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Globalization Trends in Financial Services

Korea Institute of Finance

24 June 2008

Twelve trends

1. Emerging markets
2. Internationalism
3. Consolidation
4. Volatility



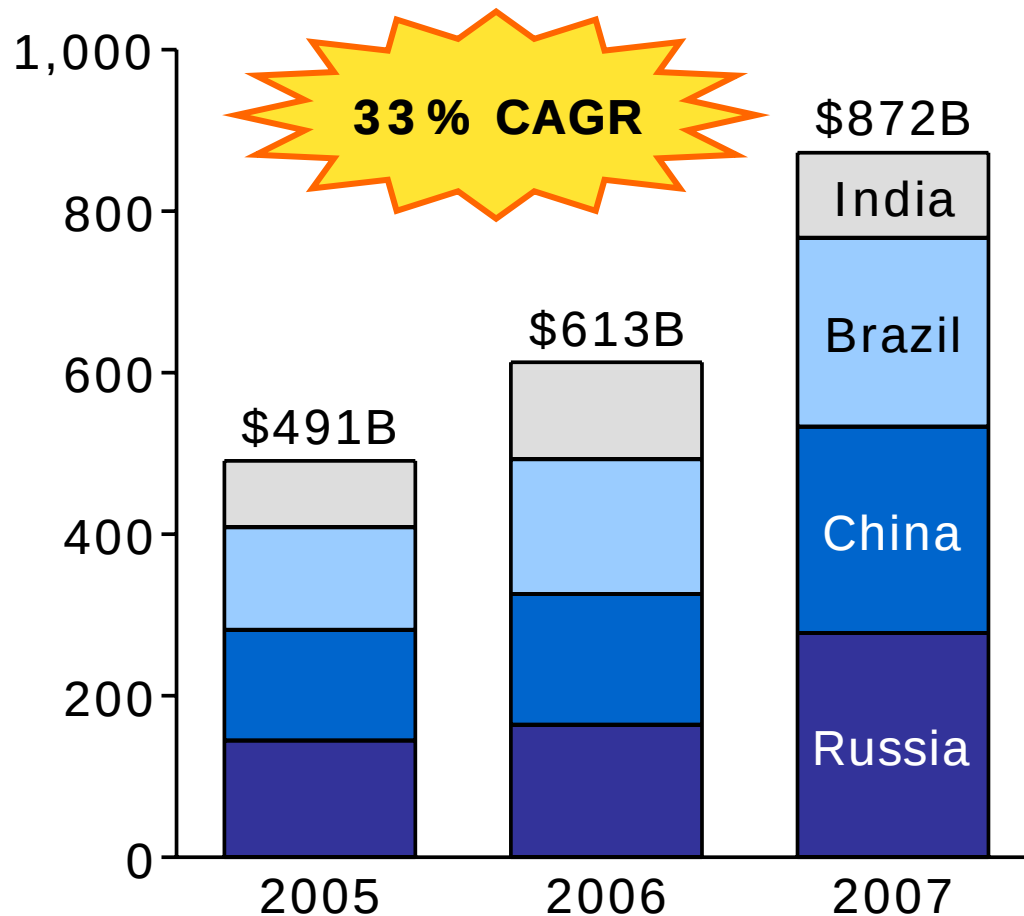
5. Mass affluence
6. Retirement
7. Price sensitivity
8. Distribution

9. Technology
10. Productivity
11. Risk management
12. Talent

1 Emerging markets to drive FS growth

Financial assets (\$B)

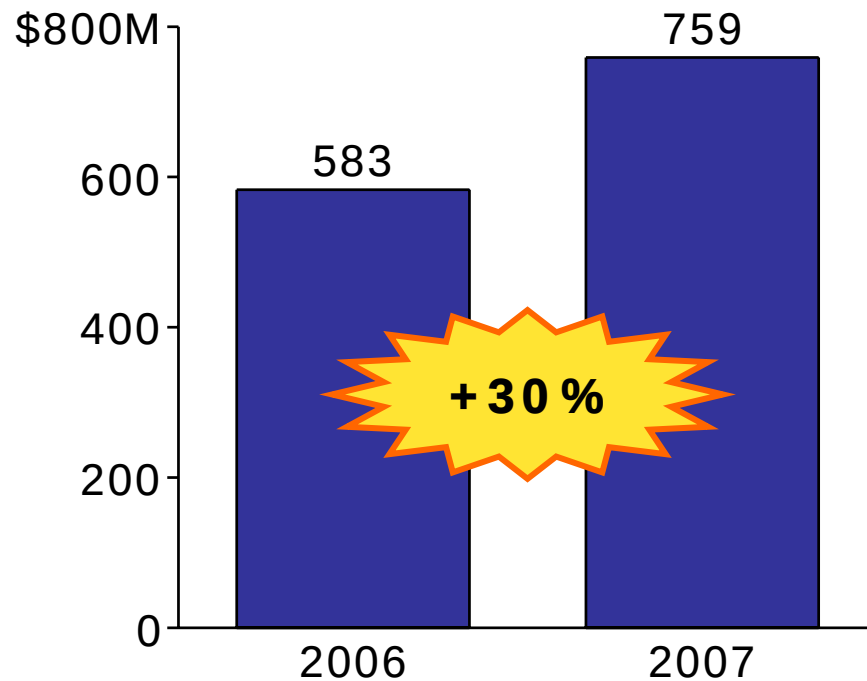
CAGR
(2005-07)



2 Emergent leaders to go international



Overseas revenue

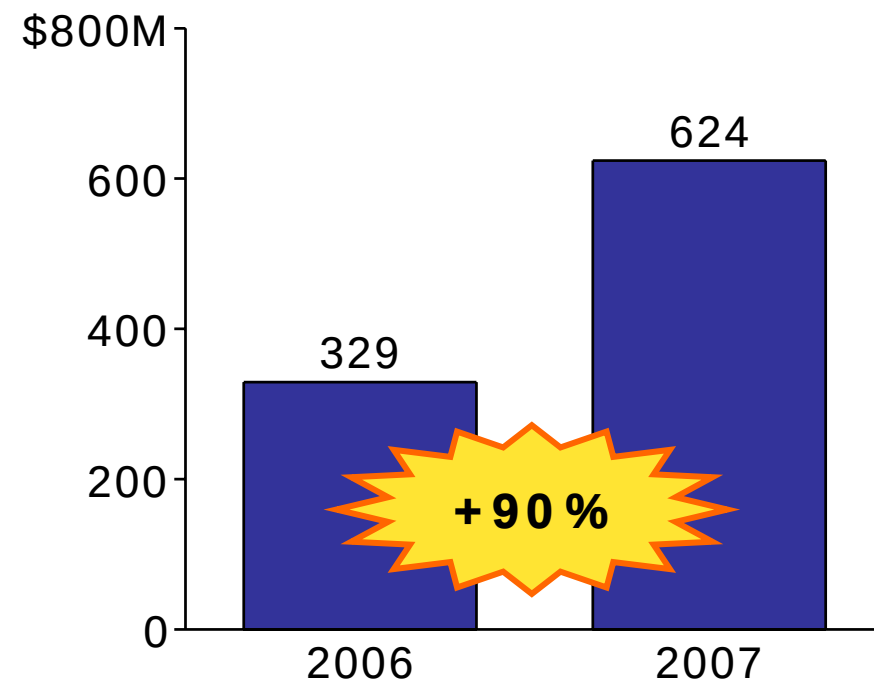


*"We will pursue a combined strategy of **acquisitions and new projects** in expanding overseas."*

President, ICBC



Overseas revenue

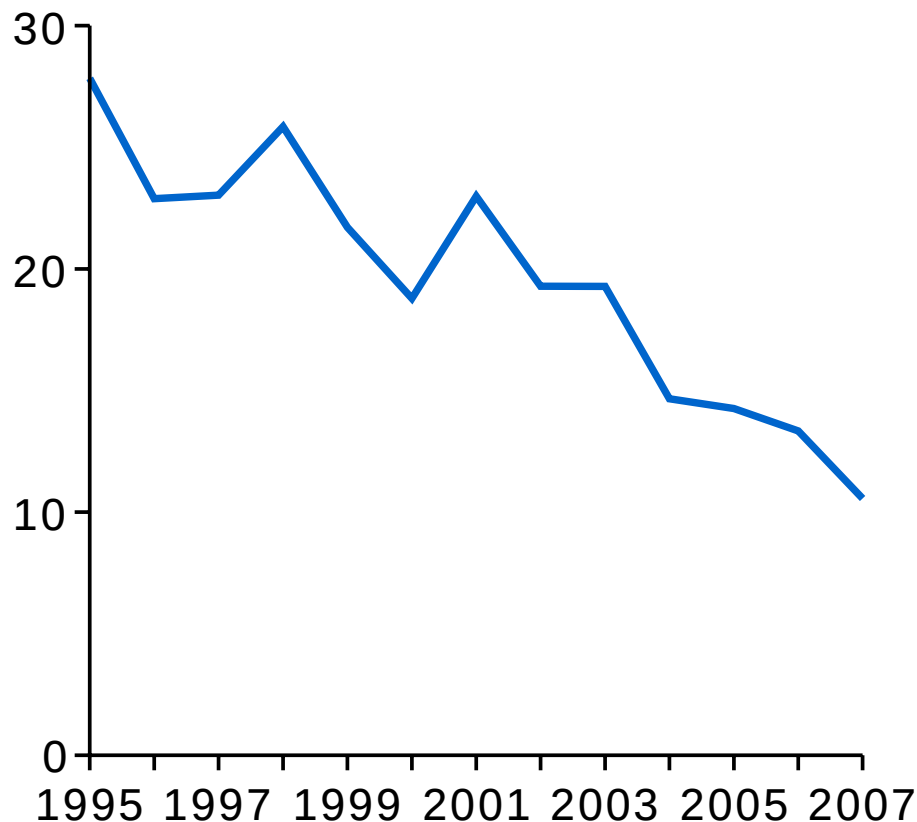


*"We plan to **expand further** and **deepen presence in China...**"*

Executive Director, ICICI Bank

3 Sector consolidation to recommence

Global FS trailing PE ratio

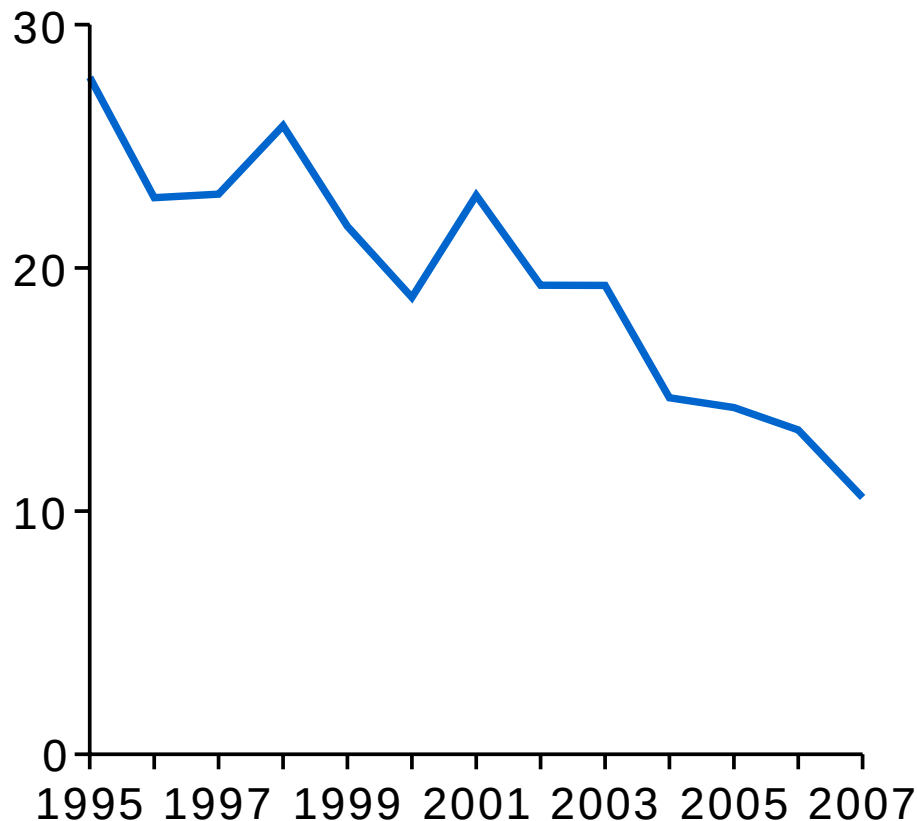


*“The European banking sector has not been this cheap for 16 years ... For well-capitalised banks such as UBS, **now is a perfect time to consider acquisitions** as part of a more general restructuring.”*

Financial Times,
9 June 2008

3 Sector consolidation to recommence

Global FS trailing PE ratio

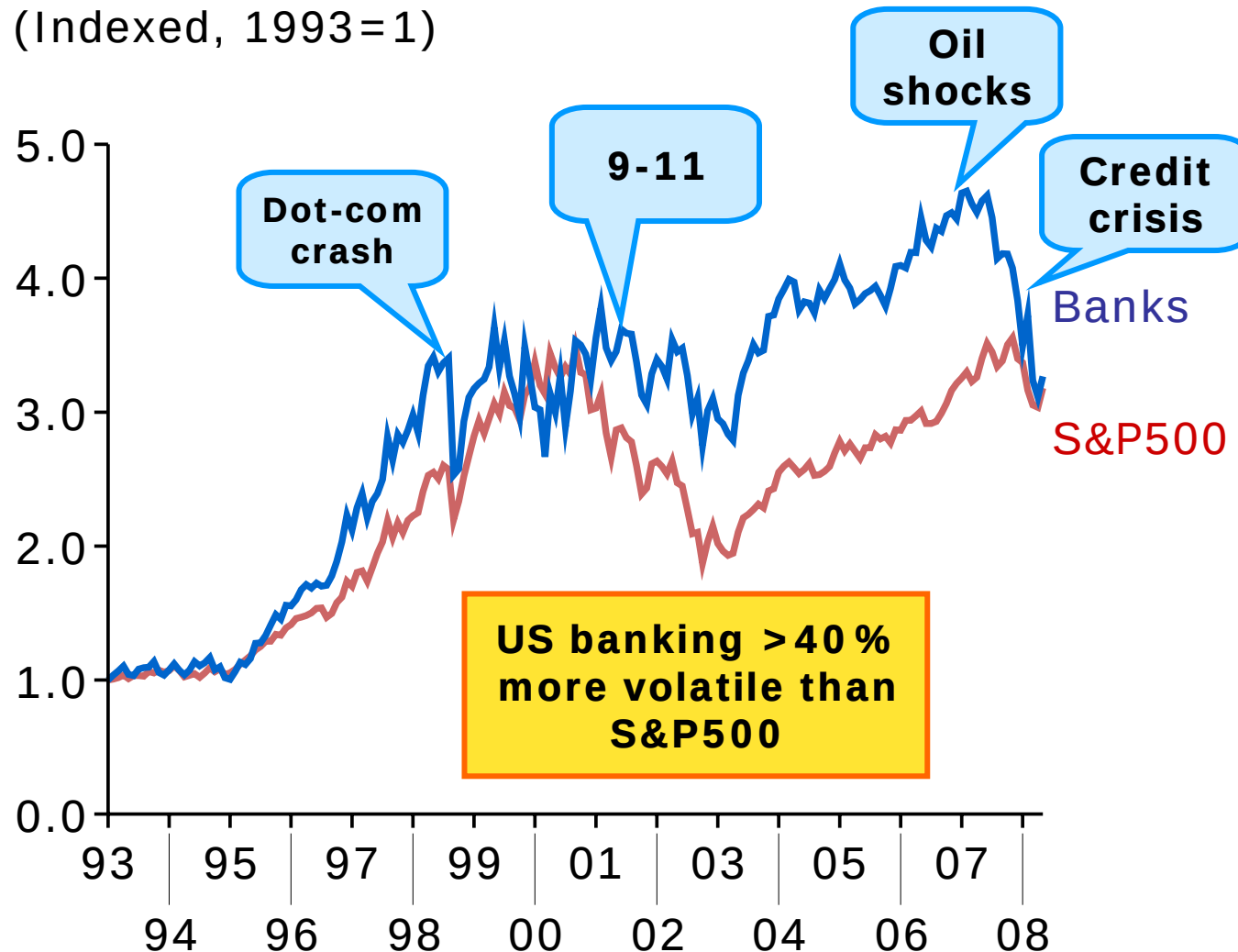


Implications

- Exploit near-term **valuation anomalies**
- Build **local market leadership**
- Build **global product leadership**
- Accelerate pace and quality of **execution**

4 Sector volatility to remain high

US Banking vs S&P500 Performance
(Indexed, 1993=1)

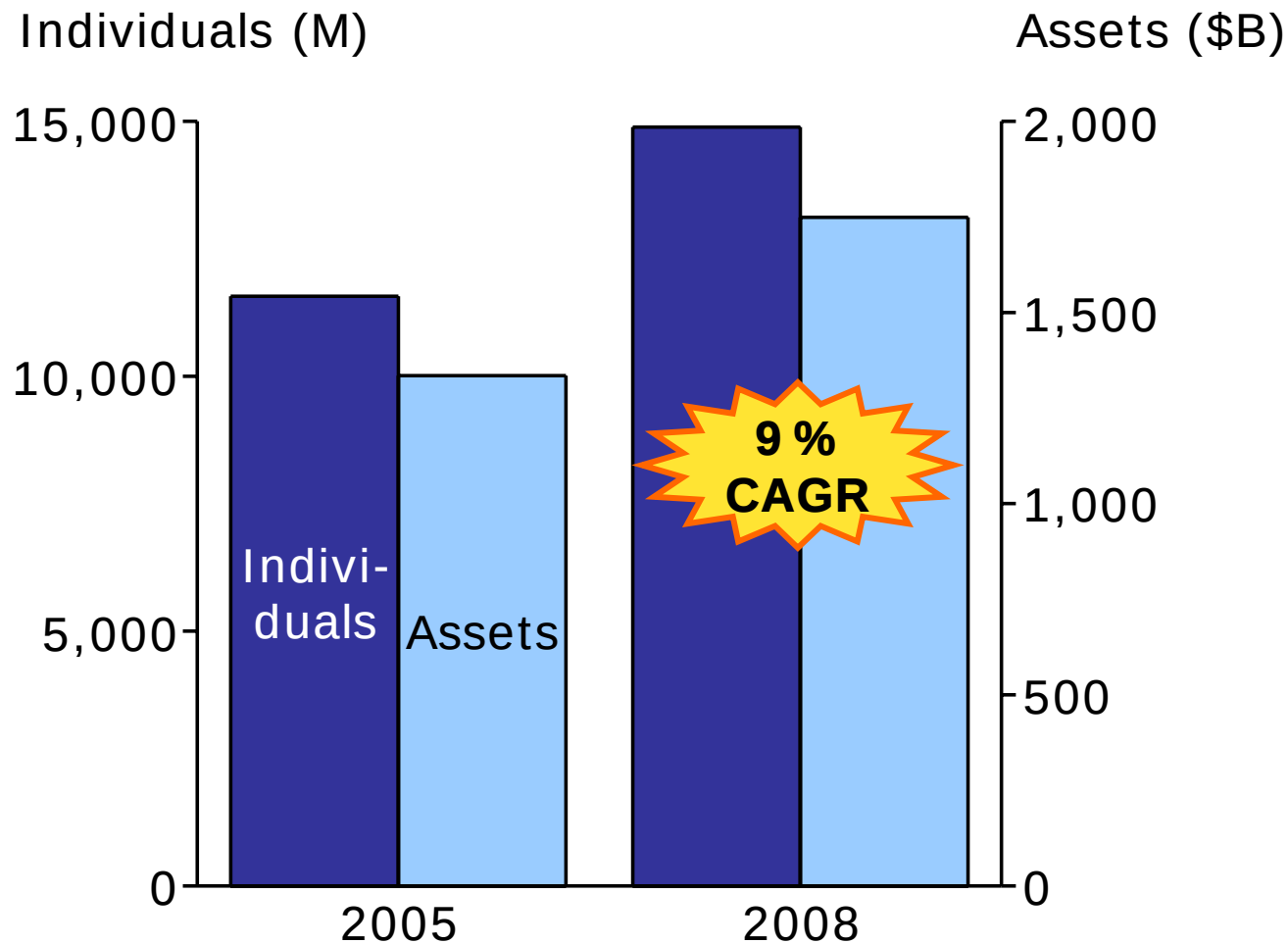


What's next?

- Recession
- Inflation
- Housing
- Commodities
- Protectionism
- Terrorism
- ?

5 Mass affluent to drive demand growth

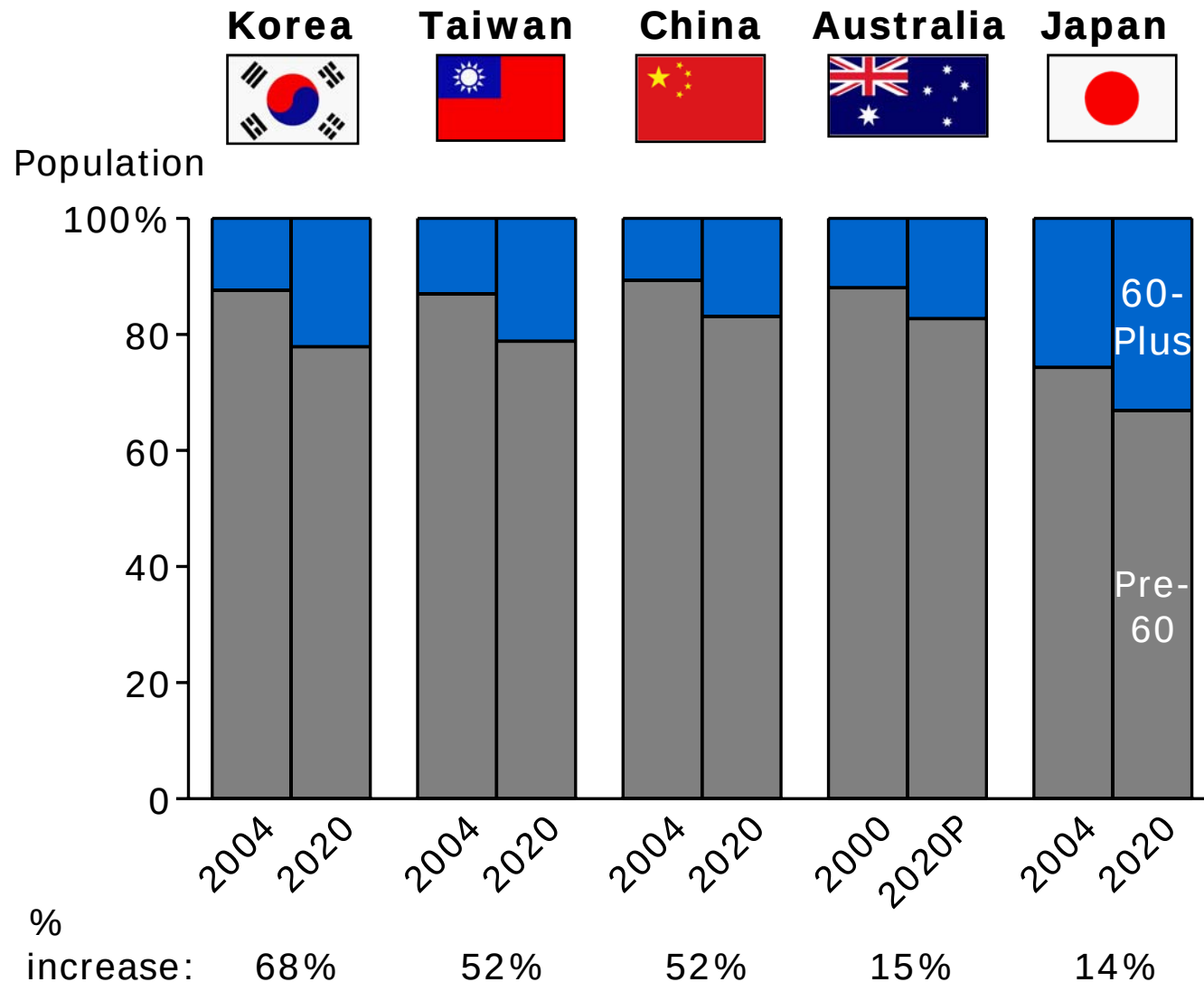
ASIA EX-JAPAN EXAMPLE



Implications

- **New needs** – asset management, wealth management, advice
- **New segments** – wealth-SME combo
- **New models** – banking, insurance, AM
- **New competitors** – for all of the above

6 Retirement to be the key consumer need

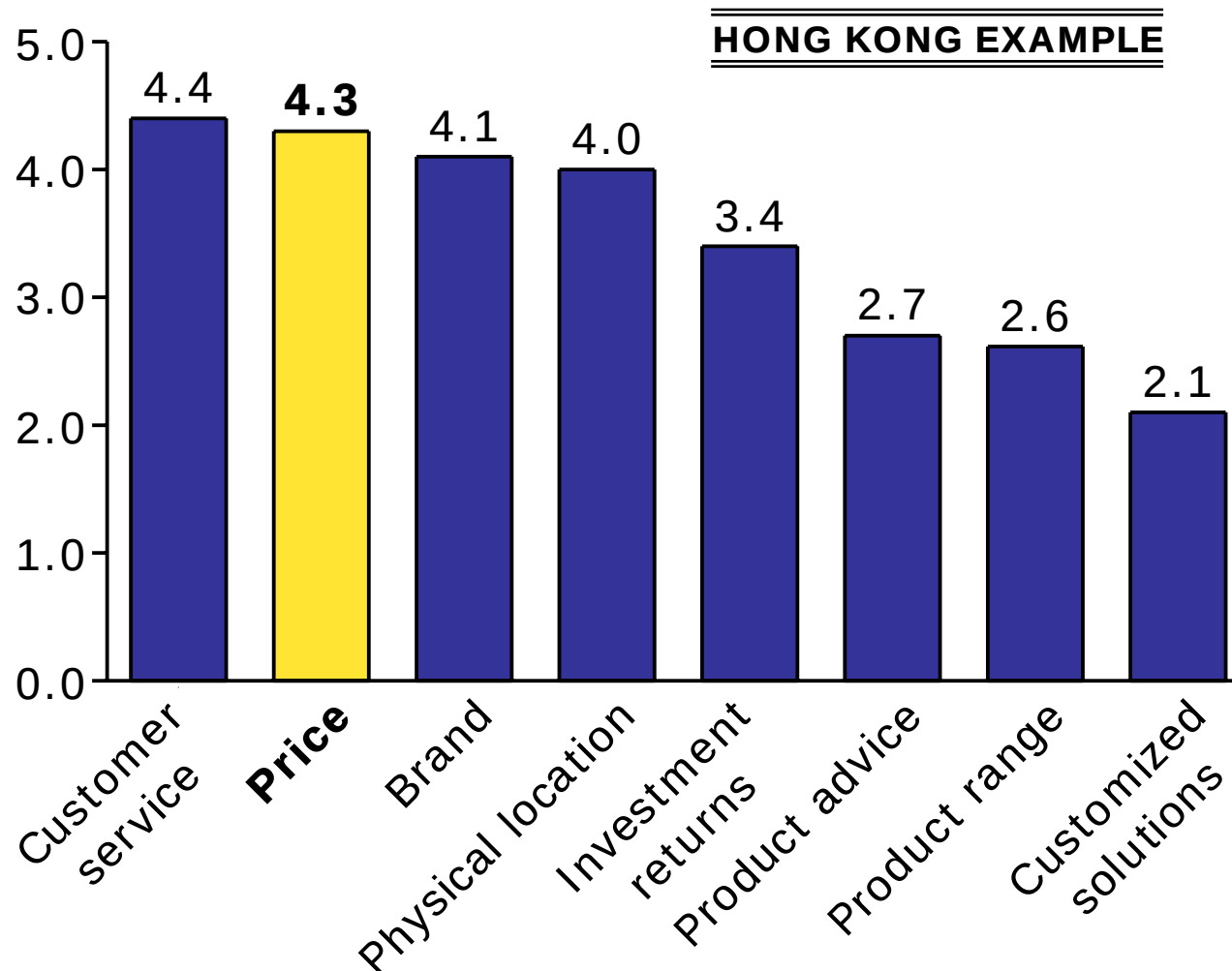


Implications

- Funding shortfall
- State pension bust
- Offer innovation
- Liability orientation
- Complexity shift
- Lifetime relationship

7 Customers to be ever more **price sensitive**

Importance of criteria in selecting provider



Drivers

- Competitive intensity
- Offer disaggregation
- Investment surprises
- Regulatory pressure



- Margin compression

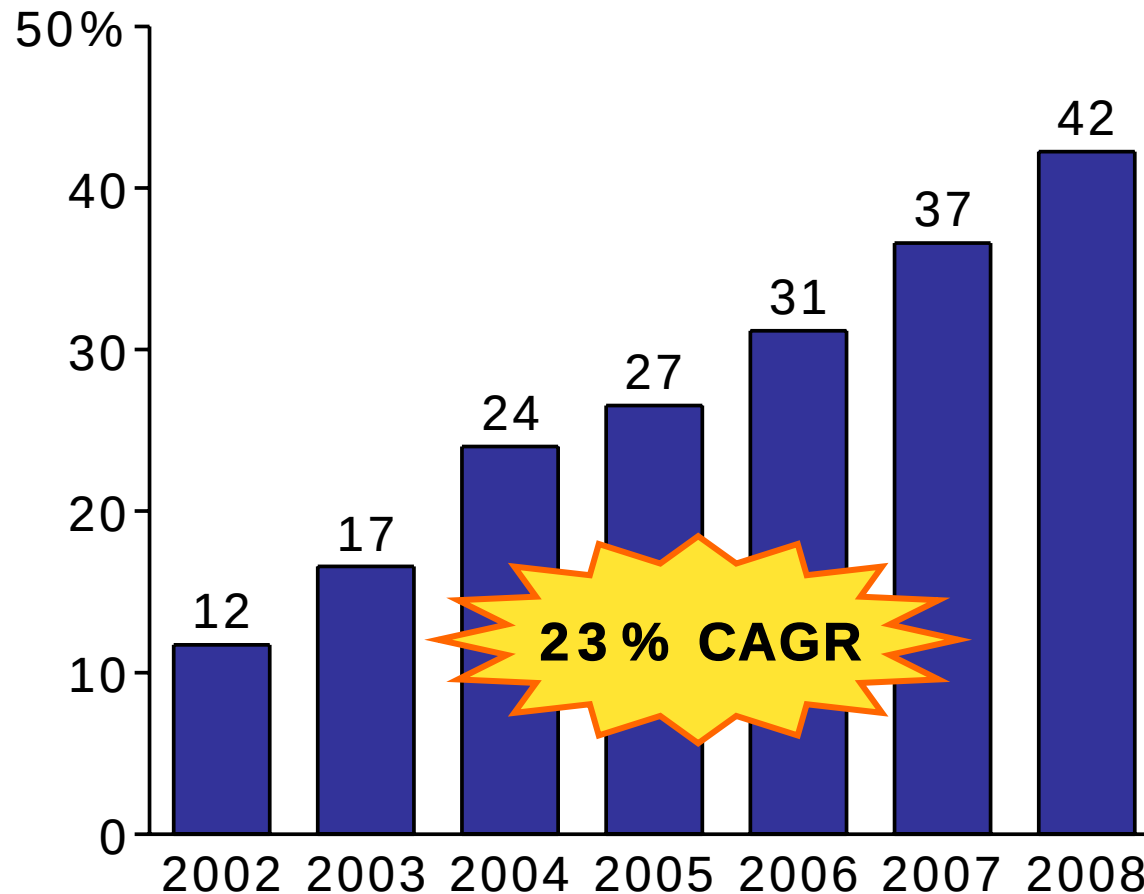
Source: Bain primary research and analysis

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8 Distribution to suit end customers

Percentage of US adults
using online banking



“Online banking will be the dominant way of doing things.”

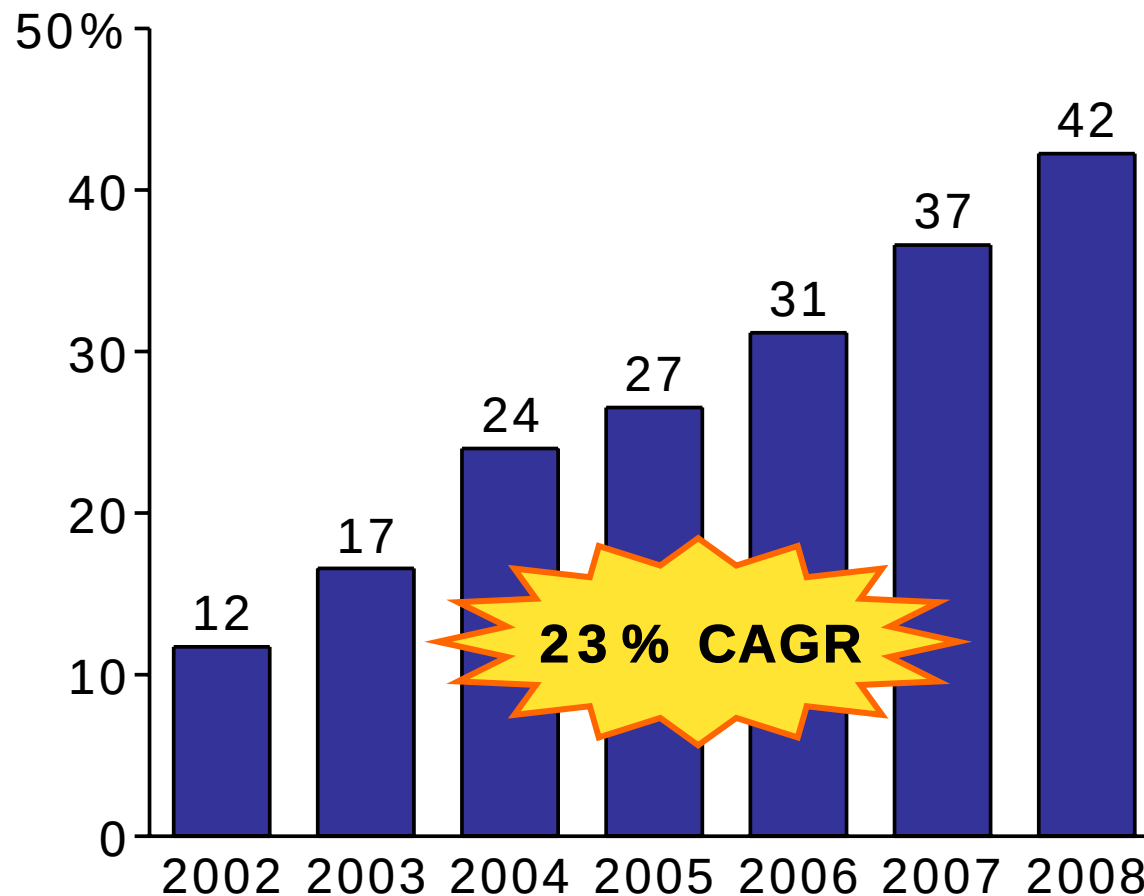
Citigroup

“Mobile banking provides consumers with the convenience of managing their finances on the go.”

Bank of America

8 Distribution to suit end customers

Percentage of US adults
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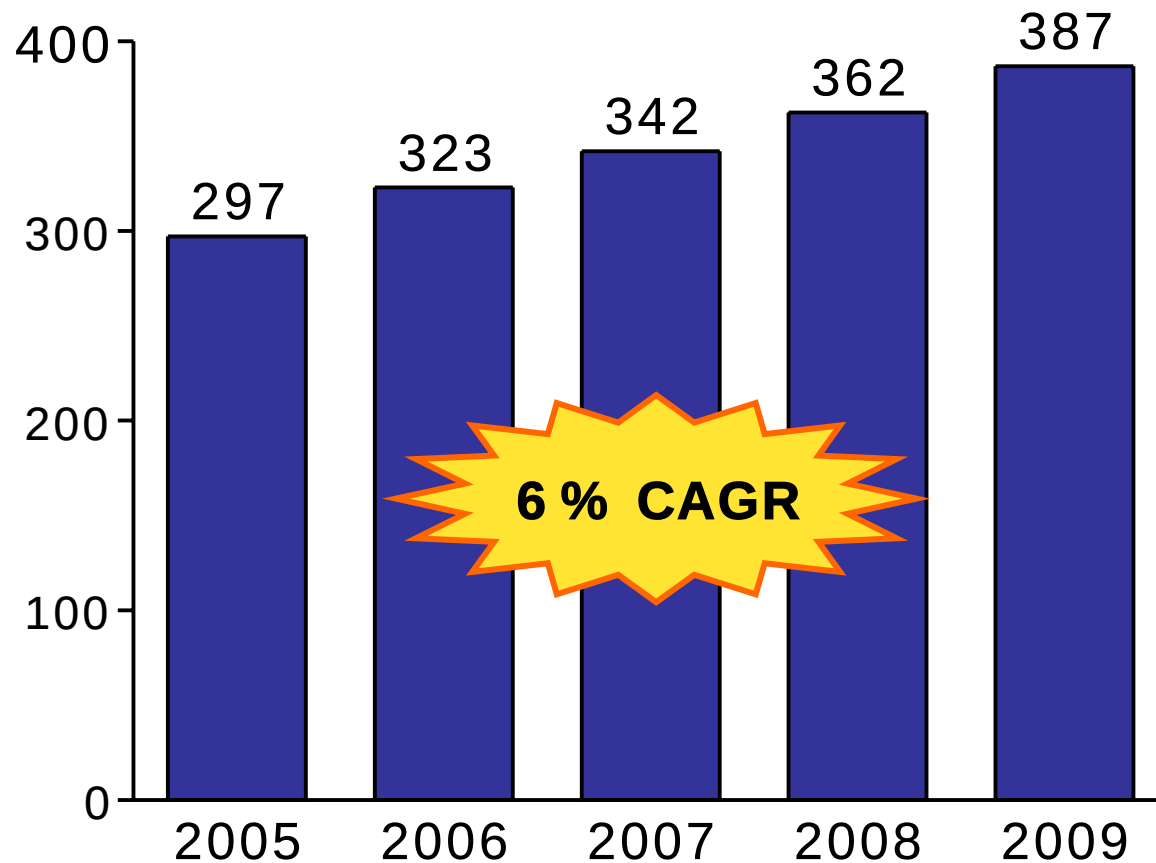


Implications

- Physical → virtual
 - Periodic → constant
 - Tied → independent
 - Agent → banc/direct
- 
- Multiple channel shifts

9 FS to be ever more **technology** dependent

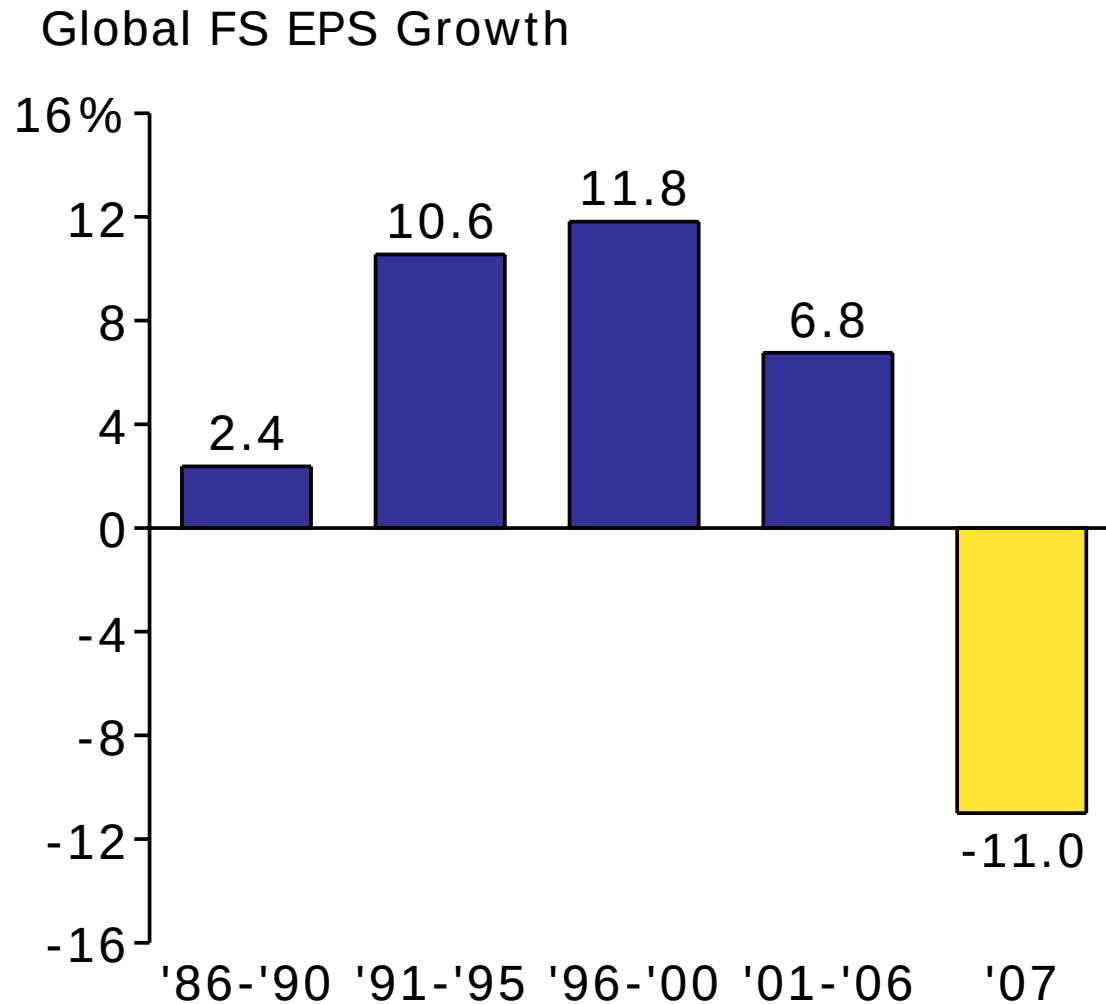
Total global IT spending (\$B)



Drivers

- Process automation
 - Risk management
 - Customer insight
 - Decision support
- 
- Necessary to compete

10 Productivity to come back in vogue



Reactive: Citi

*"The most important priority to focus on is **productivity** ... we'll make sure we're looking at our **cost structure**."*

Vikram Pandit,
12 December 2007

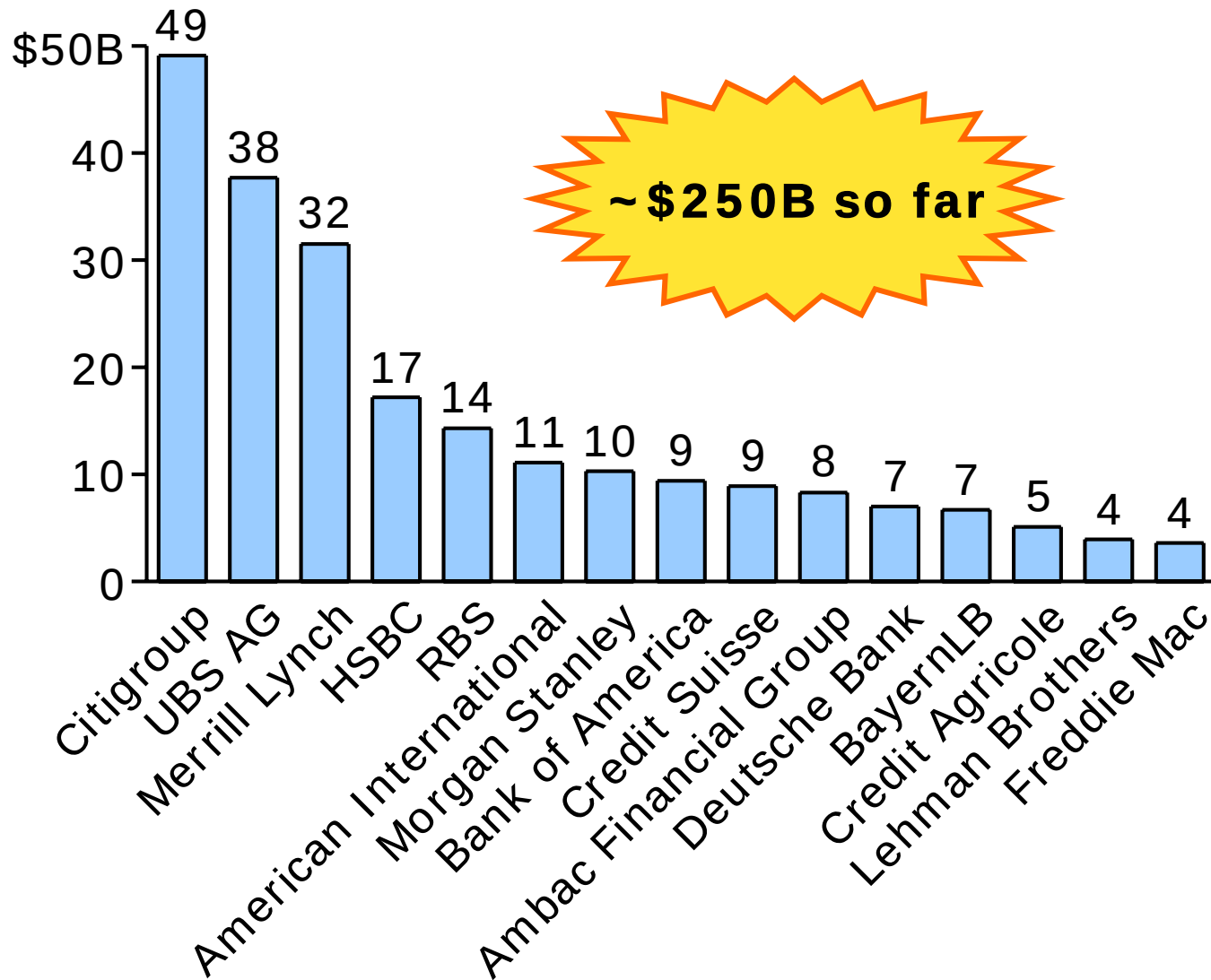
Proactive: Zurich FS

*"Fringe activities have been closed, the core insurance portfolio streamlined and a long phase of 'operational excellence' introduced through myriad schemes to **boost productivity and cut costs**."*

Financial Times,
27 May 2008

11 Risk management to get smarter

Top 15 writedowns (as of April 24, 2008)



Implications

- Reassessment of **risk** – credit, operating, market
- More **transparency** – demise of SIVs
- More responsible **leverage** – rebirth of securitisation

Source: Lit search

12 Talent to remain the scarcest resource

*“Over the next five to ten years, talent will continue to be **one of our biggest challenges**.”*

Deepak Sharma, Citi Asia, August 2006

*“An extreme shortage in China of financial talent has become a **huge bottleneck**, directly and negatively affecting its ... ability in financial **innovation** and **supervision**.”*

Wang Qishan, China's Vice Premier,
May 2008

Shortfalls

- **Within markets** – retail bankers in China, actuaries in Vietnam
- **Across markets** – wealth managers in Hong Kong, Singapore



- Constraint on **growth**
- Driver of **risk**

Some implications for FS providers

Huge opportunities

- Emerging markets
- Mass affluent
- Retirement
- Cheap deals

Ongoing challenges

- Competitiveness
- Differentiation
- Volatility
- Profitability

Requirements for winning

- Selective participation
- Customer benefit
- Cost control
- Execution

Investment priorities

- Technology
- Productivity
- Risk management
- Talent

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