

Box A

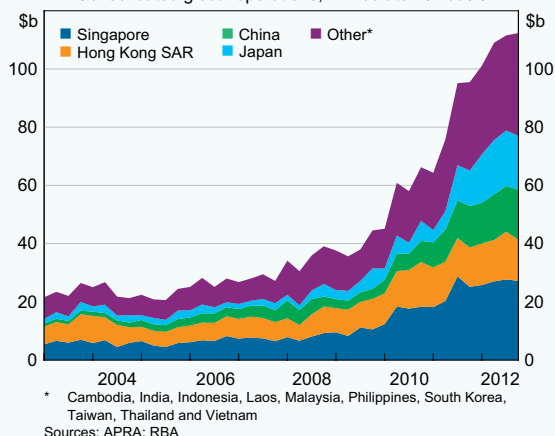
Australian Bank Activity in Asia

The large Australian-owned banks have significantly increased their activity in Asia over recent years. One indicator of this is the consolidated data in the International Banking Statistics, which show that the aggregate claims (i.e. exposures) of all Australian-owned banks on the Asian region were \$112 billion at December 2012, up from \$27 billion five years earlier (Graph A1).¹ Almost all of these claims are due to the four major banks. As a share of their global consolidated assets, Australian-owned banks' claims on Asia rose from 1.2 per cent to 3.6 per cent over this period. While their non-Asian foreign claims are still a much higher share of their global consolidated assets, at around 19 per cent, this share has been declining (see 'The Australian Financial System' chapter). The Australian banks have recorded strong growth in their exposures to a range of Asian countries over recent years, although the bulk of their exposures are to the financial centres of Singapore and Hong Kong, as well as China and Japan, the two largest economies in the region.

A key motivation for the Australian major banks' expansion into Asia is to facilitate the large and growing trade and investment flows between Australia and the Asian region. Accordingly, the banks have been focusing on providing cross-border banking services (such as trade finance and foreign exchange) to their corporate clients engaged in trade and other business in Asia, as well as to Asian

¹ Banks' consolidated on-balance sheet foreign claims in this box are measured on an 'immediate risk' basis – that is, claims are based on the country in which the immediate counterparty resides. Foreign claims can also be measured on an 'ultimate risk' basis, which are immediate risk claims adjusted (via guarantees and other risk transfers) to reflect the country where the counterparty risk ultimately resides. Data on Australian-owned banks' foreign claims are collected by the Australian Prudential Regulation Authority as an input to the Bank for International Settlements' International Banking Statistics. They are available on the RBA website in Statistical Tables B11.2, and B13.1 to B13.2.1.

Graph A1
Australian-owned Banks' Claims on Asia
Consolidated global operations, immediate risk basis



companies with activity in Australia. Some of them have also been targeting foreign companies doing business in Asia, aiming to capitalise on the large and fast-growing intra-Asian trade and investment flows. A similar trend has been observed in the other direction, with many Asian-owned banks looking to increase their involvement in parts of the Australian banking market.² The increased linkages between the Australian and Asian banking systems can partly be seen as a natural consequence of greater regional economic integration.

Consistent with the Australian major banks' focus on trade and other cross-border banking services, the majority of their claims on Asia are recorded as 'international claims', which comprise 'cross-border' claims (those where the counterparty resides in a

² As discussed in 'The Australian Financial System' chapter, Asian-owned banks' share of business lending and syndicated lending in Australia has increased noticeably over recent years. There are currently 16 Asian-owned banks with on-the-ground operations in Australia; six of these established their operations since 2010, while others have a longer-standing presence in the local market.

different country to the banking entity that booked the claim) and local claims of the Australian banks' Asian operations that are denominated in foreign (i.e. non-local) currency (Table A1). This is in contrast to the major banks' main overseas markets, New Zealand and the United Kingdom, where most of their claims are booked through local operations and are claims on local residents denominated in the local currency.

The bulk of the Australian banks' international claims on Asia have less than 12 months to maturity; this is likely to partly reflect their provision of trade facilities, which typically have short maturities of up to 180 days. Some trade facilities, such as letters of credit, are off-balance sheet exposures though, and are therefore not included in these claims data. Short-dated trade facilities typically pose smaller funding and credit risks to banks than long-term lending, and margins on these facilities therefore also tend to be relatively low. The escalation of the euro area debt crisis and the associated pullback of some euro area banks from the Asian region in 2011 and early 2012 created opportunities for Australian banks to expand their trade financing business in the Asian region. More recently, the improvement in global market sentiment and increased competition

from other banks in the region have reportedly contributed to a tightening of margins in these markets. Australian banks are also involved in the provision of long-term corporate loans in Asia, such as through their participation in syndicated lending, although to a lesser extent than some large Asian banks that are expanding in the Asian region.

While increasing their institutional and corporate business in Asia has been the primary focus of the major Australian banks, some of them have also been expanding into retail banking in a number of Asian jurisdictions, including Hong Kong, Indonesia, Singapore, Taiwan and Vietnam. In doing so, the banks have generally targeted certain segments of the retail market, such as more affluent customers or those with links to Australia, partly because of the difficulties competing with the larger incumbent banks in the broader retail market.

While all of the major Australian banks have increased their activity in the Asian region over recent years, ANZ has accounted for a large part of the growth and its overall exposure to Asia is much bigger than those of the other banks. Building a larger presence in Asia is a key component of ANZ's 'super regional' strategy that it adopted in 2007. The other major

Table A1: Australian-owned Banks' Claims on Asia
Consolidated global operations, immediate risk basis, \$ billion

	December 2007	December 2012
Claims by type		
International claims ^(a)	21	65
<i>of which:</i> ^(b)		
0–3 months	10	35
3–12 months	3	11
Greater than 12 months	8	19
Local claims in local currency	6	47
Total claims	27	112

(a) Cross-border claims plus local claims denominated in foreign currency; cross-border claims are those where the counterparty resides in a different country to the banking entity where the claim is booked

(b) Residual maturity basis

Sources: APRA; RBA

Australian banks are also looking to grow their businesses in Asia, but their expansion strategies tend to be more focused on providing cross-border banking services and less on opening Asian retail and corporate banking operations.

Australian banks have used a variety of business structures to expand into Asia. Banks' initial moves into Asian markets have tended to involve opening representative offices or taking minority stakes in existing banks, with the aim of acquiring knowledge about local banking conditions and customs before embarking on more extensive expansions. Over recent years, the banks have increasingly established local branch and subsidiary operations in Asia: the large Australian banks now hold branch banking licences in a range of jurisdictions (most commonly China, Hong Kong, India, Japan and Singapore), while ANZ has subsidiary banking licences in Cambodia, China, Indonesia, Laos and Vietnam (CBA also has a subsidiary in Indonesia). Some of these local operations were the result of acquisitions, most notably ANZ's purchase of parts of Royal Bank of Scotland's operations in Asia in 2009–2010.

A notable feature of the Australian banks' operations in Asia is that local deposits account for a large share of their funding. Banks' deposit funding exceeds their lending in many of their Asian operations; surplus funding appears to be mainly placed in cash and liquid assets. These balance sheet patterns are reasonably common among banks operating in Asia given the high saving rates in many of the Asian economies, reinforced by prudential caps on loan-to-deposit ratios in a few cases.

Australian bank activity in Asia is likely to continue to expand over the longer term as trade and investment between Australia and Asia grow, and banks look to capitalise on growth opportunities in Asian banking systems. If expansion into Asia helps increase and diversify the Australian banks' earnings then this could be beneficial for them and, potentially, for financial stability. However, moving into any new market poses a range of risks that banks need to manage carefully. These risks would probably be heightened if expansion were overly rapid and not backed by a deliberate and well-founded strategy. ❖