GOING GLOBAL

The first one eating crab in Indonesia

ICBC adapts itself to different practices in southeastern Asian country and still finds success

The Industrial and Commercial Bank of China's branch in Osaka, Japan, opened on Nov 19. The bank had 239 overseas outlets by the end of 2011.

MA XINGHUA / XINHUA

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There's an old Chinese expression for someone who is considered a pioneer willing to make a bold move into the unknown: "The first one to eat crab".

And Yuan Bin started eating his after being appointed as a team leader for the first overseas acquisition by a Chinese lender.

BANKING

In December 2004, the Industrial and Commercial Bank of China — the world's largest bank by market value — decided to enter Indonesia by acquiring a local lender. Its plan is to use the new, combined operation as a bridging post for further expansion in what is the biggest economy in Southeast Asia.

The reason for the acquisition was simple, said Yuan, now the president director and CEO of P.T. ICBC (Indonesia) Co Ltd.

There were huge investment opportunities for Chinese enterprises in industries including energy, mining, infrastructure, transportation, communication and property, he said.

Trade between China and Indonesia has been increasing in recent years, going up to $61 billion last year from $23 billion in 2009. The figure is expected to hit $80 billion by 2015.

While planning its move into Indonesia, Yuan said it had always preferred a purchase rather than building its own operation from scratch through "organic growth". The cost for setting up a new branch network was much higher than making an acquisition and would have required $300 million in registered capital, according to Indonesian regulations.

After targeting banks that have net asset values of about $50 million, ICBC finally closed the deal with shareholders of P.T. Bank Halim Indonesia at $22 million on Dec 30, 2006 — its first cross-border purchase, bringing with it more than 1,000 clients and 12 outlets.

Nine months later, ICBC had completed the transfer of 90 percent of the shares from Halim shareholders.

The following November a debut ceremony for the subsidiary was held in Jakarta and Surabaya, signaling the completion of the acquisition. Yuan said he didn't expect it would take so long to complete. But he then realized that integration and running a business in a fully competitive market was much more difficult.

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Looking back, Yuan said he has found some stark differences between operating in China and Indonesia. In Indonesia, there has been much greater pressure, for instance, to remain agile to currency and interest rate fluctuations and maintain liquidity levels.

In China, the government fixes the ceiling of deposit interest rates and the reference rate of the renminbi's exchange rate. Overseas, lenders must be responsive to the fluctuation of interest rates and currency exchange rates, he explained. "Every day we must think about pricing, which is quite different from our domestic operations."

Yuan also faces greater pressure from liquidity, which he never experienced at home.

"We operate as an independent local company, so ICBC won't foot the bill if we make losses. Each morning when I wake up, the first thing that comes to my mind is liquidity," he said.

To secure enough capital and guarantee sufficient liquidity, Yuan said ICBC Indonesia sacrifices up to $1 million in income a month as it gives priority to liquidity, meaning lending levels are lower than he might hope. Given its ambition in the local market, ICBC Indonesia has employed as much local talent as possible. Five out of seven senior executives on the management board are Indonesian with abundant experience with other foreign banks. Adopting local work practices has also been an important priority throughout the early years of the business. The change in culture was a challenge for Yuan in the beginning, especially in a country with a large Muslim population.

He and his Chinese colleagues had to adjust meeting schedules, for instance, to accommodate local prayer times. A prayer room was set up on each floor of its headquarters and branches, allowing employees to pray on time, five times a day, and they are excused from meetings or other work when they worship.

To help Chinese employees better communicate with their Indonesian colleagues, executives encouraged them to study Indonesian and adopt sign language for common financial terms. Chinese employees are required to have meals with locals, which helps forge strong working relationships.

Such efforts have paid off, Yuan said. With more than 700 employees, ICBC Indonesia made a profit of more than $10 million last year and its total assets reached $1.8 billion by the end of 2011.

It maintained a rate of return on investment at 20-30 percent by the end of last year, with its non-performing loan ratio at about 1 percent.

The operation was ranked 37th among lenders in Indonesia by assets in June 2011, up from 107th in September 2007. ICBC has set a target of getting into the top 10.

ICBC Indonesia plans to expand its network of branches from 18 to 26 within the year. Besides lending, which accounts for 50 percent of its business, it also runs intermediate deals, which make up about 30 percent.

Yuan said the bank has taken its investment of banking activities as an important task, mainly concentrating on financial fields related to reorganization of assets, mergers and acquisitions, financing and risk consultancy on investments.

The bank targets a wide range of clients, including Indo-Sino investors and traders, financial institutions and private clients among the country's increasing number of high net-worth individuals.

"We must stay focused on what we are good at. Our greatest advantage, clearly, is our focus on business related to China.

"But we shouldn't be satisfied with being only a China or Chinese bank. The 'China' strategy cannot last long because it narrows our client base."

Given its strong Chinese links compared with many other foreign banks operating in Indonesia, Yuan said the rapid growth of renminbi-linked business will be to increasing future profits. ICBC Indonesia processed the world's first yuan cross-border trade settlement business in July 2009.

The global use of yuan will become significant for Chinese banks aiming to explore the international market, said Thomas Chan, head of financial services for Northern China at KPMG Huazhen. "Banks should seize the valuable opportunities brought by the currency's internationalization, learn from foreign banks, and play bigger roles as both promoters and participants of the renminbi's internationalization," he said.

Yuan's plan for the Indonesian operation is clear and ambitious: "We want to be a foreign exchange trading market maker that can form the exchange rate of the renminbi."

Banking: Major banks play growing role in overseas deals

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Starting in 2009, the Wachovia brand was absorbed into the Wells Fargo brand in a process that lasted three years.

BOC announced on July 23 to sell its Swiss unit to Julius Baer Group Ltd, Switzerland's largest private bank after having tried for four years to set up a private banking operation in the European country.

Weaker-than-expected performance was the main reason behind the move, said executives.

Compared with foreign counterparts, Chinese banks still have much to do to improve the performances of their foreign institutions, according to Thomas Chan, head of financial services for northern China at KPMG Huazhen, whose figures suggested that by the end of 2011, on average, foreign assets of major State-owned lenders accounted for 8 percent of their total assets.

Compare that with HSBC, for instance, which has 58.5 percent of its assets and 68.6 percent of its income coming from areas outside Europe, and Citibank, which has 52.3 percent of its income contributed by business outside North America, the figures showed what a challenge lies ahead for Chinese lenders.

Chan said the contribution of foreign business to total income of the major Chinese State-owned banks is an average 5.29 percent.

He added that the wider use of the yuan globally is already providing momentum for Chinese banks and Beijing's loosening of capital accounts to facilitate Chinese enterprises and individuals investing overseas is also creating larger demand for services provided by Chinese lenders.

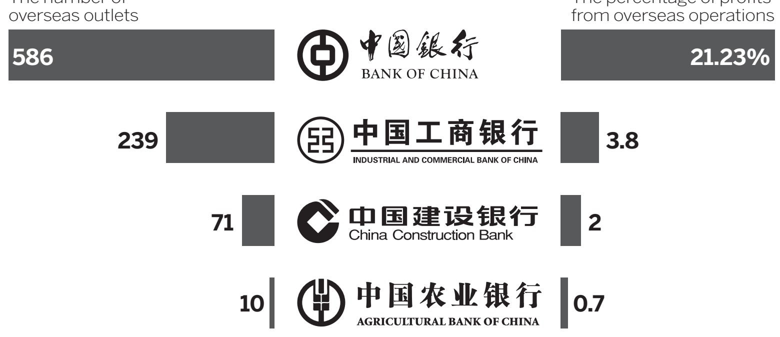
Lin Zhihong, head of Minsheng's Hong Kong branch, said Chinese banks have played "an increasingly important role" in a series of overseas acquisitions conducted by Chinese companies around the world.

"Domestic enterprises and banks have large cooperation potential in terms of financial advisory services, project financing, settlement business and so on," he added.

ICBC, the world's biggest lender by market capitalization, has spent more than $6 billion on foreign acquisitions in the past three years, aiming to achieve a target of earning 10 percent of its assets and profits from foreign operations by 2016 against the current levels of 5.1 percent in terms of foreign assets and 3.2 percent in profits.

The lender's foreign assets increased by 64.7 percent year-on-year in 2011, while foreign pre-tax profit rose by 15.9 percent.

BIG FOUR BANKS' OVERSEAS PRESENCE BY THE END OF 2011



Source: China Daily

LI YI / CHINA DAILY

ICBC got approval from the US Federal Reserve last month to buy up to 80 percent of the Bank of East Asia Ltd's US unit for $140 million, the first time that a Chinese bank has been allowed to buy a majority stake in a local US depository institution, and it is waiting for approval to buy an 80 percent stake in the Argentine division of South Africa's Standard Bank Group Ltd for $600 million.

BOC, another major lender among the Big Four State-owned Chinese commercial banks, has also vowed to expand its foreign network, saying that it expects to become a truly world-class bank by 2020.

BOC used to be highly dependent on overseas services before it began exploring the domestic market at a rapid pace during the past decade.

Li Lihui, president of BOC, said that a 20 percent contribution of foreign business would be a well-balanced ratio.

In 2011, BOC set up 12 institutions abroad, while its foreign business made a profit of $4.6 billion, up 40.34 percent year-on-year.

Foreign earnings took up 17.3 percent of the group's total profit, 1.93 percentage points higher than a year earlier.

CCB, China's second-largest lender, aims to increase its contribution of profit from foreign branches from the current level of more than 2 percent to an ideal level of 5 percent by 2016.

The country's two other major lenders are still at the beginning phase of their globalization.

By the end of 2011, ABC reported foreign assets of 124.7 billion yuan, and profits of 887 million yuan from 10 foreign institutions. It got approval to set up institutions in Dubai, Vancouver and Hanoi last year, and set up a London subsidiary and a Seoul branch in February.

The Bank of Communications Co Ltd, meanwhile, already has 12 overseas operations contributing 7.2 percent of its total assets and 3.46 percent of profit in 2011. And both its foreign assets and profits increased by more than 38 percent from a year earlier.

Some experts cautioned, however, that Chinese banks should remain wary of the hard lessons learned by their Japanese counterparts as they headed to the global market in the 1980s and 1990s, when the world ranking of its banks slumped.

By 1991, six Japanese banks were ranked in the world's 10 largest commercial lenders by market value. And the top three were all Japanese lenders. But in 2011, none of the Japanese banks were on the top 10 list.

"They (the Chinese lenders) should try to avoid blind pursuit of scale, inefficient mergers and acquisitions and excessive expansion, to keep customer needs in mind constantly to enhance financial innovation and to manage risks prudentially," said Chan at KPMG Huazhen.

He added that lenders must be wary that their advantage of having a low capital cost base will disappear as interest rates liberalized.

Banking analyst May Yan, director of Barclays Capital Asia Ltd, said the lower profitability of foreign institutions compared with a China network always hinders banks' steps going forward.

"Lenders with a higher proportion of foreign business are usually less attractive to investors as their profit growth would be dragged down. BOC is a good example," she said.

But despite lower profitability, going abroad could well deliver some excellent opportunities, at some knockdown prices, Yan added.

In markets savaged by financial crisis, but now recovering, appealing takeover targets sit vulnerable to buyers with cash to invest: The timing could well be perfect for the Chinese banking giants to increase their footholds in various markets around Europe and elsewhere, she said.