

Opportunities and Challenges for Mutually Beneficial Collaboration between Indian and Japanese Financial Institutions

**Indian Council for Research on
International Economic Relations**

Mumbai, India

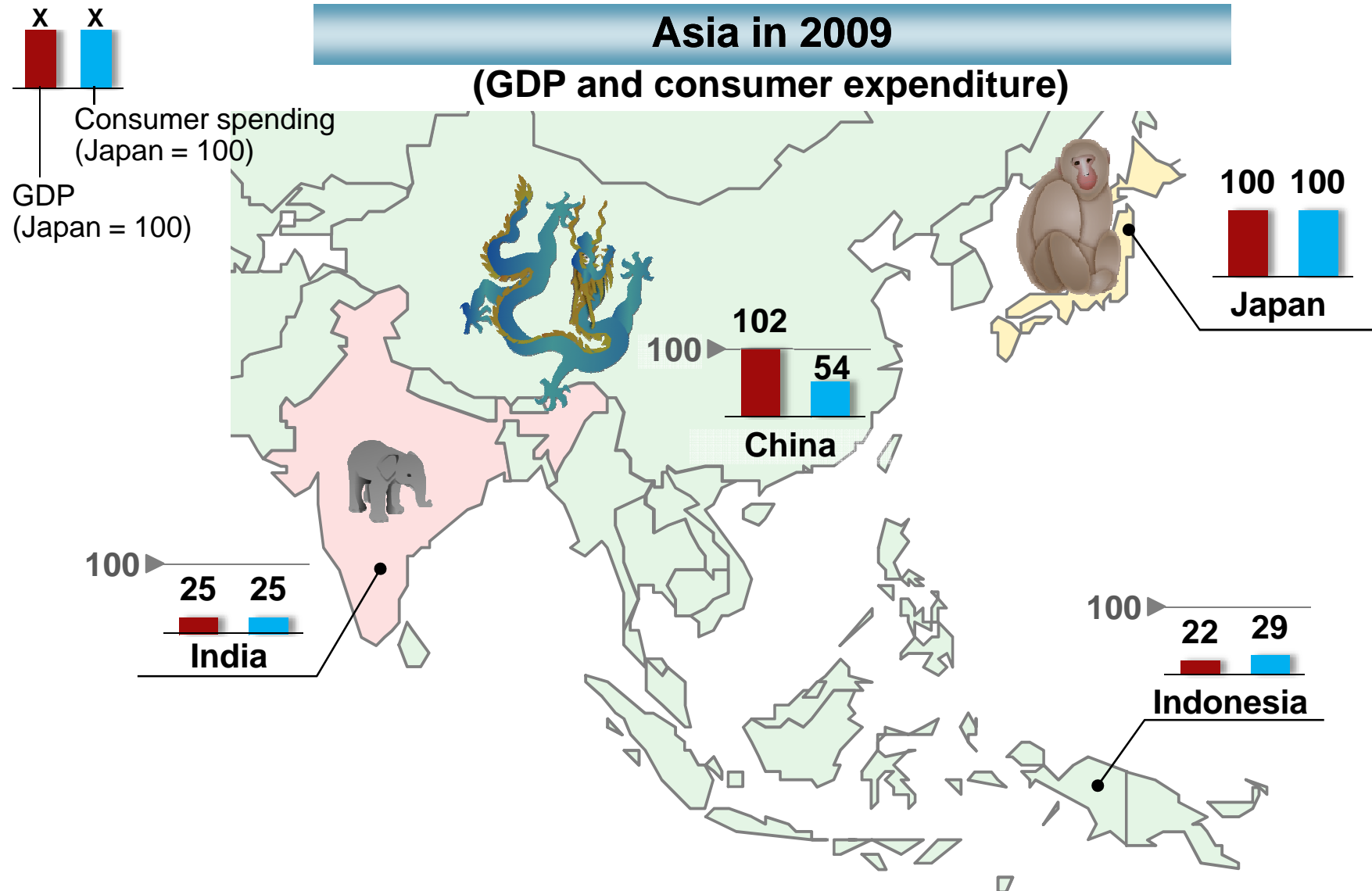
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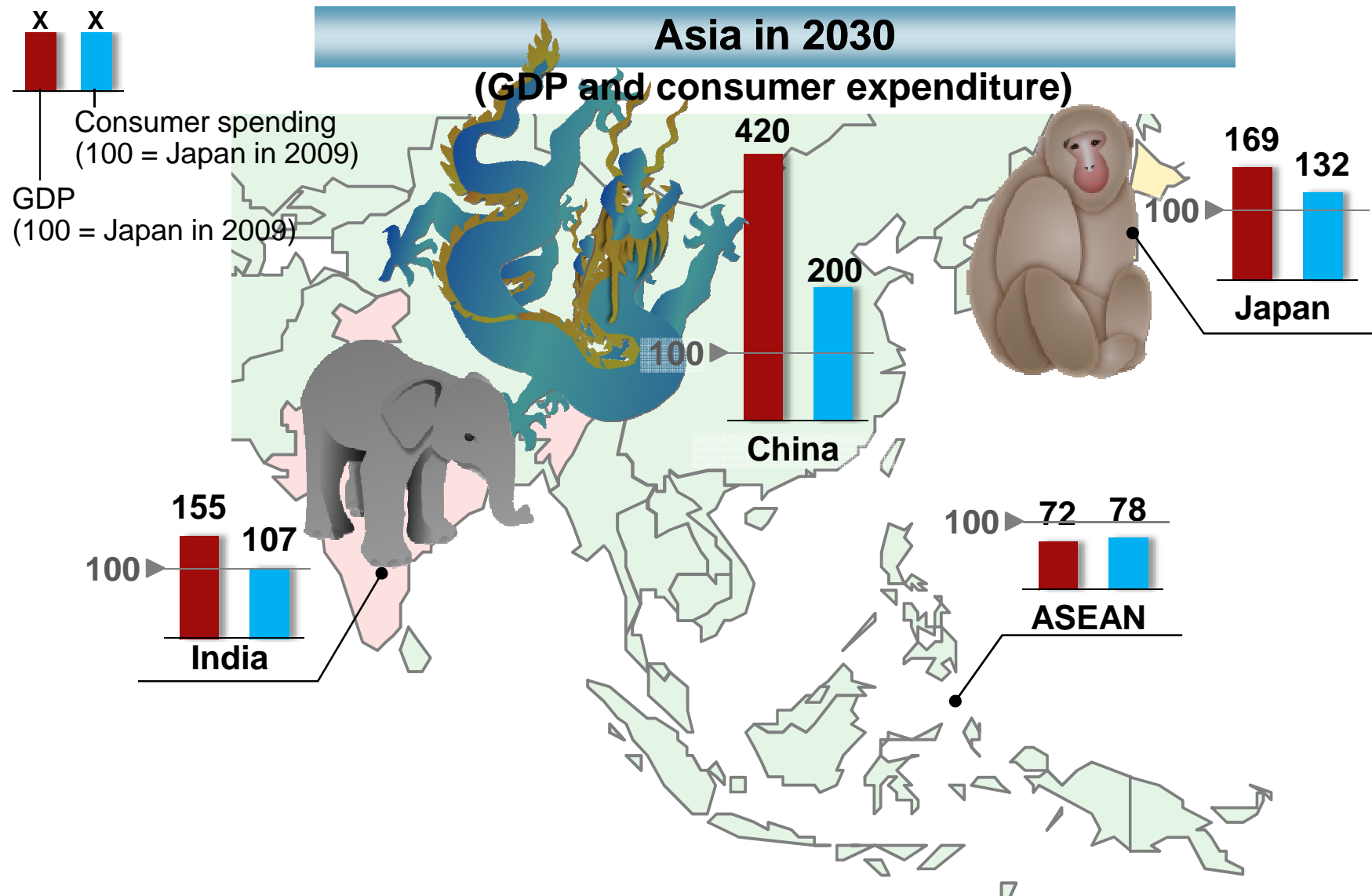
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Today, there is one matured big country and two emerging powerful countries in Asia.



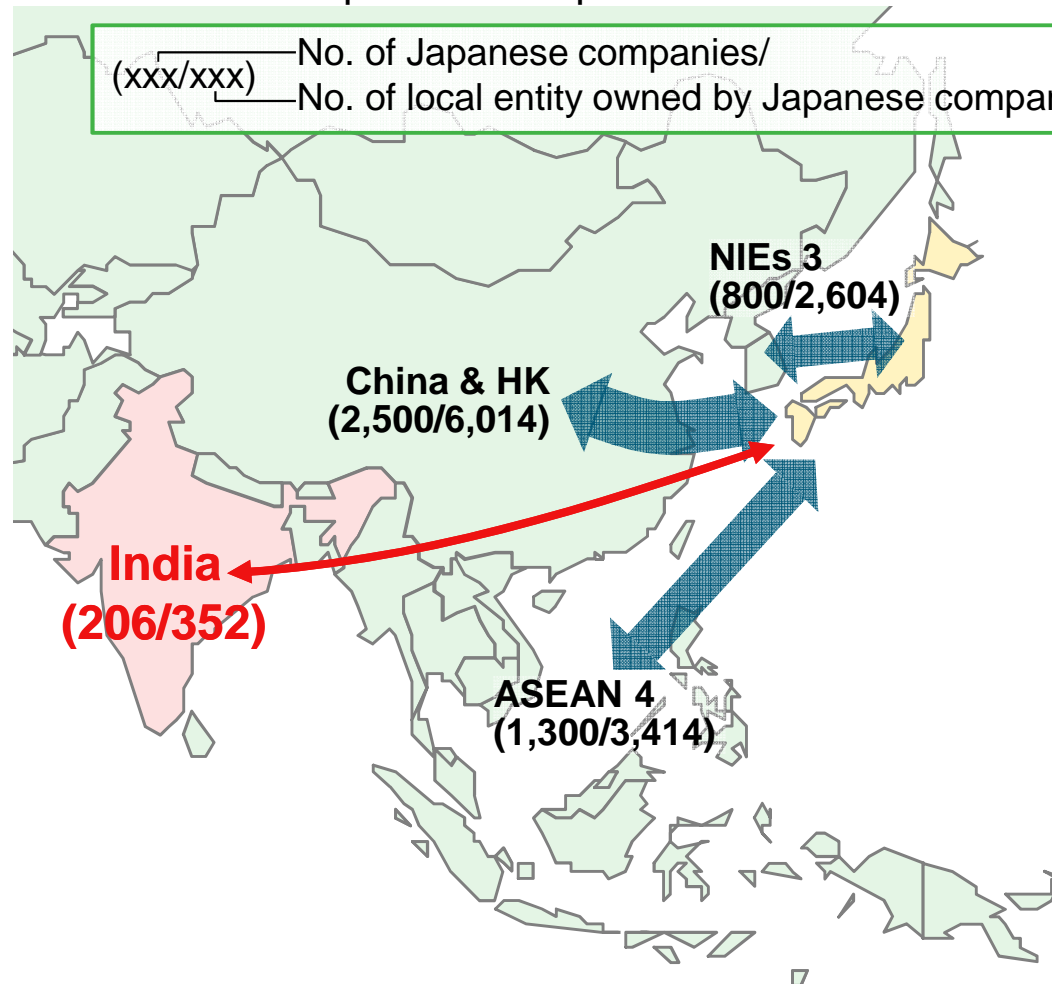
They will become the three of the world's top four largest GDP countries in 20 years.



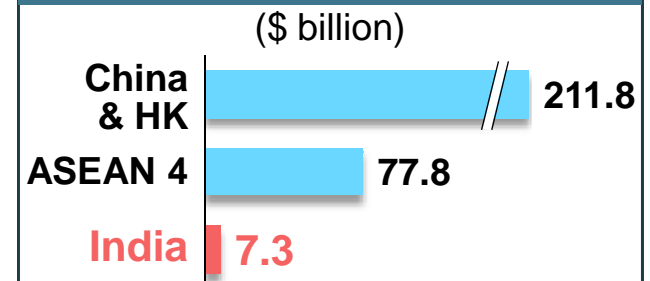
Economic relationship between Japan and China/ASEAN is very closely linked.

Economic Relationship between Asia and Japan

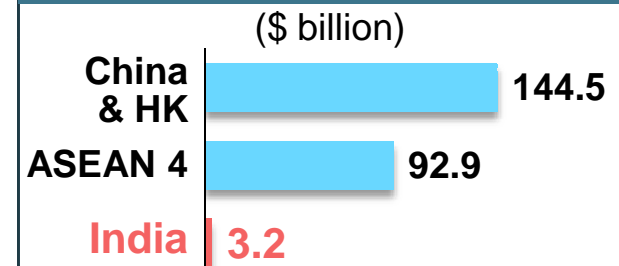
(Estimated No. of Japanese companies in selected countries*)



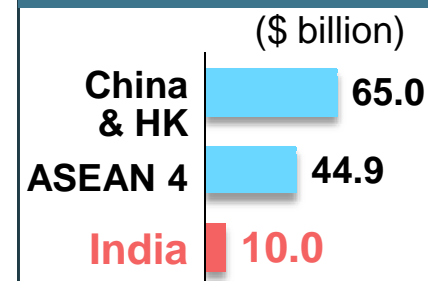
Import from Japan (2008)



Export to Japan (2008)



Accumulated Direct Investment



* In the area of NIEs and ASEAN, picked up the countries with largest number of Japanese companies
 Source: Toyo Keizai “海外進出企業総覧”

Except for life insurance business, top three Japanese financial institutions in each category have offices in India. But their activity is still small or just started expanding.

Presence of Japanese Financial Institutions in India

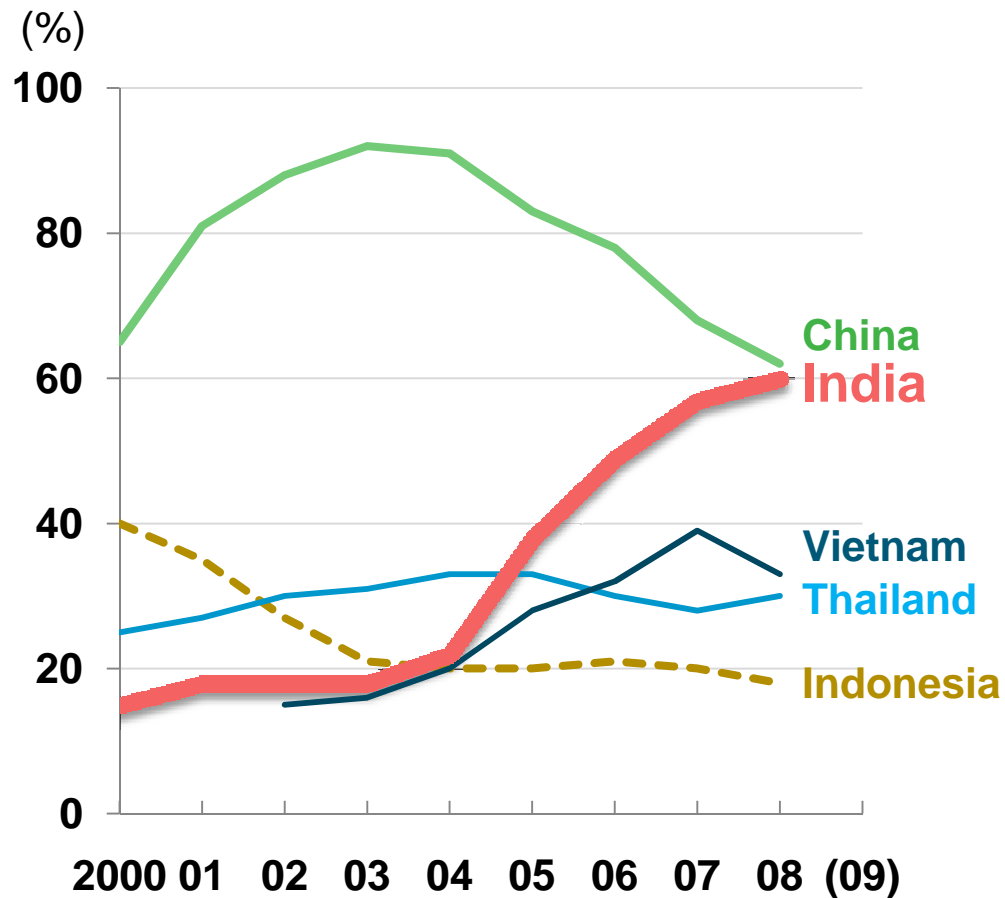
Bank		Property & Casualty Insurance		Securities Firm	
Asset		Revenue		Revenue	
• Mitsubishi UFJ FG ¹⁾	\$2,400 bn	• Tokyo Fire & Marines Holding	\$39.5 bn	• Nomura Securities	\$16.0 bn
• Mizuho FG ²⁾	1,816	• Mitsui Sumitomo Insurance	38.8	• Daiwa Securities	5.4
• Sumitomo-Mitsui FG	1,506	• NKSJ Holdings	31.1	• Nikko Cordial	NA
• Resona Holdings	482	• Fuji Fire	4.4	• Mizuho Securities	3.7
• Mitsubishi Sumitomo Trust Holding	398	• Kyosei Fire		• Okasan Securities	0.8
• Fukuoka Financial Group	142				
Life Insurance		Others			
Asset		Asset			
• Nippon Life Insurance		• ORIX	\$102.3 bn		
• Meiji Yasuda Life					
• Sumitomo Life					
• Daiichi Life					

Asset size in Indian market

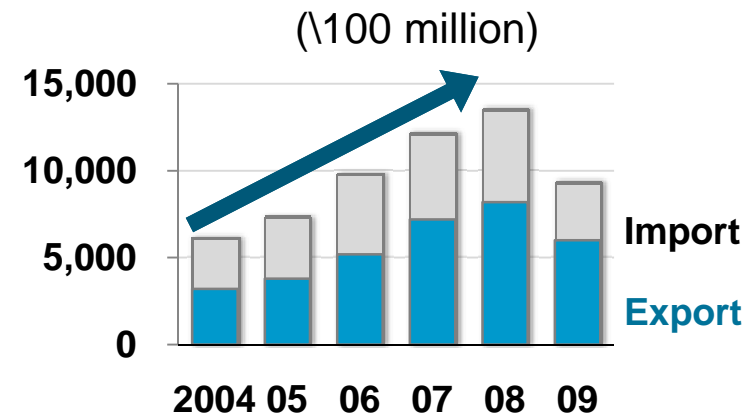
- 1) Rank 12th among foreign banks
- 2) Rank 17th among foreign banks

But, India is No. 2 priority for future business investment in overseas. And, actually trade and FDI from Japan grew rapidly in recent years.

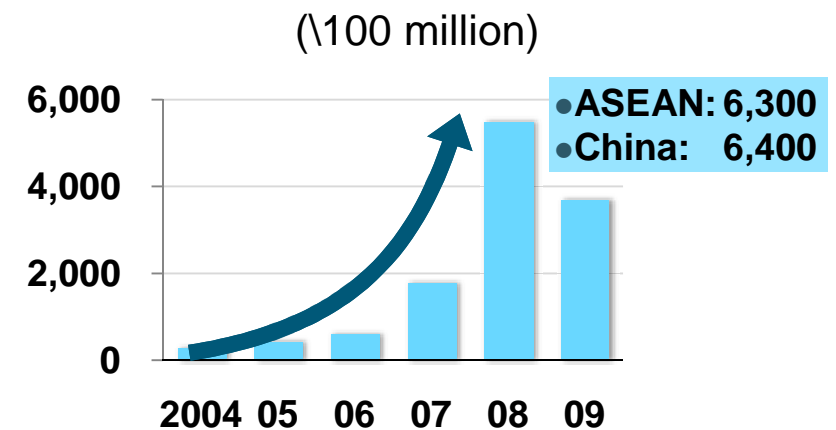
Japanese Company's Appetite to Invest in Overseas Businesses over the Medium Term



Japan-India Trade Value

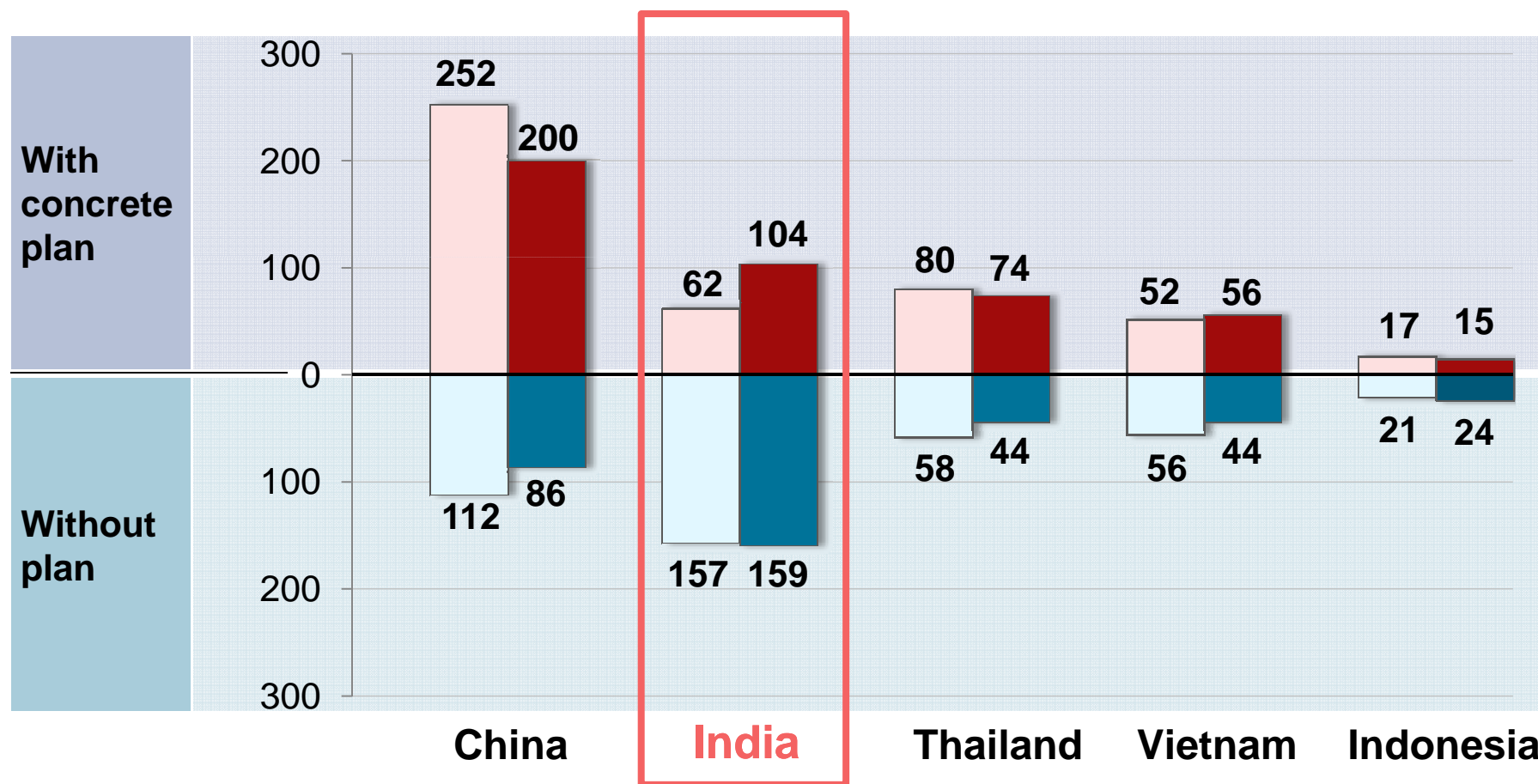


Japan's Direct Investment to India



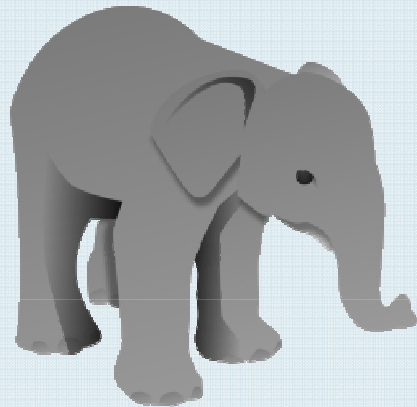
But, Japanese companies with strong interest in India do not have actual entry plan.

Existence of Concrete Business Plans for Promoting Countries
(No. of companies which said that country is promising in future investment)

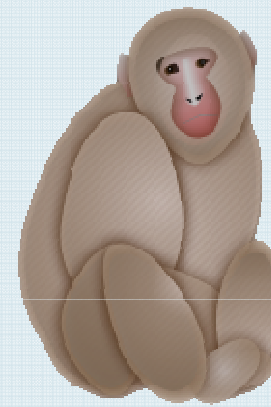


There must be big opportunities for collaboration between India and Japanese financial institutions which may significantly contribute to socio-economic growth of India.

Opportunities and Challenges for Collaboration between India and Japanese Financial Institutions



- **Rapidly growing economy with big financial needs**
- **Long-term history of financial system**
- **Variety (old & new, public & private, nationwide & local)**



- **Global players**
- **Expertise in new financial skills**
- **Experience (good & bad)**
- **Affluent domestic money**

Common value

- **Long-term stable growth > short-term profit with high volatility**
- **Balance between banking sector and capital market**
- **Balance between high touch and high tech in customer relationship**
- **Strong consciousness on mission for public goodness**

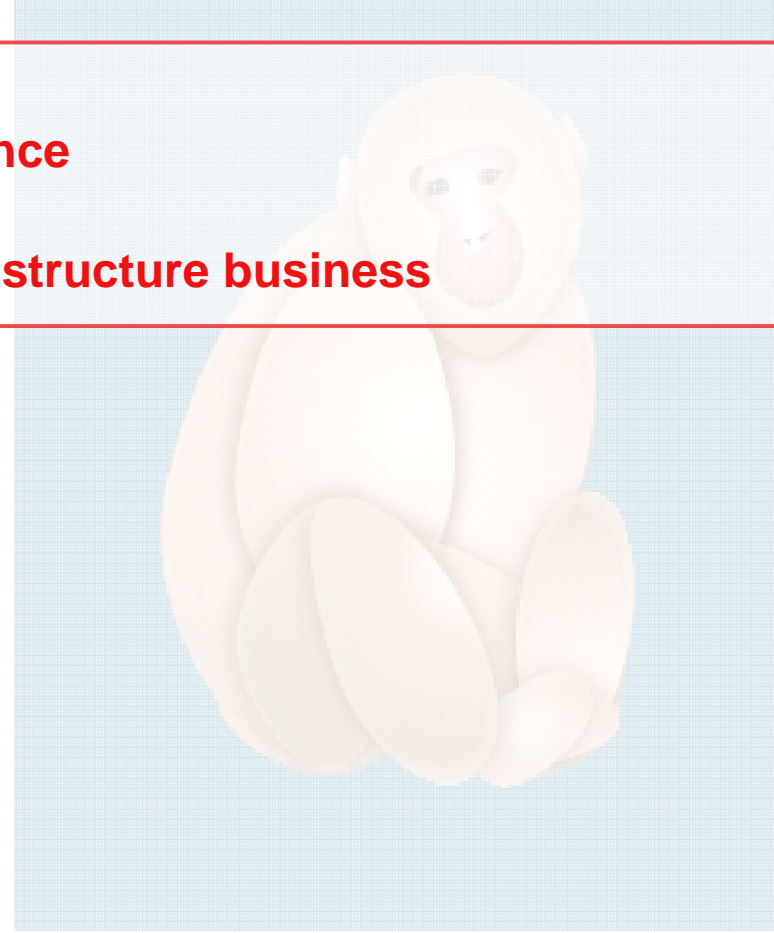
There are four ideas for possible collaboration between India and Japanese financial institutions.

Opportunities and Challenges for Collaboration between India and Japanese Financial Institutions

1

Infrastructure Finance

- **Conventional infrastructure finance**
- **Global PPP, IPP**
- **Joint development of Asian infrastructure business**



Weak infrastructure (transportation, electricity, water) is the bottleneck.

Japanese Company's Views on India

Reasons for promoting	• Future growth potential of local market	84.4%
	• Inexpensive source of labour	38.7%
	• Qualified human resources	25.3%

Pending issues	• Underdeveloped infrastructure	52.1%
	• Unclear execution of legal system	26.5%
	• Lack of information on the country	24.5%

Countries in which Japanese Companies Are Hesitant to Do Production because of Their Poor Infrastructure

• India 48%

• Vietnam 35%

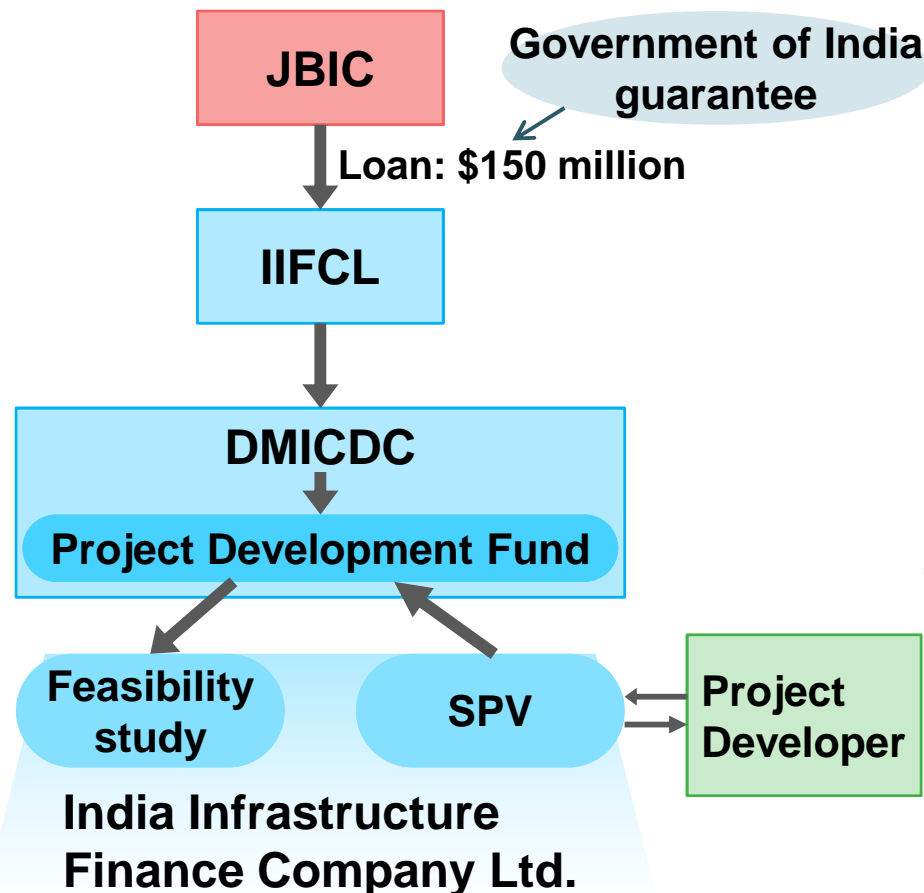
• Indonesia 11%

• Thailand 3%

In the infrastructure finance, JBIC (Japan Bank for International Cooperation) had several actual cases in India.

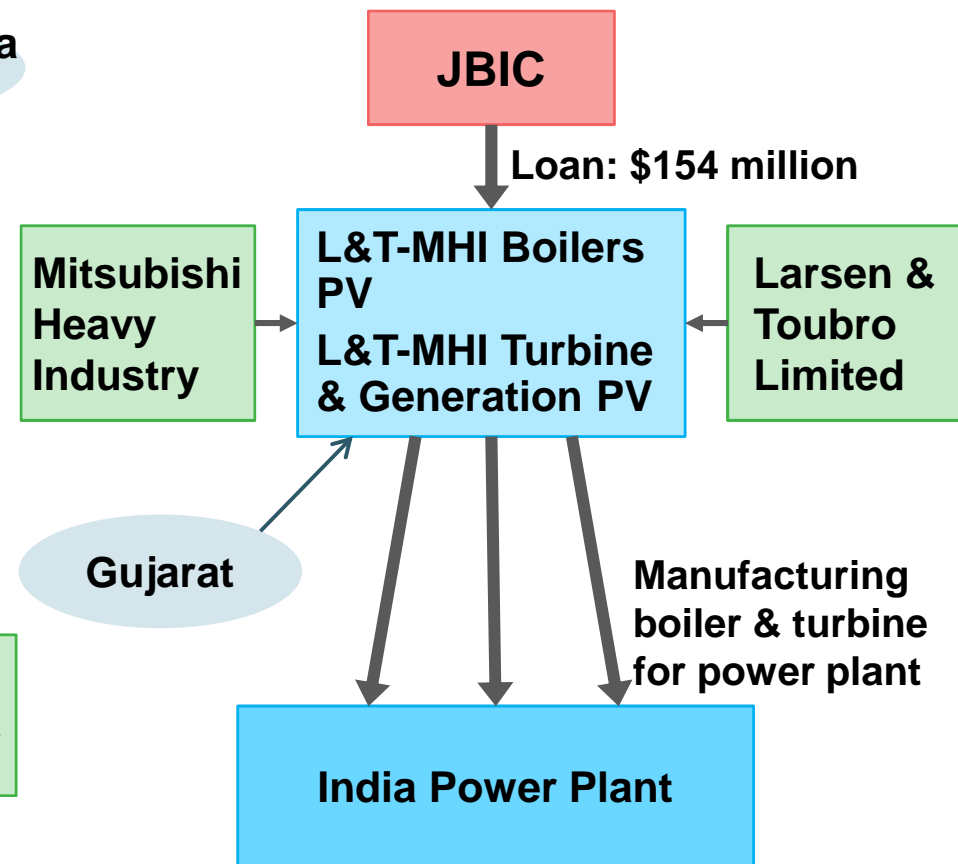
Greenfield Finance

Case of Delhi-Mumbai Industrial Corridor Development Cooperation Ltd.



Joint Venture Startup Finance

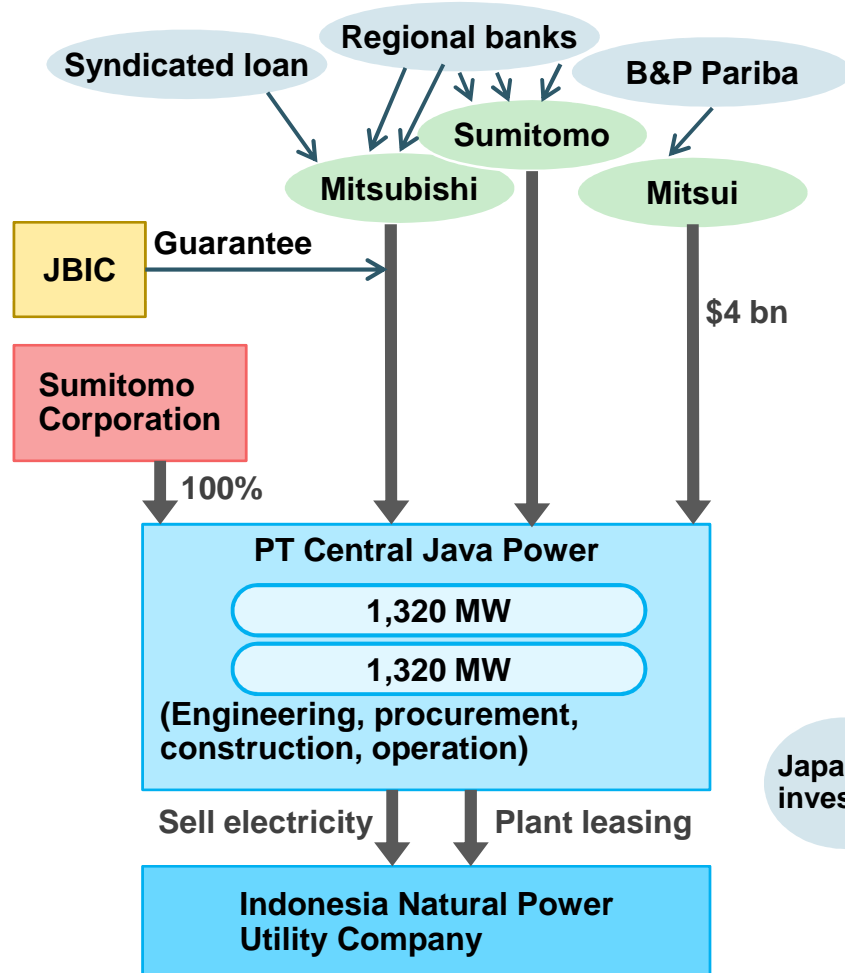
Case of the MHI-L&T JV



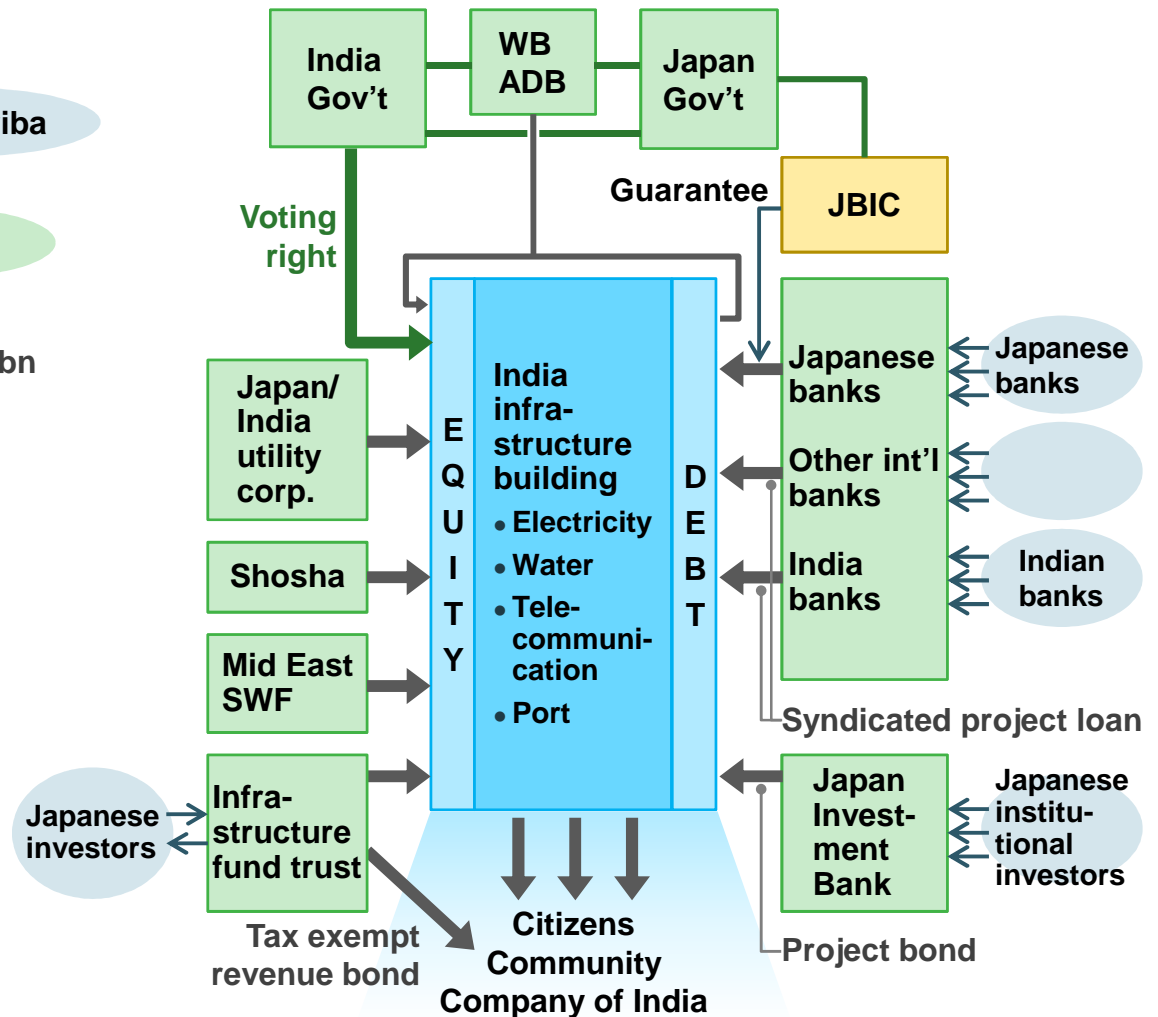
More dynamic infrastructure finance can be introduced through India-Japan financial collaboration.

IPP (Independent Power Producer)

[Case of Indonesia]

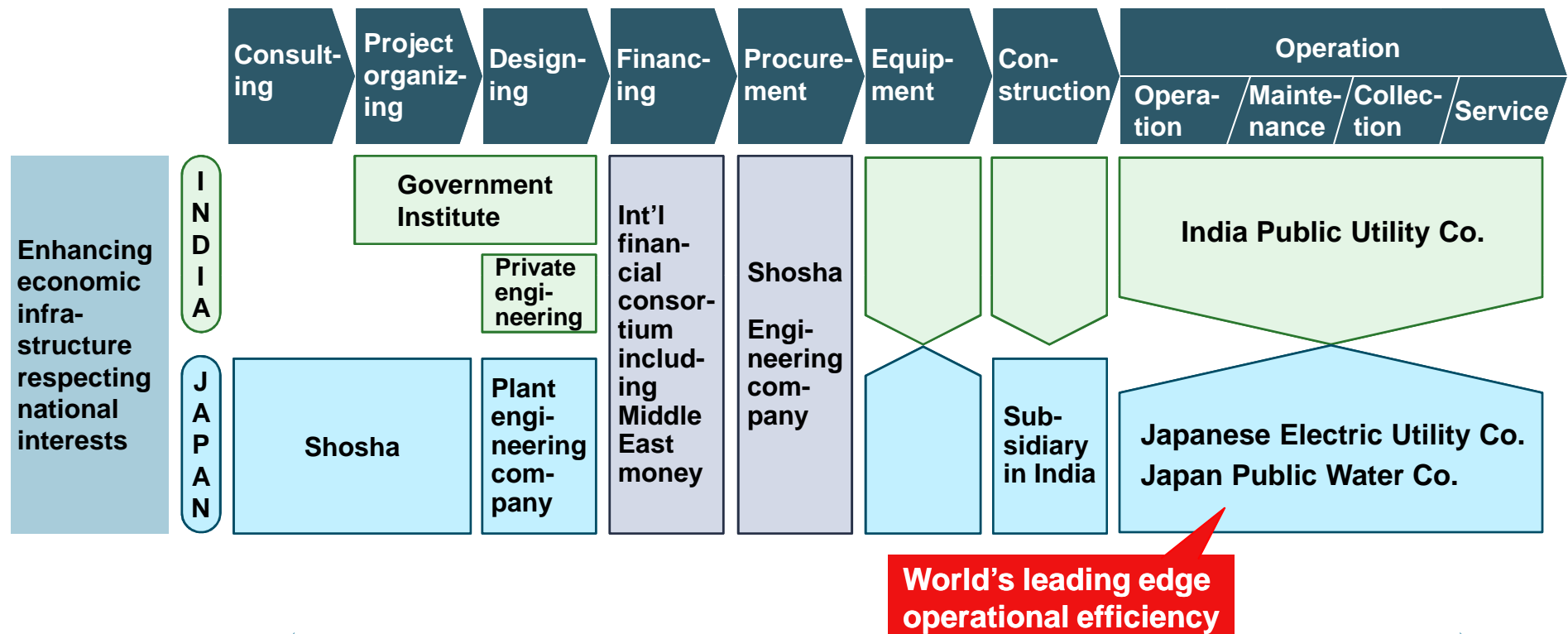


Global PPP (Public-Private Partnership) Concept



Collaboration of infrastructure development should include various industrial partners beyond financial sector in order to be globally competitive.

Collaboration Opportunity between India-Japan in Overall Infrastructure Business



Taken over nation's infrastructure

European Mega Integrated Barron Water Companies



Once established excellent track record in India, both countries should jointly pursue \$800 billion market in Asia.

Opportunities and Challenges for Collaboration between India and Japanese Financial Institutions

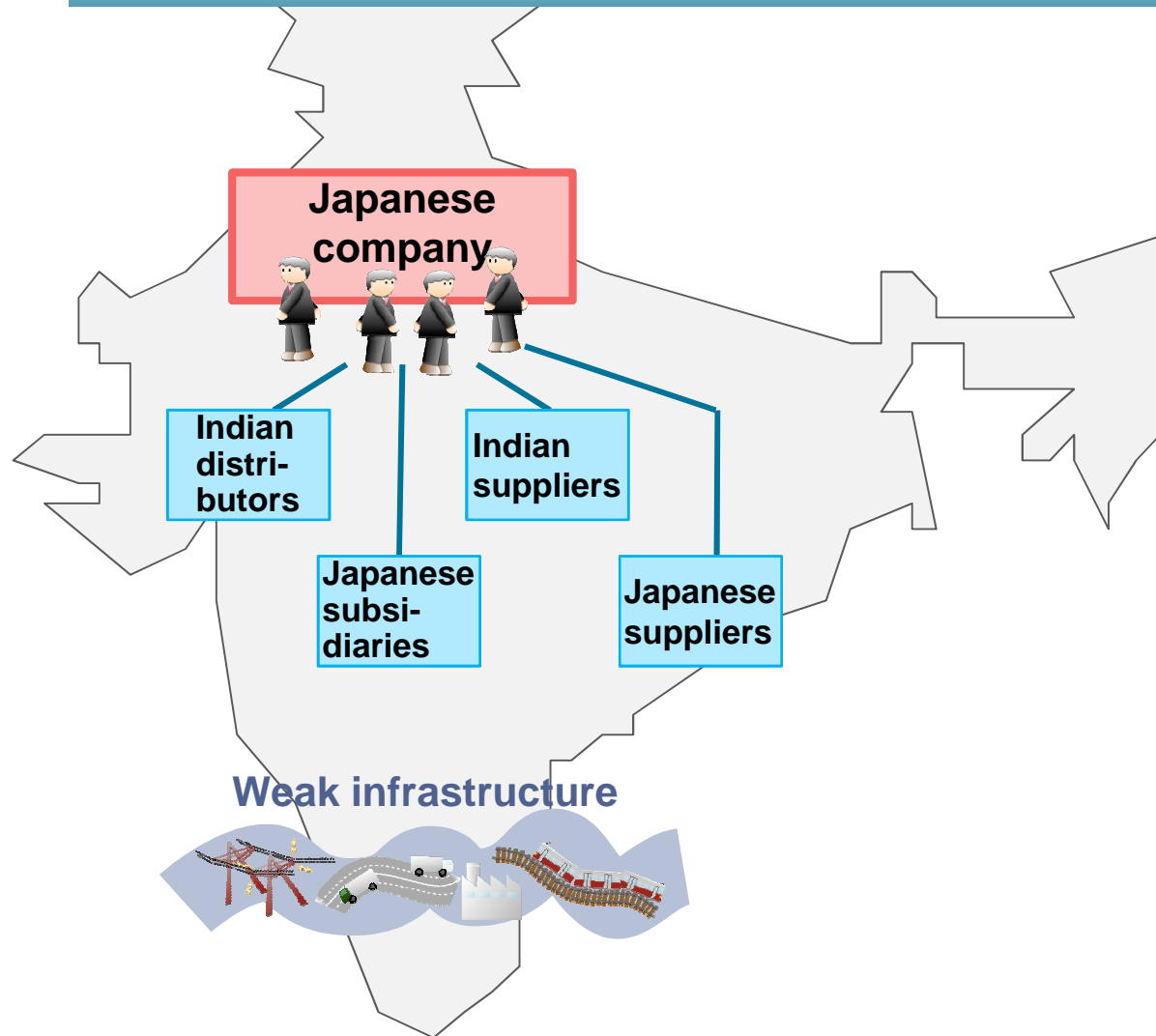
1 Infrastructure Finance

2 Complemental Services to Support Japanese Companies in India

- Corporate banking vs. retail banking
- Future is international finance in strategic geography

Japanese banks, which traditionally follow the business expansion of Japanese corporations, still had limited presence in India. But, in the last few years Japanese banks also tried to expand business aggressively.

Emerging but Still Limited Activities (Japanese Banks in India)

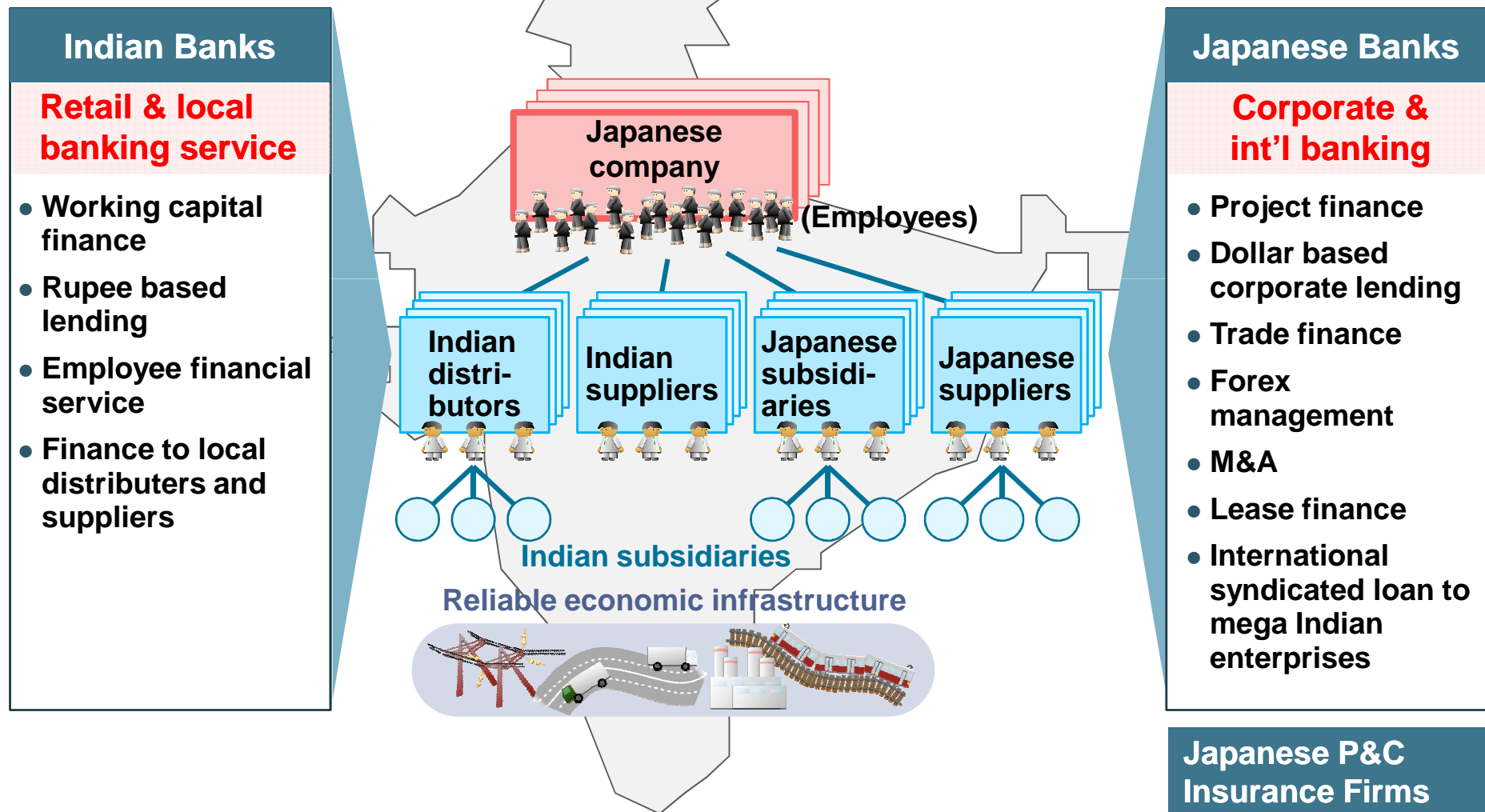


Recent Emerging Events

- SMBC injected \$300 million to get 4.5% share of Kotak Mahindra Bank
- SMBC also injected \$1 billion to Barkeley Bank
- Mizuho Corporate Bank and MUFG jointly financed \$800 million to Tata for assisting acquisition
- Mizuho Corporate Bank offered \$70 million loan to India EXIM Bank
- MUFG plans to acquire the project finance division of RBS
- Local company loan as of the end of 2008 was \$15 billion

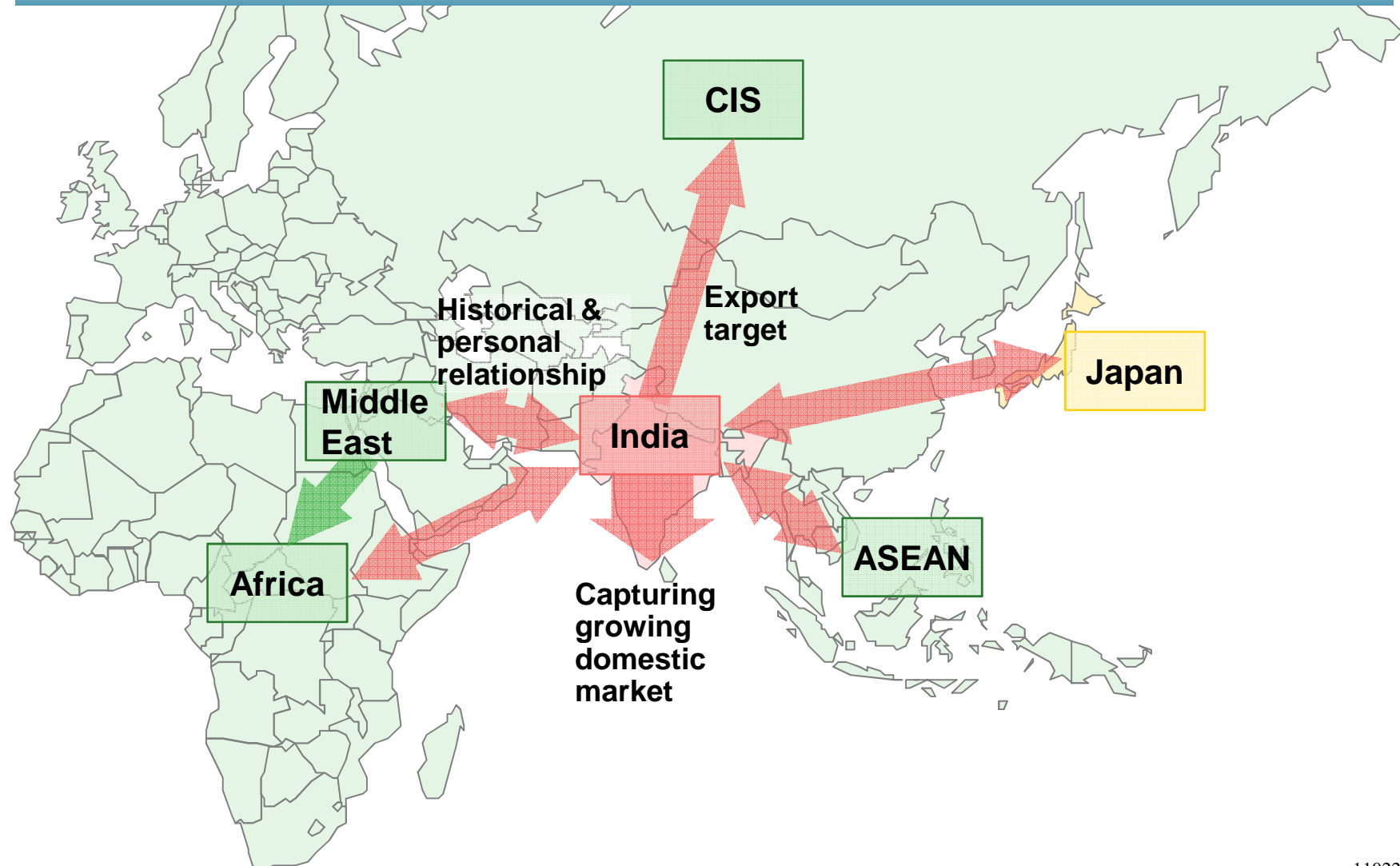
Once Japanese companies start entering into India aggressively, huge financial needs may be met only by collaboration between India's financial institutions and Japanese banks.

Synergic Collaboration to Serve Financial Needs of Japanese Companies in India



In future, India will become the strategic place to connect Asia – Middle East – Africa – CIS. International financial service to Japanese global companies is the Must.

India as the Connecting Point



Opportunities and Challenges for Collaboration between India and Japanese Financial Institutions

1 Infrastructure Finance

2 Complemental Services to Support Japanese Companies in India

3 Securities Investment of Japanese Money

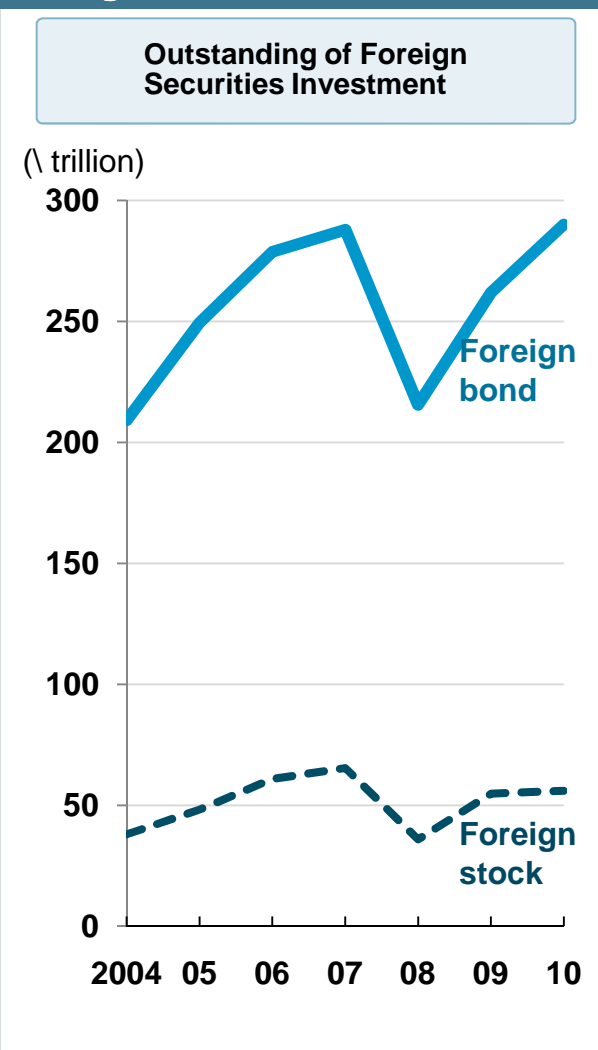
- Stable and long-term investment (not hedge fund)
- Institutional investors and investment trust money in Japan to be invested to overseas securities
- Securities firms have expertise in selling emerging countries' securities

Japanese investors looks for oversea opportunities due to the limited attractive investment opportunity in Japan.

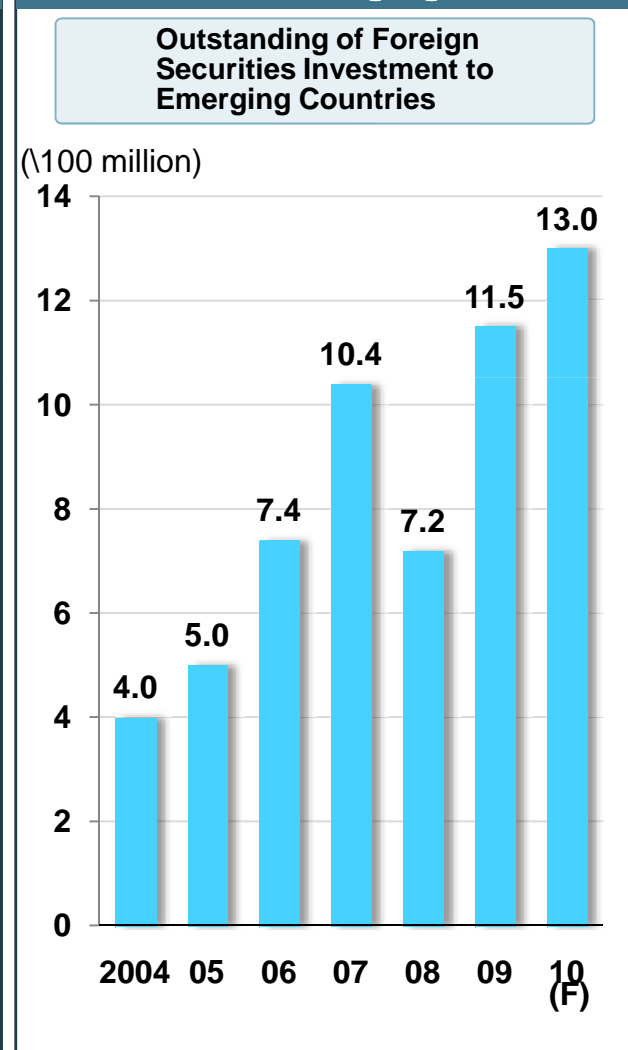
Limited attractive investment opportunities in Japan

		Foreign securities Securities
Banks	<ul style="list-style-type: none"> Loan to deposit ratio dropped from 69% ('08) to 61% ('10) Increasing deposit 	(25-30) 250
Trust banks	<ul style="list-style-type: none"> Diversification 	20 100
Life insurance	<ul style="list-style-type: none"> Shift from stock to bond Excessive dependency on JCB (51%) 	(45) 240
P&C insurance	<ul style="list-style-type: none"> Matching with foreign insurance policy 	?? ??
Investment trust	<ul style="list-style-type: none"> Poor performance of Japan stock market Lowest yield of JGB 	(25) 120
Postal Savings Bank	<ul style="list-style-type: none"> International diversification 	(10) 193
Gov't Pension Investment Fund	<ul style="list-style-type: none"> International diversification 	(21) 118

Increasing portfolio allocation to foreign securities

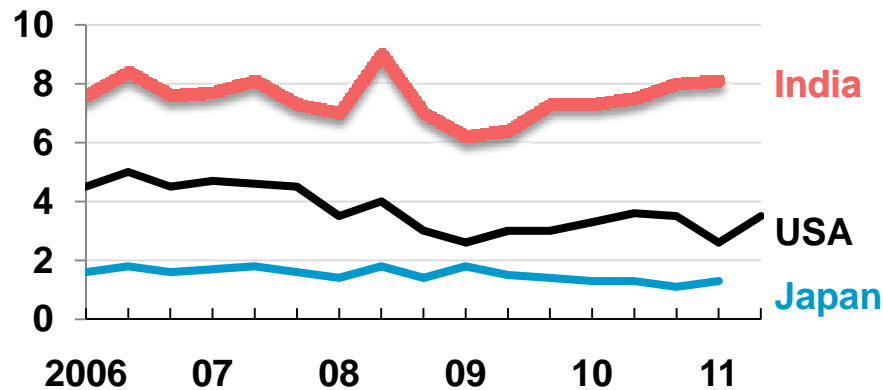


A portion of it goes to securities investment in emerging countries

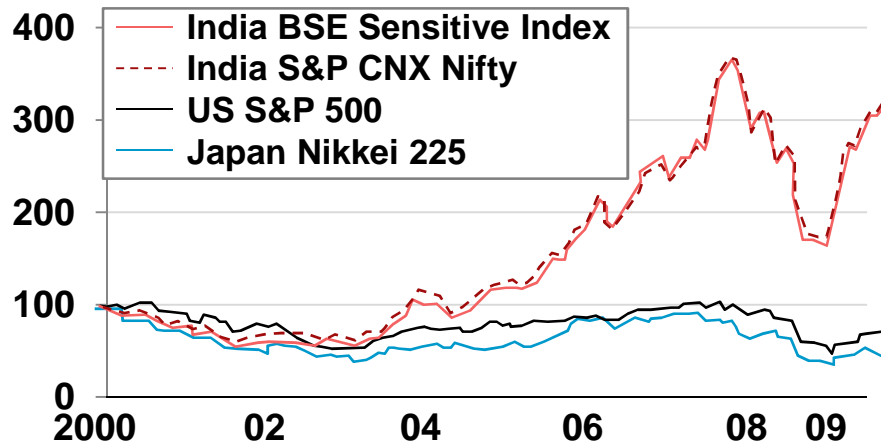


As a result, foreign securities investment by Japanese financial institutions grew steadily. A part of the investment is targeted to the Indian market.

Yield of 16-year Government Bond



Stock Price Movement



**Securities Investment to India
in 6 Months in 2010**

(\100 million)

	Stock		Bond	
	Inflow	Outflow	Inflow	Outflow
India	2,942	2,809	1,029	1,185
Singapore	2,714	3,010	1,405	1,691
Korea	2,459	2,933	3,819	4,886
Indonesia	845	1,703	812	1,373
Malaysia	452	572	946	909
Brazil	9,313	9,000	9,563	18,883

Biggest challenge is to enter into the retail banking market.

Opportunities and Challenges for Collaboration between India and Japanese Financial Institutions

1 **Infrastructure Finance**

2 **Complemental Services to Support Japanese Companies in India**

3 **Securities Investment of Japanese Money**

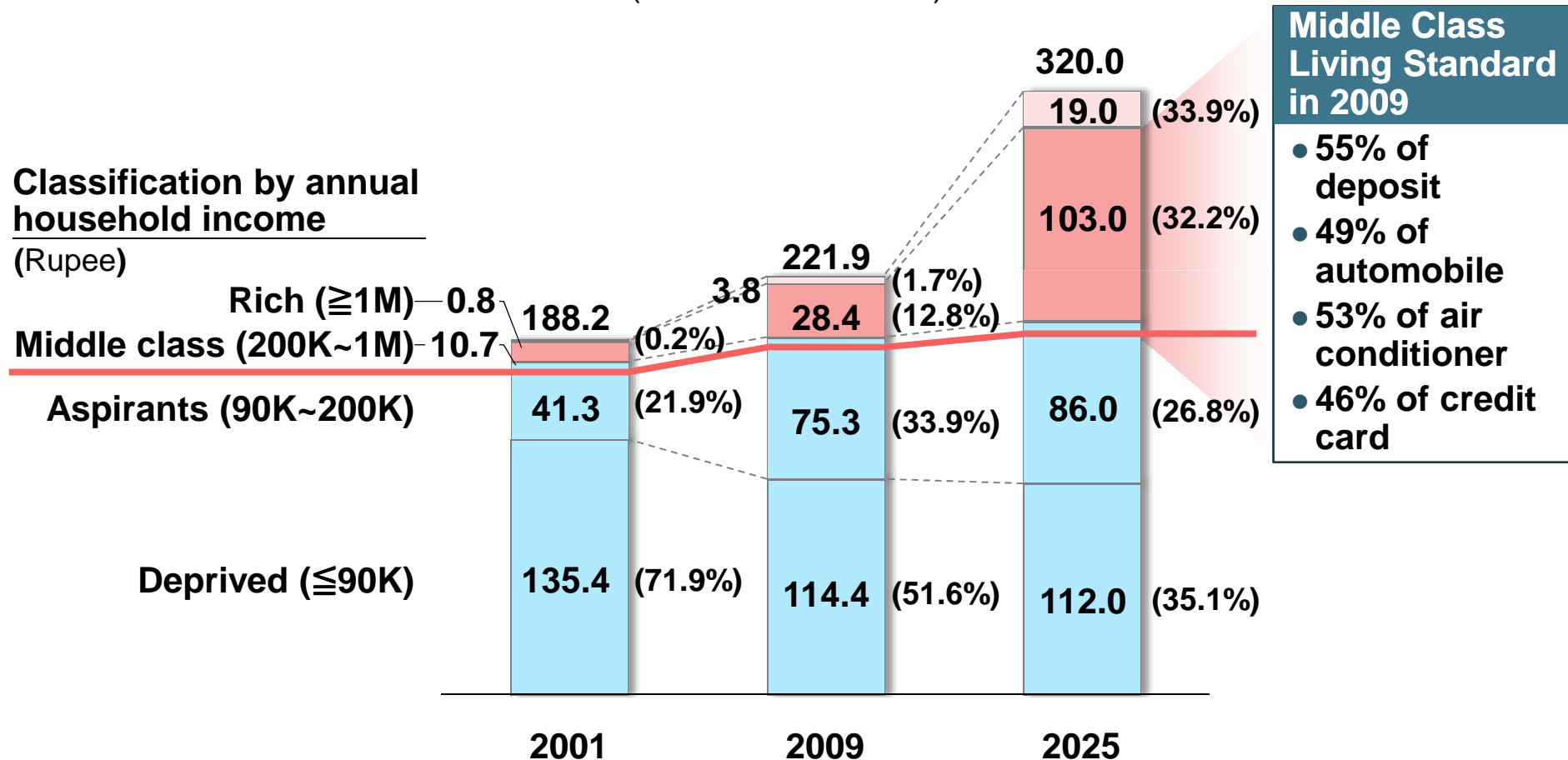
4 **Transferring Excellent Retail Banking Know How Each Other**

- **Unique and core retail banking business: marketing, channel, risk management**
- **Role of central bank for cooperative banks**
- **Eventually, entering retail banking in India with full scale**

The middle class people, which is the core target of personal banking, is increasing rapidly in India.

Rapidly Rising Middle Class Population in India

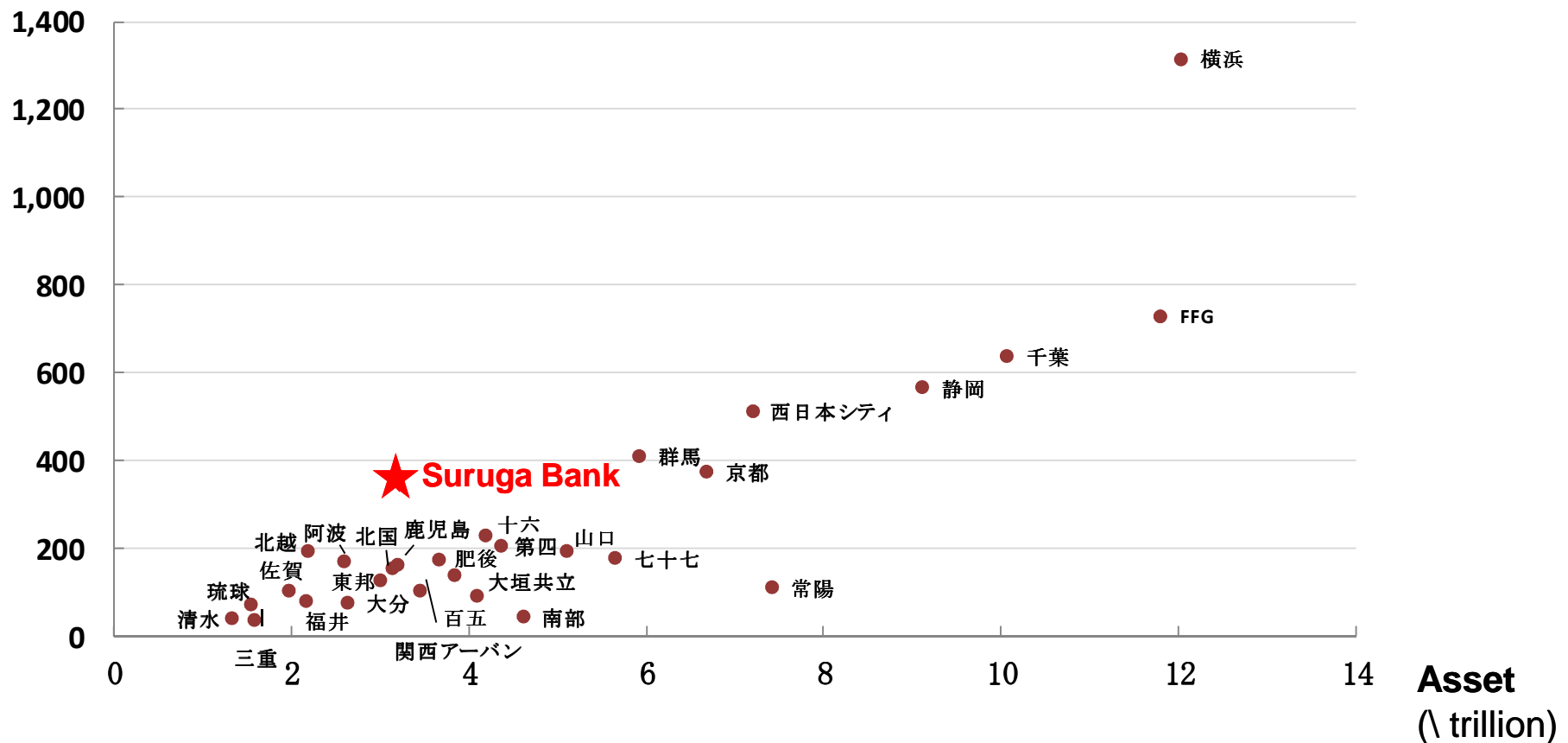
(Million households)



Among regional banks which engage mostly in retail banking business, Suruga Bank has exceptionally high performance.

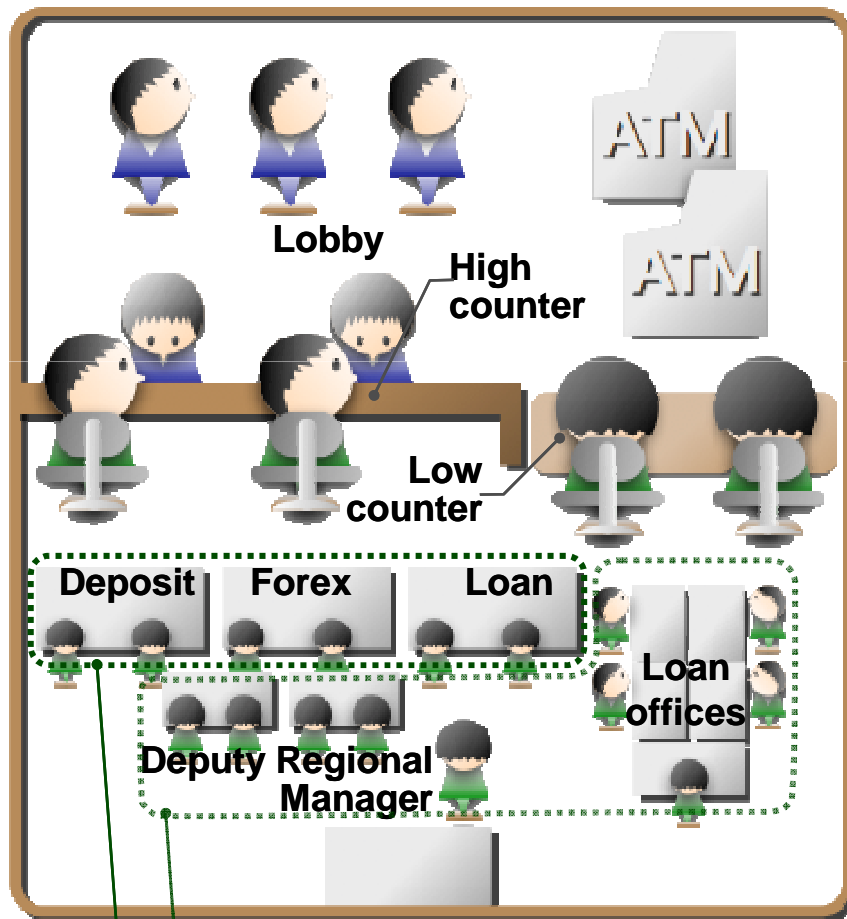
Regional Bank: Asset Size and Operating Earning

Operating earning
(\100 million)



Branch operation was reformed completely by introducing Toyota-Kanban system.

Old Branch

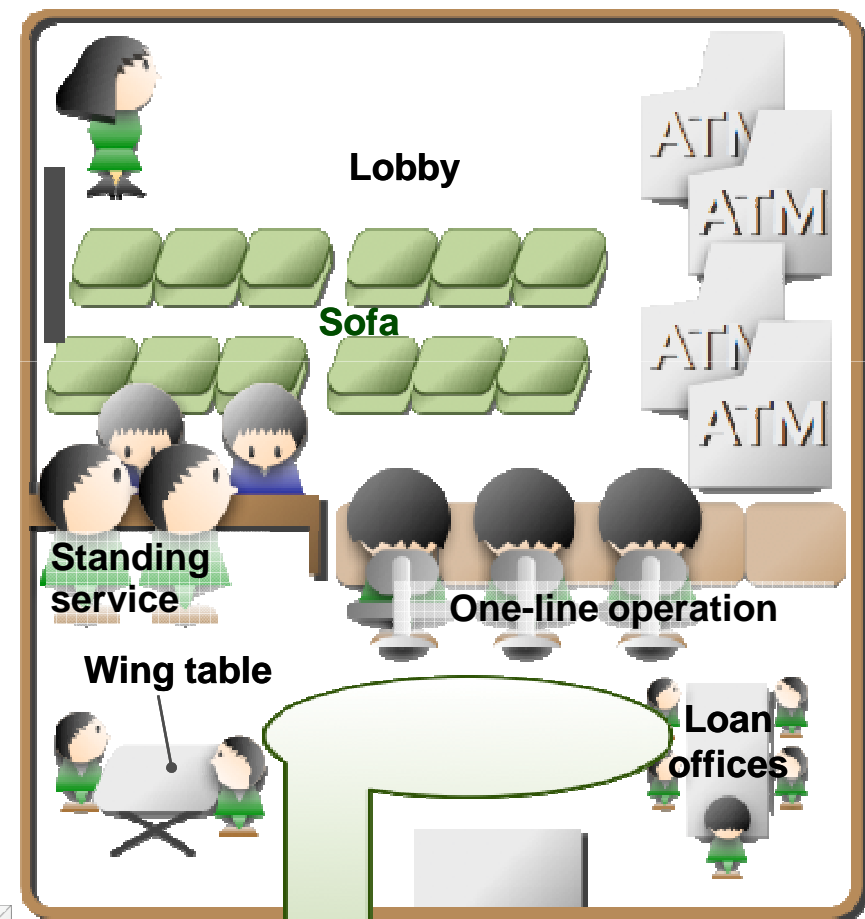


Three-line operation
Two-line operation

Regional
operation
enter

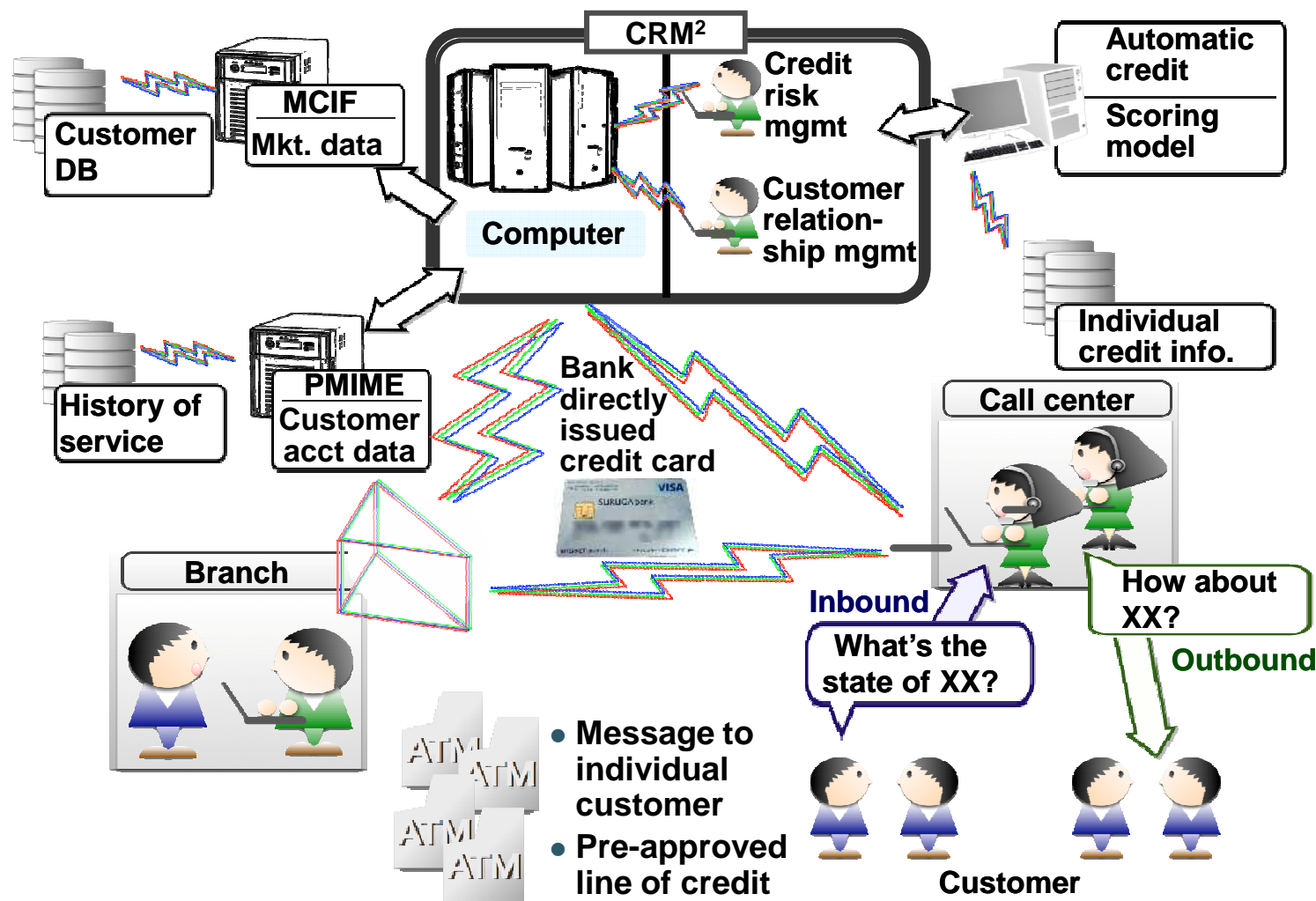


New Branch

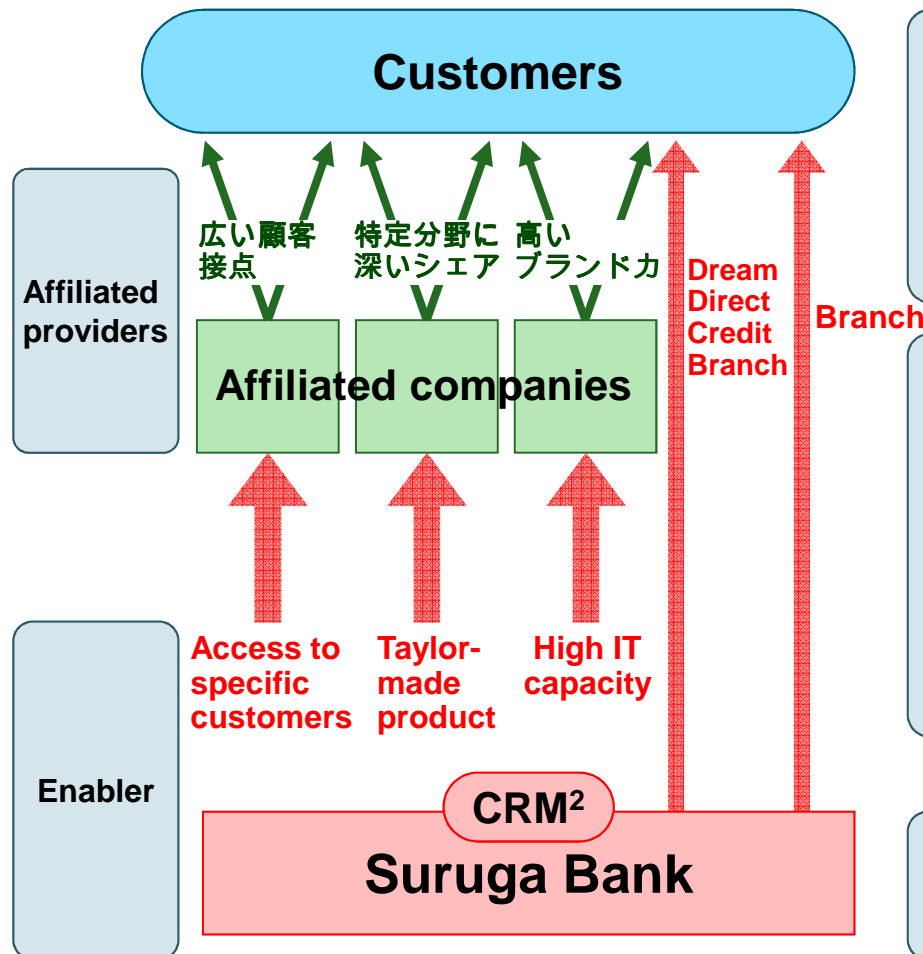


Credit risk management and customer relationship management are two core competencies.

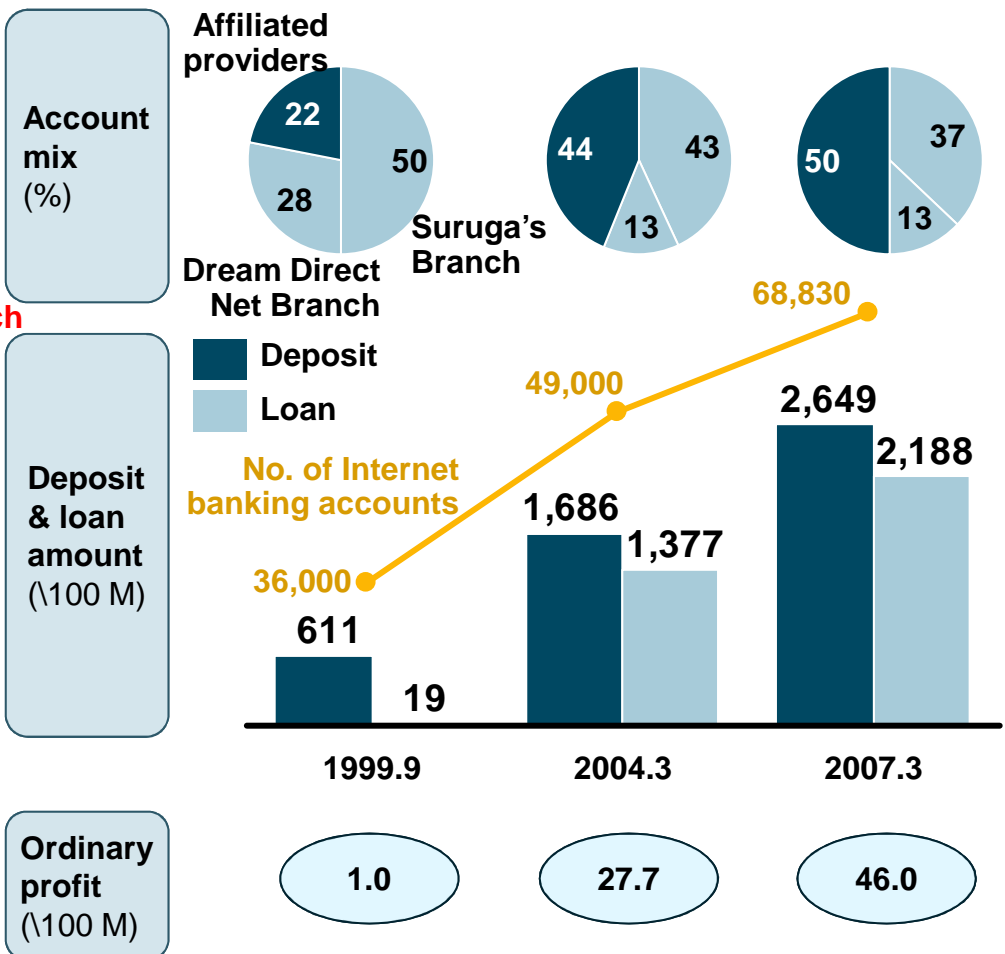
CRM² of Suruga Branch



Internet Banking Service by Suruga Bank



Growth of Internet Banking



Central Bank of Corporate Financial Institutions played a critical role for modernising local cooperatives and ensure stable earning to those deposit takers.

Role of Central Bank of Cooperative Banks

