. In the words of one executive, a large acquisition would be "like trying to swallow an elephant and there's just no appetite for it". Deals in the near term are more likely to involve complementary or niche businesses, rather than new lines of business.

18 Source: 'HSBC, Bank of China, Maybank race for BII stake', www.reuters.com, 12.03.08.

19 Source: Press releases, www.fubonbank.com.hk, 10.06.08, 17.11.08.

20 Source: 'First mainland bank to enter Taiwan soon, official says', China Daily, 07.03.09. 'China Merchants Bank seeks to launch branch in Taiwan', China Daily, 05.03.09.

21 Taiwan's Chinese-language Commercial Times reported that Bank of Communications plans to invest US$100m to acquire a stake in 19 November 2008, with Taishin president Liu Keh-Hsiao commenting on approaches from five major commercial lenders. Source: 'Bank of China, ICBC consider Taiwan bank stake (in Mega Financial)', www.reuters.com, 06.02.09.

22 Newbridge Capital and Nomura Group reached a preliminary agreement whereby Newbridge and Nomura would invest NT$27bn and NT$4bn respectively in Taishin Financial through a private placement. Source: Press release, www.taishinholdings.com.tw, 06.02.06. The Longreach Group has a 61% interest in EnTie Commercial Bank. Source: www.longreachgroup.com. The Carlyle Group owns a stake in Ta Chong Bank as a portfolio investment. Source: www.carlyle.com. SAC and GE Money own 81.7% of Cosmos Bank. Source: www.cosmosbank.com.

23 Source: 'With £12bn, HSBC is laughing all the way', The Times, 06.04.09.

## The world's local insurer?

Asian consumers are responding to the crisis by seeking ways to protect their wealth against future contingent liabilities. A recent HSBC Insurance survey found, for example, that a fear of suffering from a critical illness was the leading worry among Hong Kong people: with 67% and 64% of respondents saying that they have bought life and medical insurance respectively in order to protect themselves financially.

The survey results are suggestive of the role that financial service providers can play in assuaging concerns about the future in a region that generally lacks well-developed social safety nets. Such concerns have been highlighted as a key reason why Asians in general are hesitant to consume at levels nearer to their Western counterparts.

David Fried, group general manager and regional head of insurance, HSBC Asia-Pacific of The Hongkong and Shanghai Banking Corporation, says that "insurance remains a key part of our group strategy for growth and Asia is central to HSBC Insurance's global growth". The bank has seen "customers going back to basics – shifting to simple products that offer protection and savings", with a flight to quality "happening in all markets where we operate in Asia".

According to Mr Fried, "Asia presents tremendous opportunity…The insurance market is expected to grow fourfold to US$800bn over the next five to 10 years. Insurance penetration as a percentage of GDP in Hong Kong, Taiwan, Japan and South Korea is about the same as Western markets (8-11%; UK at 15%) but the average penetration rate in the rest of Asia is at 1-4%. HSBC has had "the fastest growing life insurance start-up ever" in India and is hoping to repeat this success in China, once it obtains regulatory approval. It has also moved into Vietnam, taking a 10% stake in Bao Viet (Vietnam's largest financial services company, and largest insurer), and expects to see double-digit growth there. In Indonesia, HSBC won CIGNA's top channel award in 2008, selling more than 150,000 new policies in the space of nine months. "This result clearly demonstrates the potential of bancassurance and the growth of the insurance industry in Indonesia, and we are just scratching the surface of what can be achieved there," says Mr Fried. HSBC's acquisition of Bank Ekonomi in October 2008 (pending regulatory approvals) will help to grow its customer reach.

In 2006 – when HSBC first released a breakdown for insurance earnings – Hong Kong accounted for 98% of the market in Asia. Thus, insurance operations in Hong Kong alone contributed almost 3% of the group's US$22bn of pre-tax profits for the year. Mr Fried believes that, "HSBC is well-positioned to grow our existing business and take advantage of opportunities to further grow our footprint, particularly in countries where we have a significant banking presence, as other competitors retrench."

The current climate has improved the outlook for those in the insurance business in some respects. The HSBC Insurance survey mentioned above – carried out by Hong Kong University's Public Opinion Programme in January 2009 – found that 59% of respondents worried about critical illnesses while 38% fretted about the prospect of losing their job: greater than the 21% of respondents losing sleep over investment losses. A focus on protection is reflected in the type of financial products individuals are choosing, with 68% mentioning bank savings, 62% mandatory provident fund and pension funds, 55% critical illness and 45% whole life insurance.

When it comes to accelerating growth by making acquisitions, Mr Fried notes that key factors in the current environment are "a greater emphasis on due diligence and ensuring that what you are buying fits with your strategy, culture and vision although fundamental drivers for the industry remain the same". One fundamental driver that has driven HSBC's strategy has been growth in the Islamic finance market. "In Malaysia, we are the first locally incorporated Islamic banking subsidiary of a foreign bank and the only internationally A-rated takaful company," according to Mr Fried.

Overall, however, HSBC Insurance is taking a broad view of opportunities as they arise across the region. Mr Fried notes that, "Corporations maintain a certain discipline in managing their M&A activities, but in the current economic landscape, combined with evolving regulatory and legal requirements, capital constraints and the move to internationalise standards for companies, it is not surprising for corporates to take a more integrated and centralised approach in reviewing and executing such opportunities." Traditionally, financial groups led by individuals with a background in retail banking have seen a move into wholesale and investment banking as a natural step towards increasing fee income. As the fortunes of investment bankers have fallen from grace, the attractions of expanding insurance offerings are evident.

Section | 4

# External drivers

*Domestic competition is increasingly important as a motivating factor in M&A in Asia's financial services market.*

M&A activity is increasingly being driven by a perceived need to respond to competition from domestic peers as they upgrade skills and knowledge, often in co-operation with foreign partners. As late as 2007 our survey showed that large Western institutions were considered the biggest competitive concern in Asia and this competition was a strong driver of M&A activity. In this year's survey, 55% of respondents viewed domestic institutions as the biggest competitive threat compared with 34% who cited established foreign institutions. As an external driver of M&A, only 15% of respondents saw increased competition from foreign players as a driver, while 43% saw competition from domestic players as a motivation.

In Indonesia, Malaysia and Vietnam, for example, 55%, 50% and 83% of companies respectively cited domestic competition as the prime motivator for M&A, indicating rapidly maturing markets with more demanding customers. A need to respond to increasing customer demands was cited as an equally important driver for M&A activity in Indonesia (55%) and the second leading factor in Vietnam (50%). The unprecedented opportunities offered by the current environment was cited as the second most important driver for M&A activity by respondents in Malaysia and the leading response by those located in Singapore (83%), Hong Kong (60%) and Australia (50%), which are home to more foreign institutions than other locations.

Institutions in India are responding to a diverse array of pressures, with an equal number citing regulatory liberalisation and regulatory pressure to restructure/merge, increasing customer demands, slow growth in developed markets, economic conditions at home, unprecedented opportunities and access to leading edge operating practices as key drivers for M&A. As elsewhere, the underlying trend is consolidation. "Private equity firms (in India), particularly foreign-owned funds, are under unprecedented pressure and small funds are fighting for their survival," says a senior private equity fund director in India. "Consolidation is inevitable as small funds will increasingly find it difficult to raise capital and take risk. Large-sized Indian funds should benefit as competition wilts."

Insofar as the authorities have been encouraging consolidation, the financial crisis has given reason to pause for thought on how best to proceed down the path of financial sector liberalisation embraced in the Reserve Bank of India's Roadmap to 2009. Rather than allowing unrestricted access, the authorities may choose to place a greater emphasis on reciprocity when it comes to expanding access to the financial sector. Respondents in Taiwan also view regulatory pressure to restructure/merge as the main external driver to M&A.

In contrast, 60% of respondents based in Japan cite economic conditions at home as a key external driver for M&A followed by increasing competition from domestic players and the unprecedented opportunities available in the current market environment. In China, the main driver is perceived to be increasing competition from domestic players, cited by 38%, followed by economic conditions at home and access to leading edge operating practices.

In some cases, including China, competition between domestic institutions is increasingly cross-border. China's financial sector reform has seen the Big Four banks develop capabilities beyond their original focus when they were separated from the central bank.

Bank of China's Chairman Xiao Gang recently stated[24] that the bank "will concentrate on supporting the overseas operations of Chinese companies", using its traditional strength in overseas markets to compete against other lenders, which have deeper relationships with Chinese corporates at home. As other Chinese lenders deepen their presence overseas, Bank of China is being forced to compete, with Mr Xiao noting that, "while the bank will be very cautious when making decisions on overseas acquisitions, it has to accelerate its expansion in the overseas market". Both ICBC and Bank of China are bringing the strength of their balance sheets into play in offering to increase lending to Taiwanese firms operating on the mainland.[25] Other banks have followed a similar pattern in expanding abroad. For example, one of China Merchants Bank's first forays abroad was in Vietnam, following parent company China Merchants Group's investment in a port project in the South-east Asian nation.[26]

The need to expand business lines that generate fee income will be another driver of M&A, although many are looking more towards areas such as property and casualty insurance for fee income rather than investment-related products. Consumer nervousness about product mis-selling is being translated into tougher regulations concerning sales to non-professional investors just as financial institutions in Asia have been beginning to realise the potential of the region's emerging middle classes as a customer base – rather than merely being a source of low-cost capital.

Kok-Weng Sam, Partner of PricewaterhouseCoopers (Singapore), notes that moves by banks to acquire or divest insurers will be a key driver of M&A. In less developed markets, "banks that don't have an insurance arm might acquire smaller insurers to develop a fee-income base and those that already have an insurance arm might seek to attract established international insurers as an investor to help develop the business further". In more developed markets, "unless there is a critical mass, players are likely to focus on either the banking or insurance business". One insurance industry executive observes that there has been a "bigger challenge to bring banks and insurers together in Europe" due to the differing cultures of the two types of institutions. In Asia, "bancassurance is working well". As regulators in Asia continue to progressively tighten, the shift to risk-based capital is likely to generate additional acquisition opportunities, as smaller domestic insurers are put up for sale.

Improving their consumer offerings was one of the factors behind ICBC, CCB and BOC's strategic partnerships with foreign investors including Allianz, Bank of America and the Royal Bank of Scotland (RBS) respectively. Having embarked on the road to developing a broader array of services, there is no going back. Mr Xiao recently stated that, "the banking industry can't go back to the era when banks were only dealing with traditional banking business".[27]

24 Source: 'Lending is determined by market', China Daily, 17.03.09.

25 Source: 'Lending to Taiwan companies rises', China Daily, 20.04.09.

26 Source: 'China Merchants Bank applying for opening Taiwan branch, boss', www.tradingmarkets.com, 06.03.09.

27 Source: 'Global crisis is an opportunity for Chinese lenders', China Daily, 17.03.09.

ICBC has also highlighted the need to "promote the diversification of its business through innovation".[28]

Asia's financial institutions are generally in a strong position to capitalise on opportunities although those that struggled through the 1997 Asian financial crisis are aware that the effects of such crises can be long-lived, encouraging caution. Indeed, survey respondents see governments as the major source of capital for financial institutions in the coming year, with 45% of respondents overall selecting this response. A higher percentage of respondents expected governments to be the major source of capital in Taiwan (70%), Hong Kong (70%), Singapore (61%) and Japan (60%), while Middle Eastern sovereign wealth funds followed closely behind governments as a source of capital in India, Indonesia and Vietnam.

As Asia's exporters struggle to respond to a decline in overseas demand for their products, their lenders are looking beyond corporate lending for profits. The underlying trends in most Asian markets – of urbanisation and a rising middle class – remain unchanged, presenting financial institutions with opportunities to target wealthy consumers.

In many markets this is resulting in fierce price wars, as banks compete to offer competitive mortgage rates. Squeezed by reduced interest rates on loans, it is expected that banks will seek to increase fee incomes. As confidence returns to equity markets, institutions that have retained public trust are well positioned to succeed. On the one hand, consumer concerns over third-party investment products are leading to a greater focus on in-house offerings. On the other, the general trend in Asia has seen growth in the bancassurance distribution channel.

## A transformational deal in progress

Almost four years have passed since MSIG (Asia) acquired the Asian non-life operations of British insurer Aviva in 2005, marking a significant step towards achieving parent company Mitsui Sumitomo Insurance Group's goal of doubling overseas turnover and profit.

Since making that acquisition, MSIG, the holding company for the group's Asian operations ex-Japan, has expanded its presence throughout Asia, notably with the acquisition of the second largest non-life insurer in Taiwan – Mingtai Fire & Marine Insurance – also in 2005. The company is present in 38 countries around the world, including 16 in Asia-Pacific, where it operates one of the largest general insurance networks in the region.

MSIG (Asia) CEO Alan Wilson says that, "One of the reasons behind the Aviva deal was to move beyond being predominantly an insurer to Japanese corporates."

The acquisition achieved this goal. At present, 65% of the company's customers are local and international companies, while the remainder (35%) are Japanese corporates.

The deal demonstrates the way in which a large transaction can have a significant impact on a company's operations. Mr Wilson says that at present "there are both organic and inorganic opportunities for groups like ourselves, which have ambition". He notes that, "while you can only really plan for organic growth…two or three deals can change the whole way a company operates".

At the moment, the company is benefiting from a flight to quality, as customers and potential employees seek out stable insurance providers and employers. Nevertheless, Mr Wilson is on the look-out for opportunities to expand. The company is focusing on "specific markets and specific deals" in the present environment as it looks "to grow its core non-life operations in Asia". It is "also looking to enter the life market where it makes sense", according to Mr Wilson.

In Japan, MSIG operates in both the life and non-life markets although its focus is on the non-life sector. The company formed from the merger of MSIG and two smaller players – Aioi and Nissay Dowa – will become the largest non-life insurer in Japan, ranking number five in the world. Mr Wilson says that the merger has not changed the company's goal of increasing the share of revenue and profit coming from overseas. Indeed, MSIG (Asia)'s successful integration of operations around the region might have helped make a case for the merits of inorganic growth.

28 Source: Press release, www.icbc.com.cn, 16.04.09.

## Section | 5

# Getting deals done

*The difficulty of coming to a fair valuation of assets, always challenging in Asia's emerging markets, will be even more so in the current environment.*

One of the key issues regarding the valuation of assets in the current environment is the expectation of how long the financial crisis will last. Opinions vary widely. As one Jakarta-based executive puts it: "History suggests that it will be a challenging time for closer to three years rather than anything shorter. Given this, when is the time in between to say that it's optimal to buy?" The bulk (85%) of survey respondents expect the credit crisis and resulting economic downturn to persist for one to two years, with prices becoming attractive in six months to one year's time. Given the unprecedented nature of the financial crisis, there can be little confidence in predictions one way or the other. But mixed economic data emanating from many economies around the world, including Asia, will encourage executives to adopt a more cautious approach.

Expectations are more pessimistic in countries that were more strongly affected by the Asian financial crisis in 1997, with a majority of respondents based in Hong Kong, Indonesia, Malaysia and Singapore expecting the crisis to persist for two years or more. In contrast, a majority of respondents based in Australia, China, India, Japan, Taiwan and Vietnam expect the crisis to continue for one year or less.

Confidence levels also depend on the market sector and location of the respondent. Those working in capital markets and investment banking generally believe that the crisis will last for one year while those focused on private equity, corporate banking, retail banking and investment management are divided between whether it will last for a further one year or two. Insurance sector respondents are more inclined to believe that the crisis will persist for two years than those working in other sectors.

Regardless of how long the downturn lasts, uncertainty surrounding expectations of the future increases the likelihood that buyers and sellers will have different views of the value of a business. This is true with regard to new business in particular, with one executive commenting that "it is more difficult to have fantasies about [the prospects for] new business". David Campbell, an insurance expert at PricewaterhouseCoopers (Mekong), notes that it is likely that a buyer will have a more negative view of market growth than a vendor, who might be determined to achieve a price that values past success. Reaching an agreement on valuation depends on a meeting of minds over the "likelihood that new business success in past years can be repeated".

The source of business success differs in different markets around the region – with Asia presenting a wide range of more and less developed markets. Underlying fundamentals such as growing populations and increasing urbanisation mean that new business growth involving traditional products is more likely to return to levels achieved in the past in rapidly developing markets, such as Indonesia and Vietnam, than in more mature markets. In Hong Kong, Japan and Singapore, for example, the life insurance market is more saturated, with growth depending on asset-linked investment-type products that rely on a less forecastable return of confidence.

In short, different businesses give rise to different valuation problems. For instance, life insurance involves long-term assumptions, with "a 100 basis point difference in interest rates assumptions giving rise to a big difference in valuations", according to Dr Andreas Wilhelm, German insurer Allianz's chief risk officer in Asia, presenting obstacles to large-scale disposals. At the same time, a longer-term horizon reduces sensitivity to incorrect forecasts vis-à-vis the economic conditions prevailing over the next year or two. Continued market volatility was the greatest obstacle to fair valuation cited by respondents in the capital markets, private equity and investment management sectors, for example. In contrast, a lack of clarity in the financial position of most institutions was cited by those working in the corporate banking, retail banking, insurance and investment banking sectors.

The obstacles to fair valuation suggest that M&A activity will return to different markets across the region at different times. In China and Hong Kong respondents cited a lack of clarity in the financial position of most institutions, continued market volatility and unrealistic price expectations of sellers as the main obstacles. Respondents based in Australia, India, Japan, Malaysia, Pakistan, Singapore and Taiwan viewed a lack of predictors of future potential as being as much of an obstacle as unrealistic price expectations, although the two factors are closely linked. Limited access to information from distressed selling was a further key factor cited by respondents based in Indonesia and Vietnam.

The depth and severity of the financial crisis has undoubtedly changed the previously almost cavalier approach to acquisitions. While distressed firms would seem to be a natural target amid market turmoil of the current degree, only 32% of our respondents said they anticipate deals involving such assets. To account for the additional risks involved, 73% of respondents said they would conduct additional due diligence while 62% said they would rely on price adjustment tools. One Mumbai-based executive notes that,

"while assets are available at attractive prices, one must be sure of the robustness of the underlying asset",

noting that his firm pulled back from a potential acquisition in the investment management sector on discovering that the target had not made prudent asset allocation decisions, suggesting inadequate risk management processes. Acquirers are looking more closely at what they are buying in the belief that it is better to pass up a buying opportunity than to buy the wrong asset. As one executive put it, "Organic growth is the cheapest and safest form of growth," and the most prudent approach at times of heightened uncertainty, in his opinion. His company is, however, organised to compete across borders, with risk management systems in place to support organic growth across the region.

The current environment is also expected to encourage buyers to pay more attention to the details of post-merger integration – 57% of respondents thought that buyers would conduct more robust due diligence in order to set integration priorities, while 39% thought there would be greater emphasis on delivering cost synergies.

Section | 6

# Outlook

*In our 2008 survey, the view that cheaper assets would attract an increase in M&A was widely held: a majority of respondents based in China and India believed that the credit crisis would increase M&A activity.*

This year, a more sanguine view has taken hold. There are plenty of assets on the market, but what are they worth? With the financial crisis and resulting economic downturn expected to last for some time, what looked like a good deal a year ago might no longer seem as attractive.

Although the prevailing mood is one of caution, there is also a belief that while growth has slowed, Asia still presents better prospects than many other parts of the world.

Unlike many international institutions, which have been focused on survival, most Asian institutions are more concerned with maintaining the strength of their balance sheets. The Asian financial crisis of 1997 has left many with a strong awareness that growth will not rebound overnight.

Since then, much progress has been made in financial sector reform across Asia. Symbolically, ICBC emerged as the world's largest bank in terms of deposits in the first quarter of 2009, highlighting that "the loan-to-deposit ratio of ICBC in 2008 was 55.6%, while the European and American banks' were generally around 100%, some even reaching 150%".[29] Thus, even a greater than expected rise in non-performing loan ratios should not alter the fact that Asia's financial system is generally well capitalised.

An executive based in India notes that, "Indian banks and financial services companies are in much better shape when compared with their global peers. There are no signs of stress on their balance sheets. However, given the lack of confidence, not much action is expected on the M&A front in the foreseeable future."

28 Source: Press release, www.icbc.com.cn, 16.04.09.

Over time, as confidence returns and the process of deleveraging in the West continues, Asian capital is likely to take on an increasingly important role in the global financial system. At the same time, the global financial crisis is accelerating trends that were already under way before the crisis.

During the course of research for this report terms such as “back to basics” have been heard often. Discerning core from non-core operations is, however, not always easy. Certainly, these are unprecedented times. Formerly well-established international players are reconsidering whether some of their Asian operations are core to their strategy, giving rise to opportunities for some companies to extend their reach around the region. The credit crunch has highlighted the need to evolve in response to changing market dynamics as well as emphasising the risks presented to institutions that move too far away from their roots.

Many institutions are in no rush to acquire assets. Alan Wilson, CEO of non-life insurer MSIG (Asia), notes that companies cannot really plan for acquisitions – they often take considerable time and frequently end without a deal because of failure to agree on price. In contrast, the flight to quality is generating opportunities for organic growth, as potential customers and employees become more concerned about institutions’ ability to last out the downturn.

The survey results confirm that most institutions are focusing on using internal resources more efficiently while continuing to pay attention to opportunities as they arise. Those institutions that are able to manage the multiple demands of ensuring continued organic growth without taking on greater risks, in addition to capitalising on acquisition opportunities where they arise – at the right price – will be the ones who emerge stronger from this crisis. □

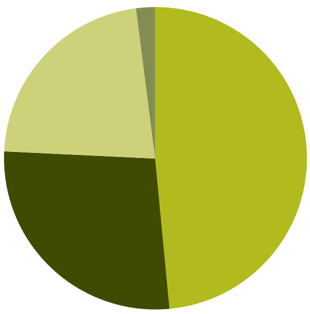
# Section | 7

# Overall final survey results

**Our thanks are due to all those who participated for sharing their insights with us.**

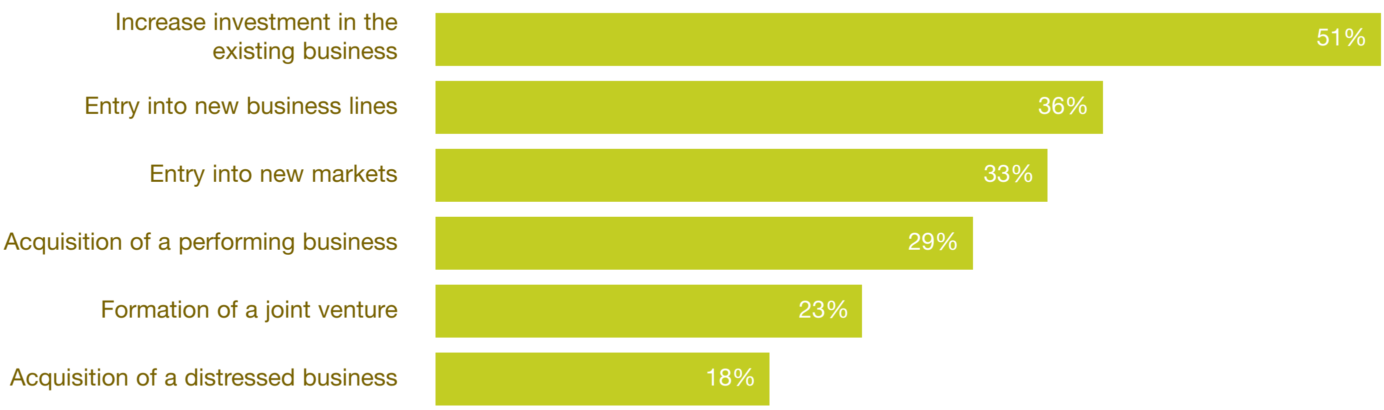
**Please note that the totals do not always add up to 100 because of rounding, or because respondents could choose more than one answer.**

**1. Which of the following statements best describes your institution's strategy in Asia in the current economic environment?**

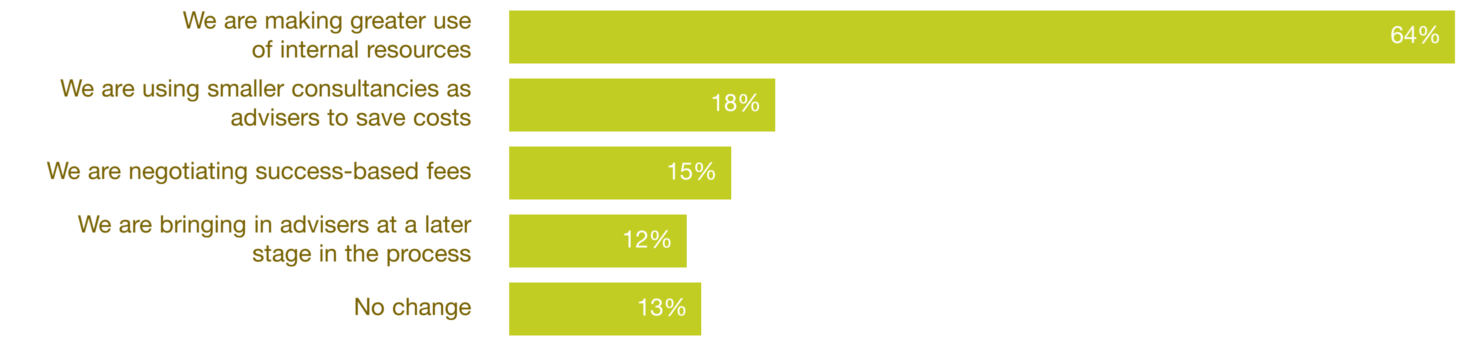


- We are actively seeking to take advantage of opportunities to expand our business (48%)
- We are actively restructuring with the objective of reducing capital expenditure in anticipation of a prolonged period of difficulty accessing capital (27%)
- We have frozen investment and expansion plans as we wait for the market to stabilise (22%)
- We have decided to close down/divest some business lines in Asia (2%)
- We have decided to exit the Asia region and are planning the divestment process (0%)

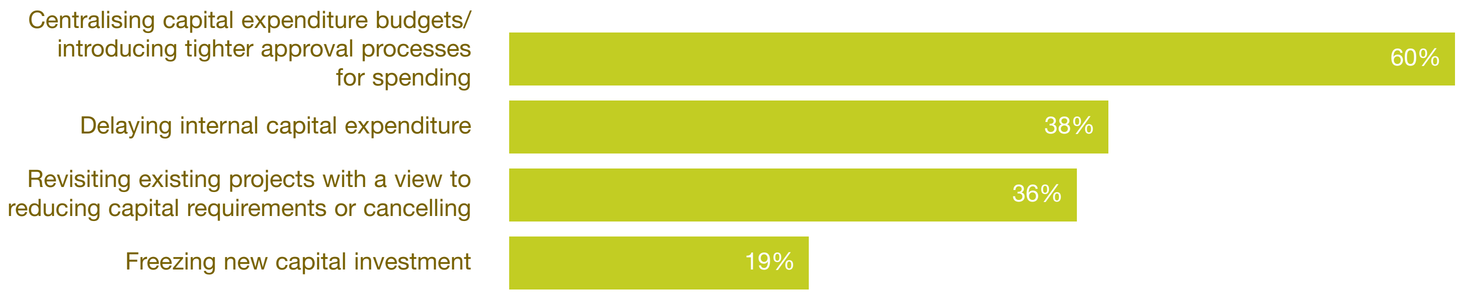
**1a. What type of expansion opportunities are you exploring?**



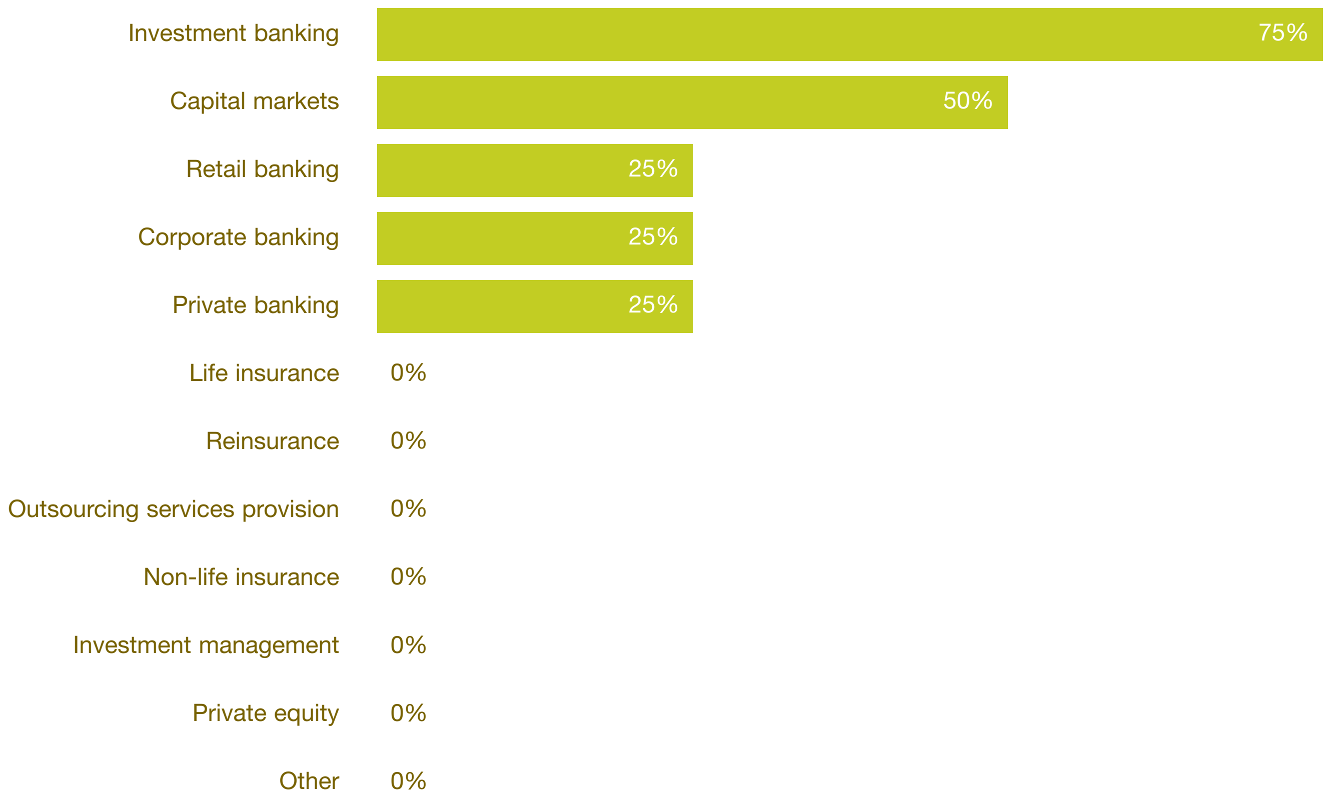
**1b. How has the way you identify and manage opportunities changed as a result of the changing market conditions?**



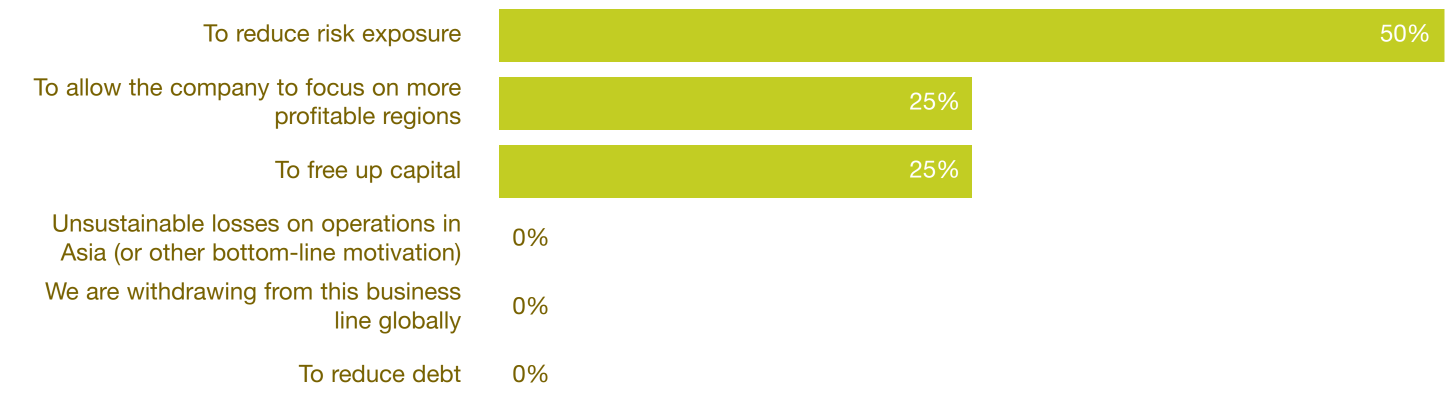

**1c. What are the steps you are taking to reduce capital expenditure?**



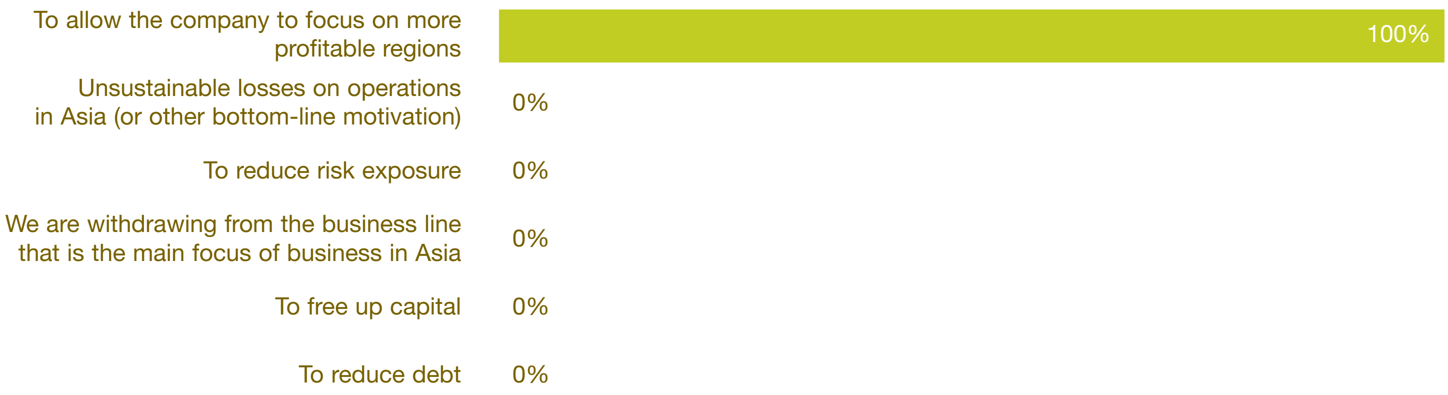

**1d. Which business lines are affected?**



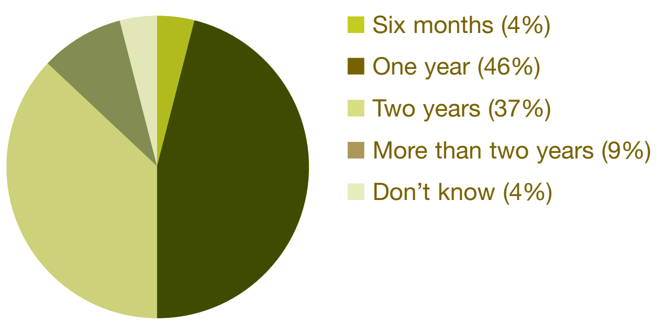
**1e. What is the main motivation for the divestiture?**



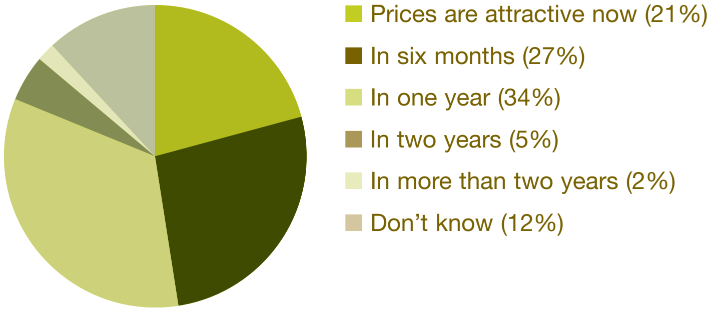

**1f. What is the main motivation for the divestiture? (Respondents from companies that have decided to exit the Asia region)**



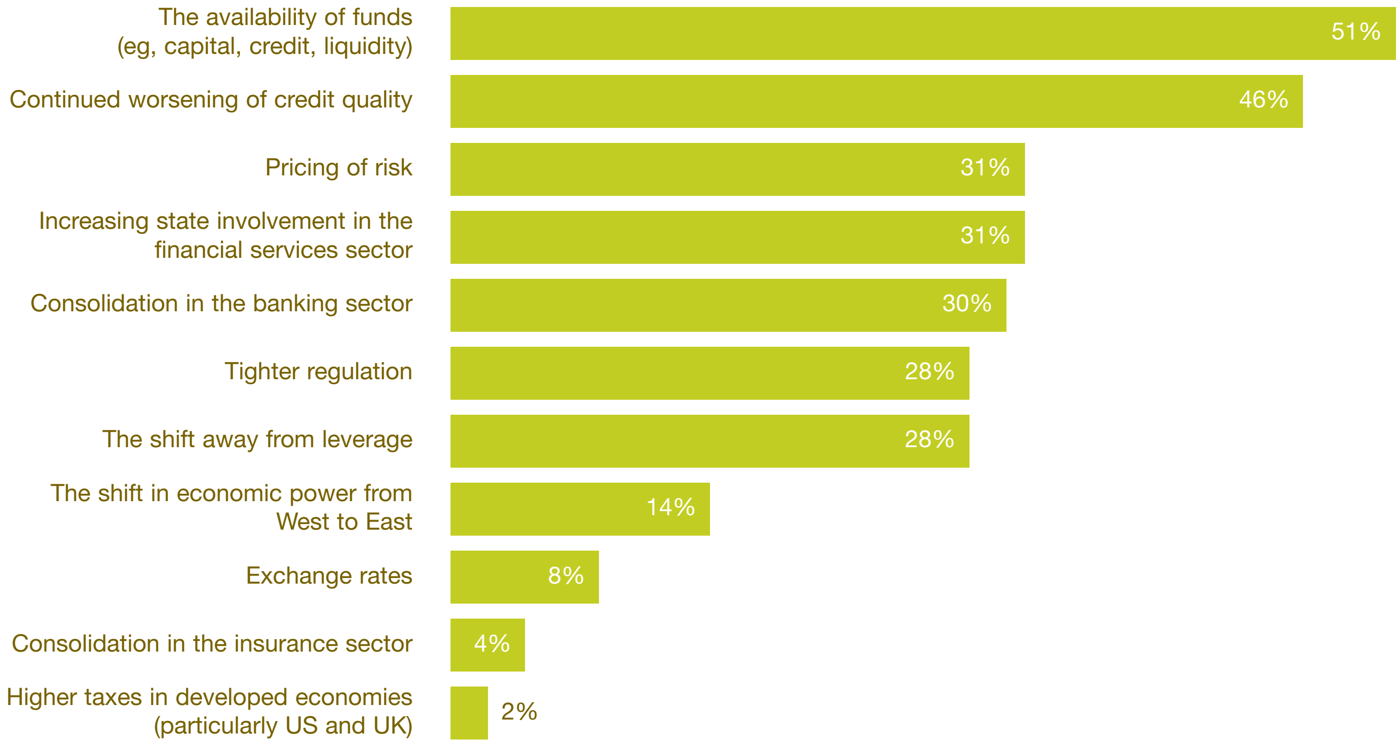

**2. How long does your company expect the credit crisis and resulting economic downturn to persist in Asia?**



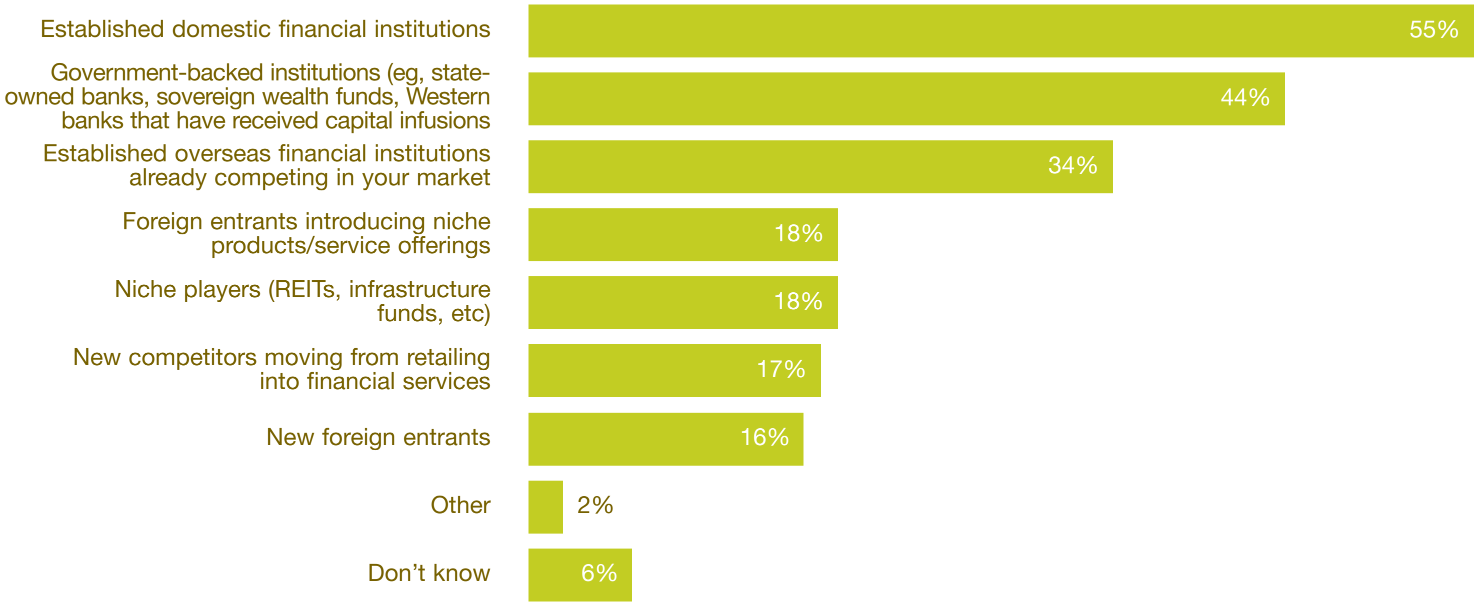
**3. At what point do you expect pricing of assets to become attractive to your company?**



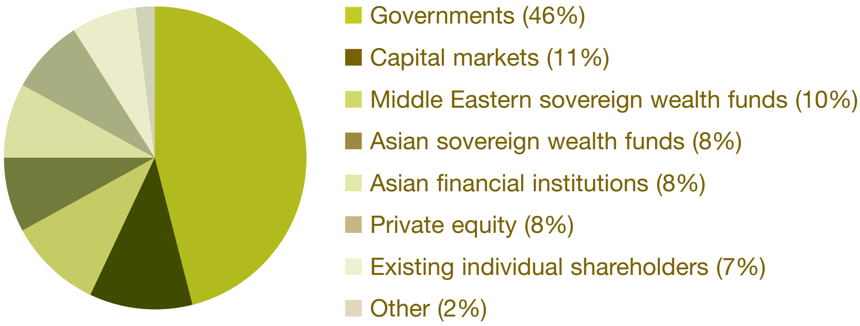

**4. What do you think will be the most important factors driving change in the financial services industry in the short term?**



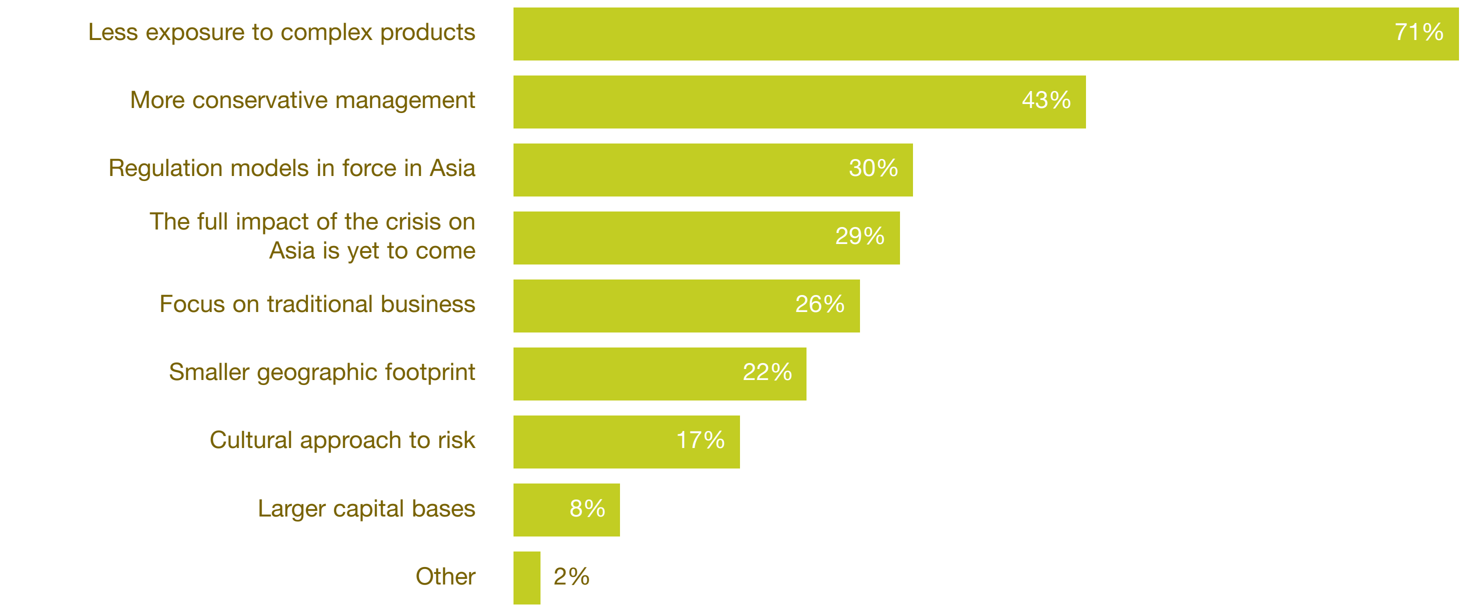
**5. Which of the following financial institutions now pose an increased competitive threat as a result of the financial crisis?**



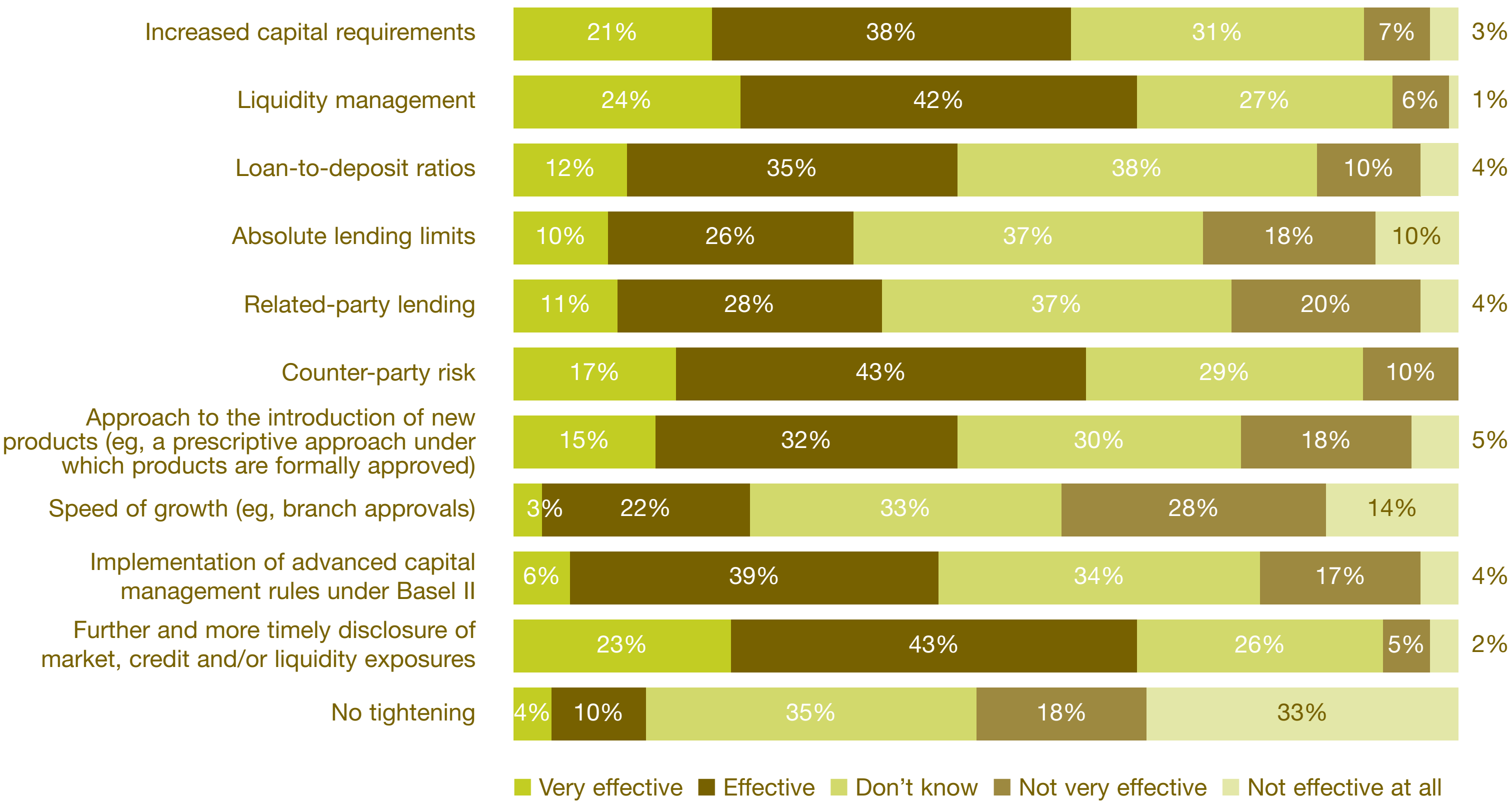

**6. What do you expect to be the major source of capital for financial institutions in the coming year?**



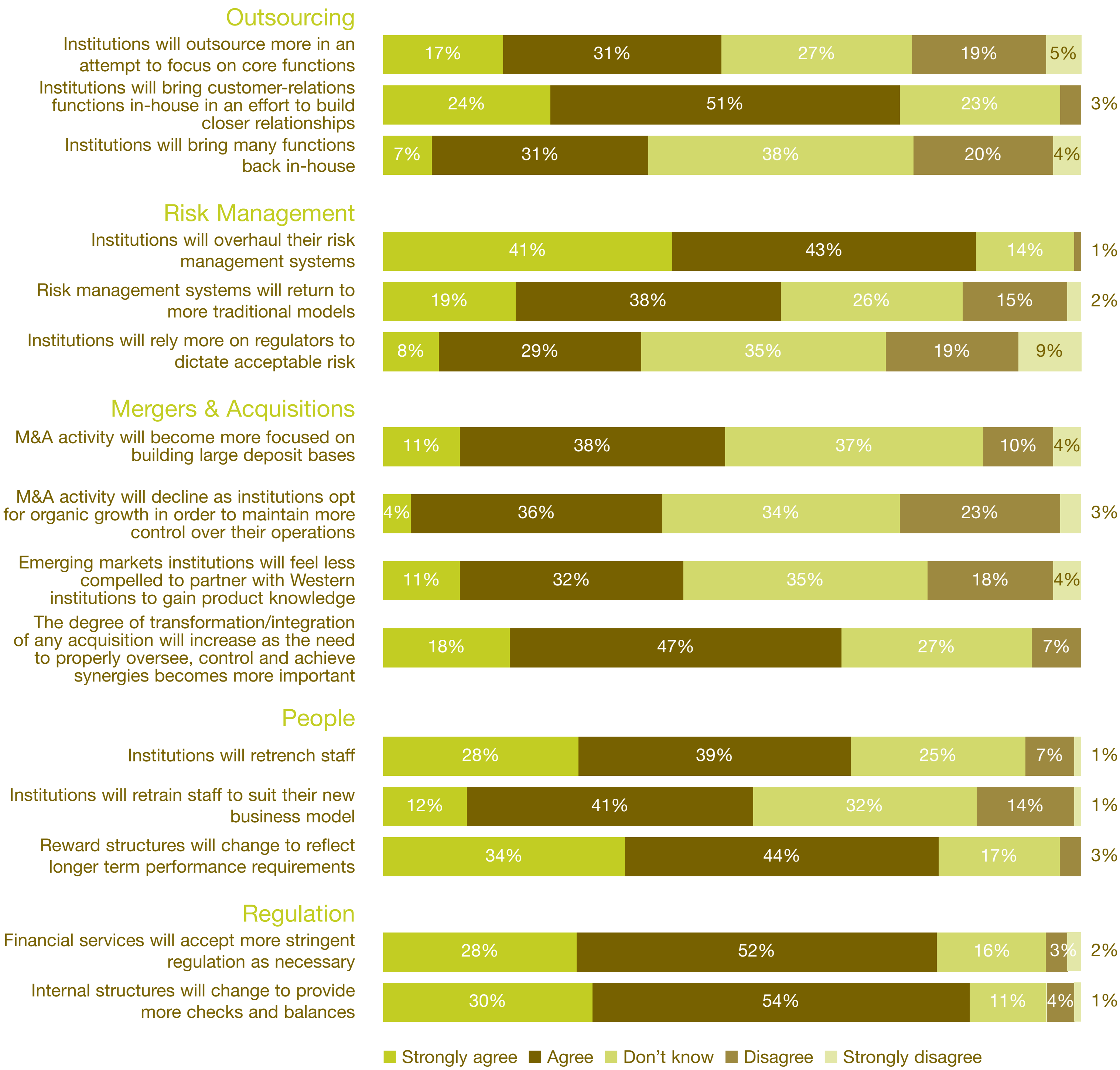
**7. Asia's financial institutions have escaped the financial crisis relatively unscathed. To what would you attribute this?**



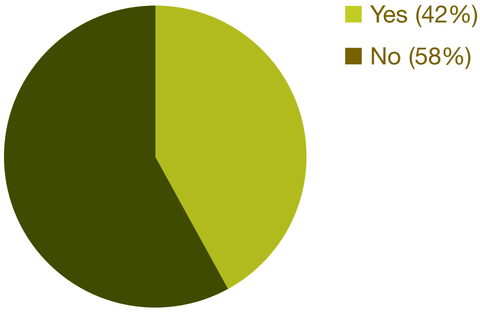

**8. In which areas do you think regulatory tightening would be most effective in preventing future financial crises?**



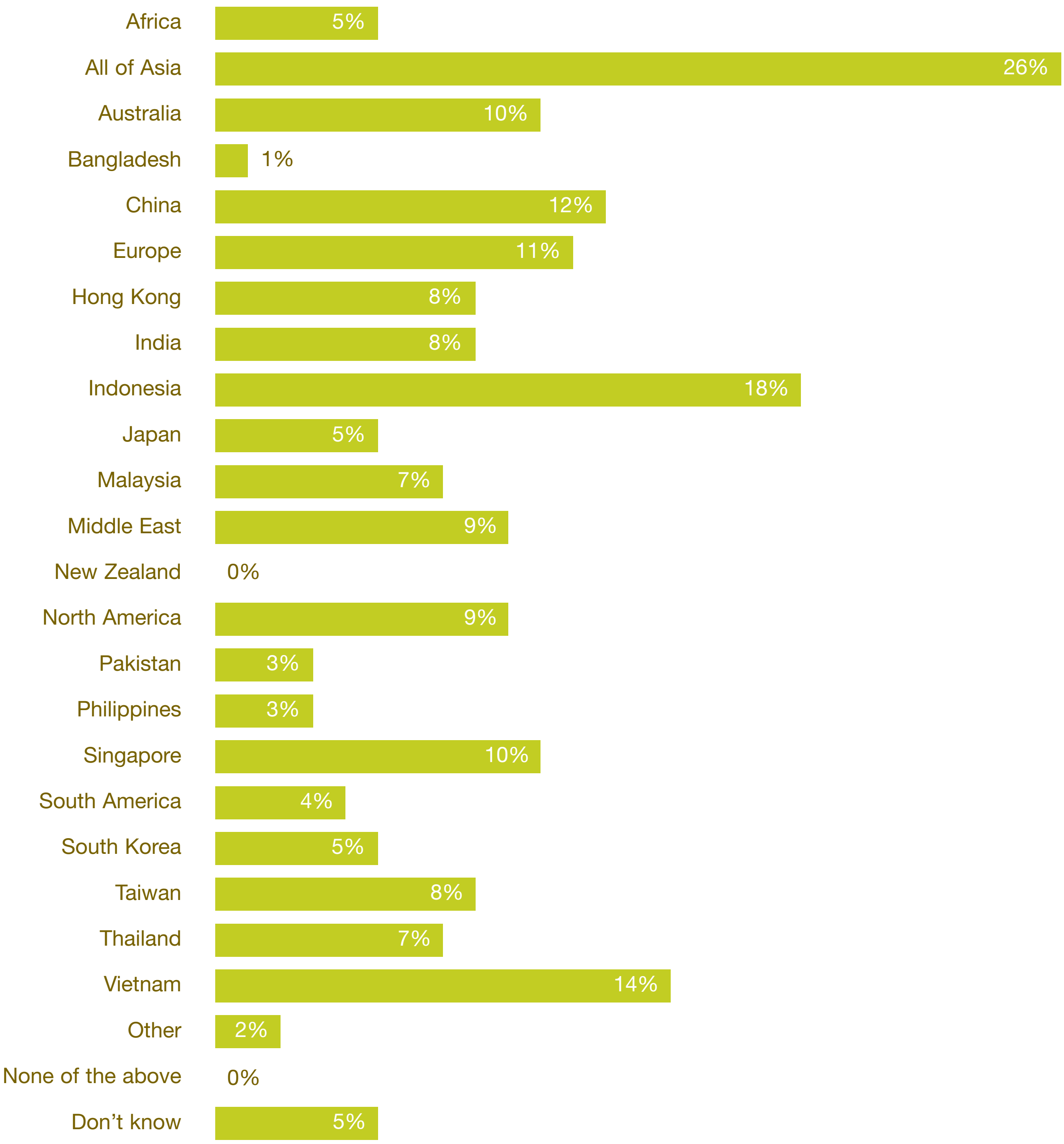
**9. As a result of recent events many observers of the financial services industry are of the strong opinion that a move away from "complexity" and towards "simplicity" is necessary. Thinking about your own company, what do you expect would be the impact of a move to simplicity in the following areas?**



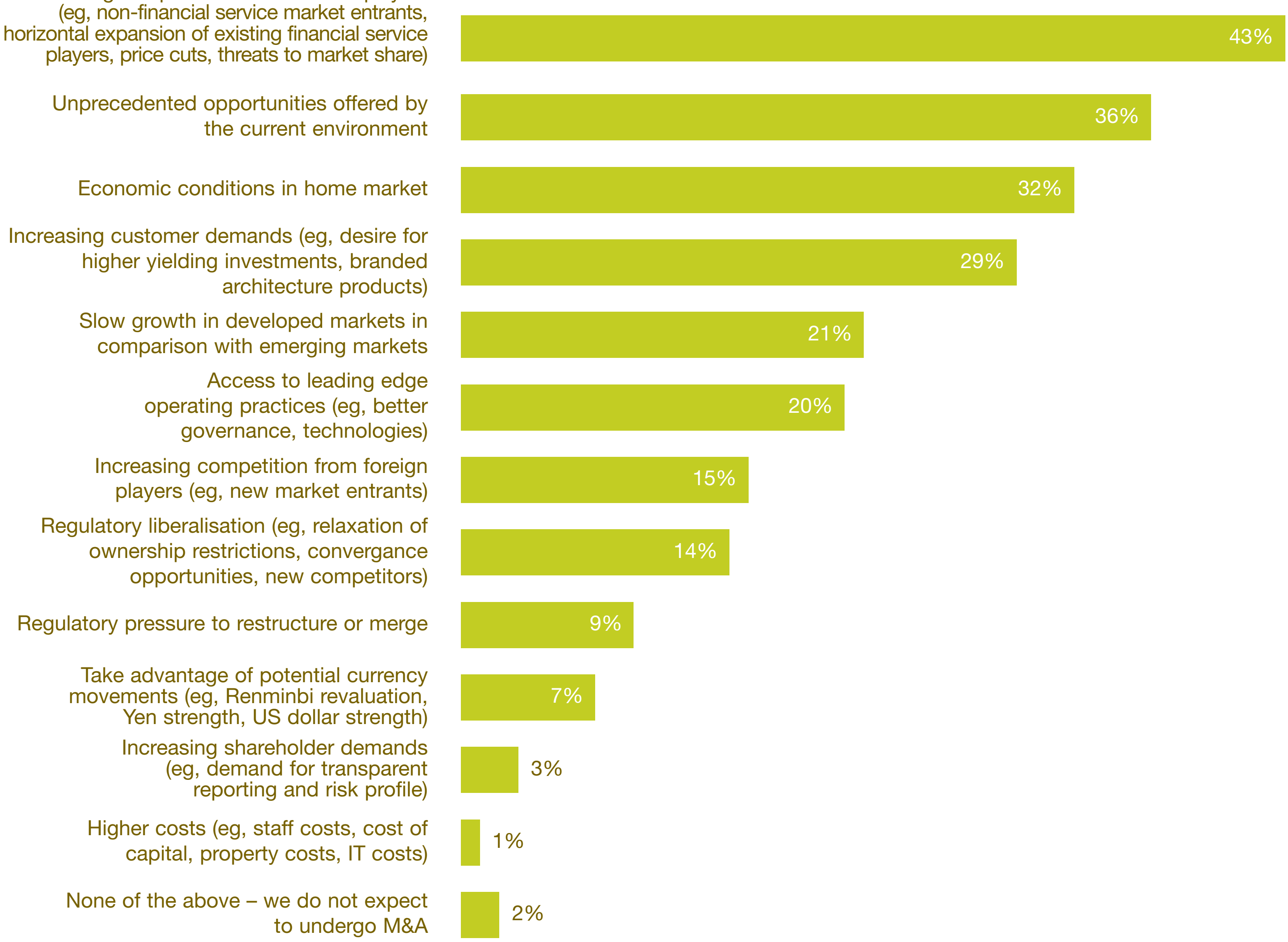
**10. Is your company likely to make an acquisition in the coming year?**



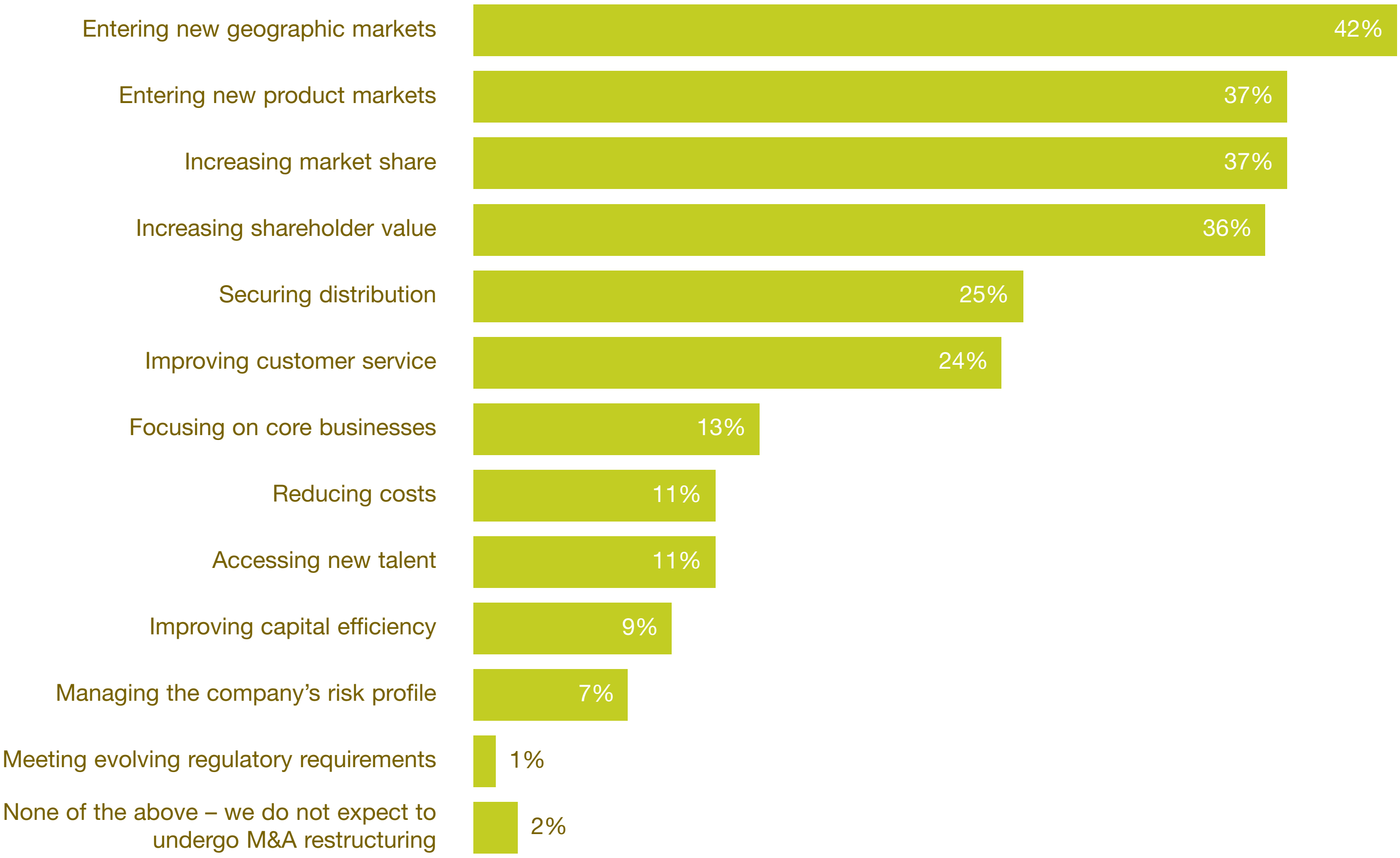

**11. In which countries or regions do you expect your company to make an acquisition? Select all that apply.**



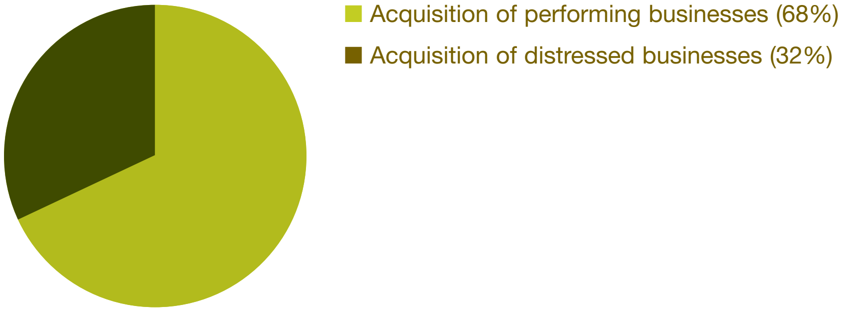
**12. What will be the main external drivers of your company's M&A?**



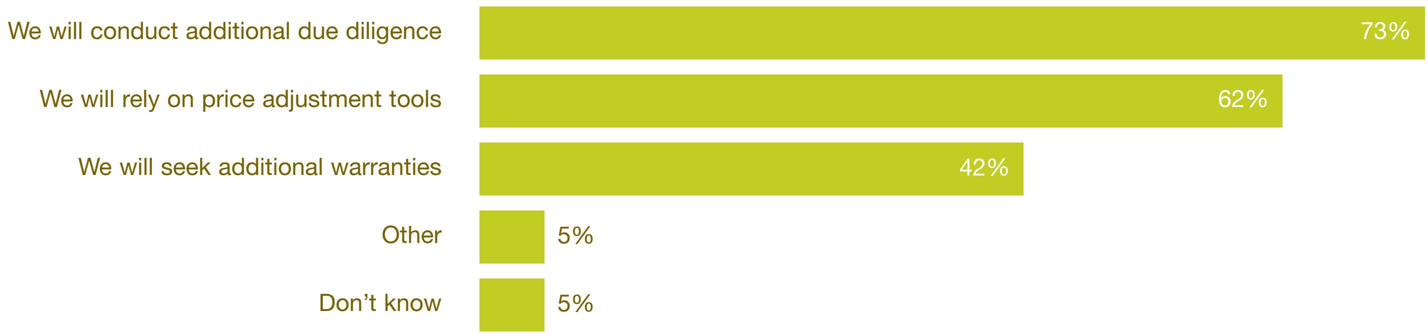
**13. What will be the main goals of your company's M&A?**



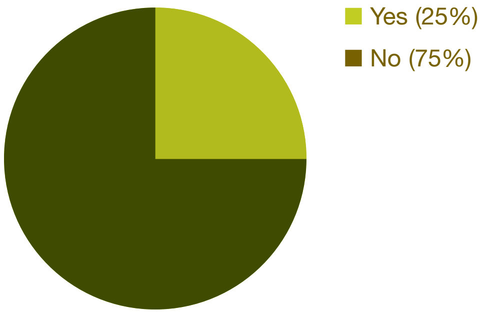
**14. What types of deals do you anticipate?**



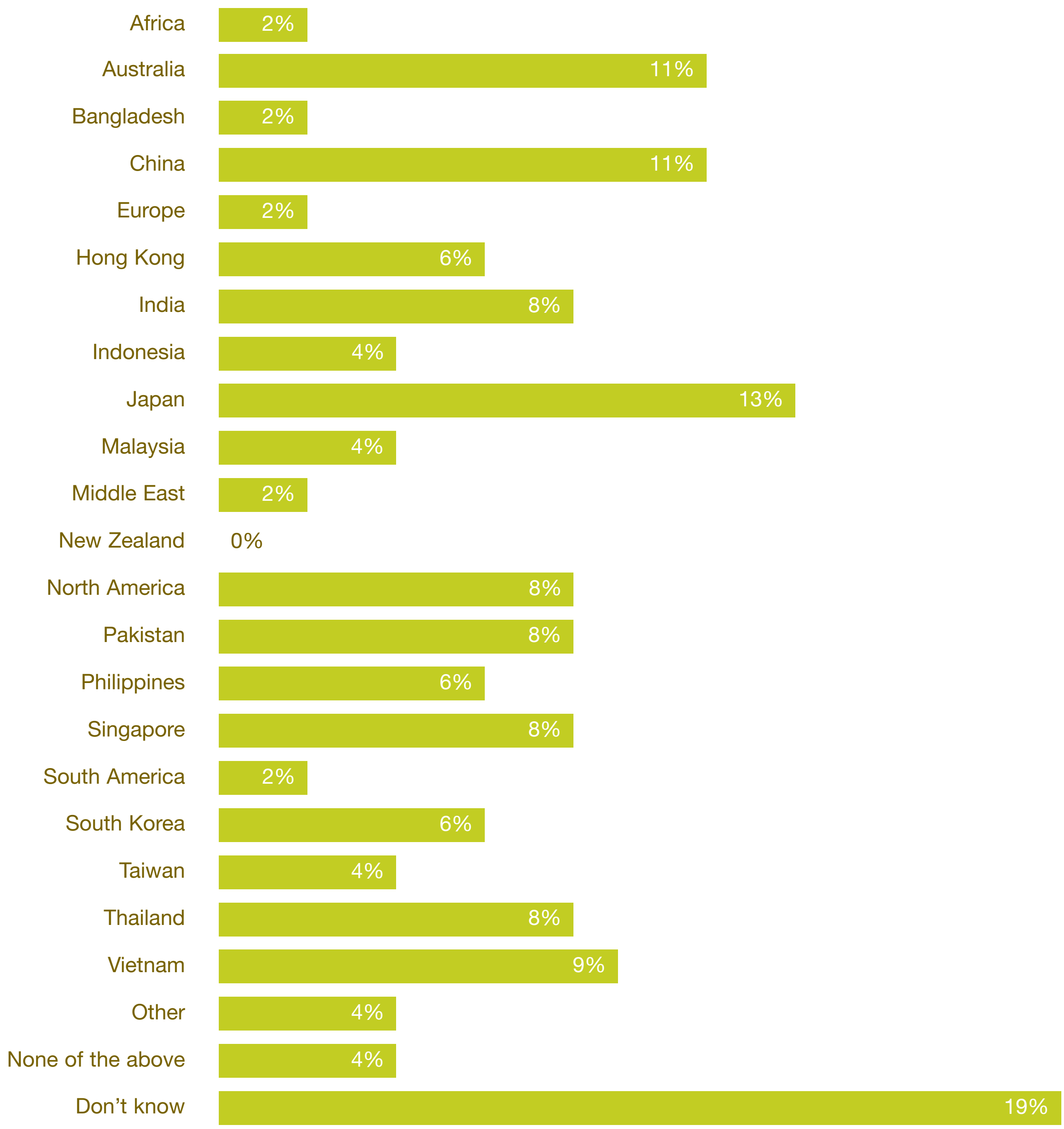

**14a. How do you intend to respond to the increased risk surrounding the acquisition of distressed assets in the current environment?**



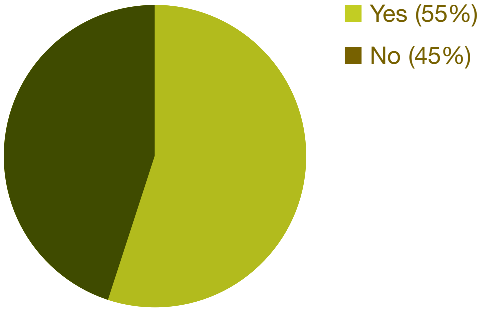

**15. Is your company likely to make a divestment in the coming year?**



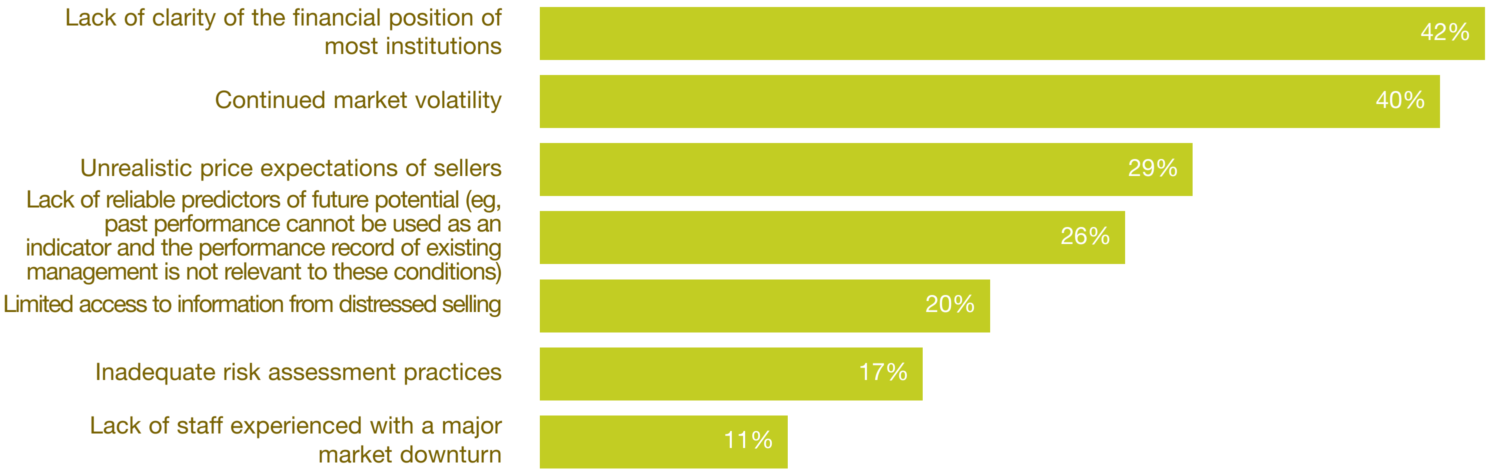
**16. In which countries or regions do you expect your company to make divestments?**



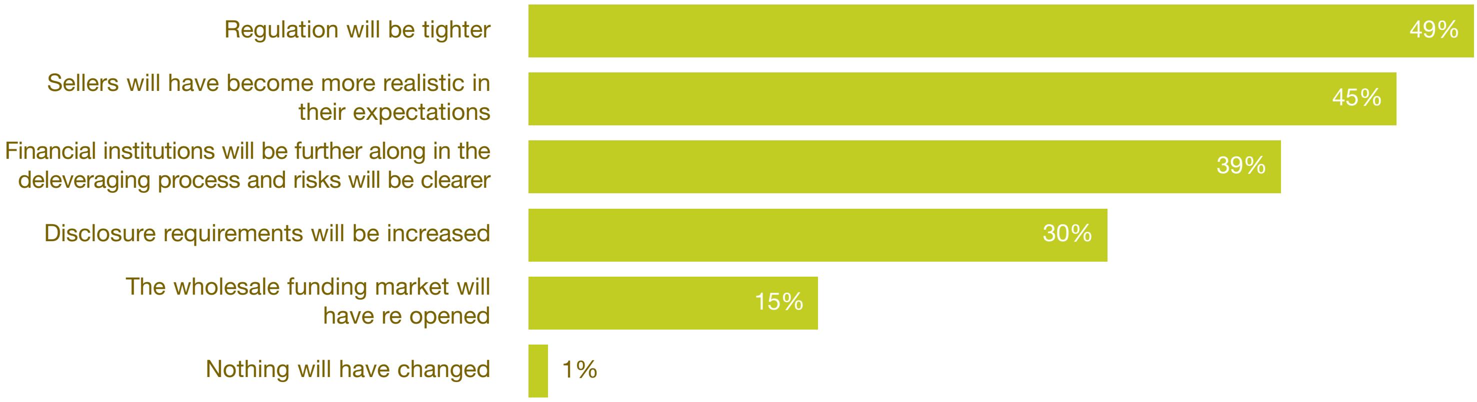
**17. Thinking of your own company's capabilities, do you think it is possible in the current environment to come up with a fair valuation of an acquisition target?**



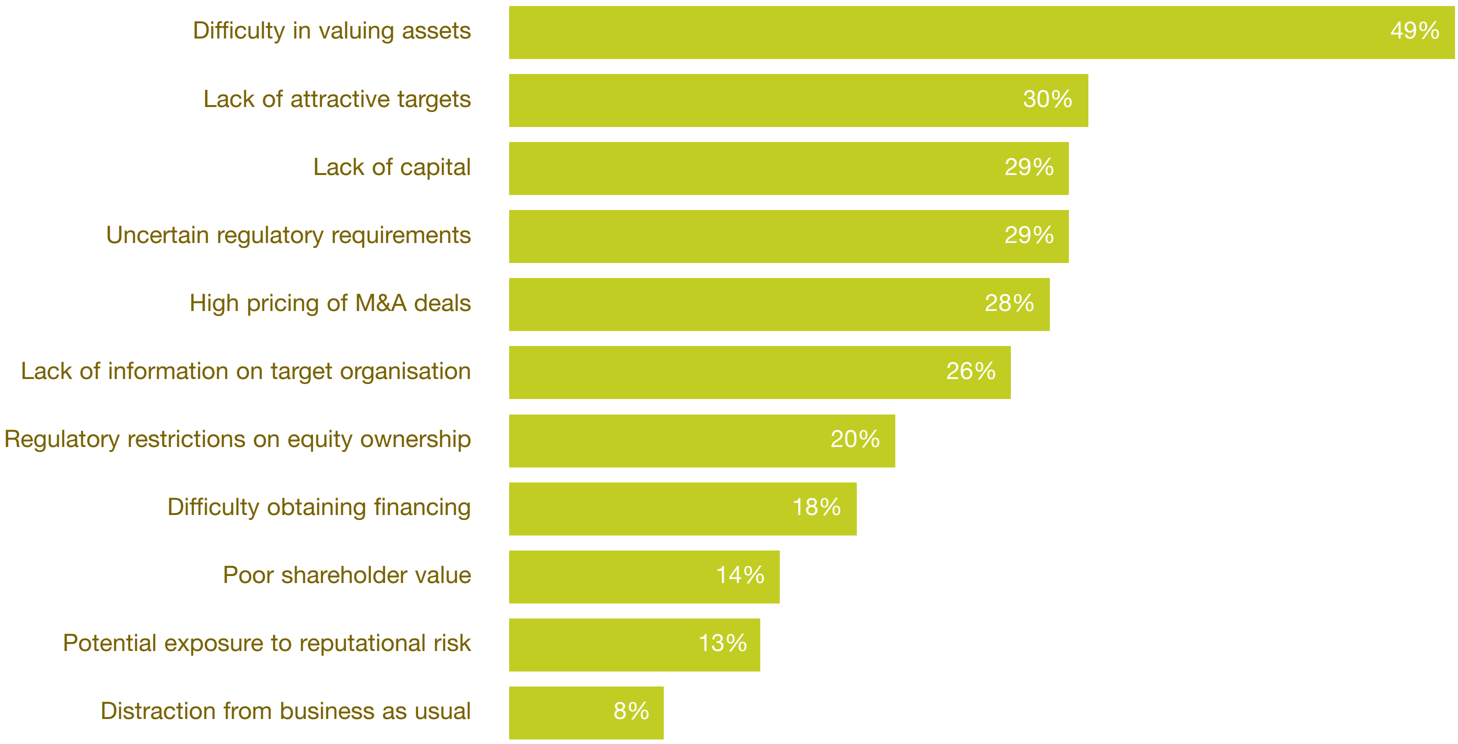

**18. What do you see as the most significant obstacles to fair valuation?**



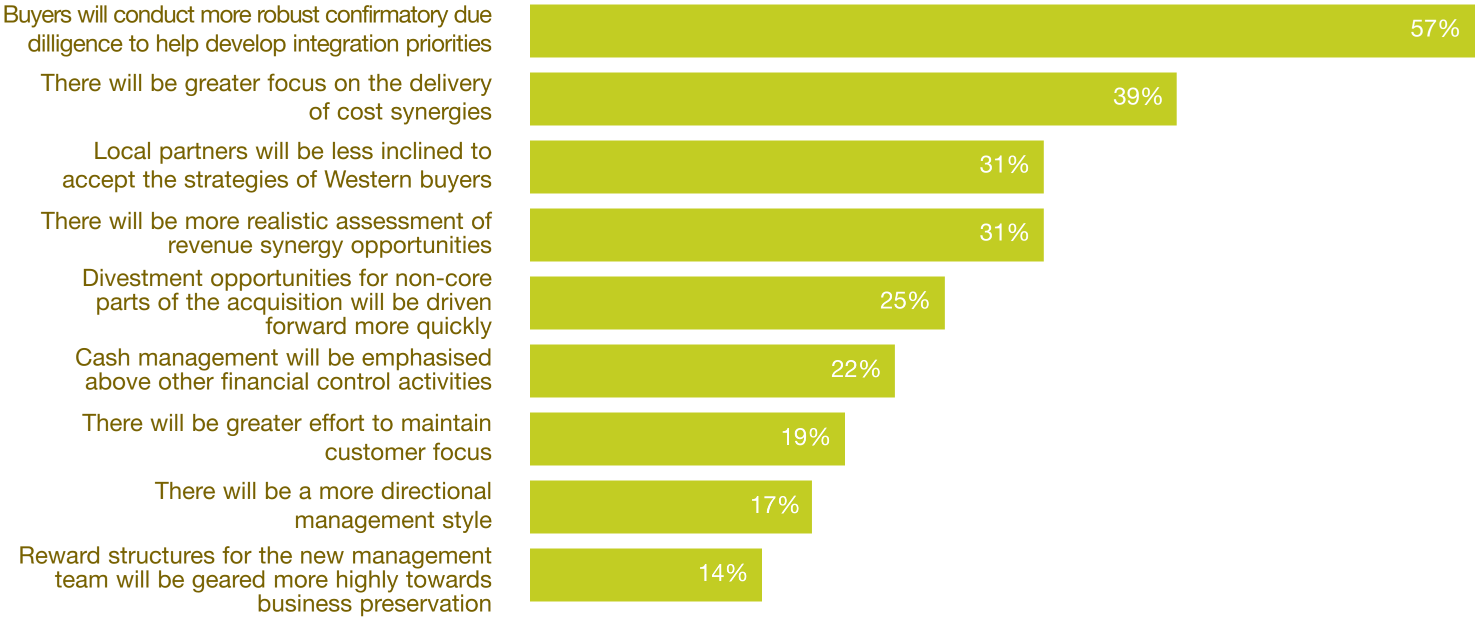
**19. What do you think will have changed in six months' time?**



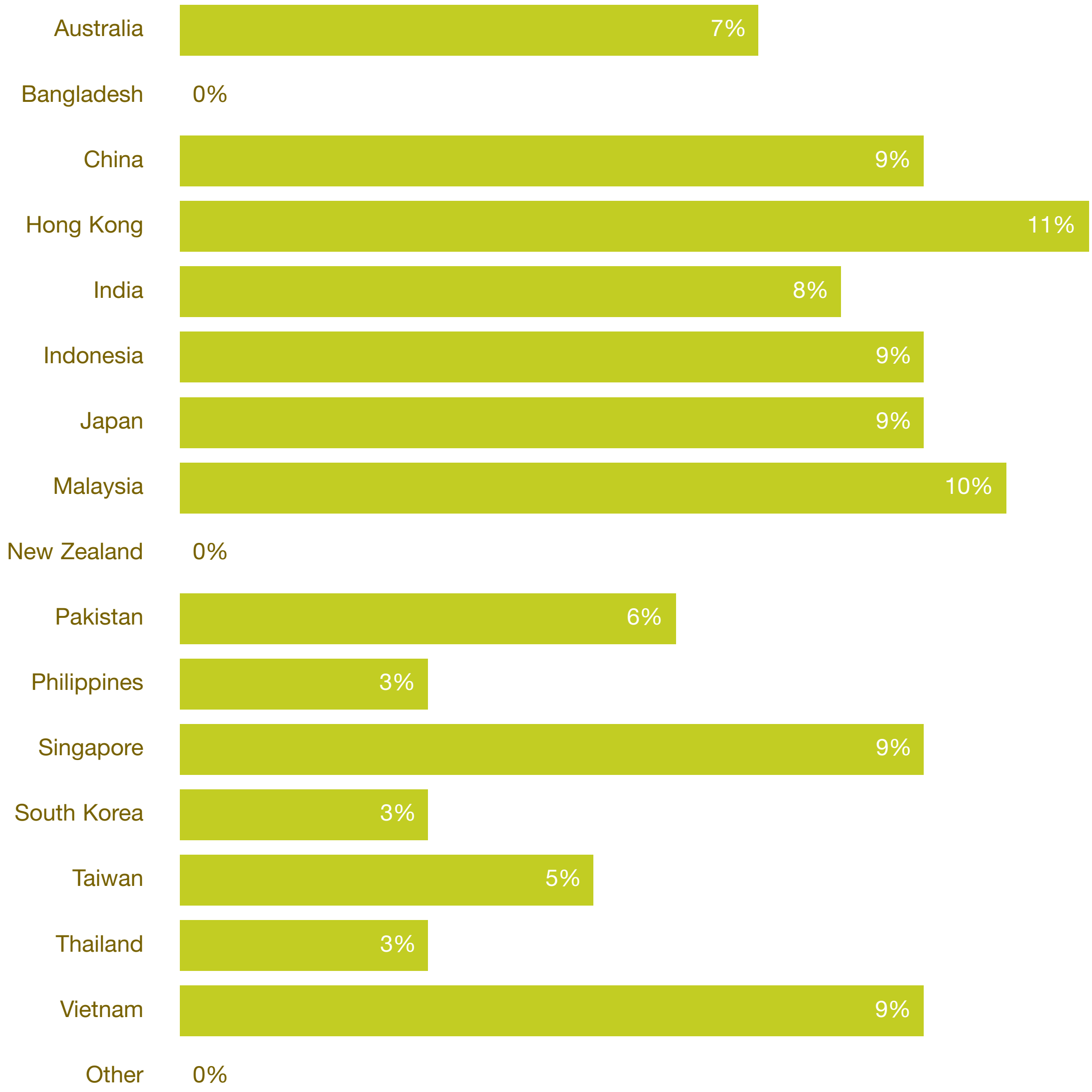

**20. From our company's point of view, what are the principal barriers to undertaking M&A deals in Asia?**



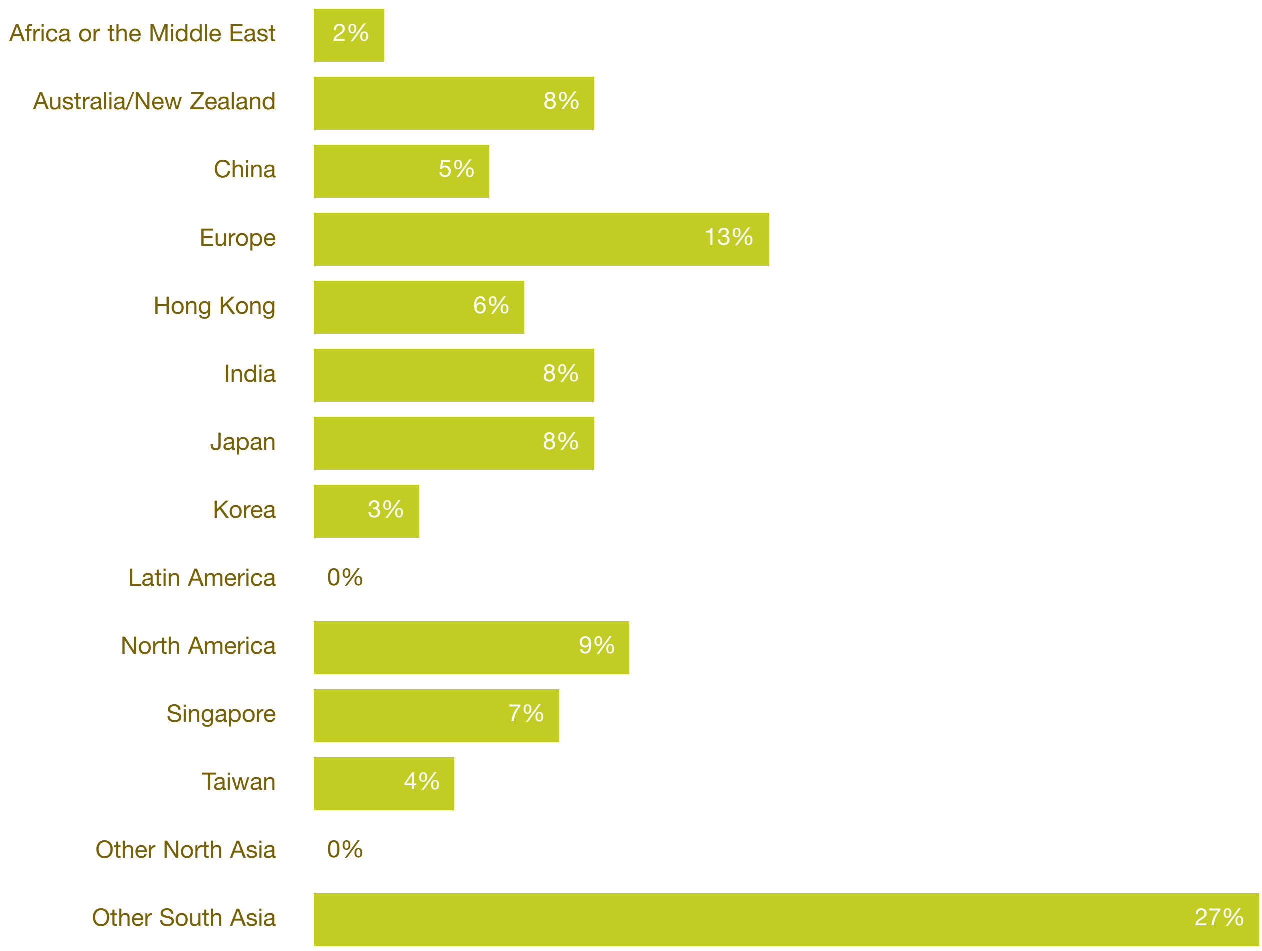
**21. Based on your experience, what do you think will be the impact of the current environment on the integration of acquisitions?**



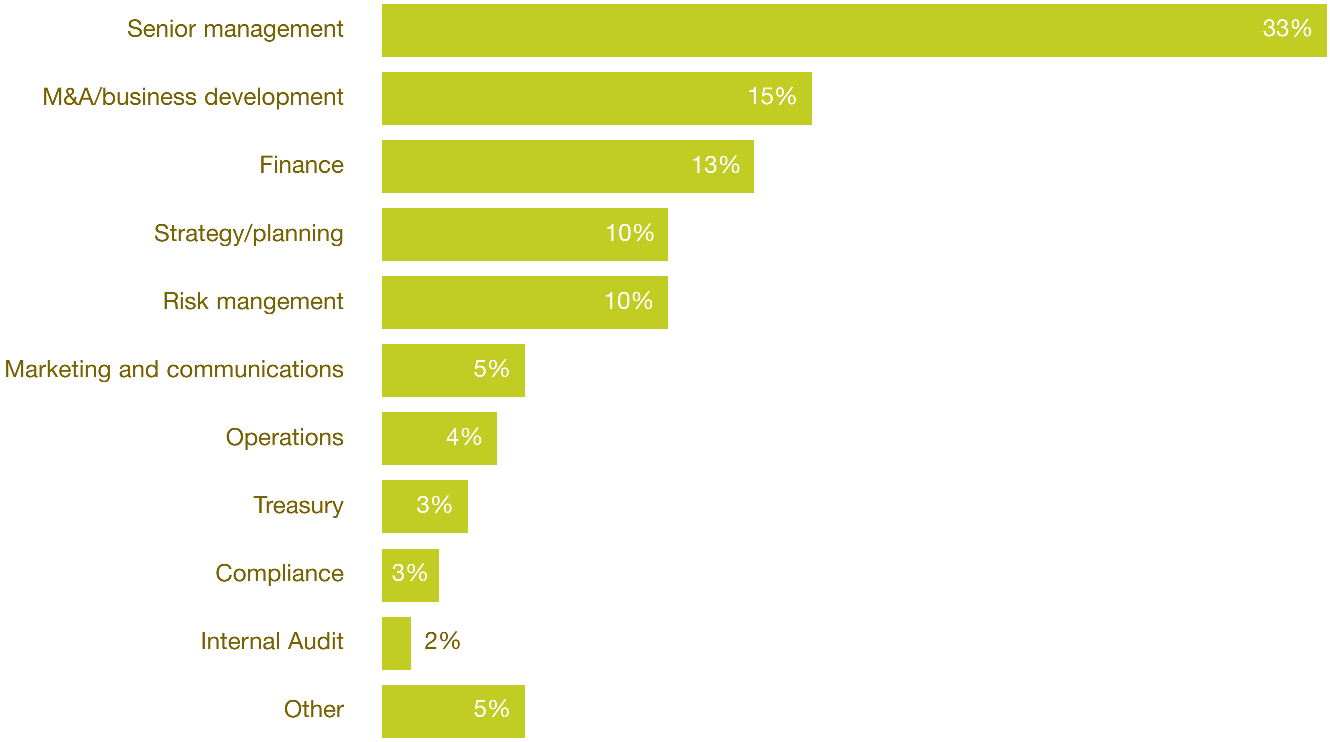
**21a. In which country are you personally located?**



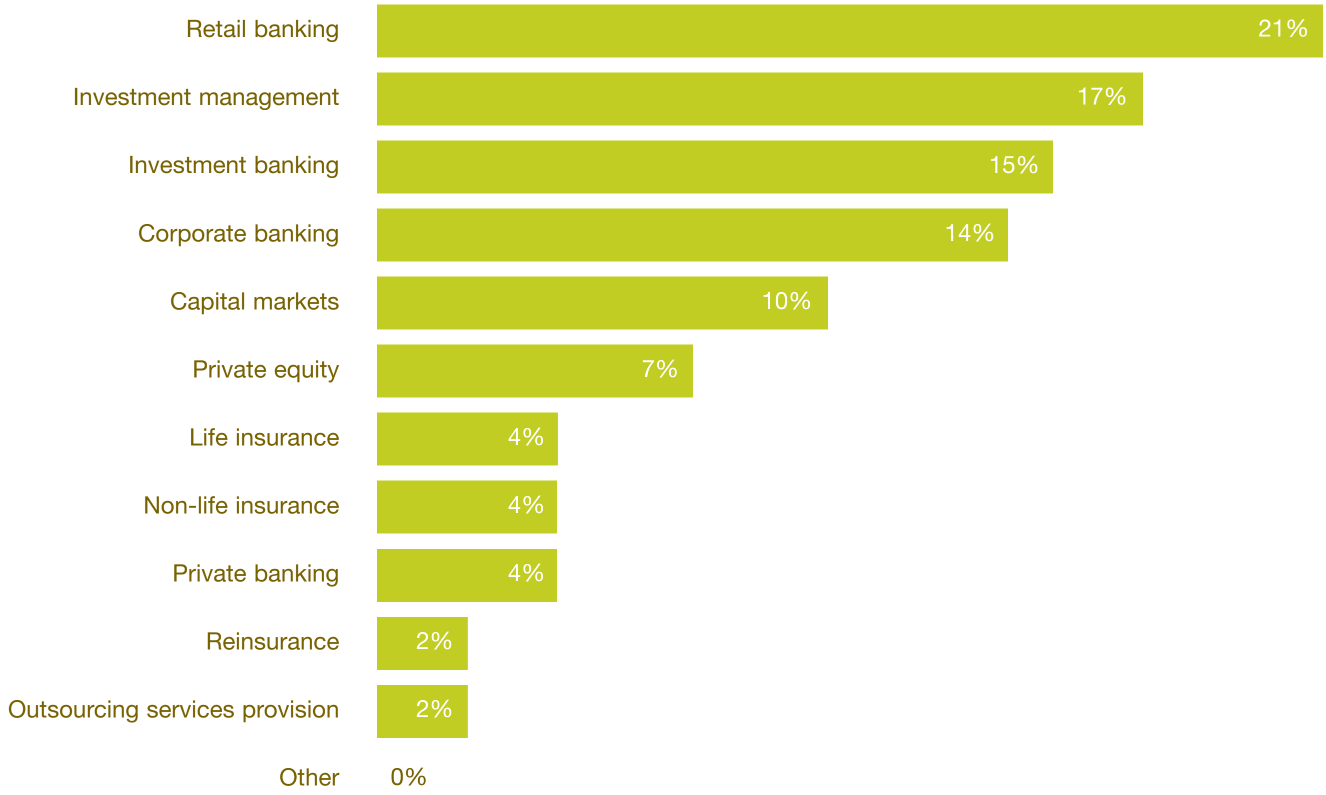
**21b. In which region is your company headquartered?**



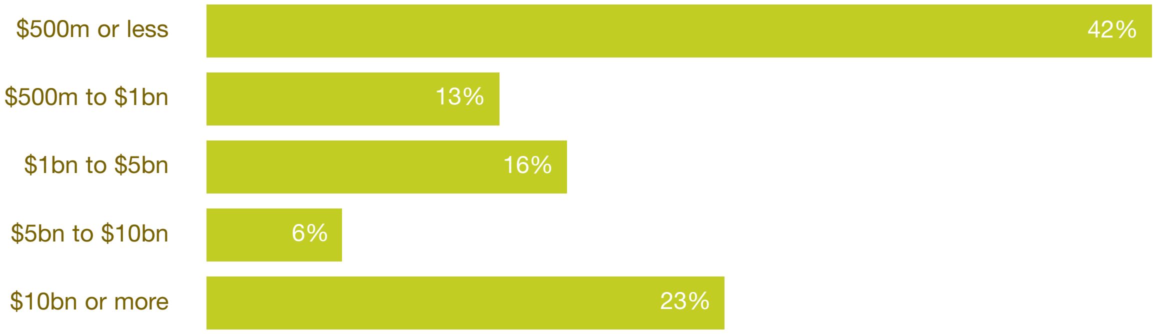
**21c. What is your primary area of responsibility?**



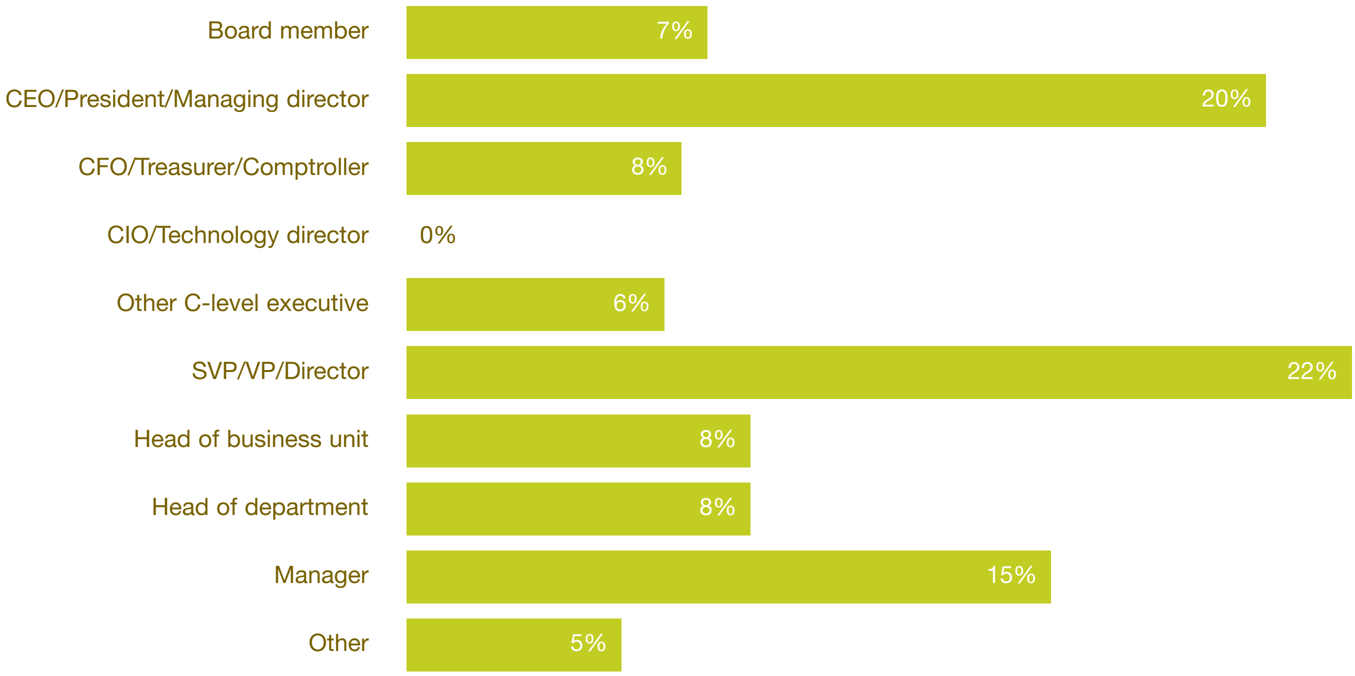
**21d. What industry sector of financial services do you personally focus on?**



**21e. What is your company's global annual revenue in US dollars?**




**21f. Which of the following best describes your title?**



Section | 8

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