

## FINANCIAL COOPERATION IN ASEAN REGION

### BACKGROUND

ASEAN is a large market which has achieved remarkable economic growth with its growing population. The population of the region is expected to rise to around 688 million by 2024.

In the financial sector, Korea and ASEAN countries have made an effort to establish strategic partnership to promote economic and financial growth in ASEAN region.

Korea has focused on enhancing financial cooperation with ASEAN by supporting Korean companies' business operation in the region and promoting partnership in developing financial infrastructure.

### FEATURES OF FINANCIAL COOPERATION IN ASEAN REGION

#### I. EXPECTATIONS OF HIGH PROFITS

As ASEAN has high growth potential, many companies and institutions in the financial sector are willing to expand their business in the region. In fact, as of June, 2019, the number of subsidiaries and branches opened by Korean financial firms reached 150 in ASEAN region, including Indonesia and Vietnam, rose 92% compared to the end of 2011. The asset of overseas subsidiaries and branches in ASEAN region accounts for 14% of the total asset; however, the profits account for 30% of the total profits.

<Financial Status in Overseas Subsidiaries & Branches (2018, sources: FSS)>

|        |       | Asset (unit:100 million \$) |                | Net Income (1million \$) |                |
|--------|-------|-----------------------------|----------------|--------------------------|----------------|
|        |       |                             | proportion (%) |                          | proportion (%) |
| Asia   |       | 928.4                       | (51.9)         | 1,015.4                  | (79.1)         |
|        | ASEAN | <b>249.1</b>                | <b>(13.9)</b>  | <b>157.2</b>             | <b>(29.2)</b>  |
| Africa |       | 651.1                       | (36.4)         | 114.1                    | (8.9)          |
|        | U.S   | 610.2                       | (34.1)         | 60.9                     | (4.7)          |
| Europe |       | 193.5                       | (10.8)         | 143.8                    | (11.2)         |
|        | U.K   | 143.8                       | (0.8)          | 123.7                    | (9.6)          |
| Total  |       | <b>1789.7</b>               |                | <b>1282.9</b>            |                |

Subsidiaries and branches of Korean banks in ASEAN region have higher Return on Asset (ROA) compared to the banks in domestic market.

<Profits of Overseas subsidiaries and branches of Korean Banks in ASEAN Region>  
(2018, %, source: FSS)

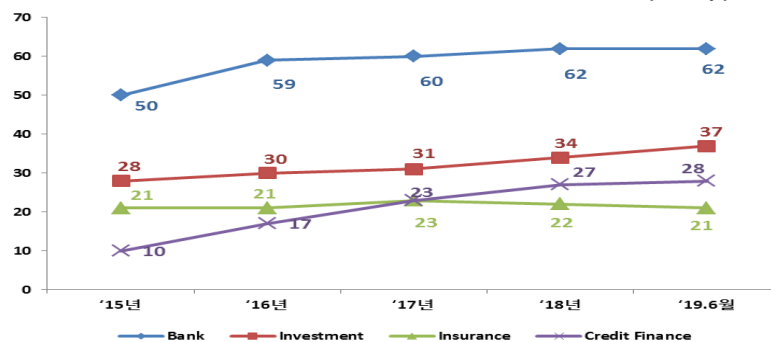
|     | Korea | Vietnam | Indonesia | Singapore | Myanmar | Cambodia | Philippines |
|-----|-------|---------|-----------|-----------|---------|----------|-------------|
| ROA | 0.56  | 2.05    | 1.37      | 0.77      | 1.76    | 2.01     | 1.15        |

## II. DIVERSIFICATION OF OVERSEAS BUSINESS

Korean financial firms diversify their overseas business by establishing non-bank financial institutions and investing in shares of non-banking financial firms in the region.

For example, Shinhan bank started banking business in ASEAN region, and then it expanded their business into other financial services, including credit card, financial investment and consumer finance. This strategy helped the financial firm to advance into new markets by creating synergy effects among affiliates.

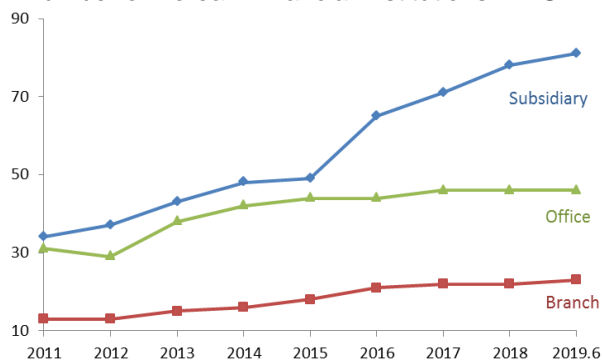
<Number of Korean Financial Institutions in ASEAN as per Type>



## III. LOCALIZATION

Korean financial firms accelerate their expansion by establishing more subsidiaries than offices or branches.

<Number of Korean Financial Institutions in ASEAN as per entrance form>



In the process of localization, Korean financial firms tend to consider the economic and social situations of the country they want to operate their business.

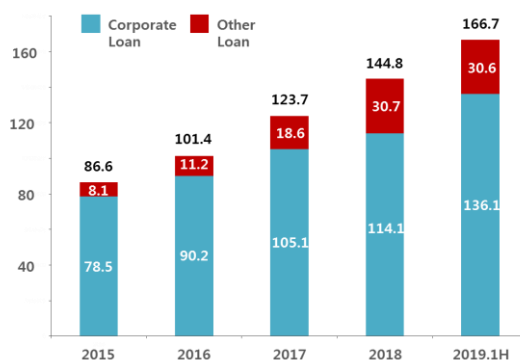
For example, when KEB Hana bank started its business in Myanmar in 2014, it came up with a management system under which 99.8% of its employees are local people, and all documents are written in local language. Moreover, it has utilized digital system to attract more local customers. With these efforts, the bank could expand its business across all regions in Myanmar and it became the sixth largest bank in microfinance in the country.

Since Woori bank began its business in Cambodia, it has focused on low income households which have difficulty in getting loans from banks. It has pursued strategy that acquires small lending firms and savings banks rather than commercial banks. With this strategy, it has accomplished around 40 to 50 percent of growth every year.

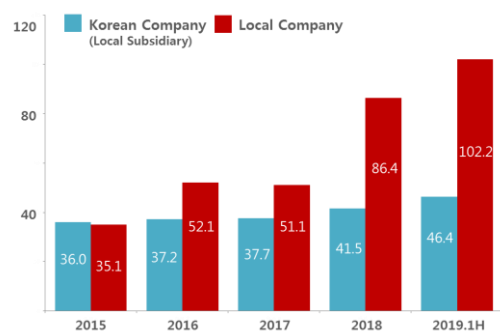
As of June 2019, loans granted by overseas subsidiaries and branches of Korean banks stood at USD16.7 billion, rose 92 % compared to 2015, and corporate loans account for 80% of the total loans.

Loans to local people and corporates reached USD 10 billion, accounting for 65% of the total loans. This shows subsidiaries and branches of Korean banks have made valuable contribution to ASEAN region.

<Amount of Total Local Loan and Corporate Loan>



<Amount of Loan to Korean & Local Companies>



#### IV. COOPERATION IN FINANCIAL INFRASTRUCTURE

As financial infrastructure is a foundation for financial system and transactions, sharing knowledge on financial infrastructure could contribute to the development of local economy and financial markets.

Moreover, cooperation in financial infrastructure can benefit Korean financial firms since they could operate their overseas business in financial environment which is similar to the domestic market.

The Korean financial infrastructure firms, such as the Korea Financial Telecommunications & Clearing Institute (KFTC) and the Korea Securities Depository, are working on enhancing cooperation in financial infrastructure with countries in ASEAN region.

For instance, the KFTC established the national payment system in Cambodia, and the system is now on a test run in eight banks. It is expected that the system will promote consumer convenience and the efficiency of financial system. Moreover, it will contribute to enhancing competitiveness of Korean financial firms as three Korean banks joined the pilot operation of the system.

## **V. THE POPULARITY OF KOREAN CULTURE & CONTENTS**

As Korean cultural contents, *Hallyu*, are very popular in ASEAN region, financial firms develop business strategies utilizing Korean contents, *Hallyu*, in financial service marketing.

For instance, Shinhan bank made a contract with Coach Park Hang-seo to serve as the Brand Ambassador in Vietnam. Having Coach Park as the Brand Ambassador, the bank could increase its operational performance and attract more customers through its growing reputation. To be more specific, the number of customers using bank transactions rose 35%, and the number of online bank customers increased 152%.

## **FUTURE PLAN**

The Korean financial authorities will work closely together with financial authorities in ASEAN region to deal with challenges financial companies and institutions could face in the process of business operation and to support establishing financial infrastructure.

The 2019 ASEAN-Republic of Korea Commemorative Summit will be a great opportunity to promote financial cooperation between the two regions.

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