

Panel IV: Industry Structure

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David Fernandez, Managing Director, JPMorgan
Paul Lo, CEO, SinoPac Holdings
Francis Rozario, CEO, Fullerton Financial Holdings Pte. Ltd.
William Haworth, East Asia Regional Manager, IFC (moderator)

The fourth panel was asked to look at the structure of the banking industry in Asia, to describe the changes that have taken place during the past decade, and to examine what those changes suggest in terms of future challenges for Asia's financial sectors.

The stage was set by the moderator who noted that the banking system can create wealth but, when it malfunctions, can also create poverty. Additionally, the effects of financial crises, typically more serious in developing than in developed countries, have repercussions well beyond the financial system. As such, the real questions should go beyond whether or not institutional recovery has been achieved following the crisis. The most compelling questions include whether there is now credit available to drive development in Asia, whether improvements that have been noted are adequate to meet the needs of future crises, and whether developments in some countries are indicative of region-wide strengthening of banks and financial institutions.

On the positive side, consolidation and foreign ownership have enhanced the capital base of Asian banks, upgraded risk management capabilities, and introduced global best practices in several markets. These developments have been reinforced by behavioral changes on the part of politicians, bankers, and regulators who now recognize that a healthy financial system cannot be compromised for short term gains. Perceptions within Asia are positive with respect to the implementation of best practices. More broadly, countries such as Singapore and Korea have actually become leaders regionally and globally in technological innovation and entrepreneurship in financial and other industries.

Many significant challenges remain. Among those noted by panelists are:

- A lack of quality and depth in middle management in banks and financial institutions.
- A continued reluctance—albeit much weaker than at the time of the financial crisis—to allow weak institutions to fail.
- Underdeveloped capital markets
- A lack of enforcement in legal systems

The panel concluded that Asia is heading in the right direction but that change must be “turbo-charged,” with closer cooperation between financial sectors and government regulators in order to keep up with global advances in the industry.