

Buyer's Market For Asian Companies Seeking Credit

2015 Greenwich Leaders: Asian Large Corporate Banking & Cash Management

Q1 2015

In 2014, the large corporate banking landscape was decidedly calm compared to 2013. HSBC, Standard Chartered Bank and Citi, the “dominant incumbents” in Asia, continue to lead this market. Beneath the traditional Top 3, ANZ Bank—and to a lesser extent DBS Bank—were notable for their strengthening penetration of the pan-Asia landscape. These emerging regional players and a good number of market entrants have led to heightened competition among a large and diverse group of banks eager to expand their footprints, creating a buyer's market for companies in need of credit and other banking services.

However, this seemingly stable landscape hides both opportunities and challenges for banks—much of which we envisage materializing in 2015.

1. The same competition that has been such a boon to Asian companies has driven down pricing (hence, return-on-capital) for banks, particularly in trade finance. Many banks—especially banks from Japan—are attempting to win business by lending to Asian companies at extremely aggressive rates and conditions. This margin erosion looks set to remain, in spite of rising capital requirements faced by the majority of leading banks.
2. Companies are using fewer banks. On average, large Asian companies have cut one significant provider from their banking groups, reducing the number of banks used from about nine to approximately eight. As a result, banks are competing for corporate banking wallets, which are increasingly shared by fewer providers.
3. Credit default concerns appear to be on the rise. Banks in the region are reporting early signs of a pick-up in corporate credit defaults. Although these very preliminary signals are only suggestive of a possible increase in the default rate, the introduction of credit quality issues into such a competitive and aggressive lending market is cause for concern.
4. Some leading global banks are narrowing their market penetration, focusing on the deepest relationships, and conversely stepping back (or losing ground) in shallower relationships.

“In 2015 and beyond, banks will have to further define their approach to the market in order to grow their businesses in Asia while also maintaining profitability,” says Greenwich Associates consultant Paul Tan.

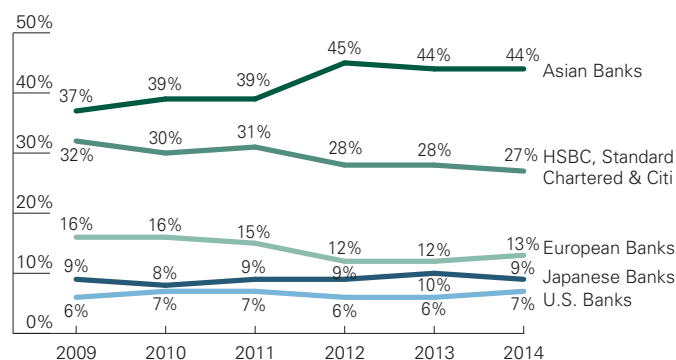
A Diverse Landscape of Providers

Balance sheet pressures have led some global banks to narrow their Asian strategies to focus on their most profitable clients, markets and products, while others are retrenching from the region altogether. Nevertheless, when it comes to accessing providers of credit, treasury/cash management, trade finance, and other banking services, Asian companies have their pick from a wide range of options, each offering some unique benefit.

Growing numbers of Asian companies are tapping Japanese banks for cheap credit. Japanese banks have set their sights on Asian markets as a primary source of lending business, and they are pulling out all stops to win it. Participating companies in Greenwich Associates 2014 Asian Large Corporate Banking and Cash Management Studies rate Japanese banks well ahead of all other banks in terms of willingness to lend and competitive pricing.

For one-stop-shop coverage of banking products and services, companies continue to turn largely to the “glocals”: HSBC, Standard Chartered Bank and Citi, the dominant incumbents with universal product/service offerings, global networks and pan-Asian, “multi-domestic” operations.

Relative Share of Corporate Banking Relationships 2009–2014



Notes: Total Asia. 561 respondents in 2009, 562 in 2010, 551 in 2011, 505 in 2012, 549 in 2013, and 531 in 2014.

Source: Greenwich Associates 2014 Asian Large Corporate Banking Study

Corporates in Asia (including regional treasury centers and multinationals) also can call on the services of the growing ranks of home-grown Asia-Pacific banks that are expanding across the region and gradually improving the quality of their products and services. At the very top of this list are banks like ANZ Bank and DBS Bank, the latter of which took the significant step of joining the list of Greenwich Share Leaders for the first time in 2015. These emerging

regional players and the globals have benefitted from the fast expansion of intra-Asian trade, which is driving growth for many Asian companies. As companies in Asia consolidate their banking relationships, they are giving preference to banks that can best serve their international needs—both on an intercontinental and, increasingly, pan-Asian basis.

“In addition to these emerging regionals, the leading Asian domestic banks are also coming up the sophistication curve quickly. They are eager to reclaim their fair share of the local large corporate space, they increasingly offer “good enough” transaction banking services and are starting to demonstrate some relevance to serving their home market corporates’ overseas needs,” says Greenwich Associates consultant Gaurav Arora. “They are also willing and able to extend balance sheet to win business.

Finally, Asian companies are being courted by global banks determined to build out their franchises in the region. Two banks in particular—Deutsche Bank and BNP Paribas—have recommitted themselves to the Asian market and are putting their money where their mouths are by showing both risk appetite and willingness to extend credit. “Both banks are making a concerted effort to win business not just among traditional targets of European and U.S. multinationals doing business in Asia, but also among large domestic Asian companies,” says Paul Tan.

In this effort, Deutsche Bank and BNP Paribas are joining the other top banks in Asia in focusing their efforts on transaction banking. Although lending, investment banking, sales and trading, and other businesses remain critical elements of banking relationships, banks have realized the huge opportunity that exists in servicing the booming intra-Asian trade by providing companies with treasury and trade finance services.

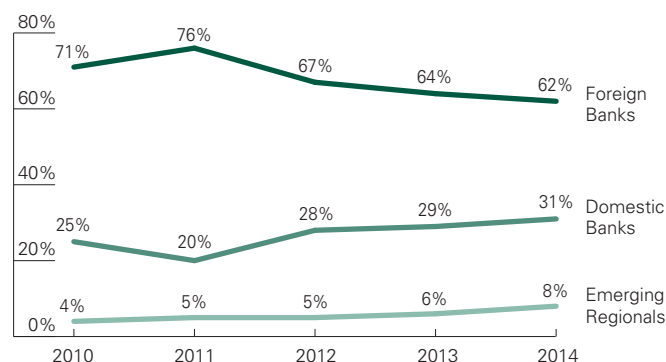
All these banks face one major challenge: margins kept low by fierce competition. In the past banks could win business with credit and then increase the profitability of the relationship by cross-selling higher margin transaction banking and global markets services. “But with margins eroding in those businesses, banks will increasingly pick their spots and differentiate their primary propositions, to a greater extent,” says Paul Tan. “The banks that succeed will be those that refine their strategies to focus on profitability and do the best job at boosting the profitability of corporate relationships by cross-selling a wide range of higher margin products and services like debt capital markets and M&A advisory.”

Cash Management

With each passing year, domestic Asian banks are capturing incremental business from established foreign rivals in large corporate cash management. From 2010 to 2012 Asian banks made gains in domestic cash management.

More recently, domestic players have started to win some share of business in international cash management. One factor has driven their recent success in cross-border business: the shift in focus from intercontinental (Asia to the West) business to intra-Asian transactions. While local Asian banks cannot compete against global players in the former, their nascent regional banking networks are competitive enough to win business on trade within Asia. The biggest beneficiaries of this trend have been ANZ Bank and DBS Bank, which are also emerging as regional players in this market.

Share of Total Citations as an International Cash Management Provider
2010–2014



Note: Emerging Regionals: ANZ Bank and DBS Bank; Foreign Banks: European, U.S. and Japanese banks.
Source: Greenwich Associates Asia Large Corporate Cash Management Studies 2010-2014

“In some cases, domestic Asian banks are disintermediating global banks that in the past acted as lead international cash management providers, coordinating the efforts of local cash management providers in specific markets,” says Gaurav Arora. “Although Asian banks’ service quality cannot match that provided by the globals, it has become good enough that growing numbers of customers are willing to entrust them with these relationships.”

Stability at the Top

Despite the rise of regional Asian banks, aggressive competition from Japanese lenders and the presence of several ambitious global rivals, the traditionally dominant providers of HSBC, Standard Chartered Bank and Citi appear relatively secure at the top of the market. “If you are an Asian company that has expanded from your home market into one or two Asian countries, you are spoiled for choice when it comes to providers of credit, cash management and transaction banking,” says Paul Tan. “But if you are a multinational with operations throughout the Asian region, there are really only a handful of banks that can provide you with the service you need both across and within individual country markets.”

Greenwich Share and Quality Leaders

HSBC tops the Asian corporate banking industry with a market penetration score of 64%. Next is Standard Chartered Bank, which is used by 51% of large Asian companies for corporate banking, followed by Citi at 47%. ANZ Bank takes the fourth spot with a market penetration of 43%, followed by Deutsche Bank and DBS Bank, which are tied at 30–31%. These banks are the 2015 Greenwich Share Leaders in Asian Large Corporate Banking. The 2015 Greenwich Quality Leaders are ANZ Bank, Citi and HSBC.

In cash management, HSBC and Citi are far and away tops in the industry with market penetration scores of 40–41%. Next is Standard Chartered Bank at 26% and Deutsche Bank at 19%, followed by Bank of China and ANZ Bank, which are tied with market penetration scores of 13%. These banks are the 2015 Greenwich Share Leaders in Asian Large Corporate Cash Management. The 2015 Greenwich Quality Leaders are Bank of America Merrill Lynch, Citi and HSBC.

The following tables present the complete list of Greenwich Share and Quality Leaders in Asian Large Corporate

Banking and Large Corporate Cash Management, including the names of Greenwich Leaders in the individual country markets of China, Hong Kong, India, Indonesia, Singapore, South Korea, and Taiwan.

Consultants Paul Tan and Gaurav Arora specialize in Asian corporate banking and finance.

Methodology

From August to November of 2014, Greenwich Associates conducted 531 interviews in large corporate banking and 745 interviews in large corporate cash management at companies in China, Hong Kong, India, Indonesia, Malaysia, the Philippines, Singapore, South Korea, Taiwan, Thailand, and Vietnam. Subjects covered included product demand, quality of coverage, and capabilities in specific product areas.

The findings reported in this document reflect solely the views reported to Greenwich Associates by the research participants. They do not represent opinions or endorsements by Greenwich Associates or its staff. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Greenwich Associates compiles the data received, conducts statistical analysis and reviews for presentation purposes in order to produce the final results.

Greenwich Share Leaders — 2015



Asian Large Corporate Banking Market Penetration

Bank	Market Penetration ¹	Statistical Rank
HSBC	64%	1
Standard Chartered Bank	51%	2
Citi	47%	3
ANZ Bank	43%	4
Deutsche Bank	31%	5T
DBS Bank	30%	5T

Note: Based on 531 respondents.

Asian Large Corporate Cash Management Market Penetration

Bank	Market Penetration ²	Statistical Rank
HSBC	41%	1T
Citi	40%	1T
Standard Chartered Bank	26%	3
Deutsche Bank	19%	4
Bank of China	13%	5T
ANZ Bank	13%	5T

Note: Based on 745 respondents.

Note: Proportion of companies interviewed that consider each bank an important provider of: ¹corporate banking services; ²corporate cash management services. Leaders are based on Top 5 leading banks including ties.

Sources: Greenwich Associates 2014 Asian Large Corporate Banking and Asian Large Corporate Cash Management Studies

Greenwich Quality Leaders — 2015



Asian Large Corporate Banking Quality

Bank
ANZ Bank
Citi
HSBC

Note: Based on 531 respondents.

Asian Large Corporate Cash Management Quality

Bank
Bank of America Merrill Lynch
Citi
HSBC

Note: Based on 745 respondents.

Note: Leaders cited in alphabetical order including ties.

Sources: Greenwich Associates 2014 Asian Large Corporate Banking and Asian Large Corporate Cash Management Studies

Greenwich Share and Quality Leaders — 2015

Large Corporate Banking by Country



Asian Large Corporate Banking Market Penetration	Market Penetration	Statistical Rank
China (84)		
Bank of China	69%	1T
HSBC	66%	1T
ICBC	61%	3
Hong Kong (70)		
HSBC	86%	1
Standard Chartered Bank	69%	2T
Bank of China	66%	2T
India (72)		
HDFC	69%	1T
Standard Chartered Bank	69%	1T
HSBC	67%	1T
State Bank of India	67%	1T
Indonesia (33)		
Bank Mandiri	61%	1T
HSBC	61%	1T
ANZ Bank	58%	1T
Singapore (72)		
HSBC	63%	1T
DBS Bank	61%	1T
ANZ Bank	54%	3T
Citi	54%	3T
Standard Chartered Bank	53%	3T
South Korea (41)		
Korea Exchange Bank	93%	1
Shinhan Bank	81%	2
Kookmin Bank	68%	3T
Woori Bank	68%	3T
Korea Development Bank	66%	3T
Standard Chartered Bank	66%	3T
Taiwan (62)		
Mega International Commercial Bank	71%	1
ANZ Bank	58%	2
Bank of Taiwan	52%	3T
Chinatrust Bank	52%	3T
Citi	50%	3T
HSBC	50%	3T

Asian Large Corporate Banking Quality

China (84)
HSBC

Hong Kong (70)
DBS Bank
HSBC

India (72)
Citi

Indonesia*

Singapore (72)
ANZ Bank
DBS Bank

South Korea (41)
Korea Exchange Bank
Standard Chartered Bank

Taiwan*

Note: *Quality evaluations did not yield statistically differentiated banks for this region. Numbers in parentheses reflect number of respondents. Market Penetration is the proportion of companies interviewed that consider each bank an important provider of corporate banking services. Country leaders are based on Top 3 leading banks including ties. Quality leaders are cited in alphabetical order including ties. Source: Greenwich Associates 2014 Asian Large Corporate Banking Study

Greenwich Share and Quality Leaders — 2015

Large Corporate Cash Management by Country



Asian Large Corporate Cash Management Market Penetration	Market Penetration	Statistical Rank
China (127)		
Bank of China	47%	1T
ICBC	47%	1T
HSBC	46%	1T
Hong Kong (81)		
HSBC	68%	1
Standard Chartered Bank	40%	2T
Bank of China	37%	2T
India (111)		
HDFC	54%	1
Citi	48%	2
ICICI Bank	43%	3
Indonesia (45)		
Bank Central Asia	44%	1T
Bank Mandiri	44%	1T
Deutsche Bank	36%	3
Singapore (92)		
Citi	52%	1
HSBC	44%	2
DBS Bank	33%	3
South Korea (63)		
Korea Exchange Bank	71%	1
Woori Bank	64%	2
Shinhan Bank	57%	3
Taiwan (72)		
Mega International Commercial Bank	53%	1
Citi	43%	2
Chinatrust Bank	32%	3

Asian Large Corporate Cash Management Quality

China (127)	
Citi	
HSBC	
Hong Kong (81)	
HSBC	
India*	
Indonesia*	
Singapore (92)	
Deutsche Bank	
South Korea (63)	
Korea Exchange Bank	
Taiwan (72)	
Citi	
Mega International Commercial Bank	

Note: *Quality evaluations did not yield statistically differentiated banks for this region. Numbers in parentheses reflects number of respondents. Market Penetration is the proportion of companies interviewed that consider each bank an important provider of corporate cash management services. Based on responses from financial officers for Asian large corporate cash management. Country leaders are based on Top 3 leading banks including ties. Quality leaders are cited in alphabetical order including ties.

Source: Greenwich Associates 2014 Asian Large Corporate Cash Management Study

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6 High Ridge Park Stamford CT 06905 USA

Tel: +1 203.625.5038/+1 800.704.1027

Fax: +1 203.625.5126

email: ContactUs@greenwich.com

www.greenwich.com