WHITE PAPER

Will Asian Banks' Unique Post-Crisis Strategies Be Well Managed?

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By Michael Araneta, April 2010

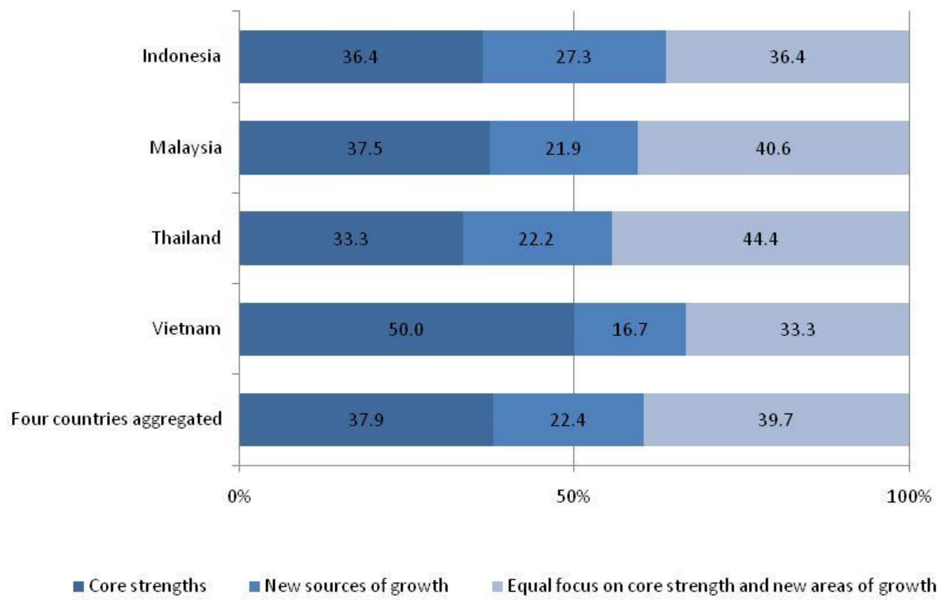
As the dust clears from the global financial crisis, we observe that banks across the Asian region are taking different paths to recovery. The 2010 outlook of Southeast Asian banks are remarkably different from bank to bank. The differences reflect the unique set of conditions each bank faced during the recent crisis, and banks' all too unique experiences in emerging from the downturn.

That the industry is seeing the emergence of bank-unique post-crisis strategies is a key learning from a March 2010 survey of IDC Financial Insights covering banks in four Southeast Asian markets: Indonesia, Malaysia, Thailand and Vietnam. For example, banks' over-all focus — whether to focus on what is core, or to look beyond it, reveals significant disparity. Even at the country-level, the differences are notable (see Figure 1).

FIGURE 1

Core-Focused Growth versus New Growth

Q. In its over-all growth strategy in 2010, will your bank focus on its core strengths or will pursue growth opportunities in areas beyond its core strengths?



n = 168

Source: IDC Financial Insights, 2010

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IDC surveyed 168 banking executives from Indonesia (40 executives), Malaysia (52 executives), Thailand (41 executives), and Vietnam (35 executives). About 38% of total respondents anticipate more focus on their organization's core businesses and, in the process utilizing their banks' core strengths in 2010. These banks state the need to create more synergy across the entire enterprise, as they seek to consolidate and optimize capabilities in different units, and to gain scale economies. These core-focused organizations also admit to greater intent to see growth in under-performing customer segments and product lines.

On the other hand, another segment of banks, comprising 22% of the respondents, expect to focus on areas beyond their core strengths. Initiatives cited here are themselves varied, including the creation of new business partnerships, the launch of new business models, as well as foray into unexplored market and product segments. Some banks reveal planned "transformational initiatives," although the extent of transformations varies from bank to bank, and from country to country. Several banks also allude to mergers and acquisitions that will quickly allow them to build market share in domestic markets, or in some cases, explore opportunities abroad.

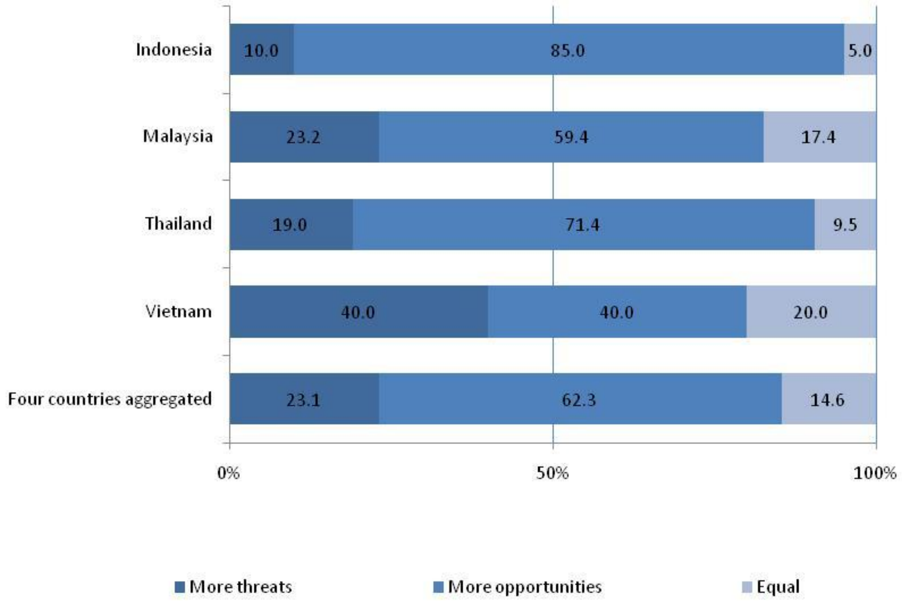
Still, a greater number of respondents — 40%, will attempt to strike a balance between "core-focused growth" and "new growth."

Alongside the "core-focused growth" versus "new growth" dynamic is the characterization of banks based on how they see threats or opportunities in the post-crisis landscape. Generally, banks that see more threats than opportunities will more than likely focus on core businesses and core strengths. However, banks that see more opportunities than threats in the post-crisis environment are more than likely to pursue new drivers of growth (see Figure 2).

FIGURE 2

More Opportunities versus More Threats

Q. Does the post-crisis environment present more threats or opportunities for your institution?



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Source: IDC Financial Insights, 2010

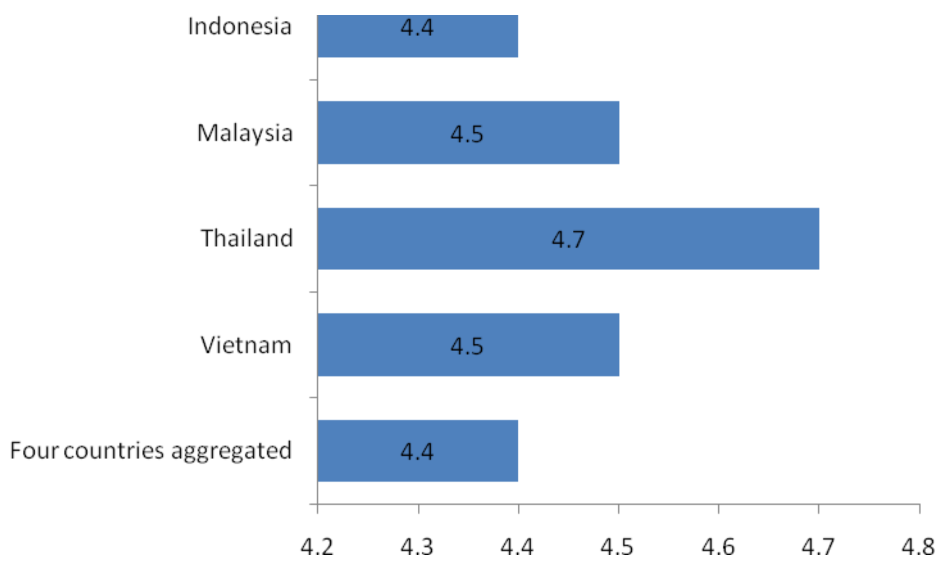
Indeed, more than a few banks are quick to note more threats than opportunities in 2010 — they represent about 23% of total respondents. These banks state that they will quickly have to take defensive strategies to protect their most important or most vulnerable businesses. To counter the many threats confronting them, banks will also roll out initiatives to improve business processes, with the objective of increasing transaction throughput, improving staff productivity, and reducing processing errors. Operational agility will be useful against more aggressive competition, as well as make banks dynamically respond to still-unpredictable market conditions.

Of course, banks' recognition of still-prevalent threats shows up in their greater focus on risk management. Here, they will ensure that they adequately mitigate and manage the vulnerabilities of their institutions. Figure 3 shows the high priorities given by banks to risk management. Such high prioritization is expected because even though the Asian banks emerged from the global financial crisis relatively unscathed, the crisis was an all-too-real demonstration of how a comprehensive failure of risk management can wreak havoc to an entire industry. Moving forward, strategic IT priorities will shift toward solutions that will enable banks to quickly fill in gaps in their risks management capabilities as well as take on risk management best practices learned from the recent crisis. The realization for 2009 was that global enterprise risk management failed in many ways, and that to ensure survival, financial institutions have to fundamentally address all types of risk.

FIGURE 3

Importance of Risk Management in 2010

Q. On a scale (1=not important to 5=very important), what priority will your financial institution give to risk management in 2010?



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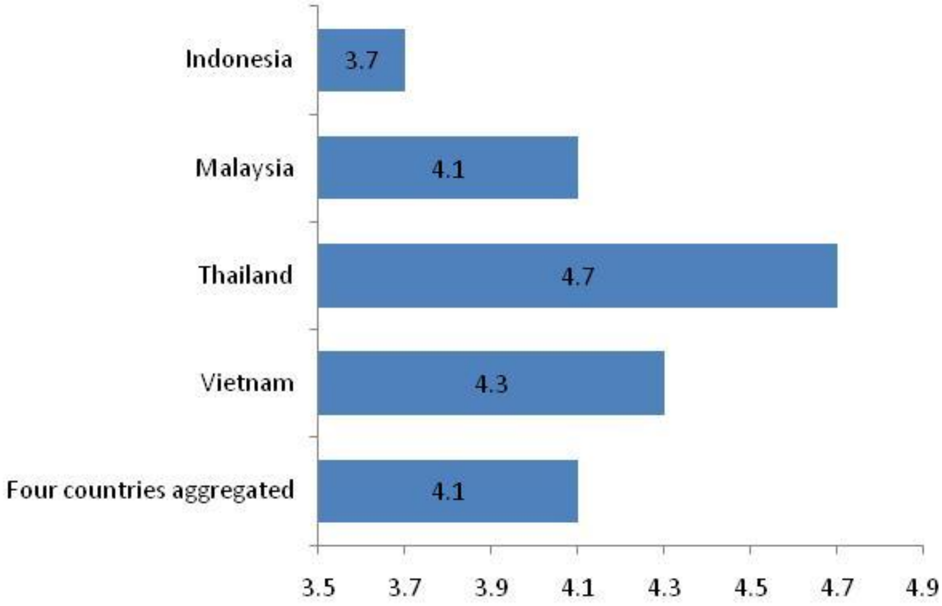
Source: IDC Financial Insights, 2010

Banks that remain primarily cautious of threats in the environment will also focus on cost management. Although 2010 budgets are not as restricted as they were at the height of the crisis, banks still would like to get a grip of their operational and capital spending, especially in light of higher-than-average cost of funds, as well as potentially disruptive inflation trends. Figure 4 shows how cost management also remains high in the agenda of banks in the region.

FIGURE 4

Importance of Cost Control in 2010

Q. On a scale (1=not important to 5=very important), what priority will your financial institution give to cost control in 2010?



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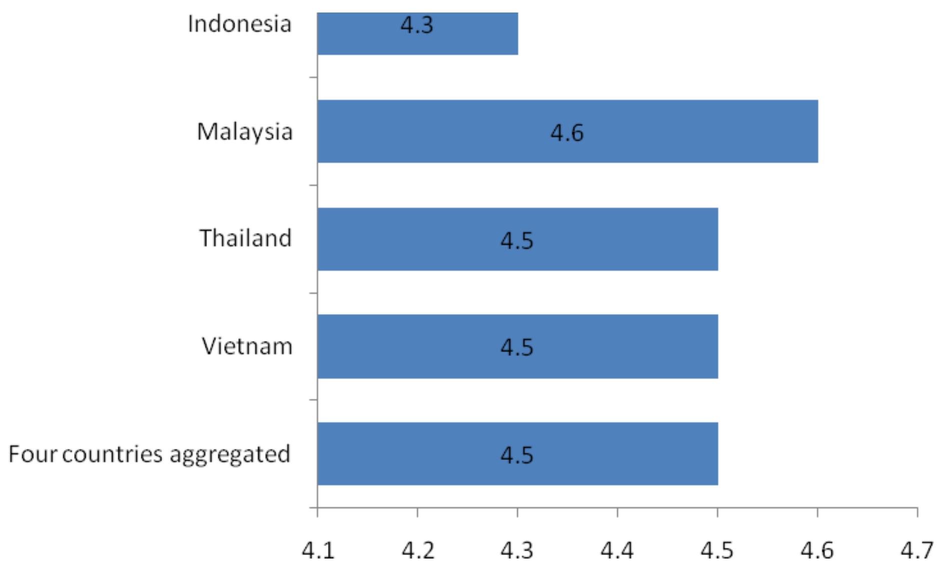
Source: IDC Financial Insights, 2010

What about the 62% of banks that see more opportunities than threats in the post-crisis environment? We expect these institutions to stake out new markets, gain first-mover advantage in new business areas, or innovate in the search for new business models. The more positive economic environment has seen the return of business plans that are driven by the pursuit of this new growth, a marked shift from the risk aversion/cost management imperatives of past quarters. One executive commented that a crisis presents “a good time to undertake transformation,” reasoning that while other banks are still recovering from the crisis’ aftershocks, the organization must be investing heavily in strategic and innovative projects so that “the bank is well positioned to cash on opportunities when the recovery fully arrives.” Innovation is a strong imperative as the industry emerges from the crisis (see Figure 5).

FIGURE 5

Importance of Innovation in 2010

Q. On a scale (1=not important to 5=very important), what priority will your financial institution give to innovation in 2010?



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Source: IDC Financial Insights, 2010

Making Sense of the Disparate Post-Crisis Agenda

An unwieldy recovery might be in store for Southeast Asian banks, just based on the disparate imperatives and strategies that different banks claim as important moving forward. Indeed, how should banks make sense of the different priorities presented to them? How should banks avoid being pulled into different directions?

Here, we find that "back to basics" — one major lesson learned in the crisis, is still relevant. It might especially be important post-crisis. Banks should focus on what is core and intrinsic to the banking business. Taking this further, banks will be wise to focus on the most important assets that any bank has — staff, capital and customers.

Banks in the Southeast Asian region recognize that they have a lot of work to undertake in these three core areas. As they race towards operational efficiency for example, they will have to pay attention to staff productivity (see Table 1). The ultimate guideline is to allocate the right kind of work to the right staff, and ensure that staff effort is continuously analyzed and assessed for opportunities for improvement. Banks also see the need to automate more and more processes, especially those that are intricate but are transactional or repetitive in nature.

TABLE 1

Operational Efficiency Initiatives

Q. On a scale (1=not important to 5=very important), what importance will your give in 2010 to the following priorities?

Priority	Indonesia	Malaysia	Thailand	Vietnam	Four countries aggregated
Enhancing staff productivity	4.2	4.4	4.1	4.5	4.4
Automation of operational tasks	4.2	4.6	4.0	3.0	4.2

n = 168

Source: IDC Financial Insights, 2010

On the other hand, as banks strive to expand customer and product bases, they should keep their eye on the goal of offering appropriate products to customers. One banker remarked that "there needs to be relentless focus on the customer, with product and process innovation to really respond to the customer needs." This what-the-customer-wants mindset needs to be facilitated by a single customer view across all channels, products and applications. Banks should be able to fully understand the customer, and from that understanding, gain insights into what the customer really requires in terms of products and services.

However, banks in our sample admit to significant weaknesses in this area (see Table 2). Deficiencies are also noted in the availability and usability of customer data across all applications. However, banks have long understood that both the single customer view program and multi-channel effectiveness will be drawn-out exercises, especially with the huge challenge of integrating information silos across the enterprise. The work, no matter how difficult, will have to quicken its pace in the post-crisis world of 2010.

TABLE 2

Channels and Customer Relationship Management Initiatives

Q. On a scale (1=do not agree to 5= totally agree), how are the following statements relevant to your bank?

Priority	Indonesia	Malaysia	Thailand	Vietnam	Four countries aggregated
My institution will add new channel types in 2010.	4.3	3.8	4.0	4.3	4.0
My institution will undertake a channel refresh in 2010.	4.1	3.7	4.0	3.8	3.9
My institution is presently able to achieve a single customer view across applications.	3.1	3.4	4.2	3.0	3.4
At present, my institution has high quality customer data that can be leveraged across CRM applications.	2.7	3.3	3.4	2.2	3.1

n = 168

Source: IDC Financial Insights, 2010

Yet more effort has to be given to risk management, where banks in the region have to make sense of many projects that are as disparate as they are complex. Risk management projects are increasingly brought into newer and newer areas within and out of the organization, especially as the bank needs to measure all kinds of risks it is exposed to. This, of course, will help determine how much capital needs to be allocated for all activities and risks the bank is engaged in. For now, we see strong focus on liquidity, credit risk, regulatory reporting and market risk, but we see how other discrete areas in risk-based capital management will increasingly gain attention in the near term (see Table 3).

TABLE 3

Risk Management Initiatives

Q. On a scale (1=not important to 5=very important), what importance will your give in 2010 to the following priorities?

Priority	Indonesia	Malaysia	Thailand	Vietnam	Four countries aggregated
Liquidity Risk Management	4.1	4.8	4.3	3.8	4.3
Quantitative Credit Risk Management	4.7	4.0	4.2	4.0	4.2
Regulatory reporting	4.2	4.3	4.3	3.5	4.1
Market Risk Management/Asset Liability Management	4.0	4.0	4.0	3.8	4.0
MIS/Profitability reporting	4.0	4.1	4.3	4.0	4.0
Product/instrument innovation	3.6	4.3	3.8	3.3	3.8

n = 168

Source: IDC Financial Insights, 2010

Country and Bank-Type Overviews

Even as we note unique post-crisis strategies of banks across the region, we also point out several strategic imperatives that are consistent at a country-level and according to bank-type. We highlight the following:

- On the heels of record revenues by **Indonesian banks** 2009, the industry anticipates yet more impressive growth in the year ahead. A great proportion of Indonesian banks (85%, which is highest across the region) expect more opportunities rather than threats in the near term. This exuberance will be manifested in disparate and differentiated ways, reflected in the equal proportion of banks that expect to see growth from current core strengths, and those that will rely on new sources of growth. In general, the largest Indonesian banks will use sheer size to win more share of the market, while smaller Indonesian players will look for opportunities in specific segments such as microfinance, Islamic banking, SME banking or payments. To a great extent, the search for new growth areas explains the high importance given to channel growth and innovation moving forward. We caution Indonesian banks however to take risk management more seriously — although risk management fares highly on the agenda of many banks, the importance given to risk management capabilities is not as high as those seen out of other countries in the region.

- Significant threats are emerging, according to **Malaysian banks**, as long-held market shares and market propositions contend with several forces of change emerging — "and all at the same time," states one banker. The entry of new players will bring in a realignment of forces in Malaysia, enlivening the perpetual talk of mergers, typically involving mid- and small-tier domestic banks. The greatest impact will be felt among foreign banks, which have seen hard-earned market shares eroded by the global financial crisis. We also note the implementation of a new financial master plan that promises to change the competitive dynamics in Malaysian banking. Furthermore, domestic banks have effectively segregated into two — a regionalizing segment on one hand, and a domestic-focused segment on the other. Domestic banks have to quickly re-examine their propositions.

  How do Malaysian banks intend to respond? We see great focus being given to innovation and automation of tasks, rated of high importance relative to peers in the region. Some banks however admit to less focus on channel growth and channel effectiveness, choosing to rely on traditional and basic capabilities in the frontline.

- Although a significant proportion of **Thai banks** expect more opportunities than threats in the near term, banking executives are still fundamentally cautious. Thai banks give the highest importance to risk management and cost control, giving these two areas relatively more weight compared to other banks in the region. Many bankers believe that the cost of risk management and compliance will expand further, even as significant funding for risk management projects has already been allocated in previous years for International Financial Reporting Standards (IFRS), especially in IAS 39, as well as in compliance with Basel II operational risk and credit risk management mandates. Moving forward, other areas of risk spending include reporting and analytics for market risk and asset liability management, liquidity risk, credit collections and recovery systems, fraud management, and security and identity access management systems.

  These risk management priorities might take resources away from transformative projects that might be required as banks operate under the new Thai Financial Sector Master Plan. The new master plan, to be implemented between 2010 and 2014 introduces several measures that aim to transform the competitive landscape — among others, encouraging more types of competitors, expanding the scope of business for some players, and easing the cost of operations. For several players, the greatest change will come in the form of new branch and channel licenses available for both domestic and foreign institutions. In the years to come, Thai banks will see a race in quickly expanding distribution networks as well as in bringing marketing effectiveness to these newly opened frontlines. Thai banks however believe that they have started well on this road towards channel effectiveness. According to our study, Thai banks feel more confident than their peers in the region in having achieved single customer views and multi-channel integration.

- A significant proportion of **Vietnamese banks** see more threats than opportunities in the near term as ambitious growth plans of previous years meet the realities of an undeveloped banking market. Institutions will continue to focus on aggressively acquiring customers, but the size of the market might not grow quickly enough. "The market has quickly become saturated," notes one banker. Moving forward, Vietnamese banks will thus increasingly focus on existing customer bases (in our terms, their "current core strengths") to retain and enhance customer relationships, and look at initiatives for up-sell/cross-sell. Unfortunately, data management discipline is scant, resulting to compromised customer data quality or under-utilized data assets. Meanwhile, there will be improvements in staff productivity to ensure that customer growth and retention opportunities are effectively responded to by frontline personnel.

- In general, the largest domestic banks see more opportunities than threats in the market, and intend to play up their core strengths (sheer size, larger channel networks, expansive customer bases, breadth of products and services) to maximum advantage. How they will achieve this growth without adding more pressures to cost and risk management will be the challenge of 2010. Meanwhile, mid- to small-tier banks admit to fewer and fewer opportunities to succeed in niche areas, but if they ever succeed, the rewards will be high. One banker remarked that “successful innovation and not innovation just for its sake” will be the goal in 2010.

- The industry continues to see the emergence of Asian super-regionals: several Asia-based institutions that are deploying well-paced regionalization strategies, choosing to manage regional units that are close in proximity, and limited to one part of the region. Super-regionals will themselves emerge from Southeast Asia (from Malaysia and Singapore in specific), but all markets in the region will see the more activity from suddenly-large and suddenly-aggressive regional organizations. These adds several new dynamics to competition in the market — new players, new partnerships, new customer bases to retain and acquire, new channels to launch, and more products to develop and bring to market.

The Bottomline

As banks in Asia emerge from the downturn, we are able to delineate banks in so many ways — the “core-focused growth” bank and the “new growth bank”, the “threat-aware bank” versus the “opportunity-cognizant” one, and then the extent to which banks are attuned to different business imperatives such as risk management, cost control or innovation.

We also see country-specific and bank-type specific differences, reflecting how banks across the Asian region stand at a crossroads and seek balance between the credible business threats and real opportunities that coexist in the market. It is this balance which leads to the bank-unique approaches being taken. It will be interesting to see what degree of consensus arises, in the near- and medium-term term, about where the opportunities really lie and how to address them.

There is no need to wait for that consensus, because the region’s banks, regardless of size, type, priority or credo must always focus on their fundamental assets — staff, capital and customers. They must be able to design their business imperatives and drive efficiencies around their three main assets. In the end, by simply following this “back to basics” principle, Southeast Asia’s super-unique banks also become well managed banks.