Asian Business Banking

Over banked, but under serviced?

Excess liquidity and balance sheet willingness may seem unusual in a post sub prime banking environment, but it seems that may just be the case, to varying degrees in many Asian countries. As an increasing number of countries in the region liberalise their banking systems and start to level the playing field for foreign banks, there are a number of interesting trends emerging in business banking across Asia. One thing is clear, the race is on with foreign banks lobbying and jostling to position themselves as these markets evolve, particularly given regard to the ample scope for scale and growth in the, yet largely untapped, bulge of smaller Asian corporates.

Regulatory shackles have held industry consolidation in check and although these are being relaxed in several markets encouraging significant activity in recent years, many markets remain fragmented, offering significant scope for continuing consolidation. For example, there are some 728 commercial banks in China, but of these, the top 29 banks account for 53% of system assets.

Other markets, such as Vietnam, are poised for significant structural change as the state-owned banks are prepared for equitisation ahead of their IPOs. Mature markets are not excluded from opportunity. Taiwan for example with a population comparable to Australia is still serviced by fully 41 banks. Despite willingness on the part of regulators to open markets to consolidation, private, family ownership in many countries may remain a major inhibitor to progress.

Despite gradual liberalisation, regulatory and cultural diversity should not be underestimated. These have led to some interesting innovation within local jurisdictions, such as real-time balance sweeping facilities in South Korea to the establishment of Islamic banking subsidiaries and Shariah-compliant products and services in Malaysia.

The region's banking scene can broadly be categorised into five groups: (i) Large pan regional banks namely Standard Chartered, Citibank and HSBC; (ii) Niche foreign banks (eg: European and US banks servicing their home market trade flows); (iii) Large local banks such as the Singaporean national champions and increasingly, the large Chinese banks; (iv) State owned banks and (iv) Small local banks.

The customer landscape can also broadly be divided into four groups – (i) State Owned Enterprises (SOEs); (ii) Multi National Corporations (MNCs); (iii) Large Local Corporations (LLCs) and (iv) Small to Medium Enterprises (SMEs).

The MNCs are extraordinarily well serviced courtesy of global or pan regional mandates. Other foreign banks' participation are also significant in selected niche areas (such as the role of European banks in commodities trade).

The SOEs present an interesting opportunity as they increasingly expand beyond their ideological and geographical boundaries and their buying behaviour becomes more commercially demanding and complicated. This is posing a challenge for incumbents, which are invariably large local (usually ex state owned) banks. The balance between traditional relationship networking and risk appetite holding out against the benefits of global footprint and product excellence offered by foreign banks is the biggest competitive dynamic in the region.

Significant opportunities exist amongst local business customers, particularly, SMEs. The propensity of local banks to fiercely defend market share and their higher risk tolerance has allowed them to maintain relatively vanilla product and service propositions to these customers. However, this is starting to change, supported by regulatory liberalisation.

In spite of the growing regulatory push to open markets and allow new participants into often already crowded banking markets, it seems SMEs remain underserviced and hungry for more in their banking partnerships.

Whilst foreign and large regional banks can often present superior product and technology propositions, further inroads remain contingent on an ability to achieve scale in their distribution (in particular branch) networks and recalibrate their risk appetites. In facing these hurdles, the internationals must challenge SMEs' dynastic loyalties to incumbents and low financial visibility. Innovative solutions and expanding branch networks may accelerate the pace of consolidation in many markets.

Whilst the Australian banks have had "on / off" entry strategies in Asia, as yet, none have directed their efforts specifically at Asian SMEs. Whilst it remains to be seen if Australian capabilities can be readily transplanted into Asian markets, the sheer scale of what is on offer presents lucrative growth potential.

The following table highlights the most important transaction banking initiatives to improve quality of service based on East & Partners' semi-annual survey of some 1,000 top Asian corporates in ten countries.

	% of Total Responses	
	May 07 (N: 926)	**Nov 07** (N: 931)
Closer Understanding of Customers' Business	26.6	29.3
Improved Understanding of Customers' Industry	22.7	23.1
Enhance Electronic Systems Delivery	11.8	9.6
Same Day Credit Availability	11.7	10.5
Improved Account Aggregation Options	7.7	9.0
Other	19.5	18.5
TOTAL	100.0	100.0