



cutting through complexity

# VANTAGE

The global view from  
Transactions & Restructuring

## Going out: China's banks look outbound for growth

Are you ready for the internationalization of China's banks?

After years of focusing on the domestic market, China's banks are now starting to look outward. The first forays have already been made by CCB and ICBC; more are anticipated over the coming years. In fact, we believe that China's banks are in the midst of a change that will bring about a series of major intercontinental deals over the next three to five years.

### Supporting the 'going global' strategy

International observers will have already noted that China's banks have been eyeing overseas markets. Some of this activity has clearly been to support the foreign ambitions of the country's energy and natural resources companies who have responded to the government's 'going global' strategy.

Not surprisingly, activity has followed trade flows; it is no coincidence that ICBC holds around 20 percent of South Africa's Standard Bank;<sup>1</sup> or that China Construction Bank recently closed a deal for a 72 percent stake in Brazil's Banco Industrial e Comercial SA.<sup>2</sup>

But there are also other factors at play that suggest China's banks are only just starting to make moves internationally. For one, China's banks have started to become increasingly aware of their dependence on domestic markets. And while the reality is that the anticipated failures in provincially-backed bonds won't hobble China's banks, the specter of slowing growth has forced many bank CEOs – the big four in particular – to look to other geographies as a means of diversification.

### Capability and capacity

However, China's banks also recognize that – if they are to succeed globally – they will need to quickly ramp up their capabilities and sophistication, particularly

in global functions within wholesale and corporate banking. As a result, we believe that we will see significant interest from China's banks in overseas assets that deliver new or critical capabilities.

ICBC's plans to purchase 60 percent stake in Standard Bank's global markets business in London is a case in point. On the one hand, ICBC gains an important foothold into the London market which will become increasingly valuable as China's government moves towards a more convertible domestic currency. But it will also allow ICBC to transfer many of the new capabilities gained from the deal back into the domestic market and to near-shore centers such as Hong Kong.

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Indeed, China's banks may be willing to pay a premium over normal valuations if they believe that they could gain additional value by leveraging new capabilities back into the domestic market. As such, we expect asset auctions to become somewhat more complicated as China's banks start to actively bid for overseas capabilities.

Purchasing new capabilities and skills in a knowledge-based sector is a difficult business. China's banks will need to become very familiar with the products and assets they are purchasing, some of which may be entirely new classes within the China market. This will not only require traditional 'knowledge sharing' techniques, but – given the high complexity and sophistication of the vehicles – considerable internal skills to adapt these products to the China market.

## **A strong position**

The setting is certainly right for China's banks to expand overseas. Well-capitalized and fairly stable, China's banks are certainly not strapped for deal-making cash. What's more, China's government has been actively working to pull down some of the regulatory and policy barriers that had previously made overseas expansion difficult.

As China's economy has opened up, its banks have also gained greater access to key capabilities and service providers – world-class investment bankers, financial advisors, independent assessors, international legal counsel and business advisors – who are helping China's banks avoid any 'rookie' mistakes when structuring and closing deals on the international stage for the first time.

## **The integration challenge**

Recent experience would suggest, however, that China's banks may face a harder battle than most when competing for foreign banking assets. It is widely believed that some deals have already been scuttled because of the seller's concerns that a purchase by a Chinese state-owned bank won't pass regulatory muster; until perceptions change, the purchase of a global multinational bank by a Chinese bank will likely be out of the question.

However, likely the biggest challenge that China's banks will face when acquiring foreign assets will not be in finding attractive deals, but rather in properly integrating their acquisitions post-merger. Retaining staff and integrating practices will be a key concern, particularly when cultures – whether corporate or national – are seen to be clashing.

Integrating operations and systems will also pose new challenges for China's banks, requiring internal processes and controls to be updated. Consider, for example, the impact that global operations will have just on the banks' domestic reporting. Currently, Chinese banks face – and, due to their largely domestic footprint, handily meet – very short regulatory reporting timelines. But as they begin to monitor and incorporate key metrics from overseas activities, they will quickly become hard-pressed to maintain this rigorous schedule.

## **A surging trend**

Based on our experience, we believe that China's banks are now moving from the scouting phase into the execution phase of their 'going global' strategy. If we are right, we can expect to see a significant uptick in activity, particularly in high growth markets that trade with China and in mid-sized EU and American operations with more sophisticated global products or services.

However, we firmly believe that – once China's banks start to gain more experience and become more adept at adapting foreign practices into their domestic operations – we will start to see China's banks join the ranks of the true banking multinationals.

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*\* The opinions expressed in this article are those of the authors and do not constitute professional advice.*

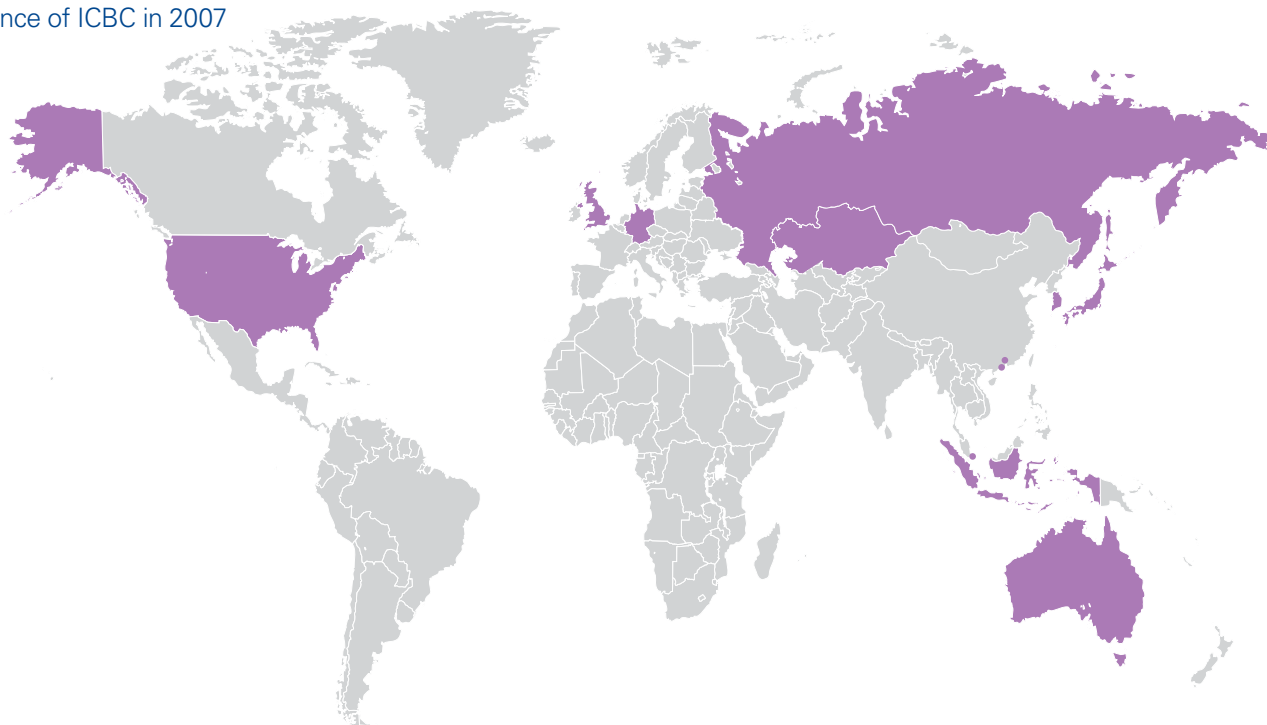
1. *ICBC to buy Standard Bank stake*, Reuters, Oct 25, 2007 (<http://www.reuters.com/article/2007/10/25/us-standardbank-icbc-acquisition-idUSSHA11075020071025>)
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3. *ICBC Agrees to Buy Control of Standard Bank Trading Unit*, Bloomberg News, Jan 30, 2014 (<http://www.bloomberg.com/news/2014-01-29/china-s-icbc-agrees-to-buy-60-of-standard-bank-s-markets-unit.html>)

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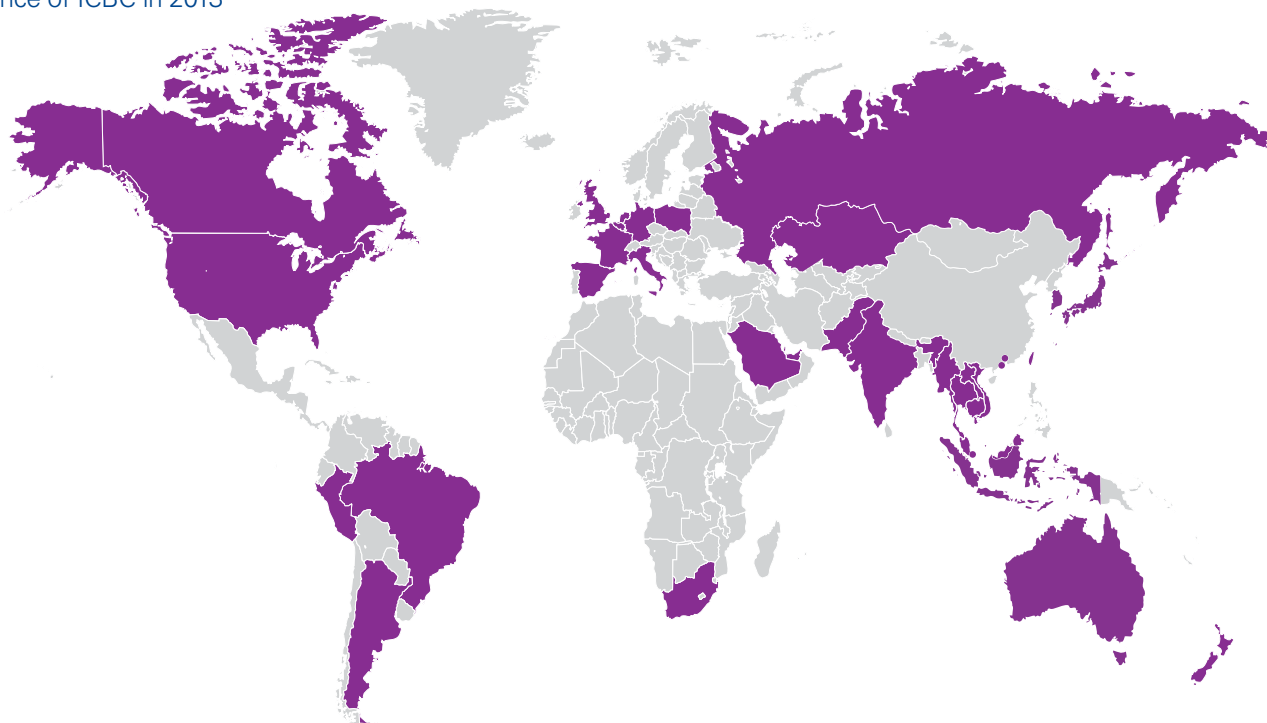
## Global growth of a top Chinese bank, ICBC, between 2007 and 2013

To view the global presence of the Top 5 Chinese banks, please visit [kpmg.com/vantage](http://kpmg.com/vantage)

Global presence of ICBC in 2007



Global presence of ICBC in 2013



Source: ICBC annual report (<http://www.icbc.com.cn/>); mergermarket (<http://www.mergermarket.com/>)

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