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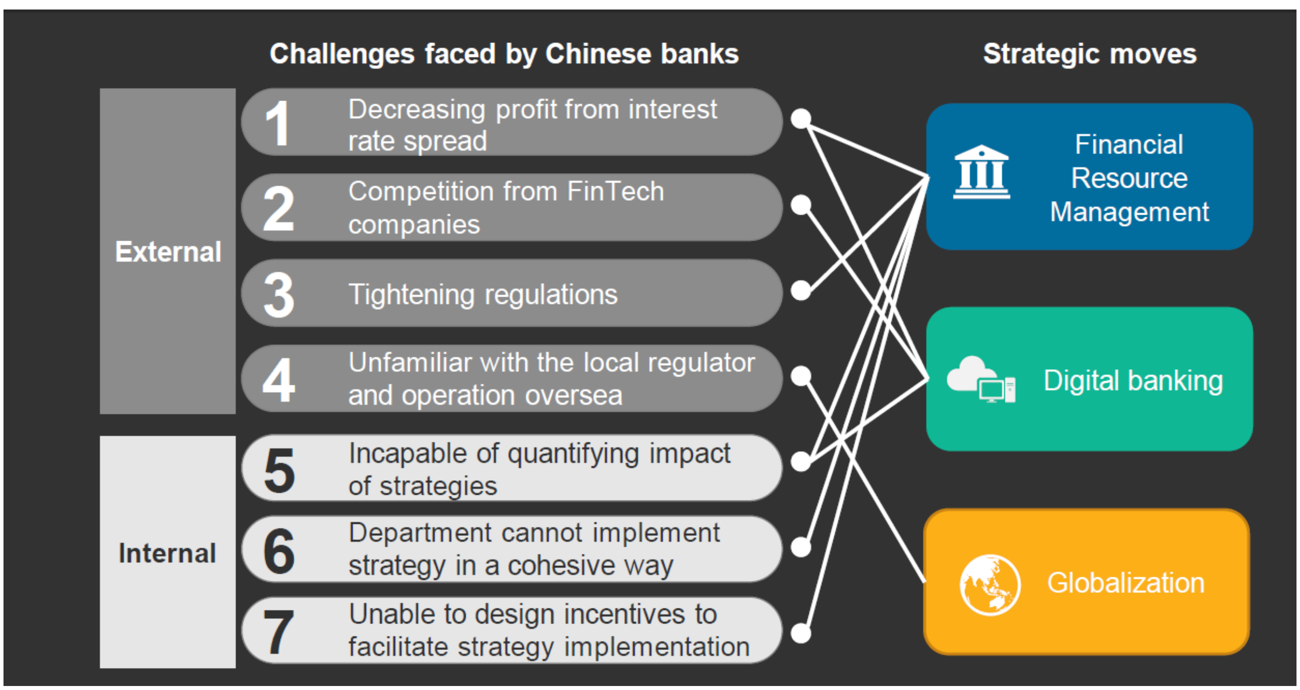
Era of New Finance 2.0 Dictates New Success Factors for Chinese Banks

Oliver Wyman identifies necessary strategic moves if leading financial institutions are to remain globally competitive by 2030

BEIJING, April 25, 2018 – As China's macro-economy shifts from being investment-driven to consumption-driven, accounting for 40% and 54% of Chinese GDP respectively as of 2016, global management consultancy Oliver Wyman has revealed how the New Economy is reshaping the financial system, dubbed New Finance 2.0.

Driving the change is increased marketization of the finance industry, rising globalization of the economy, the rise of fintech and increasing regulatory changes. As a result, today's leading Chinese banks must focus on three strategic moves if they are to be the winning players of 2030, including deploying effective Strategic Financial Resource Management (SFRM), fully embracing digital banking and implementing a clear globalization strategy.

These moves will enable Chinese banks to tackle seven challenges, both external and internal, that they are currently facing:



"We believe Chinese banks have to adopt a targeted approach by matching the relevant strategic moves to cure these pain points," said **Tao Weng, Partner at Oliver Wyman, Beijing Office Leader**. "They have to change their traditional mindset and prepare for the next stage of growth by effectively linking SFRM practices to their business processes, fully utilizing digital and forging ahead with going global. Such a sweeping transformation requires a cross-functional effort and significant change management, which therefore needs to be championed by CEOs in order to be successful."

SFRM is a framework for capturing and synthesizing key information to develop pricing and allocation methods for capital, liquidity, and other essential financial resources. It involves embedding rigorous practices into existing processes, coupled with supporting analytics, covering all areas across the bank. Without such a comprehensive framework, Chinese banks will be unable to remain competitive and could face stagnation.

Resource management is increasingly important as the pace of regulatory change accelerates, with 12 regulation reports having been issued since January 2018. The environment is also tightening, including a ban on ICOs, targeting of the P2P industry, tightened regulation for governance funding, new rules for asset management and the publication of BASEL IV.

"With the unveiling of China's plans to merge its banking and insurance regulators as a new 'super-regulator', there is an expectation of further regulatory tightening that will impose new requirements on leverage, liquidity and stable funding," said **Peter Reynolds, Co-head of Financial Services, Greater China at Oliver Wyman**. "Market leaders must look for ways to optimize their financial protocols to achieve sustainable long-term growth."

Given the sophistication of digital in the China market, including significant strides in the potential of big data applications, Chinese banks must actively follow and incorporate digital banking methods to increase productivity and reduce operating expenses. This includes developing automated and standardized tools for internal management and operations, building a differentiated experiential offering for customers through tools like AI, and ultimately embedding solutions in the ecosystem with multiple applications and real-time information sharing.

"The state-owned banks have started their strategic planning by partnering with leading technology firms to share technology and resources to lay a solid foundation," said **Cliff Sheng, Co-head of Greater China at Oliver Wyman**. "However, a lot of partnerships remain at the departmental level and are yet to be fully incorporated into the wider bank. These are also often focused on product-driven innovations and have not yet made an impact at the strategic level."

The "Belt and Road" initiative and the internationalization of the RMB have created opportunities for Chinese banks to globalize, with total export-import volume in China from the former reaching RMB 7.3 trillion in 2017, up 17.8% year-on-year versus an overall foreign trade growth rate of 3.6%. This globalization can take two forms, including “bringing in” foreign investors based on the banks’ deep knowledge of the China market while also providing global products to existing customers. They may then “go out” and develop a localized business in foreign markets.

Chinese banks still hold the potential to extend their dominant position among the largest banks in the world, sustaining their growth in assets, revenue and reach. Achieving this will be dependent on whether the most prominent players can effectively adapt to a shifting consumption-driven market.

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Notes to editors

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