STAYING IN SHAPE

While many global peers are being forced to slim down, most Asian banks believe they're already the right size for the markets they serve.
By **Umesh Pandey** in Singapore

Customers use ATMs at the Singapore headquarters of DBS, Southeast Asia's largest bank by assets.

"significant milestone in the simplification of the company".

The sale followed the establishment in 2009 by Citi of a separate entity, Citi Holdings, specifically to house assets that the bank planned to sell. Citi since then has sold more than 60 businesses at an asset value of $700 billion, bringing down the value of Citi Holdings to a mere 5% of Citi's total from more than 30% when the unit was formed.

Another regional bank headquartered in the United Kingdom, HSBC, has undertaken a number of disposals and closures, exiting non-strategic markets and non-core businesses.

Deutsche Bank, one of the strongest banks to emerge from the global crisis, has been in talks to sell out its 1,100-branch Postbank retail banking operation.

"One has to weed out what the problems are and what the fads are; you cannot just follow the fad," Mr Nazir told *Asia Focus* recently. While being big was once the in thing for banks, since the crisis it has been less trendy, he added.

Mr Gupta agreed, saying that in the good times most of these banks were on a buying spree and some even went out of their way to get into businesses that were not really meant for banks.

"There are many examples of these large banks getting into something they were not too sure about or did not have the expertise, and the outcome was visible to the world," Mr Gupta said.

SIZE MATTERS

Still, size is important for both DBS and CIMB, two of the region's most prominent banks. They say banks need to be the right size for their markets to achieve the best economies of scale. That means having a presence in markets that are growing, for a start.

"In our industry size does matter," said Mr Nazir. "We are looking to expand into markets such as the Philippines and Vietnam and it is our aim to grow the business in markets where we are not present."

He said that the bank had been relatively successful in expanding organically in Cambodia and that its aim was to also seek organic growth in the Philippines and Vietnam for the time being.

CIMB up to this point has expanded its business based on acquisitions in Indonesia, Thailand and other markets, but of late it has been in consolidation mode, in line with the slowdown in the industry.

"We are in a consolidation period after rapid growth and this is by design," Mr Nazir said, adding that he considered the bank to be about the right size now. In the near term, he added, the emphasis would be on ways to increase profitability rather than just size.

When asked to compare CIMB with regional peers such as those in Thailand that have opted to expand by opening representative branches abroad, Mr Nazir said the approach was good but the economies of scale a regional operation needs could not be realised with such methods.

"It's a good model if you want to remain strong on your home turf, and there are banks that are doing it, as you may know, in your own country," he said.

"By doing so you have some good points such as getting the bulk of your profits from the home market, but then there are drawbacks as these banks would not be able to tap the rise of specific economies if their home economic situation is not that good."

Local Thai banks, on the other hand, continue to insist that they are not at a stage where they have over-expanded their networks or assets. They have been relatively conservative and have not gone beyond their core banking expertise.

"Look at most Thai banks including ours — we never expanded into areas we are not strong in or areas that go beyond core banking, except in debt restructuring, and even in those cases we ended up divesting our holdings as soon as we could," Teeranun Srihong, president of Kasikornbank Plc, told *Asia Focus*.

"Banking is complicated enough to deal with the day-to-day things that are happening and if we stretch our capabilities, then one day we would end up not being able to cope with all these different things."

PHOTO: REUTERS

CIMB Group chairman Nazir Razak says his organisation's focus for now is on increasing profitability rather than size.

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PIYUSH GUPTA
CEO, DBS Group

Customers walk outside a CIMB bank branch in Putrajaya, Malaysia.

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• Asian banks remain healthy and have managed to avoid the ongoing problems faced by some multinationals that have been divesting assets left, right and centre, say some of the region's top finance executives.

"You have to remember that Asian banks did not expand way beyond their means over the course of the past few years and therefore there are not that many over-expanded financial institutions in this part of the world," Piyush Gupta, the chief executive officer of DBS Group, the largest bank in Southeast Asia by assets, told *Asia Focus*.

Singapore-based DBS, which has a market capitalisation of US$38 billion, has in fact been on the lookout for assets in new markets where the company has little or no presence.

"We for one are not divesting any of our assets as we never had gone beyond our means when we were expanding, and on the contrary we are looking at some of the assets that are being divested by the global banks," he said.

Mr Gupta declined to offer any details of potential deals, but said it would be appropriate to look into businesses that other banks are offloading if they fit the overall strategy of DBS.

Globally most major banks are looking to divest assets of different types. The prospective sellers range from banks that are still recovering from the 2008-09 global financial crisis such as Royal Bank of Scotland (RBS), to much stronger entities such as Deutsche Bank.

RBS, which is 80% owned by British taxpayers after a $68-billion bailout, has been selling off assets all across the world to raise cash. Malaysia-based CIMB Group, which has been expanding its reach across Asean, in 2012 paid $140 million to acquire some RBS business units in Asia and other parts of the world.

The deal covered cash equities businesses in Australia, China, Hong Kong, India and Taiwan and the cash equities sales desks in the United Kingdom and United States. It also covered equity capital markets and merger and acquisition businesses in Australia and China, Hong Kong, India, Indonesia, Malaysia, Singapore, Taiwan and Thailand. There were some small interests in Australia and China that were not included in the deal.

CIMB has since closed some of the operations it acquired, including Australia where it said the cost did not justify a presence.

"We have been divesting some assets but that does not mean that we over-expanded ourselves," said CIMB Group chairman Nazir Razak, who has transformed a business once known mainly as an investment bank with just 1,000 employees into a diversified financial services giant.

AVOIDING FADS

Global giants such as Standard Chartered Bank, Deutsche Bank, RBS and others all have been on a divestment spree, as the new trend is toward "lean and mean" organisations.

UK-based Standard Chartered, which prides itself as Asia-focused, recently announced it was looking to sell its remaining private-equity business which could be valued at $1.5 billion or more. The divestment would involve the bank's holdings in companies from Asia to the Middle East.

Standard Chartered is also looking for buyers for its Hong Kong pension fund business valued at more than $350 million.

Other big names with businesses on the block include Credit Agricole SA, JP Morgan Chase and Co, and Citigroup.

Citigroup earlier this year sold its personal loans business OneMain, calling it a