

Financial Services



Matthew Philips
Asia Pacific
Financial Services
Deals Leader

Announced deal activity in the financial services sector fell dramatically to US\$21.6 billion in the first half of 2009, compared with US\$99 billion for the full year last year (according to data from Thompson Financial). In the first quarter buyers all but disappeared and those sellers that could hold off did so in the hope of better prices later on. The most significant announced deal in the first quarter was Sumitomo Mitsui's US\$5.8-billion acquisition of Nikko Cordial Securities and concurrently the domestic equity and debt underwriting business of Nikko Citigroup Ltd Activity began to broaden in the second quarter with the announcement of Ping An's proposal to purchase 30% of the shares of Shenzhen Development Bank for US\$3.2 billion as well as other significant deals in Australia and Taiwan.

Perspective on current M&A activity

Recent deal activity in the financial services sector in Asia has benefitted from the strong second quarter capital markets rebound which has since encouraged a flurry of capital-raising and disposals by capital stretched western banks and insurers seeking to fulfill their promises of exiting businesses to repatriate capital. Amongst the major western institutions putting assets up for sale or concluding deals so far in the third quarter were: RBS which announced the sale of certain Asian retail businesses to ANZ; AIG which has sought to sell Nan Shan (its Taiwan life insurance business) and announced plans to spin off AIA and ALICO, two of its key Asian assets; and more recently ING which press reports indicate is considering disposing of certain of its private banking operations including certain Asian businesses.

These deals are characterised by the sellers' need to raise capital to redeploy at home. It is telling that many of the global financial services players that have announced disposals have done so as a result of a sectoral review of their core business and few have chosen to exit countries in the region in their entirety for fear they may not be welcomed back should they later choose to return. While there may be further such deals, I would expect that we have probably seen the largest of these.

Where will the buyers come from?

The buyers in the deals announced in the first half of 2009 include regional financial services players and local institutions looking to take advantage of a once-in-a-lifetime opportunity to add significant scale. However, Chinese buyers have been notably absent to-date. As the outlook improves, these buyers will probably emerge but there are perhaps now few bargains left to be had. As confidence returns, I would also expect to see global institutions resume M&A activity in the region, increasing competition for assets and pushing up prices.

Outlook

Focusing on the banking sector, Asian institutions have fared better than their western counterparts but they are benefitting from similar government stimulus both in terms of cheap liquidity, which is improving margins, and from measures to stimulate domestic demand which has the prospect of creating growth. These drivers are likely to have a more immediate and more powerful effect in Asia not least because of the reliance on banks as a conduit for the liquidity that is being injected by central banks. This adds to the prospect of a windfall for the banks in the short-term and if they can mitigate the risk of credit failures in the longer term it makes a compelling case for the region's larger players to move quickly to secure M&A opportunities.

In the insurance and asset management sectors, with the exception of the assets put up for sale by AIG, we have yet to see significant disposals. I would expect to see further opportunities coming to the market although the deal sizes are likely to be smaller.

Whilst uncertainty persists, we will be entering a period in the short-term where, more than ever, willing buyers and sellers are struggling to reach a consensus on value. Those that chose to grasp financial services opportunities in Asia in the throws of the crisis appear to have fared better than many of the deals in the west. The challenge now as we emerge from the crisis is to identify those Asian businesses that will continue to benefit from growth in an entirely new, more regulated environment. ■