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Banks can only do as well as their clients

The chairman of the State Bank of India, Pratip Chaudhuri, uttered one of the great truisms of banking recently when he said the banking outlook “reflects the collective outlook of our clients.”

“Banks can only do as well as the clients do,” said Chaudhuri.

This statement has particular relevance as Asian banks approach 2013, because their corporate customers are demanding more, and showing more of an inclination to change.

East & Partners’ recent survey of the top 1,000 Institutional Transaction Banking customers across Asia uncovered noticeable increases in the number of customers planning or thinking about changing bank. A key driver is the need for banks to understand a customer’s business and industry, which the survey showed is now the single most important initiative to improve service quality.

Some of those customers, however, might find 2013 hard going and that will also have an impact on their banks. While banks in many Asian countries have their house in order, the vagaries of asset quality and an uncertain prognosis for both regional and individual economies mean that bank performance will be particularly dependant on how successful customers are in holding their businesses together. They will be breathing a sigh of relief on this month’s relaxation of the Basel III liquidity rules which have been hanging over the sector.

A look around Asia shows some different scenarios, but with similar themes. While banks in the strengthening Philippine and Indonesian economies might be the standouts, pockets of uncertainty exist in the larger and more established economies.

The chairman of South Korea’s leading Woori Finance Holdings, Lee Pal-Seung, recently said his Korean banks were “facing a structural crisis as they are ushering in a period of low economic growth and low profitability.”

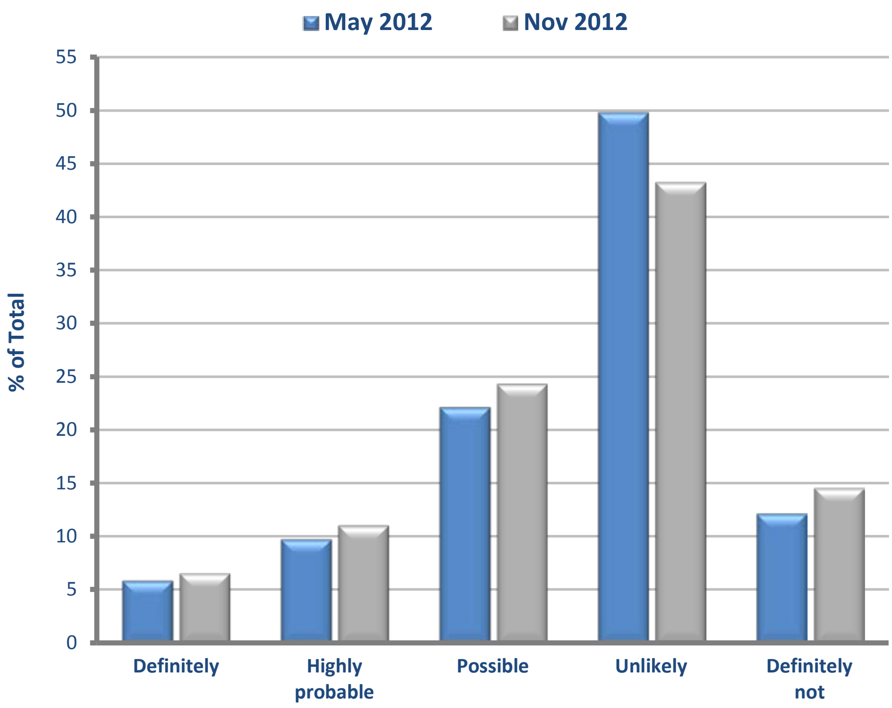
In China, the number of new yuan loans extended by Chinese banks is expected to surpass the record high set in 2009.

According to the Bank of Communications, the official target for new yuan loans in 2013 will be 9 trillion yuan (US$1.4 trillion, but the actual amount might exceed the target by as much as 15 percent).

Around the rest of Asia, Hong Kong has an issue with its property market, with the Hong Kong Monetary Authority recently warning that soaring property prices and an overheated market may see homebuyers unable to service mortgages.

India, despite recent boasts that its top five banks would be among the global top 20 by 2020, has ongoing asset quality issues hanging over from last year which will put a break on significant growth in 2013. Many corporate loans are expected to be restructured.

Likelihood of Changing Primary Banker in the Next Six Months



In Malaysia, loan growth is slowing to around 10 percent from around 12 percent in 2012, but the non-performing loan outlook is more benign. Singapore’s banks, which began so well in 2012, hit major macro-economic headwinds in the second half of 2012 which are expected to continue into 2013.

In all of these jurisdictions, the bank’s prospects for 2013 are not just in their own hands.

To return to the comments of Pratip Chaudhuri, they can only do as well as their clients, and that is never more so than in 2013.